

# Fiscal 2019

(1 April 2019 to 31 March 2020)

Japan Finance Organization for Municipalities  
**F i n a n c i a l   S t a t e m e n t s**

Japan Finance Organization for Municipalities

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■ Balance Sheets (As of 31 March 2019 and 2020)

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

Item	Fiscal 2018 (31 March 2019)		Fiscal 2019 (31 March 2020)		Item	Fiscal 2018 (31 March 2019)		Fiscal 2019 (31 March 2020)	
	Amount					Amount			
Assets					Liabilities				
Loans (Note 3)	¥23,503,092	¥23,399,615	\$215,267,851		Bonds (Notes 7 and 8)	¥20,392,179	¥20,013,462	\$184,116,493	
Securities (Note 17)	180,000	365,500	3,362,466		Borrowed money (Note 9)	128,000	203,000	1,867,525	
Cash and bank deposits	870,480	557,437	5,128,216		Cash collateral received for financial instruments	27,630	58,073	534,250	
Cash collateral paid for financial instruments	22,847	12,391	113,993		Other liabilities	6,261	5,040	46,366	
Other assets	8,859	7,881	72,508		Reserve for bonuses (Note 10)	57	58	535	
Tangible fixed assets (Note 6)	2,884	2,777	25,549		Reserve for bonuses for directors and corporate auditors (Note 10)	10	10	96	
Intangible fixed assets (Note 6)	1,035	1,097	10,098		Reserve for retirement benefits (Notes 10 and 13)	52	62	572	
					Reserve for retirement benefits for directors and corporate auditors (Note 10)	24	32	295	
					Fund for lending rate reduction	920,287	920,287	8,466,307	
					Basic fund for lending rate reduction (Note 12)	920,287	920,287	8,466,307	
					Reserves under special laws	2,819,505	2,822,777	25,968,515	
					Reserve for interest rate volatility (Note 11)	2,200,000	2,200,000	20,239,190	
					Management account reserve for interest rate volatility (Note 11)	597,076	605,607	5,571,370	
					Reserve for interest rate reduction	22,429	17,169	157,955	
					Total liabilities	24,294,008	24,022,803	221,000,954	
					Net Assets				
					Capital	16,602	16,602	152,733	
					Retained earnings	212,616	238,383	2,193,044	
					General account surplus reserve	212,616	238,383	2,193,044	
					Valuation, translation adjustments and others	8,163	11,101	102,129	
					Management account surplus reserve	57,808	57,808	531,821	
					Total net assets	295,191	323,896	2,979,727	
Total assets	¥24,589,199	¥24,346,700	\$223,980,681		Total liabilities and net assets	¥24,589,199	¥24,346,700	\$223,980,681	

See notes to financial statements.

■ Statements of Income (For the years ended 31 March 2019 and 2020)

Item	(Millions of yen) (Thousands of U.S. dollars)		
	Fiscal 2018 (1 April 2018 to 31 March 2019)	Fiscal 2019 (1 April 2019 to 31 March 2020)	
	Amount	Amount	
Income	¥318,863	¥289,727	\$2,665,385
Interest income	313,785	282,623	2,600,028
Fees and commissions	93	87	805
Other operating income	21	8	78
Other income	4,962	7,008	64,474
Contributions from fund for lending rate reduction (Note 12)	4,949	6,996	64,361
Others	12	12	113
Expenses	179,428	160,663	1,478,049
Interest expenses	172,436	154,271	1,419,241
Fees and commissions	300	299	2,752
Other operating expenses	3,270	2,926	26,923
General and administrative expenses	3,397	3,166	29,133
Other expenses	23	-	-
Ordinary income	139,434	129,063	1,187,336
Special gains	406,190	105,259	968,349
Reversal of management account reserve for interest rate volatility (Note 11)	400,064	100,000	919,963
Reversal of reserve for interest rate reduction	6,125	5,259	48,386
Special losses	522,445	208,555	1,918,633
Loss on disposal of fixed assets	-	23	219
Provision for management account reserve for interest rate volatility (Note 11)	122,381	108,531	998,451
Payment to national treasury (Notes 4 and 11)	400,064	100,000	919,963
Net income	¥23,179	¥25,767	\$237,052

See notes to financial statements.

■ Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2019)

(Millions of yen)

1 Profit available for appropriation			¥23,179
Net income		¥23,179	
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve		23,179	23,179

■ Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2020)

(Millions of yen)

1 Profit available for appropriation			¥25,767
Net income		¥25,767	
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve		25,767	25,767

(Thousands of U.S. dollars)

1 Profit available for appropriation			\$237,052
Net income		\$237,052	
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve		237,052	237,052

Notes: 1. Profit was appropriated at the end of the fiscal year in accordance with the provisions of Article 39, Section 1 of the Japan Finance Organization for Municipalities Law (Law No. 64, 2007; hereinafter the “Law”).  
2. Surplus reserve appropriated was posted as general account surplus reserve on the balance sheets.

See notes to financial statements.

■ Statements of Appropriation of Profit [Management account]

(For the year ended 31 March 2019)

(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 2020)

(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 2019)

(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 2018	¥16,602	¥191,890	¥191,890	¥208,492	¥5,268	¥53,666	¥267,427
Cumulative effects of error correction (Note 19)	-	(2,453)	(2,453)	(2,453)	-	4,142	1,688
Balance at the beginning of current period after retrospective adjustment for error correction	16,602	189,436	189,436	206,038	5,268	57,808	269,116
Changes during accounting period							
Net income	-	23,179	23,179	23,179	-	-	23,179
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	2,895	-	2,895
Net changes during accounting period	-	23,179	23,179	23,179	2,895	-	26,074
Balance as of 31 March 2019	¥16,602	¥212,616	¥212,616	¥229,218	¥8,163	¥57,808	¥295,191

(For the year ended 31 March 2020)

(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 2019	¥16,602	¥212,616	¥212,616	¥229,218	¥8,163	¥57,808	¥295,191
Changes during accounting period							
Net income	-	25,767	25,767	25,767	-	-	25,767
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	2,937	-	2,937
Net changes during accounting period	-	25,767	25,767	25,767	2,937	-	28,704
Balance as of 31 March 2020	¥16,602	¥238,383	¥238,383	¥254,985	¥11,101	¥57,808	¥323,896

(For the year ended 31 March 2020)

(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 2019	\$152,733	\$1,955,992	\$1,955,992	\$2,108,725	\$75,106	\$531,821	\$2,715,652
Changes during accounting period							
Net income	-	237,052	237,052	237,052	-	-	237,052
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	27,023	-	27,023
Net changes during accounting period	-	237,052	237,052	237,052	27,023	-	264,075
Balance as of 31 March 2020	\$152,733	\$2,193,044	\$2,193,044	\$2,345,777	\$102,129	\$531,821	\$2,979,727

See notes to financial statements.



■ Statements of Cash Flows (For the years ended 31 March 2019 and 2020)

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

Item	Fiscal 2018 (1 April 2018 to 31 March 2019)	Fiscal 2019 (1 April 2019 to 31 March 2020)	
	Amount	Amount	
I Cash flows from operating activities			
Net income	¥23,179	¥25,767	\$237,052
Depreciation and amortization	726	606	5,584
Interest income	(313,785)	(282,623)	(2,600,028)
Interest expenses	172,436	154,271	1,419,241
Increase in reserve for bonuses	0	0	4
Increase in reserve for bonuses for directors and corporate auditors	2	0	1
Increase in reserve for retirement benefits	5	9	87
Increase in reserve for retirement benefits for directors and corporate auditors	0	7	71
Decrease in fund for lending rate reduction	(4,949)	(6,996)	(64,361)
Increase/(decrease) in management account reserve for interest rate volatility	122,381	108,531	998,451
Decrease in reserve for interest rate reduction	(6,125)	(5,259)	(48,386)
Net (increase)/decrease in loans	265,147	103,477	951,952
Net increase/(decrease) in bonds	105,848	(380,219)	(3,497,878)
Net increase/(decrease) in borrowed money	(31,500)	75,000	689,972
Interest received	314,710	283,600	2,609,016
Interest paid	(171,555)	(153,475)	(1,411,921)
Others	51,734	43,807	403,017
Net cash provided by/(used in) operating activities	528,254	(33,493)	(308,126)
II Cash flows from investing activities			
Proceeds from redemption of securities	578,000	934,200	8,594,296
Purchases of securities	(588,000)	(1,119,700)	(10,300,828)
Purchases of tangible fixed assets	(91)	(411)	(3,785)
Purchases of intangible fixed assets	(336)	(634)	(5,840)
Net cash used in investing activities	(10,427)	(186,546)	(1,716,157)
III Cash flows from financing activities			
Payment to national treasury	(400,064)	(100,000)	(919,963)
Revenue from contributions made from municipally operated racing	4,949	6,996	64,360
Net cash used in financing activities	(395,114)	(93,003)	(855,603)
IV Effect of exchange rate changes on cash and cash equivalents	-	-	-
V Net increase/(decrease) in cash and cash equivalents	122,712	(313,043)	(2,879,886)
VI Cash and cash equivalents at beginning of year	747,767	870,480	8,008,102
VII Cash and cash equivalents at end of year	¥870,480	¥557,437	\$5,128,216

See notes to financial statements.

## ■ Notes to Financial Statements

### 1. Basis of Presentation

Japan Finance Organization for Municipalities (hereinafter, the “JFM”) has prepared financial statements in accordance with the Japan Finance Organization for Municipalities Law (Law No. 64, 2007; hereinafter the “Law”), the ordinances based on the Law and other regulations applicable to the 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 the 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 2020, the final day of the fiscal year, which was ¥108.70 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 the 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

The 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 the 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
 

The 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 the JFM.
- (d) Assessment of hedge effectiveness
 

The 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, the 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, the JFM has established the fund for lending rate reduction to reserve contributions as stipulated in Article 32-2 of the Local Government Finance Law (Law No. 109, 1948). Also, pursuant to the provisions of Article 46, Section 5 of the Law, income arising from the investment of the fund (hereinafter, “investment income”) is used to reduce interest rates of the loans to municipalities, and if there is any surplus in the investment income after this interest rate reduction process, the surplus amount is added to the fund. Further, pursuant to the provisions of Article 46, Section 6 of the Law, if there is any shortfall after the interest rate reduction process, the shortfall is covered by withdrawal of the fund within the limits of the total of the additional portion to the fund made up to the previous fiscal year and the contributions made in the most current fiscal year.
- (10) Reserve for interest rate volatility and management account reserve for interest rate volatility
 

The reserve for interest rate volatility is set aside to prepare for interest rate risk associated with refinancing of the JFM bonds (excluding the bonds issued by the former Japan Finance Corporation for Municipal Enterprises; hereinafter, the “Predecessor”) pursuant to the provisions of Article 38, Sections 1 and 3 of the Law, and Article 9, Sections 8 and 10 of the Supplementary Provisions of the Law, and is calculated and accounted for based on the provisions of Article 34 of the Ministerial Ordinance on Finance and Accounting of Japan Finance Organization for Municipalities (Ordinance No. 87 of the Ministry of Internal Affairs and Communications, 2008; hereinafter, “Ordinance on Finance and Accounting”) and Articles 22 and 23 of the Government Ordinance on preparation of relevant government ordinances and provisional measures for the abolishment of the Japan Finance Corporation for Municipal Enterprises Law (Government Ordinance No. 226, 2008; hereinafter, “Preparation Ordinance”).

The management account reserve for interest rate volatility is set aside to manage interest rate risk associated with refinancing of bonds issued by the Predecessor pursuant to the provisions of Article 9, Sections 9 and 10, and Article 13, Sections 5 and 7 of the Supplementary Provisions of the Law, and is calculated and accounted for based on the provisions of Articles 1 through 3 of the Ministerial Ordinance on the operations of the Management Account at Japan Finance Organization for Municipal Enterprises (Ordinance No. 2 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2008; hereinafter, “Management Account Operations Ordinance”) and Articles 3 and 5 of the Supplementary Provisions of the above ordinance.
- (11) Reserve for interest rate reduction
 

Reserve for interest rate reduction is set aside to reduce interest rates on the loans made by the Predecessor to local governments pursuant to the provisions of Article 9, Section 13, and Article 13, Section 8 of the Supplementary Provisions of the Law, and Article 26, Sections 1, 3 and 4 of the Preparation Ordinance, and is calculated and accounted for based on the provisions of Article 5 of the Management Account Operations Ordinance.
- (12) Management account surplus reserve
 

Profits generated in the management account are accounted for as the management account surplus reserve separately from retained earnings in accordance with the provisions of Article 13, Section 8 of the Supplementary Provisions of the Law and Article 26, Section 2 of the Preparation Ordinance.
- (13) Consumption taxes
 

National and local consumption taxes are accounted for using the tax exclusion method.

### 3. Loans

There are no bankrupt loans, non-accrual loans, past due loans (three months or more), or restructured loans. Since the JFM has never experienced loan losses in the past, it does not record a reserve for possible loan losses.

Bankrupt loans represent loans to borrowers as defined in Article 96, Section 1, Clause 3 (a) through (e) and Clause 4 of the Enforcement Ordinance of the Corporate Income Tax Law (Government Ordinance No. 97, 1965), and on which accrued interest is not accounted in revenue as there is no expectation of collection of either principal or interest because they are past due for a considerable period of time or for other reasons (excluding loans on which bad debts are written off; hereinafter, “Non-accrual loans”).

Non-accrual loans represent loans on which accrued interest is not accounted in revenue, excluding loans to bankrupt borrowers and loans with grace periods for interest payments to assist in corporate reorganization or to support business.

Past due loans (three months or more) represent loans on which payment of principal or interest is in arrears for more than three months, calculated from the day following the contractual due date, excluding bankrupt loans and non-accrual loans.

Restructured loans represent loans, given certain favorable terms and conditions, such as reduction or exemption of interest, grace periods for interest or principal payments, and debt waivers, to assist borrowers in corporate rehabilitation or to support business, excluding bankrupt loans, non-accrual loans and past due loans (three months or more).

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

In accordance with the Supplementary Provisions of the Law, a portion of the 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 2017 through fiscal 2019, with the aim of transferring up to 900 billion yen over this period.

The Act on Promotion of Private Finance Initiative (Law No. 60, 2018) was amended on 20 June 2018 and it was determined that an amount of up to 230 billion yen of a portion of the JFM’s Management Account Reserve for Interest Rate Volatility would be transferred to the national treasury over a six-year period ending 31 March 2024 for securing funds of the Trust Fund Bureau Fund for exemptions of early redemption charges in relation to concessions of water supply and sewerage businesses.

In fiscal 2018, 400,064 million yen was reversed from the Management Account Reserve for Interest Rate Volatility and the same amount was transferred to the national treasury by the JFM, pursuant to Article 14 of the Supplementary Provision of the Law for fiscal 2018 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2018).

In fiscal 2019, 100,000 million yen (919,963 thousand U.S. dollars) was transferred to the national treasury by the JFM, pursuant to Article 14 of the Supplementary Provision of the Law for fiscal 2019 (Ordinance No. 4 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2019).

#### Additional information

In accordance with the Supplementary Provisions of the Law, a portion of the JFM’s management account reserve for interest rate volatility is being attributed to the Japanese national government over a period of five years from fiscal 2020 through fiscal 2024, with the aim of transferring up to 230 billion yen over this period.

In fiscal 2020, 60 billion yen is scheduled to be transferred to the national treasury by the JFM, pursuant to Article 14 of the Supplementary Provision of the Law from fiscal 2020 through fiscal 2024 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2020).

### 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, which are experiencing increasing volatility and face various risks, such as geopolitical risk, the JFM needs to appropriately manage these risks including interest rate risk.

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

Accordingly, the JFM has developed a system for appropriate risk management, including the establishment of the Integrated Risk Management Committee, which supervises the 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

The 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 the JFM is exposed to the interest rate risk associated with bond and long-term borrowed money refinancing.

The 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 the 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, the JFM reflects the findings in its bond issuance plans and other aspects of management and endeavors to reduce interest rate risk.

(c) Risk management for financial instruments

(i) Credit risk

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

A. Credit risk on loans

The JFM extends loans exclusively to local governments. Local governments have a zero Basel Committee on Banking Supervision risk weighting and the JFM does not expect any default on loans made to local governments for the reasons outlined below. The JFM and the Predecessor have never experienced any loan losses.

- The Japanese national government includes principal and interest payments of local government bonds and loans in the expenditure of the Local Government Finance Program, and secures the total amount of local allocation tax which balances local governments' total expenditures including principal and interest payments, and total revenue. Thus, the national government effectively secures revenue sources for principal and interest payments by local governments. The national government also secures revenue sources for principal and interest payments by individual local governments by including a portion of such principal and interest in the Standard Financial Needs when calculating local allocation tax.
- Under the consultation system for local government bonds and loans, credit reviews must include checks on the repayment status of local governments, and tax revenue and necessary revenue sources to be secured. Additionally, under the Early Warning System, the local governments whose principal and interest payments or financial deficits exceed a certain level must apply for approval to issue bonds or obtain loans, so that the credit standing of local government bonds and loans is maintained.
- Under the Law Relating to the Financial Soundness of Local Governments, which was promulgated in June 2007 (No. 94), local governments whose fiscal indicators exceed the early warning limits must make their own efforts toward achieving fiscal soundness, and local governments whose fiscal indicators exceed the reconstruction limits must take necessary actions to restore their finances under the supervision of the national government or the respective prefectural governments with regard to redemption of local government bonds and loans, and other operations.
- The JFM is not subject to the "Banking Law" (1981, No. 59) or the "Financial Reconstruction Law" (1998, No. 132) but performs self-assessment of loans in accordance with the JFM's internal rules in order to manage risks appropriately.

B. Credit risk on transactions

The 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, the 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, the 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, the 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 the 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

The 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. The JFM takes the following measures to address the interest rate risk resulting from a duration gap between lending and funding.

- The 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 the JFM's general account will expand as a result of lending to local governments and funding, the 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, the JFM has established a medium-term management target for five years from fiscal 2018, in which the duration gap is to be maintained below approximately two years.
- To achieve its objective, from the viewpoint of controlling the duration on assets (lending), the interest rates for temporary financial countermeasures funding which accounts for approximately 1/3 of the overall outstanding loans in the general account, are revised every 5 or 10 years. In addition, the JFM will revise its lending rate by the 30th year at the latest for its loans with maturities longer than 30 years. And, in terms of funding, the JFM has taken measures to manage the duration on liabilities (bonds and loans) by issuing bonds with maturities

longer than 10 years continuously under the ultra-low interest rate circumstances and carefully choosing maturities of bonds to be issued by utilizing its FLIP and Open Issuance scheme.

- The management account, which manages assets related to loans extended by the Predecessor, is exposed to interest rate risk. To address such risk, the 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 the JFM's management account reserve for interest rate volatility is to be transferred to the Japanese national government. The transfer is scheduled to occur over a period of three years from fiscal 2017 through fiscal 2019, with the aim of transferring up to 900 billion yen of which the transfer of 100 billion yen is pursuant to the January 2015 determination, and over a period of six years from fiscal 2018 through fiscal 2023, with the aim of transferring up to 1.5 billion yen for securing funds of the Trust Fund Bureau Fund for exemptions of early redemption charges in relation to concessions of water supply and sewerage businesses. In addition, the transfer is scheduled to occur over a period of five years from fiscal 2020 through fiscal 2024, with the aim of transferring up to 230 billion yen due to the increase in concession amount charged for Forest Environment Concession Tax, which promotes forest maintenance. The amount of transfer is to be within the amount which the Japanese national government deems as an amount exceeding the requisite amount of reserve necessary for the smooth operation of the JFM's management account at the time of transfer and in the future, in light of the JFM's financial condition.

- Pipeline risk

The 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 the JFM raises money until the point at which the money is loaned to local governments. The 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.

The 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 the cancellation of foreign currency-denominated deposits resulting from fluctuations in foreign exchange rates. Accordingly, in principle, the 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, the 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 the JFM does not have a management target for the quantitative figures, it reports the results of calculating the quantitative information to the ALM Committee and tracks the status of the interest rate risk.

With respect to these financial instruments in the general account, based on an assumption that the risk variables, except for interest rate risk, hold steady, for an indicative interest rate 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 38,399 million yen and 36,671 million yen (337,368 thousand U.S. dollars) as of 31 March 2019 and 2020, respectively. On the contrary, for an indicative interest rate 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 39,013 million yen and 37,215 million yen (342,365 thousand U.S. dollars) as of 31 March 2019 and 2020, respectively.

With respect to loans and bonds in the management account, the JFM raises funds by the issuance of bonds as necessary in order to manage existing loans until their redemption. For this reason, while the 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, the 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 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 10,560 million yen and 8,642 million yen (79,506 thousand U.S. dollars) as of 31 March 2019 and 2020, respectively. On the contrary, for an indicative interest rate 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 10,692 million yen and 8,742 million yen (80,428 thousand U.S. dollars) as of 31 March 2019 and 2020, respectively.

(iii) Liquidity risk

Liquidity risk is the risk that the 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 the 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).

The 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 monthly plan for fund management. Moreover, the 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, the JFM has implemented a plan to secure liquidity support assets in advance in order to prepare for potential market disruption which may prevent the 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 2019 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,503,092	¥25,369,115	¥1,866,022
(2) Securities			
Held-to-maturity securities	180,000	180,000	-
(3) Cash and bank deposits	870,480	870,480	-
(4) Cash collateral paid for financial instruments	22,847	22,847	-
Total assets	24,576,420	26,442,443	1,866,022
(1) Bonds	20,392,179	21,226,384	834,205
(2) Borrowed money	128,000	130,272	2,272
(3) Cash collateral received for financial instruments	27,630	27,630	-
Total liabilities	20,547,809	21,384,287	836,478
Derivative transactions	-	-	-
Hedge accounting applied			
Total of derivative transactions	-	-	-

The book value, fair value and difference between them as of 31 March 2020 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,399,615	¥24,901,200	¥1,501,584
(2) Securities			
Held-to-maturity securities	365,500	365,500	-
(3) Cash and bank deposits	557,437	557,437	-
(4) Cash collateral paid for financial instruments	12,391	12,391	-
Total assets	24,334,943	25,836,528	1,501,584
(1) Bonds	20,013,462	20,690,092	676,629
(2) Borrowed money	203,000	204,988	1,988
(3) Cash collateral received for financial instruments	58,073	58,073	-
Total liabilities	20,274,535	20,953,153	678,617
Derivative transactions	-	-	-
Hedge accounting applied			
Total of derivative transactions	-	-	-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans	\$215,267,851	\$ 229,081,880	\$ 13,814,029
(2) Securities			
Held-to-maturity securities	3,362,466	3,362,466	-
(3) Cash and bank deposits	5,128,216	5,128,216	-
(4) Cash collateral paid for financial instruments	113,993	113,993	-
Total assets	223,872,526	237,686,555	13,814,029
(1) Bonds	184,116,493	190,341,234	6,224,741
(2) Borrowed money	1,867,525	1,885,820	18,295
(3) Cash collateral received for financial instruments	534,250	534,250	-
Total liabilities	186,518,268	192,761,304	6,243,036
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 2019 and 2020.

(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.

(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 the JFM that have a market price is based on the market price. The fair value of bonds without a market price is calculated by discounting the future cash flows using the interest rate that would be applied when issuing similar bonds with the same total principal and interest and payment term.

Deferral hedge accounting is used for currency swaps, and the fair value of foreign currency-denominated bonds is thus calculated using the total of the fair value of that bond and the fair value of the swap transaction.

Hedge accounting is used for interest rate swaps, and the fair value of floating rate bonds is thus calculated by determining the present value using the total of the corresponding interest rate swap accounted for together with the principal and interest and discounting the future cash flows using the interest rate that would be applied when issuing a similar bond.

(2) Borrowed money

The fair value of long-term borrowed money is calculated by discounting the future cash flows using the interest rate that would presumably be applied when issuing bonds with the same total principal and interest and payment term.

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

(3) Cash collateral received for financial instruments

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

Derivative transactions

Transactions for which hedge accounting is applied

For derivative transactions for which hedge accounting is applied, the contractual amount or the amount equivalent to the principal in the contract under each hedge accounting method as of 31 March 2019 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	¥35,000	¥20,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,474,819	1,436,071	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	3,000	-	(*2)	
Total			¥1,512,819	¥1,456,071		

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 2020 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	¥20,000	¥20,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,612,376	1,335,110	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	-	-	(*2)	
Total			¥1,632,376	¥1,355,110	-	

(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	Bonds	\$183,993	\$183,993	(*1)	

	Receive/floating and pay/fixed					
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	14,833,266	12,282,529	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	-	-	(*2)	
Total			\$15,017,259	\$12,466,522	-	

(\*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 2019

(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	¥1,763,913	¥1,784,040	¥1,769,220	¥1,709,516	¥1,605,880	¥6,520,793	¥6,648,578	¥1,665,063	¥36,084
Securities	180,000	-	-	-	-	-	-	-	-
Held-to-maturity securities									
Deposits	870,480	-	-	-	-	-	-	-	-

As of 31 March 2020

(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	¥1,803,890	¥1,806,270	¥1,770,897	¥1,681,255	¥1,567,759	¥6,503,382	¥6,555,776	¥1,663,603	¥46,779
Securities	365,500	-	-	-	-	-	-	-	-
Held-to-maturity securities									
Deposits	557,437	-	-	-	-	-	-	-	-

(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	\$16,595,125	\$16,617,027	\$16,291,601	\$15,466,928	\$14,422,811	\$59,828,727	\$60,310,734	\$15,304,540	\$430,358
Securities	3,362,466	-	-	-	-	-	-	-	-
Held-to-maturity securities									
Deposits	5,128,216	-	-	-	-	-	-	-	-

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

As of 31 March 2019

(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 Borrowed money	¥2,078,327 10,000	¥2,072,865 -	¥2,345,072 1,000	¥2,124,677 -	¥2,332,910 86,200	¥6,272,932 30,800	¥2,917,863 -	¥183,000 -	¥70,000 -

As of 31 March 2020

(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 Borrowed money	¥2,072,865 -	¥2,345,072 1,000	¥2,124,677 -	¥2,332,910 86,200	¥1,827,159 83,400	¥5,897,181 30,800	¥3,117,760 1,600	¥206,000 -	¥94,000 -

(Thousands of U.S. dollars)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Bonds Borrowed money	\$19,069,596 -	\$21,573,802 9,200	\$19,546,255 -	\$21,461,914 793,008	\$16,809,194 767,249	\$54,251,898 283,349	\$28,682,245 14,719	\$1,895,124 -	\$864,765 -

## 6. Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets as of 31 March 2019 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2018 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2019 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2019	Depreciation and amortization during the year	Balance as of 31 March 2019 (Net book value)
Tangible fixed assets							
Buildings	¥1,185	¥-	¥-	¥1,185	¥476	¥33	¥708
Land	1,659	-	-	1,659	-	-	1,659
Other tangible fixed assets	439	454	0	893	377	85	515
Total tangible fixed assets	3,284	454	0	3,738	853	119	2,884
Intangible fixed assets							
Software	2,930	339	3	3,266	2,353	606	912
Other intangible fixed assets	31	122	30	123	-	-	123
Total intangible fixed assets	¥2,962	¥461	¥33	¥3,389	¥2,353	¥606	¥1,035

Tangible and intangible fixed assets as of 31 March 2020 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2019 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2020 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2020	Depreciation and amortization during the year	Balance as of 31 March 2020 (Net book value)
Tangible fixed assets							
Buildings	¥1,185	¥2	¥-	¥1,187	¥508	¥32	¥679
Land	1,659	-	-	1,659	-	-	1,659
Other tangible fixed assets	893	45	332	606	168	123	438
Total tangible fixed assets	3,738	48	332	3,454	677	155	2,777
Intangible fixed assets							
Software	3,266	658	2,079	1,844	748	451	1,096
Other intangible fixed assets	123	1	123	1	-	-	1
Total intangible fixed assets	¥3,389	¥660	¥2,203	¥1,846	¥748	¥451	¥1,097

(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2019 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2020 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2020	Depreciation and amortization during the year	Balance as of 31 March 2020 (Net book value)
Tangible fixed assets							
Buildings	\$10,903	\$24	\$-	\$10,927	\$4,678	\$295	\$6,249
Land	15,270	-	-	15,270	-	-	15,270
Other tangible fixed assets	8,216	423	3,057	5,582	1,552	1,139	4,030
Total tangible fixed assets	34,389	447	3,057	31,779	6,230	1,434	25,549
Intangible fixed assets							
Software	30,048	6,058	19,135	16,971	6,888	4,150	10,083
Other intangible fixed assets	1,135	14	1,134	15	-	-	15
Total intangible fixed assets	\$31,183	\$6,072	\$20,269	\$16,986	\$6,888	\$4,150	\$10,098

#### 7. Assets Pledged as Collateral

Pursuant to the provisions of Article 40, Section 2 of the Law, the JFM's total assets are pledged as general collateral for the JFM bonds in the amount of 20,392,179 million yen and 20,013,462 million yen (184,116,493 thousand U.S. dollars) as of 31 March 2019 and 2020, respectively.

## 8. Bonds

Bonds as of 31 March 2019 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2018	Balance as of 31 March 2019	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 1-118)	6/15/2009-3/18/2019	¥4,792,105	¥5,053,012 (683,910)	0.005 to 1.500	10Y
Government-guaranteed bonds issued by the JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013-2/24/2017	420,086	420,073	0.001 to 0.576	8Y
Government-guaranteed bonds issued by the JFM (domestic) 6-year bonds (Series 5-20)	4/26/2012-10/28/2016	1,130,594	810,455 (290,000)	0.001 to 0.385	6Y
Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 7-10)	6/30/2016-2/26/2018	200,336	200,223	0.001	4Y
Government-guaranteed bonds issued by the 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 the JFM (domestic) 5-year bonds (Series 12-24)	4/22/2013-11/19/2018	160,000	135,000 (30,000)	0.001 to 0.360	5Y
Non-guaranteed bonds issued by the JFM (domestic) 7-year bonds (Series 1)	8/20/2012	20,000	20,000 (20,000)	0.446	7Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 1-118)	6/18/2009-3/22/2019	2,970,000	3,250,000 (245,000)	0.060 to 1.648	10Y
Non-guaranteed bonds issued by the 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 the JFM (domestic) 20-year bonds (Series 1-73)	6/25/2009-3/22/2019	1,295,000	1,425,000	0.180 to 2.266	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-7)	6/26/2014-10/19/2018	55,000	75,000	0.569 to 1.864	30Y
Non-guaranteed bonds issued by the JFM (domestic) 40-year bonds (Series 1)	2/26/2019	-	15,000	0.882	40Y
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Series F2-F6, F8-F17, F19, F20, F22-25,	7/23/2009-3/26/2019	2,206,530	2,380,659 (153,500)	0.001 to 2.334	2Y to 40Y

F27-29, F31, F34-F37, F39, F41-F52, F54-F153, F155-F164, F166-F169, F171-F210, F212-F243, F245-F276, F278-F456)					
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011- 7/25/2014	35,000	35,000 (15,000)	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by the JFM (international) (Series 15, 35, 40-45, 47-68)	3/1/2012- 3/12/2019	1,257,266	1,340,300 [USD 10,200 million] [AUD 604 million] [NZD 58 million] [EUR 1,080 million]	0.875 to 5.092	3Y to 10Y
Non-guaranteed bonds issued by the JFM (international) (Floater, Series 30, 36, 38, 39)	6/6/2012- 7/22/2013	40,376	20,230 [USD 230 million] (10,367)	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series A1-A110)	7/31/2009- 3/26/2019	2,480,000	2,630,000 (280,000)	0.069 to 1.53	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series B1-B41)	11/24/2015- 3/26/2019	159,000	229,500	0.069 to 0.511	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series C1-C41)	11/24/2015- 3/26/2019	248,500	365,500	0.190 to 1.154	20Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series D1-D36)	4/21/2016- 3/26/2019	300,000	450,000	0.190 to 0.778	20Y
Bonds issued by the JFM - Sub-total	-	17,902,966	18,988,125 (1,727,777)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008- 5/25/2009	562,285	140,000 (140,000)	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	139,996	60,000 (60,000)	1.59 to 1.77	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic)	1/26/2009- 4/30/2009	84,967	84,970	2.07 to 2.29	20Y

20-year bonds (Series 1, 2)					
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 (120,000)	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	907,249	404,970 (320,000)	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 884-886)	4/17/2008- 6/19/2008	221,115	-	1.4 to 1.8	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005- 7/18/2007	184,815	184,838	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	103,366	28,376 [GBP 150 million] (28,380)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 30)	6/16/2008	49,999	-	1.97	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002- 6/16/2008	569,809	569,834	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	189,897	189,903	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003- 6/9/2004	28,300	26,130 (2,170)	1.39 to 2.01	28Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with pension funds for local government officials (Series Special No.29-31)	4/30/2008- 7/31/2008	127,000	-	1.59 to 1.91	10Y
Bonds issued by the Predecessor - Sub-total	-	1,474,304	999,082 (30,550)	-	-
Total	-	¥20,284,520	¥20,392,179 (2,078,327)	-	-

Notes: 1. Pursuant to the provisions of Article 40, Section 2 of the Law, the JFM's total assets are pledged as general collateral for the JFM bonds in the amount of 20,392,179 million yen as of 31 March 2019.

2. Amounts in square brackets under "Balance as of 31 March 2019" for "Government-guaranteed bonds issued by the JFM (international)—Global U.S. dollar bonds (Series 1)," "Non-guaranteed bonds issued by the JFM (international)—(Series 15, 35, 40-45, 47-68)," "Non-guaranteed bonds issued by the JFM (international)—(Floater,



- Series 30, 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 2019” are to be repaid within one year.
4. Annual schedule of redemption within five years after the fiscal year-end:

Bonds as of 31 March 2020 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2019	Balance as of 31 March 2020	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 1-123)	6/15/2009-1/21/2020	¥5,053,012	¥4,469,844 (652,530)	0.001 to 1.500	10Y
Government-guaranteed bonds issued by the JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013-2/24/2017	420,073	420,059	0.001 to 0.576	8Y
Government-guaranteed bonds issued by the JFM (domestic) 6-year bonds (Series 9-20)	4/25/2013-10/28/2016	810,455	520,315 (200,000)	0.001 to 0.385	6Y
Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 7-10)	6/30/2016-2/26/2018	200,223	200,111 (40,000)	0.001	4Y
Government-guaranteed bonds issued by the JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	83,170	83,170 [USD 1,000 million] (83,170)	4.0	10Y
Non-guaranteed bonds issued by the JFM (domestic) 5-year bonds (Series 15-26)	4/17/2014-11/22/2019	135,000	125,000 (20,000)	0.001 to 0.230	5Y
Non-guaranteed bonds issued by the JFM (domestic) 7-year bonds (Series 1)	8/20/2012	20,000	-	0.446	7Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 1-130)	6/18/2009-3/23/2020	3,250,000	3,360,000 (360,000)	0.049 to 1.648	10Y
Non-guaranteed bonds issued by the 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 the JFM (domestic) 20-year bonds (Series 1-81)	6/25/2009-3/23/2020	1,425,000	1,575,000	0.180 to 2.266	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-9)	6/26/2014-10/18/2019	75,000	105,000	0.446 to 1.864	30Y
Non-guaranteed bonds issued by the JFM (domestic) 40-year bonds (Series 1-2)	2/26/2019-1/28/2020	15,000	30,000	0.646 to 0.882	40Y

Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Series F2-F6, F8-F14, F16-F17, F24-F25, F27-F29, F31, F35-F37, F41-F43, F45-F52, F54-F69, F71-F73, F75-F85, F87-F90, F92-F93, F95-F98, F100-F112, F115-F139, F141-F153, F155-F164, F166-F169, F171-F210, F212-F243, F245-F276, F278-F513)	7/23/2009- 2/28/2020	2,380,659	2,600,288 (81,000)	0.001 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011- 7/25/2014	35,000	20,000	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by the JFM (international) (Series 43-45, 47-72)	5/1/2014- 2/12/2020	1,340,300	1,517,247 [USD 11,260 million] [AUD 654 million] [NZD 58 million] [EUR 1,580 million] (184,232)	0.05 to 5.092	3Y to 11Y
Non-guaranteed bonds issued by the JFM (international) (Floater, Series 30, 39)	6/6/2012- 7/22/2013	20,230	9,863 [USD 100 million] (9,863)	Floating rate	7Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series A1-A122)	7/31/2009- 3/25/2020	2,630,000	2,510,000 (400,000)	0.069 to 1.530	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series B1-B53)	11/24/2015- 3/25/2020	229,500	311,500	0.069 to 0.511	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series C1-C53)	11/24/2015- 3/25/2020	365,500	462,500	0.190 to 1.154	20Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series D1-D48)	4/21/2016- 3/25/2020	450,000	590,000	0.190 to 0.778	20Y
Bonds issued by the JFM - Sub-total	-	18,988,125	18,959,899 (2,030,795)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 7-8)	4/15/2009- 5/25/2009	140,000	-	1.4 to 1.5	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal	4/28/2009- 5/28/2009	60,000	-	1.593 to 1.65	10Y

Enterprises (domestic) 10-year bonds (Series 3-4)					
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1-2)	1/26/2009- 4/30/2009	84,970	84,973	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	-	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	404,970	84,973	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005- 7/18/2007	184,838	184,860 (39,900)	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4)	8/9/1999	28,376	-	5.75	20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002- 6/16/2008	569,834	569,858	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	189,903	189,909	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003- 6/9/2004	26,130	23,960 (2,170)	1.39 to 2.01	28Y
Bonds issued by the Predecessor - Sub-total	-	999,082	968,589 (42,070)	-	-
Total	-	¥20,392,179	¥20,013,462 (2,072,865)	-	-

(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2019	Balance as of 31 March 2020	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 1-123)	6/15/2009- 1/21/2020	\$46,485,858	\$41,120,921 (6,003,037)	0.001 to 1.500	10Y
Government-guaranteed bonds issued by the JFM (domestic)	9/26/2013- 2/24/2017	3,864,518	3,864,394	0.001 to 0.576	8Y

8-year bonds (Series 1-7)					
Government-guaranteed bonds issued by the JFM (domestic) 6-year bonds (Series 9-20)	4/25/2013- 10/28/2016	7,455,890	4,786,711 (1,839,926)	0.001 to 0.385	6Y
Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 7-10)	6/30/2016- 2/26/2018	1,841,985	1,840,950 (367,985)	0.001	4Y
Government-guaranteed bonds issued by the JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	765,132	765,132 [USD 1,000 million] (765,132)	4.0	10Y
Non-guaranteed bonds issued by the JFM (domestic) 5-year bonds (Series 15-26)	4/17/2014- 11/22/2019	1,241,950	1,149,954 (183,993)	0.001 to 0.230	5Y
Non-guaranteed bonds issued by the JFM (domestic) 7-year bonds (Series 1)	8/20/2012	183,993	-	0.446	7Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 1-130)	6/18/2009- 3/23/2020	29,898,804	30,910,764 (3,311,868)	0.049 to 1.648	10Y
Non-guaranteed bonds issued by the JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013- 1/22/2014	459,982	459,982	1.161 to 1.334	15Y
Non-guaranteed bonds issued by the JFM (domestic) 20-year bonds (Series 1-81)	6/25/2009- 3/23/2020	13,109,476	14,489,420	0.180 to 2.266	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-9)	6/26/2014- 10/18/2019	689,972	965,961	0.446 to 1.864	30Y
Non-guaranteed bonds issued by the JFM (domestic) 40-year bonds (Series 1-2)	2/26/2019- 1/28/2020	137,994	275,989	0.646 to 0.882	40Y
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Series F2-F6, F8-F14, F16-F17, F24-F25, F27-F29, F31, F35-F37, F41-F43, F45-F52, F54-F69, F71-F73, F75-F85, F87-F90, F92-F93, F95-F98, F100-F112, F115-F139, F141-F153, F155-F164, F166-F169, F171-F210, F212-F243, F245-F276, F278-F513)	7/23/2009- 2/28/2020	21,901,194	23,921,698 (745,170)	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	321,987	183,993	Floating rate	9Y to 30Y

Non-guaranteed bonds issued by the JFM (international) (Series 43-45, 47-72)	5/1/2014- 2/12/2020	12,330,273	13,958,123 [USD 11,260 million] [AUD 654 million] [NZD 58 million] [EUR 1,580 million] (1,694,868)	0.05 to 5.092	3Y to 11Y
Non-guaranteed bonds issued by the JFM (international) (Floater, Series 30, 39)	6/6/2012- 7/22/2013	186,113	90,736 [USD 100 million] (90,736)	Floating rate	7Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series A1-A122)	7/31/2009- 3/25/2020	24,195,032	23,091,076 (3,679,853)	0.069 to 1.530	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series B1-B53)	11/24/2015- 3/25/2020	2,111,316	2,865,685	0.069 to 0.511	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series C1-C53)	11/24/2015- 3/25/2020	3,362,466	4,254,830	0.190 to 1.154	20Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series D1-D48)	4/21/2016- 3/25/2020	4,139,834	5,427,783	0.190 to 0.778	20Y
Bonds issued by the JFM - Sub-total	-	174,683,769	174,424,102 (18,682,568)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 7-8)	4/15/2009- 5/25/2009	1,287,948	-	1.4 to 1.5	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 3-4)	4/28/2009- 5/28/2009	551,978	-	1.593 to 1.65	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	781,700	781,727	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	1,103,956	-	1.69 to 1.73	10Y

Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	3,725,582	781,727	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005- 7/18/2007	1,700,444	1,700,649 (367,066)	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4)	8/9/1999	261,057	-	5.75	20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002- 6/16/2008	5,242,265	5,242,493	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	1,747,043	1,747,099	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003- 6/9/2004	240,386	220,423 (19,963)	1.39 to 2.01	28Y
Bonds issued by the Predecessor - Sub-total	-	9,191,195	8,910,664 (387,029)	-	-
Total	-	\$187,600,546	\$184,116,493 (19,069,597)	-	-

Notes: 1. Pursuant to the provisions of Article 40, Section 2 of the Law, the JFM's total assets are pledged as general collateral for JFM bonds in the amount of 20,013,462 million yen (184,116,493 thousand U.S. dollars) as of 31 March 2020.

2. Amounts in square brackets under "Balance as of 31 March 2020" for "Government-guaranteed bonds issued by the JFM (international)—Global U.S. dollar bonds (Series 1)," "Non-guaranteed bonds issued by the JFM (international)—(Series 43-45, 47-72)," "Non-guaranteed bonds issued by the JFM (international)—(Floater, Series 30, 39)" are denominated in foreign currencies.

3. Amounts in parentheses under "Balance as of 31 March 2020" are to be repaid within one year.

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

As of 31 March 2019

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
Bonds	¥2,078,327	¥2,072,865	¥2,345,072	¥2,124,677	¥2,332,910

As of 31 March 2020

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
Bonds	¥2,072,865	¥2,345,072	¥2,124,677	¥2,332,910	¥1,827,159

(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	\$19,069,596	\$21,573,802	\$19,546,255	\$21,461,914	\$16,809,194

## 9. Borrowed Money

Borrowed money as of 31 March 2019 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2018	Balance as of 31 March 2019	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	¥80,000	¥10,000	0.210	3/9/2020
Long-term borrowed money (excluding repayment within 1 year)	79,500	118,000	0.445	9/27/2021- 3/15/2029
Total	¥159,500	¥128,000	-	-

Borrowed money as of 31 March 2020 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2019	Balance as of 31 March 2020	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	¥10,000	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	118,000	¥203,000	0.324	9/27/2021- 3/16/2040
Total	¥128,000	¥203,000	-	-

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2019	Balance as of 31 March 2020	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	\$91,996	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	1,085,557	\$1,867,525	0.324	9/27/2021- 3/16/2040
Total	\$1,177,553	\$1,867,525	-	-

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 2019

(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	¥ 10,000	¥-	¥ 1,000	¥-	¥86,200

As of 31 March 2020

(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	¥-	¥ 1,000	¥-	¥ 86,200	¥83,400

(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	\$-	\$9,200	\$-	\$793,008	\$767,249



10. Reserves

Reserves as of 31 March 2019 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2018	Increase during the year	Decrease during the year		Balance as of 31 March 2019
			Intended purpose	Other	
Reserve for bonuses	¥57	¥57	¥57	¥-	¥57
Reserve for bonuses for directors and corporate auditors	8	10	8	-	10
Reserve for retirement benefits	47	16	4	7	52
Reserve for retirement benefits for directors and corporate auditors	24	8	6	1	24

Reserves as of 31 March 2020 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2019	Increase during the year	Decrease during the year		Balance as of 31 March 2020
			Intended purpose	Other	
Reserve for bonuses	¥57	¥58	¥57	¥-	¥58
Reserve for bonuses for directors and corporate auditors	10	10	10	-	10
Reserve for retirement benefits	52	17	0	7	62
Reserve for retirement benefits for directors and corporate auditors	24	8	-	1	32

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2019	Increase during the year	Decrease during the year		Balance as of 31 March 2020
			Intended purpose	Other	
Reserve for bonuses	\$531	\$535	\$531	\$-	\$535
Reserve for bonuses for directors and corporate auditors	94	96	94	-	96
Reserve for retirement benefits	485	163	5	71	572
Reserve for retirement benefits for directors and corporate auditors	224	82	-	11	295

11. Reserve for Interest Rate Volatility

Reserve for interest rate volatility as of 31 March 2019 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2018	Cumulative effects of error correction	Balance at the beginning of current period after retrospective adjustment for error correction	Increase during the year		Decrease during the year		Balance as of 31 March 2019
					Amount provided		Amount withdrawn	
Reserve for interest rate volatility	¥2,200,000	¥-	¥2,200,000	¥-	¥-	¥-		¥2,200,000
Management account reserve for interest rate volatility	870,453	4,306	874,759	122,381		400,064	¥-	597,076
Total	¥3,070,453	¥4,306	¥3,074,759	¥122,381	¥-	¥400,064	¥-	¥2,797,076

Reserve for interest rate volatility as of 31 March 2020 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2019	Increase during the year		Decrease during the year		Balance as of 31 March 2020
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	¥2,200,000	¥-	¥-	¥-		¥2,200,000
Management account reserve for interest rate volatility	597,076	108,531		100,000	¥-	605,607
Total	¥2,797,076	¥108,531	¥-	¥100,000	¥-	¥2,805,607

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2019	Increase during the year		Decrease during the year		Balance as of 31 March 2020
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	\$20,239,190	\$-	\$-	\$-		\$20,239,190
Management account reserve for interest rate volatility	5,492,882	998,451		919,963	\$-	5,571,370
Total	\$25,732,072	\$998,451	\$-	\$919,963	\$-	\$25,810,560

Note: The “decrease during the year” for the “management account reserve for interest rate volatility” in the amount of 100,000 million yen (919,963 thousand U.S. dollars) consists 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 2019 (Ordinance No. 4 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2019).

## 12. Fund for Lending Rate Reduction

Fund for lending rate reduction as of 31 March 2019 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2018	Increase during the year		Decrease during the year		Balance as of 31 March 2019
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥920,287	¥4,949	¥-	¥4,949	¥-	¥920,287
Total	¥920,287	¥4,949	¥-	¥4,949	¥-	¥920,287

Fund for lending rate reduction as of 31 March 2020 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2019	Increase during the year		Decrease during the year		Balance as of 31 March 2020
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥920,287	¥6,996	¥-	¥6,996	¥-	¥920,287
Total	¥920,287	¥6,996	¥-	¥6,996	¥-	¥920,287

(Thousands of U.S. dollars)

Classification of fund	Balance as of 1 April 2019	Increase during the year		Decrease during the year		Balance as of 31 March 2020
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	\$8,466,307	\$64,361	\$-	\$64,361	\$-	\$8,466,307
Total	\$8,466,307	\$64,361	\$-	\$64,361	\$-	\$8,466,307

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 2019

### (1) Outline of retirement benefits system

The 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:	47 million yen
Pension expenses:	16 million yen
Employee retirement benefits paid:	4 million yen
Contributions to the defined benefit plan:	7 million yen
Reserve for retirement benefits at the end of the fiscal year:	<u>52 million yen</u>

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

Funded retirement benefit obligation:	184 million yen
Plan assets:	<u>(171) million yen</u>
Balance:	13 million yen
Unfunded retirement benefit obligation:	<u>39 million yen</u>

Net liability for retirement benefits in the balance sheet:	<u>52 million yen</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>52 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u>52 million yen</u>

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 16million yen

As of and for the year ended 31 March 2020

(1) Outline of retirement benefits system

The 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:	52 million yen	(485 thousand U.S. dollars)
Pension expenses:	17 million yen	(163 thousand U.S. dollars)
Employee retirement benefits paid:	0 million yen	(5 thousand U.S. dollars)
Contributions to the defined benefit plan:	7 million yen	(71 thousand U.S. dollars)
Reserve for retirement benefits at the end of the fiscal year:	<u>62 million yen</u>	<u>(572 thousand U.S. dollars)</u>

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

Funded retirement benefit obligation:	184 million yen	(1,694 thousand U.S. dollars)
Plan assets:	<u>(168) million yen</u>	<u>((1,547) thousand U.S. dollars)</u>
Balance:	15 million yen	(147 thousand U.S. dollars)
Unfunded retirement benefit obligation:	<u>46 million yen</u>	<u>(425 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u>62 million yen</u>	<u>(572 thousand U.S. dollars)</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>62 million yen</u>	<u>(572 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u>62 million yen</u>	<u>(572 thousand U.S. dollars)</u>

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 17 million yen (163 thousand U.S. dollars)

14. Net Income by Account

(For the year ended 31 March 2019)

Net income of the general account was 23,179 million yen, while there was no net income of management account.

(For the year ended 31 March 2020)

Net income of the general account was 25,767 million yen (237,052 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 2019 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥15,743,380	¥7,759,711		¥23,503,092
Securities	180,000			180,000
Cash and bank deposits	870,480			870,480
Cash collateral paid for financial instruments	22,847			22,847
Other assets	3,948	4,910		8,859
Tangible fixed assets	2,884			2,884
Intangible fixed assets	1,035			1,035
Due from general account		622,397	¥(622,397)	
Total assets	16,824,577	8,387,019	(622,397)	24,589,199
(Liabilities)				
Bonds	12,686,161	7,706,017		20,392,179
Borrowed money	128,000			128,000
Cash collateral received for financial instruments	27,630			27,630
Other liabilities	2,573	3,687		6,261
Reserve for bonuses	57			57
Reserve for bonuses for directors and corporate auditors	10			10
Reserve for retirement benefits	52			52
Reserve for retirement benefits for directors and corporate auditors	24			24
Fund for lending rate reduction	920,287			920,287
Basic fund for lending rate reduction	920,287			920,287
Due to management account	622,397		(622,397)	
Reserves under special laws	2,200,000	619,505		2,819,505
Reserve for interest rate volatility	2,200,000			2,200,000
Management account reserve for interest rate volatility		597,076		597,076
Reserve for interest rate reduction		22,429		22,429
Total liabilities	16,587,195	8,329,210	(622,397)	24,294,008
(Net Assets)				
Capital	16,602			16,602
Retained earnings	212,616			212,616
General account surplus reserve	212,616			212,616
Valuation, translation adjustments and others	8,163			8,163
Management account surplus reserve		57,808		57,808
Total net assets	237,382	57,808		295,191
Total liabilities and net assets	¥16,824,577	¥8,387,019	¥(622,397)	¥24,589,199

Balance sheets of general account and management account as of 31 March 2020 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥16,640,828	¥6,758,787		¥23,399,615
Securities	365,500			365,500
Cash and bank deposits	557,437			557,437
Cash collateral paid for financial instruments	12,391			12,391
Other assets	3,682	4,199		7,881
Tangible fixed assets	2,777			2,777
Intangible fixed assets	1,097			1,097
Due from general account		582,840	¥(582,840)	
Total assets	17,583,713	7,345,827	(582,840)	24,346,700
(Liabilities)				
Bonds	13,351,373	6,662,089		20,013,462
Borrowed money	203,000			203,000
Cash collateral received for financial instruments	58,073			58,073
Other liabilities	1,889	3,150		5,040
Reserve for bonuses	58			58
Reserve for bonuses for directors and corporate auditors	10			10
Reserve for retirement benefits	62			62
Reserve for retirement benefits for directors and corporate auditors	32			32
Fund for lending rate reduction	920,287			920,287
Basic fund for lending rate reduction	920,287			920,287
Due to management account	582,840		(582,840)	
Reserves under special laws	2,200,000	622,777		2,822,777
Reserve for interest rate volatility	2,200,000			2,200,000
Management account reserve for interest rate volatility		605,607		605,607
Reserve for interest rate reduction		17,169		17,169
Total liabilities	17,317,625	7,288,018	(582,840)	24,022,803
(Net Assets)				
Capital	16,602			16,602
Retained earnings	238,383			238,383
General account surplus reserve	238,383			238,383
Valuation, translation adjustments and others	11,101			11,101
Management account surplus reserve		57,808		57,808
Total net assets	266,087	57,808		323,896
Total liabilities and net assets	¥17,583,713	¥7,345,827	¥(582,840)	¥24,346,700

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
<b>(Assets)</b>				
Loans	\$153,089,496	\$62,178,355		\$215,267,851
Securities	3,362,466			3,362,466
Cash and bank deposits	5,128,216			5,128,216
Cash collateral paid for financial instruments	113,993			113,993
Other assets	33,874	38,634		72,508
Tangible fixed assets	25,549			25,549
Intangible fixed assets	10,098			10,098
Due from general account		5,361,917	\$(5,361,917)	
<b>Total assets</b>	<b>161,763,692</b>	<b>67,578,906</b>	<b>(5,361,917)</b>	<b>223,980,681</b>
<b>(Liabilities)</b>				
Bonds	122,827,720	61,288,773		184,116,493
Borrowed money	1,867,525			1,867,525
Cash collateral received for financial instruments	534,250			534,250
Other liabilities	17,379	28,987		46,366
Reserve for bonuses	535			535
Reserve for bonuses for directors and corporate auditors	96			96
Reserve for retirement benefits	572			572
Reserve for retirement benefits for directors and corporate auditors	295			295
Fund for lending rate reduction	8,466,307			8,466,307
Basic fund for lending rate reduction	8,466,307			8,466,307
Due to management account	5,361,917		(5,361,917)	
Reserves under special laws	20,239,190	5,729,325		25,968,515
Reserve for interest rate volatility	20,239,190			20,239,190
Management account reserve for interest rate volatility		5,571,370		5,571,370
Reserve for interest rate reduction		157,955		157,955
<b>Total liabilities</b>	<b>159,315,786</b>	<b>67,047,085</b>	<b>(5,361,917)</b>	<b>221,000,954</b>
<b>(Net Assets)</b>				
Capital	152,733			152,733
Retained earnings	2,193,044			2,193,044
General account surplus reserve	2,193,044			2,193,044
Valuation, translation adjustments and others	102,129			102,129
Management account surplus reserve		531,821		531,821
<b>Total net assets</b>	<b>2,447,906</b>	<b>531,821</b>		<b>2,979,727</b>
<b>Total liabilities and net assets</b>	<b>\$161,763,692</b>	<b>\$67,578,906</b>	<b>\$(5,361,917)</b>	<b>\$223,980,681</b>

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 the 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 2018 through 31 March 2019 were as follows:  
(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥136,945	¥189,867	¥(7,949)	¥318,863
Interest income	131,327	182,458		313,785
Fees and commissions	93			93
Other operating income	21			21
Other income	4,962			4,962
Contributions from fund for lending rate reduction	4,949			4,949
Others	12			12
Administrative fee for management account	540		(540)	
Interest on due from general account		30	(30)	
Transfer from general account for fund for lending rate reduction		7,378	(7,378)	
Expenses	113,765	73,611	(7,949)	179,428
Interest expenses	100,348	72,087		172,436
Fees and commissions	166	133		300
Other operating expenses	2,493	777		3,270
General and administrative expenses	3,324	72		3,397
Other expenses	23			23
Interest on due to management account	30		(30)	
Transfer to management account for fund for lending rate reduction	7,378		(7,378)	
Administrative fee for management account		540	(540)	
Ordinary income	23,179	116,255	-	139,434
Special gains	-	406,190	-	406,190
Reversal of management account reserve for interest rate volatility		400,064		400,064
Reversal of reserve for interest rate reduction		6,125		6,125
Special losses	-	522,445	-	522,445
Provision for management account reserve for interest rate volatility		122,381		122,381
Payment to national treasury		400,064		400,064
Net income	¥23,179	¥-	¥-	¥23,179



Statements of income of general account and management account from 1 April 2019 through 31 March 2020 were as follows:

(Millions of yen)				
Item	General account	Management account	Offset	Total
Income	¥133,662	¥162,962	¥(6,897)	¥289,727
Interest income	126,123	156,499		282,623
Fees and commissions	87			87
Other operating income	8			8
Other income	7,008			7,008
Contributions from fund for lending rate reduction	6,996			6,996
Others	12			12
Administrative fee for management account	434		(434)	
Interest on due from general account		8	(8)	
Transfer from general account for fund for lending rate reduction		6,454	(6,454)	
Expenses	107,871	59,690	(6,897)	160,663
Interest expenses	95,472	58,798		154,271
Fees and commissions	179	119		299
Other operating expenses	2,627	299		2,926
General and administrative expenses	3,128	38		3,166
Interest on due to management account	8		(8)	
Transfer to management account for fund for lending rate reduction	6,454		(6,454)	
Administrative fee for management account		434	(434)	
Ordinary income	25,791	103,272	-	129,063
Special gains	-	105,259	-	105,259
Reversal of management account reserve for interest rate volatility		100,000		100,000
Reversal of reserve for interest rate reduction		5,259		5,259
Special losses	23	208,531	-	208,555
Loss on disposal of fixed assets	23			23
Provision for management account reserve for interest rate volatility		108,531		108,531
Payment to national treasury		100,000		100,000
Net income	¥25,767	¥-	¥-	¥25,767

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
Income	\$1,229,646	\$1,499,196	\$(63,457)	\$ 2,665,385
Interest income	1,160,289	1,439,739		2,600,028
Fees and commissions	805			805
Other operating income	78			78
Other income	64,474			64,474
Contributions from fund for lending rate reduction	64,361			64,361
Others	113			113
Administrative fee for management account	4,000		(4,000)	
Interest on due from general account		79	(79)	
Transfer from general account for fund for lending rate reduction		59,378	(59,378)	
Expenses	992,375	549,131	(63,457)	1,478,049
Interest expenses	878,312	540,929		1,419,241
Fees and commissions	1,653	1,099		2,752
Other operating expenses	24,172	2,751		26,923
General and administrative expenses	28,780	353		29,133
Interest on due to management account	79		(79)	
Transfer to management account for fund for lending rate reduction	59,378		(59,378)	
Administrative fee for management account		4,000	(4,000)	
Ordinary income	237,271	950,065	-	1,187,336
Special gains	-	968,349	-	968,349
Reversal of management account reserve for interest rate volatility		919,963		919,963
Reversal of reserve for interest rate reduction		48,386		48,386
Special losses	219	1,918,414	-	1,918,633
Loss on disposal of fixed assets	219			219
Provision for management account reserve for interest rate volatility		998,451		998,451
Payment to national treasury		919,963		919,963
Net income	\$237,052	\$-	\$-	\$237,052

17. Fair Value of Marketable Securities

Marketable held-to-maturity securities as of 31 March 2019 consisted of the following:

(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	¥180,000	¥180,000	-
	Sub total	180,000	180,000	-
Total		¥180,000	¥180,000	-

Marketable held-to-maturity securities as of 31 March 2020 consisted of the following:

(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	¥365,500	¥365,500	-
	Sub total	365,500	365,500	-
Total		¥365,500	¥365,500	-

(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	\$3,362,466	\$3,362,466	-
	Sub total	3,362,466	3,362,466	-
Total		\$3,362,466	\$3,362,466	-

## 18. Information on Derivative Transactions

### (1) Types of derivative transactions

Derivative transactions entered into by the 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

The 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

The 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 to hedge the risks.

#### (d) Assessment of hedge effectiveness

The 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, The 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.

The JFM enters into ISDA Master Agreements and CSA with financial institutions, which are its derivative transactions counterparties, to reduce credit risk. Moreover, The 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 The 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.

## 19. Notes on error correction

### (1) Contents of errors

During fiscal 2018, the JFM discovered that the provisioned amount from the general account and the reversal amount of reserve for interest rate reduction in the management account for the loans extended by the Predecessor in fiscal 2007 were posted incorrectly. In order to correct this error, the management account reserve for interest rate volatility and the management account surplus reserve increased by 4,142 million yen and the reserve for interest rate reduction and the general account surplus reserve decreased by 2,453 million yen as of the beginning of the year ended 31 March 2019.

### (2) Effects on the net assets as of the beginning balance of the year ended 31 March 2019

The effect of correcting this error on net assets of 1,688 million yen is shown as "Cumulative effects of error correction" on the "Statements of Changes in Net Assets."

## Independent Auditor's Report

The President  
Japan Finance Organization for Municipalities

### Opinion

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 (the "JFM"), which comprise the balance sheets as at March 31, 2019 and 2020, and the statements of income, appropriation of profit, changes in net assets, and cash flows for the years then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the JFM as at March 31, 2019 and 2020, and its financial performance and its cash flows for the years then ended in accordance with the Law and regulations applicable to JFM and accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the JFM in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of President, Corporate Auditors for the Financial Statements

President is responsible for the preparation and fair presentation of these financial statements in accordance with the Law and regulations applicable to JFM and accounting principles generally accepted in Japan, and for such internal control as president determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, president is responsible for assessing the JFM's ability to continue as a going concern and disclosing, as required by the Law and regulations applicable to JFM and accounting principles generally accepted in Japan, matters related to going concern.

Corporate Auditors are responsible for overseeing the JFM's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the financial statements is not expressing an opinion on the effectiveness of the JFM's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by president.

- Conclude on the appropriateness of president's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the JFM's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the JFM to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with the Law and regulations applicable to JFM and accounting principles generally accepted in Japan.

We communicate with the Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

#### **Conflicts of Interest**

We have no interest in the JFM which should be disclosed in accordance with the Certified Public Accountants Act.

#### **Convenience Translation**

The U.S. dollar amounts in the accompanying financial statements with respect to the years ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the financial statements.

Ernst & Young ShinNihon LLC  
Tokyo, Japan

May 21, 2020

菅田 裕之 印

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Hiroyuki Kanda  
Designated Engagement Partner  
Certified Public Accountant

細野 和也 印

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伊澤 賢司 印

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