

Fiscal 2021

(1 April 2021 to 31 March 2022)

Japan Finance Organization for Municipalities

Financial Statements

Japan Finance Organization for Municipalities

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■ Balance Sheets (As of 31 March 2021 and 2022)

				(Millions of yen) (Thousands of U.S. dollars)			
Item	Fiscal 2020 (31 March 2021)	Fiscal 2021 (31 March 2022)		Item	Fiscal 2020 (31 March 2021)	Fiscal 2021 (31 March 2022)	
	Amount				Amount		
Assets				Liabilities			
Loans (Note 5)	¥23,144,389	¥23,550,819	\$192,408,658	Bonds (Notes 9 and 10)	¥20,410,767	¥20,103,035	\$164,240,486
Securities (Note 19)	593,000	920,000	7,516,340	Borrowed money (Note 11)	294,000	399,500	3,263,889
Cash and bank deposits	1,106,432	353,491	2,888,002	Cash collateral received for financial instruments	33,480	147,451	1,204,665
Cash collateral paid for financial instruments	3,282	812	6,634	Other liabilities	4,670	4,644	37,947
Other assets	6,914	6,193	50,599	Reserve for bonuses (Note 12)	59	59	489
Tangible fixed assets (Note 8)	2,654	2,572	21,017	Reserve for bonuses for directors and corporate auditors (Note 12)	10	10	84
Intangible fixed assets (Note 8)	933	976	7,982	Reserve for retirement benefits (Notes 12 and 15)	52	64	528
				Reserve for retirement benefits for directors and corporate auditors (Note 12)	21	15	124
				Fund for lending rate reduction	920,287	920,287	7,518,689
				Basic fund for lending rate reduction (Note 14)	920,287	920,287	7,518,689
				Reserves under special laws	2,853,636	2,891,692	23,624,942
				Reserve for interest rate volatility (Note 13)	2,200,000	2,200,000	17,973,856
				Management account reserve for interest rate volatility (Note 13)	640,921	682,675	5,577,418
				Reserve for interest rate reduction	12,714	9,017	73,668
				Total liabilities	24,516,985	24,466,761	199,891,843
				Net Assets			
				Capital	16,602	16,602	135,638
				Retained earnings	265,772	298,035	2,434,931
				General account surplus reserve	265,772	298,035	2,434,931
				Valuation, translation adjustments and others	437	(4,342)	(35,477)
				Management account surplus reserve	57,808	57,808	472,297
				Total net assets	340,621	368,104	3,007,389
Total assets	¥24,857,606	¥24,834,865	\$202,899,232	Total liabilities and net assets	¥24,857,606	¥24,834,865	\$202,899,232

See notes to financial statements.

■ Statements of Income (For the years ended 31 March 2021 and 2022)

Item	(Millions of yen) (Thousands of U.S. dollars)		
	Fiscal 2020 (1 April 2020 to 31 March 2021)	Fiscal 2021 (1 April 2021 to 31 March 2022)	
	Amount	Amount	
Income	¥259,923	¥235,867	\$1,927,025
Interest income	250,780	222,071	1,814,311
Fees and commissions	83	76	629
Other operating income	7	15	131
Other income	9,052	13,703	111,954
Contributions from fund for lending rate reduction (Note 14)	9,041	13,691	111,862
Others	11	11	92
Expenses	141,675	125,548	1,025,723
Interest expenses	134,580	118,786	970,481
Fees and commissions	292	294	2,403
Other operating expenses	3,713	3,081	25,177
General and administrative expenses	3,088	3,385	27,662
Other expenses	0	-	-
Ordinary income	118,247	110,319	901,302
Special gains	64,454	43,697	357,008
Reversal of management account reserve for interest rate volatility (Note 13)	60,000	40,000	326,798
Reversal of reserve for interest rate reduction	4,454	3,697	30,210
Special losses	155,314	121,754	994,723
Provision for management account reserve for interest rate volatility (Note 13)	95,314	81,754	667,925
Payment to national treasury (Notes 6 and 13)	60,000	40,000	326,798
Net income	¥27,388	¥32,263	\$263,587

See notes to financial statements.

■ Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2021)

(Millions of yen)

I Profit available for appropriation		¥27,388	¥27,388
Net income		¥27,388	
Accumulated deficit brought forward	-		
II Profit appropriated			
Surplus reserve		27,388	27,388

■ Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2022)

(Millions of yen)

I Profit available for appropriation		¥32,263	¥32,263
Net income		¥32,263	
Accumulated deficit brought forward	-		
II Profit appropriated			
Surplus reserve		32,263	32,263

(Thousands of U.S. dollars)

I Profit available for appropriation		\$263,587	\$263,587
Net income		\$263,587	
Accumulated deficit brought forward	-		
II Profit appropriated			
Surplus reserve		263,587	263,587

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 2021)

(Millions of yen)

I Profit available for appropriation			¥-
Net income		¥-	
Accumulated deficit brought forward	-		
II Profit appropriated			
Surplus reserve		-	-

■ Statements of Appropriation of Profit [Management account]

(For the year ended 31 March 2022)

(Millions of yen)

I Profit available for appropriation			¥-
Net income		¥-	
Accumulated deficit brought forward	-		
II Profit appropriated			
Surplus reserve		-	-

(Thousands of U.S. dollars)

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

See notes to financial statements.

■ Statements of Changes in Net Assets
(For the year ended 31 March 2021)

(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 2020	¥16,602	¥238,383	¥238,383	¥254,985	¥11,101	¥57,808	¥323,896
Changes during accounting period							
Net income	-	27,388	27,388	27,388	-	-	27,388
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(10,663)	-	(10,663)
Net changes during accounting period	-	27,388	27,388	27,388	(10,663)	-	16,725
Balance as of 31 March 2021	¥16,602	¥265,772	¥265,772	¥282,374	¥437	¥57,808	¥340,621

(For the year ended 31 March 2022)

(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 2021	¥16,602	¥265,772	¥265,772	¥282,374	¥437	¥57,808	¥340,621
Changes during accounting period							
Net income	-	32,263	32,263	32,263	-	-	32,263
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(4,780)	-	(4,780)
Net changes during accounting period	-	32,263	32,263	32,263	(4,780)	-	27,482
Balance as of 31 March 2022	¥16,602	¥298,035	¥298,035	¥314,637	¥(4,342)	¥57,808	¥368,104

(For the year ended 31 March 2022)

(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 2021	\$135,638	\$2,171,344	\$2,171,344	\$2,306,982	\$3,576	\$472,297	\$2,782,855
Changes during accounting period							
Net income	-	263,587	263,587	263,587	-	-	263,587
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(39,053)	-	(39,053)
Net changes during accounting period	-	263,587	263,587	263,587	(39,053)	-	224,534
Balance as of 31 March 2022	\$135,638	\$2,434,931	\$2,434,931	\$2,570,569	\$(35,477)	\$472,297	\$3,007,389

See notes to financial statements.

■ Statements of Cash Flows (For the years ended 31 March 2021 and 2022)

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

Item	Fiscal 2020 (1 April 2020 to 31 March 2021)	Fiscal 2021 (1 April 2021 to 31 March 2022)	
	Amount	Amount	
I Cash flows from operating activities			
Net income	¥27,388	¥32,263	\$263,587
Depreciation and amortization	512	495	4,046
Interest income	(250,780)	(222,071)	(1,814,311)
Interest expenses	134,580	118,786	970,481
Increase in reserve for bonuses	0	0	6
Increase/(decrease) in reserve for bonuses for directors and corporate auditors	(0)	-	-
Increase/(decrease) in reserve for retirement benefits	(9)	12	98
Decrease in reserve for retirement benefits for directors and corporate auditors	(10)	(5)	(48)
Decrease in fund for lending rate reduction	(9,041)	(13,691)	(111,862)
Increase in management account reserve for interest rate volatility	95,314	81,754	667,925
Decrease in reserve for interest rate reduction	(4,454)	(3,697)	(30,210)
Net (increase)/decrease in loans	255,225	(406,430)	(3,320,507)
Net increase/(decrease) in bonds	396,027	(308,649)	(2,521,649)
Net increase in borrowed money	91,000	105,500	861,928
Interest received	251,747	222,793	1,820,211
Interest paid	(133,682)	(118,238)	(966,004)
Others	(26,153)	111,819	913,555
Net cash provided by/(used in) operating activities	827,664	(399,361)	(3,262,754)
II Cash flows from investing activities			
Proceeds from redemption of securities	1,858,500	3,458,300	28,254,085
Purchases of securities	(2,086,000)	(3,785,300)	(30,925,654)
Purchases of tangible fixed assets	(6)	(21)	(178)
Purchases of intangible fixed assets	(203)	(249)	(2,040)
Net cash used in investing activities	(227,710)	(327,271)	(2,673,787)
III Cash flows from financing activities			
Payment to national treasury	(60,000)	(40,000)	(326,797)
Revenue from contributions made from municipally operated racing	9,041	13,691	111,862
Net cash used in financing activities	(50,958)	(26,308)	(214,935)
IV Effect of exchange rate changes on cash and cash equivalents	-	-	-
V Net increase/(decrease) in cash and cash equivalents	548,994	(752,940)	(6,151,476)
VI Cash and cash equivalents at beginning of year	557,437	1,106,432	9,039,478
VII Cash and cash equivalents at end of year	¥1,106,432	¥353,491	\$2,888,002

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 2022, the final day of the fiscal year, which was ¥122.40 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) Revenue recognition

The JFM applies the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and the “Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 31, 2020), and recognizes revenue when control of promised goods or services is transferred to the customer in the amount expected to be received in exchange for those goods or services.

(8) 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.

(9) Cash and cash equivalents

Cash and cash equivalents in the statements of cash flows consist of “Cash and bank deposits” on the balance sheets.

(10) 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.

(11) 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) 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.

(12) 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.

(13) 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.

(14) Consumption taxes

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

3. Significant Accounting Estimates

Reserve for possible loan losses

(a) Amount of reserve for possible loan losses recorded in fiscal 2021: N/A

(b) Information on significant accounting estimates for identified items

The JFM has not recorded reserves for possible loan losses due to the following reasons:

- Currently, there are no bankrupt loans and the JFM has never experienced any loan losses, as stated in Note 5 “Loans”.
- The JFM provides loans exclusively to local governments and there is a system to prevent local governments from default, as stated in Note 7 “Financial Instruments (c) (i) A. Credit risk on loans”.

The above situation is expected to remain the same for the next fiscal year and will not materially impact the financial statements for the next fiscal year.

4. Changes in Accounting Policies

(1) Adoption of revenue recognition accounting standards

The JFM has adopted the revenue recognition accounting standards from the beginning of this fiscal year. The application of the standards has no impact on the annual financial statements.

(2) Adoption of accounting standards for fair value measurement

The JFM has adopted the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, issued on July 4, 2019) and the “Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, issued on July 4, 2019) from the beginning of this fiscal year. In accordance with Paragraph 19 of the “Accounting Standard for Fair Value Measurement”, the JFM applies the new accounting policies set forth by the standard prospectively. The adoption of the standard has no impact on the annual financial statements.

5. 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).

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

For the purpose of securing the increase in the concession amount charged for Forest Environment Concession Tax, 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 addition, for the purpose of securing the Trust Fund Bureau Fund for exemptions of early redemption charges in relation to concessions of water supply and sewerage businesses 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 six years from fiscal 2018 through fiscal 2023, with the aim of transferring up to 1.5 billion yen over this period.

In fiscal 2020, 60 billion 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 “Ministerial Ordinance Specifying the Amount to be Attributed to the National Government pursuant to the provisions of Article 14 of the Supplementary Provision of the Law for the period from fiscal 2020 through fiscal 2024 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2020).”

In fiscal 2021, 40 billion yen (326,797 thousand U.S. dollars) 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 “Ministerial Ordinance Specifying the Amount to be Attributed to the National Government pursuant to the provisions of Article 14 of the Supplementary Provision of the Law for the period from fiscal 2021 through fiscal 2024 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2020; hereinafter the “Ministerial ordinance for attribution to the national government”).” The ministerial ordinance was amended by “Partial Amendment of the Ministerial Ordinance Specifying the Amount to be Attributed to the National Government pursuant to the provisions of Article 14 of the Supplementary Provision of the Law for the period from fiscal 2021 through fiscal 2024 (Ordinance No. 4 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2021).”

Additional information

In accordance with the provisions of Article 14 of 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 2022 through fiscal 2024, with the aim of transferring up to 130 billion yen over this period.

In fiscal 2022, the JFM will reverse 50 billion yen from the management account reserve for interest rate volatility and transfer the same amount to the national treasury, in accordance with the "Ministerial Ordinance Specifying the Amount to be Attributed to the National Government pursuant to the provisions of Article 14 of the Supplementary Provisions of the Law for the period from fiscal 2022 through fiscal 2024 (Ordinance No.1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2020)." The ministerial ordinance was amended by the "Ministerial Ordinance for Partial Revision of the Ministerial Ordinance for Specifying the Amount to be Attributed to the National Government pursuant to the provisions of Article 14 of the Supplementary Provisions of the Law for the period from fiscal 2021 through fiscal 2024 (Ordinance No. 2 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2022)."

7. Financial Instruments

(1) Status of financial instruments

(a) Policy for financial instruments

In order to maintain a sound and good financial standing as well as the solid confidence of capital markets, 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 (No. 94, 2007), 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" (No. 59, 1981) or the "Financial Reconstruction Law" (No. 132, 1998) 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 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 the provisions of 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 following transfers are scheduled:

- Up to 230 billion yen due to the increase in concession amount charged for Forest Environment Concession Tax, which promotes forest maintenance over a period of five years from fiscal 2020 through fiscal 2024; and

- Up to 1.5 billion yen for securing funds of the Trust Fund Bureau for exemptions of early redemption charges in relation to concessions of water supply and sewerage business over a period of six years from fiscal 2018 through 2023.

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 26,577 million yen and 29,584 million yen (241,703 thousand U.S. dollars) as of 31 March 2021 and 2022, 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 26,936 million yen and 29,985 million yen (244,982 thousand U.S. dollars) as of 31 March 2021 and 2022, 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 7,601 million yen and 6,319 million yen (51,628 thousand U.S. dollars) as of 31 March 2021 and 2022, 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 7,683 million yen and 6,383 million yen (52,155 thousand U.S. dollars) as of 31 March 2021 and 2022, 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.

(2) Items related to fair value of financial instruments

The book value, fair value and difference between them as of 31 March 2021 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,144,389	¥24,261,858	¥1,117,468
(2) Securities			
Held-to-maturity securities	593,000	593,000	-
(3) Cash and bank deposits	1,106,432	1,106,432	-
(4) Cash collateral paid for financial instruments	3,282	3,282	-
Total assets	24,847,103	25,964,572	1,117,468
(1) Bonds	20,410,767	20,921,734	510,966
(2) Borrowed money	294,000	295,557	1,557
(3) Cash collateral received for financial instruments	33,480	33,480	-
Total liabilities	20,738,247	21,250,771	512,524
Derivative transactions ^(*)	-	-	-
Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

The book value, fair value and difference between them as of 31 March 2022 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,550,819	¥24,209,869	¥659,049
(2) Securities			
Held-to-maturity securities	920,000	920,000	-
(3) Cash and bank deposits	353,491	353,491	-
(4) Cash collateral paid for financial instruments	812	812	-
Total assets	24,825,123	25,484,172	659,049
(1) Bonds	20,103,035	20,372,729	269,694
(2) Borrowed money	399,500	398,522	(977)
(3) Cash collateral received for financial instruments	147,451	147,451	-
Total liabilities	20,649,986	20,918,702	268,716
Derivative transactions ^(*)	-	-	-
Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans	\$192,408,658	\$197,793,048	\$5,384,390
(2) Securities			
Held-to-maturity securities	7,516,340	7,516,340	-
(3) Cash and bank deposits	2,888,002	2,888,002	-
(4) Cash collateral paid for financial instruments	6,634	6,634	-
Total assets	202,819,634	208,204,024	5,384,390
(1) Bonds	164,240,486	166,443,869	2,203,383
(2) Borrowed money	3,263,889	3,255,900	(7,989)
(3) Cash collateral received for financial instruments	1,204,665	1,204,665	-
Total liabilities	168,709,040	170,904,434	2,195,394
Derivative transactions ^(*)	-	-	-
Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

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

Note 1. Items related to securities and derivative transactions

(1) Securities

Notes on securities classified by holding purpose are described in Note 19.

(2) 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 2021 is as follows:

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Long-term borrowed money	-	-	-	Based on prices provided by the counterparty financial institution
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	¥20,000	¥20,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,938,045	1,619,503	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	4,000	-	(*2)	
Total			¥1,962,045	¥1,639,503		

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 2022 is as follows:

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Long-term borrowed money	-	-	-	Based on prices provided by the counterparty financial institution
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	¥20,000	¥20,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,979,994	1,733,986	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	14,000	-	(*2)	
Total			¥2,013,994	¥1,753,986		

(Thousands of U.S. dollars)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Long-term borrowed money	-	-	-	Based on prices provided by the counterparty financial institution
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	\$163,399	\$163,399	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	16,176,427	14,166,559	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	114,379	-	(*2)	
Total			\$16,454,205	\$14,329,958		

(*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 2021

(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	¥1,827,111	¥1,807,446	¥1,738,903	¥1,639,048	¥1,550,567	¥6,474,349	¥6,434,507	¥1,618,862	¥53,593
Securities	593,000	-	-	-	-	-	-	-	-
Held-to-maturity securities									
Deposits	1,106,432	-	-	-	-	-	-	-	-

As of 31 March 2022

(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	¥1,832,862	¥1,778,906	¥1,721,508	¥1,654,724	¥1,575,726	¥6,594,968	¥6,644,476	¥1,682,848	¥64,796
Securities	920,000	-	-	-	-	-	-	-	-
Held-to-maturity securities									
Deposits	353,491	-	-	-	-	-	-	-	-

(Thousands of U.S. dollars)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Loans	\$14,974,371	\$14,533,552	\$14,064,611	\$13,518,988	\$12,873,586	\$53,880,460	\$54,284,943	\$13,748,764	\$529,383
Securities	7,516,340	-	-	-	-	-	-	-	-
Held-to-maturity securities									
Deposits	2,888,002	-	-	-	-	-	-	-	-

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

As of 31 March 2021

(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	¥2,345,072	¥2,142,677	¥2,335,910	¥1,927,159	¥1,855,037	¥5,839,242	¥3,581,596	¥263,500	¥125,000
Borrowed money	1,000	-	86,200	83,400	88,000	31,800	3,600	-	-

As of 31 March 2022

(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	¥2,142,677	¥2,335,910	¥2,012,996	¥2,015,037	¥1,367,846	¥6,047,001	¥3,778,644	¥284,500	¥122,000
Borrowed money	-	86,200	83,400	88,000	104,500	33,800	3,600	-	-

(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	\$17,505,538	\$19,084,232	\$16,446,053	\$16,462,722	\$11,175,216	\$49,403,606	\$30,871,281	\$2,324,346	\$996,732
Borrowed money	-	704,248	681,373	718,954	853,758	276,144	29,412	-	-

Note 4. Items related to breakdown by level of fair value of financial instruments

The fair value of financial instruments is classified into the following three levels based on the observability and materiality of the inputs used to calculate the fair value.

Level 1: Fair value calculated using quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Fair value calculated using inputs that are directly or indirectly observable other than Level 1 inputs.

Level 3: Fair value calculated using significant and unobservable inputs

In cases where multiple inputs are used that have a significant impact on the calculation of fair value, the fair value is classified as the lowest priority level in the calculation of fair value.

(i) Financial assets and liabilities for which fair value is used as the balance sheet amount
Not applicable

(ii) Financial assets and liabilities for which fair value is not used as the balance sheet amount

As of 31 March 2022

(Millions of yen)

	Fair value			Total
	Level 1	Level 2	Level 3	
(1) Loans	¥-	¥-	¥24,209,869	¥24,209,869
(2) Securities				
Held-to-maturity securities	-	920,000	-	920,000
(3) Cash and bank deposits	-	353,491	-	353,491
(4) Cash collateral paid for financial instruments	-	812	-	812
Total assets	-	1,274,303	24,209,869	25,484,172
(1) Bonds	-	20,372,729	-	20,372,729
(2) Borrowed money	-	398,522	-	398,522
(3) Cash collateral received for financial instruments	-	147,451	-	147,451
Total liabilities	-	20,918,702	-	20,918,702
Derivative transactions				
Hedge accounting applied	-	-	-	-
Total of derivative transactions	¥-	¥-	¥-	¥-

(Thousands of U.S. dollars)

	Fair value			Total
	Level 1	Level 2	Level 3	
(1) Loans	\$-	\$-	\$197,793,048	\$197,793,048
(2) Securities				
Held-to-maturity securities	-	7,516,340	-	7,516,340
(3) Cash and bank deposits	-	2,888,002	-	2,888,002
(4) Cash collateral paid for financial instruments	-	6,634	-	6,634
Total assets	-	10,410,976	197,793,048	208,204,024
(1) Bonds	-	166,443,869	-	166,443,869
(2) Borrowed money	-	3,255,900	-	3,255,900
(3) Cash collateral received for financial instruments	-	1,204,665	-	1,204,665
Total liabilities	-	170,904,434	-	170,904,434
Derivative transactions				
Hedge accounting applied	-	-	-	-
Total of derivative transactions	\$-	\$-	\$-	\$-

(iii) Description of valuation techniques and inputs used to calculate fair value

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 2022.

For early redemption, the actual amount of early redemption during the past certain period is calculated as a percentage of the regular redemption amount during the past certain period, and multiplied by the regular redemption amount in subsequent years. For loans subject to interest rate review, the average rate of interest rate reduction of the loans subject to interest rate review is applied to the applicable interest rate at the time of calculation of fair value.

As the estimated amount of early redemption and the interest rate reduction rate are unobservable, the fair value is classified as Level 3.

(2) Securities

All securities are negotiable certificates of deposit and short-term, and the fair value approximates the book value. Therefore, the fair value is classified as Level 2 and 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. All deposits with maturities are short-term and the fair value approximates the book value. Therefore, the fair value is classified as Level 2 and 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 fair value is classified as Level 2 and 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. Although the JFM can quote a market price, the market is not active, the fair value is classified as Level 2.

Deferral hedge accounting is used for currency swaps, and the fair value of foreign currency-denominated bonds is calculated by discounting the total amount of principal and interest accounted for as an integral part of the relevant currency swap by the interest rate that would be applied if similar bonds were issued. Therefore, the fair value is classified as Level 2.

Hedge accounting is used for interest rate swaps, and the fair value of floating rate bonds is calculated by discounting the total amount of principal and interest accounted for as an integral part of the relevant interest rate swap by the interest rate that would be applied if similar bonds were issued. Therefore, the fair value is classified as Level 2.

(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. Therefore, the fair value is classified as Level 2.

(3) Cash collateral received for financial instruments

Cash collateral is associated with derivative transactions. The fair value is classified as Level 2 and 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.

(iv) Information on the Level 3 fair value of financial assets and liabilities whose fair value is recorded in the balance sheet

Not applicable

8. Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets as of 31 March 2021 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2020 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2021 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2021	Depreciation and amortization during the year	Balance as of 31 March 2021 (Net book value)
Tangible fixed assets							
Buildings	¥1,187	¥-	¥-	¥1,187	¥538	¥30	¥649
Land	1,659	-	-	1,659	-	-	1,659
Other tangible fixed assets	606	18	-	625	279	110	345
Total tangible fixed assets	3,454	18	-	3,472	818	140	2,654
Intangible fixed assets							
Software	1,844	205	359	1,691	760	371	930
Other intangible fixed assets	1	2	1	2	-	-	2
Total intangible fixed assets	¥1,846	¥208	¥360	¥1,694	¥760	¥371	¥933

Tangible and intangible fixed assets as of 31 March 2022 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2021 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2022 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2022	Depreciation and amortization during the year	Balance as of 31 March 2022 (Net book value)
Tangible fixed assets							
Buildings	¥1,187	¥9	¥-	¥1,196	¥565	¥27	¥630
Land	1,659	-	-	1,659	-	-	1,659
Other tangible fixed assets	625	52	8	669	387	112	281
Total tangible fixed assets	3,472	61	8	3,525	953	139	2,572
Intangible fixed assets							
Software	1,691	399	273	1,816	842	355	974
Other intangible fixed assets	2	2	2	2	-	-	2
Total intangible fixed assets	¥1,694	¥402	¥276	¥1,819	¥842	¥355	¥976

(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2021 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2022 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2022	Depreciation and amortization during the year	Balance as of 31 March 2022 (Net book value)
Tangible fixed assets							
Buildings	\$9,703	\$75	\$-	\$9,778	\$4,624	\$224	\$5,154
Land	13,560	-	-	13,560	-	-	13,560
Other tangible fixed assets	5,108	428	69	5,467	3,164	917	2,303
Total tangible fixed assets	28,371	503	69	28,805	7,788	1,141	21,017
Intangible fixed assets							
Software	13,816	3,264	2,236	14,844	6,883	2,905	7,961
Other intangible fixed assets	24	21	24	21	-	-	21
Total intangible fixed assets	\$13,840	\$3,285	\$2,260	\$14,865	\$6,883	\$2,905	\$7,982

9. 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 20,410,767 million yen and 20,103,035 million yen (164,240,486 thousand U.S. dollars) as of 31 March 2021 and 2022, respectively.

10. Bonds

Bonds as of 31 March 2021 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2020	Balance as of 31 March 2021	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 11-123)	4/19/2010-1/21/2020	¥4,469,844	¥3,817,710 (512,860)	0.001 to 1.400	10Y
Government-guaranteed bonds issued by the JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013-2/24/2017	420,059	420,046 (200,000)	0.001 to 0.576	8Y
Government-guaranteed bonds issued by the JFM (domestic) 6-year bonds (Series 13-20)	4/24/2014-10/28/2016	520,315	320,175 (120,000)	0.001 to 0.202	6Y
Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 7-11)	6/30/2016-8/28/2020	200,111	220,112 (160,000)	0.001	4Y
Government-guaranteed bonds issued by the JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	83,170	-	4.0	10Y
Non-guaranteed bonds issued by the JFM (domestic) 5-year bonds (Series 17-28)	4/20/2015-11/20/2020	125,000	135,000 (35,000)	0.001 to 0.15	5Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 11-142)	4/22/2010-3/18/2021	3,360,000	3,385,000 (400,000)	0.049 to 1.465	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 1-89)	6/25/2009-3/18/2021	1,575,000	1,765,000	0.180 to 2.266	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-12)	6/26/2014-11/20/2020	105,000	150,000	0.446 to 1.864	30Y
Non-guaranteed bonds issued by the JFM (domestic) 40-year bonds (Series 1-3)	2/26/2019-9/24/2020	30,000	40,000	0.646 to 0.882	40Y
Non-guaranteed bonds issued by the JFM (domestic)	7/23/2009-3/24/2021	2,600,288	3,117,917 (216,500)	0.001 to 2.334	2Y to 40Y

FLIP bonds (Series F2-F6, F8-F14, F16-F17, F24, F28-F29, F37, F42-F43, F45-F47, F49, F51-F52, F54-F69, F71-F73, F75-F80, F82-F85, F87-F90, F92-F93, F95-F98, F100-F109, F111-F112, F115-F139, F141-F153, F155-F164, F166-F169, F171-F210, F212-F243, F245-F276, F278-F310, F312-F400, and F402-F607)					
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Floater, Series F211, F244)	2/26/2014- 7/25/2014	20,000	20,000	Floating rate	20Y to 30Y
Non-guaranteed bonds issued by the JFM (international) (Series 43-45, 47-87)	5/1/2014- 2/10/2021	1,517,247	1,935,253 [USD 14,057 million] [AUD 1,662 million] [EUR 2,080 million] (318,542)	0.010 to 5.092	3Y to 15Y
Non-guaranteed bonds issued by the JFM (international) (Floater, Series 39)	7/22/2013	9,863	-	Floating rate	7Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series A7-A134)	4/27/2010- 3/24/2021	2,510,000	2,260,000 (300,000)	0.069 to 1.480	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series B1-B65)	11/24/2015- 3/24/2021	311,500	429,000	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-C65)	11/24/2015- 3/24/2021	462,500	594,000	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-D60)	4/21/2016- 3/24/2021	590,000	740,000	0.190 to 0.778	20Y
Bonds issued by the JFM - Sub-total	-	18,959,899	19,399,215 (2,262,902)	-	-
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1-2)	1/26/2009- 4/30/2009	84,973	84,976	2.07 to 2.29	20Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	84,973	84,976	-	-

Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005- 7/18/2007	184,860	144,985 (80,000)	1.6 to 2.2	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002- 6/16/2008	569,858	569,883	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	189,909	189,915	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	23,960	21,790 (2,170)	1.39 to 2.01	28Y
Bonds issued by the Predecessor - Sub-total	-	968,589	926,574 (82,170)	-	-
Total	-	¥20,013,462	¥20,410,767 (2,345,072)	-	-

- 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 20,410,767 million yen as of 31 March 2021.
2. Amounts in square brackets under "Balance as of 31 March 2021" for "Non-guaranteed bonds issued by the JFM (international)— (Series 43-45, 47-87)" are denominated in foreign currencies.
3. Amounts in parentheses under "Balance as of 31 March 2021" are to be repaid within one year.

Bonds as of 31 March 2022 consisted of the following:

(Millions of yen)					
Type of bond	Date of issue	Balance as of 1 April 2021	Balance as of 31 March 2022	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 23-123)	4/18/2011- 1/21/2020	¥3,817,710	¥3,305,000 (490,000)	0.001 to 1.300	10Y
Government-guaranteed bonds issued by the JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013- 2/24/2017	420,046	220,032	0.001 to 0.576	8Y
Government-guaranteed bonds issued by the JFM (domestic) 6-year bonds (Series 16-20)	5/28/2015- 10/28/2016	320,175	200,036 (200,036)	0.001 to 0.150	6Y
Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 8-13)	6/29/2017- 8/26/2021	220,112	220,388	0.001	4Y
Non-guaranteed bonds issued by the JFM (domestic) 5-year bonds (Series 19-30)	4/21/2016- 11/18/2021	135,000	135,000 (30,000)	0.001 to 0.040	5Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 23-154)	4/21/2011- 3/17/2022	3,385,000	3,375,000 (485,000)	0.049 to 1.418	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 1-96)	6/25/2009- 1/21/2022	1,765,000	1,890,000	0.180 to 2.266	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-14)	6/26/2014- 11/18/2021	150,000	180,000	0.446 to 1.864	30Y
Non-guaranteed bonds issued by the JFM (domestic) 40-year bonds (Series 1-3)	2/26/2019- 9/24/2020	40,000	40,000	0.646 to 0.882	40Y
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Series F2-F6, F8-F14, F16-F17, F24, F28-F29, F37, F42-F43, F45-F47, F49, F51-F52, F54-F56, F59-F68, F71-F73, F75-F80, F82-F85, F87-F90, F92-F93, F95-F98, F100-F109, F111-F112, F115-F134, F136-F139, F141-F143, F145-F153, F155-F164, F166-F169, F171-F179, F181-F210, F212-F243, F245-F276, F278-F298, F300-F310, F312-F319, F321-F369, F371-F400, and F403-F669)	7/23/2009- 3/24/2022	3,117,917	3,303,546 (274,500)	0.001 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Floater, Series F211, F244)	2/26/2014- 7/25/2014	20,000	20,000	Floating rate	20Y to 30Y
Non-guaranteed bonds issued by the JFM (international) (Series 43-45, 47-49, 53-58, and 61-92)	5/1/2014- 1/27/2022	1,935,253	1,977,602 [USD 14,556 million] [AUD 1,584 million] [EUR 2,080 million] (246,007)	0.010 to 5.092	3Y to 15Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series A15-A146)	4/21/2011- 3/24/2022	2,260,000	2,110,000 (300,000)	0.069 to 1.460	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series B1-B77)	11/24/2015- 3/24/2022	429,000	541,500	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-C77)	11/24/2015- 3/24/2022	594,000	715,500	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-D72)	4/21/2016- 3/24/2022	740,000	890,000	0.190 to 0.778	20Y
Bonds issued by the JFM - Sub-total	-	19,399,215	19,173,606	-	-
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1-2)	1/26/2009- 4/30/2009	84,976	84,979	2.07 to 2.29	20Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	84,976	84,979	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 2-5)	4/18/2006- 7/18/2007	144,985	64,999 (64,999)	2.0 to 2.2	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002- 6/16/2008	569,883	569,908 (49,998)	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	189,915	189,921	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	21,790	19,620 (2,170)	1.39 to 2.01	28Y
Bonds issued by the Predecessor - Sub-total	-	926,574	844,449	-	-
Total	-	¥20,410,767	¥20,103,035	-	-

(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2021	Balance as of 31 March 2022	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 23-123)	4/18/2011- 1/21/2020	\$31,190,445	\$27,001,634 (4,003,268)	0.001 to 1.300	10Y
Government-guaranteed bonds issued by the JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013- 2/24/2017	3,431,749	1,797,652	0.001 to 0.576	8Y
Government-guaranteed bonds issued by the JFM (domestic) 6-year bonds (Series 16-20)	5/28/2015- 10/28/2016	2,615,816	1,634,283 (1,634,283)	0.001 to 0.150	6Y

Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 8-13)	6/29/2017- 8/26/2021	1,798,301	1,800,561	0.001	4Y
Non-guaranteed bonds issued by the JFM (domestic) 5-year bonds (Series 19-30)	4/21/2016- 11/18/2021	1,102,941	1,102,941 (245,098)	0.001 to 0.040	5Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 23-154)	4/21/2011- 3/17/2022	27,655,229	27,573,530 (3,962,418)	0.049 to 1.418	10Y
Non-guaranteed bonds issued by the JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013- 1/22/2014	408,497	408,497	1.161 to 1.334	15Y
Non-guaranteed bonds issued by the JFM (domestic) 20-year bonds (Series 1-96)	6/25/2009- 1/21/2022	14,419,935	15,441,176	0.180 to 2.266	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-14)	6/26/2014- 11/18/2021	1,225,490	1,470,588	0.446 to 1.864	30Y
Non-guaranteed bonds issued by the JFM (domestic) 40-year bonds (Series 1-3)	2/26/2019- 9/24/2020	326,797	326,797	0.646 to 0.882	40Y
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Series F2-F6, F8-F14, F16-F17, F24, F28-F29, F37, F42-F43, F45-F47, F49, F51-F52, F54-F56, F59-F68, F71-F73, F75-F80, F82-F85, F87-F90, F92-F93, F95-F98, F100-F109, F111-F112, F115-F134, F136-F139, F141-F143, F145-F153, F155-F164, F166-F169, F171-F179, F181-F210, F212-F243, F245-F276, F278-F298, F300-F310, F312-F319, F321-F369, F371-F400, and F403-F669)	7/23/2009- 3/24/2022	25,473,182	26,989,759 (2,242,647)	0.001 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Floater, Series F211, F244)	2/26/2014- 7/25/2014	163,399	163,399	Floating rate	20Y to 30Y
Non-guaranteed bonds issued by the JFM (international) (Series 43-45, 47-49, 53-58, and 61-92)	5/1/2014- 1/27/2022	15,810,894	16,156,882 [USD 14,556 million] [AUD 1,584 million] [EUR 2,080 million] (2,009,868)	0.010 to 5.092	3Y to 15Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series A15-A146)	4/21/2011- 3/24/2022	18,464,052	17,238,562 (2,450,980)	0.069 to 1.460	10Y
Non-guaranteed bonds issued by the JFM (domestic)	11/24/2015- 3/24/2022	3,504,902	4,424,020	0.069 to 0.511	10Y

Private placements with pension funds for local government officials (Series B1-B77)					
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series C1-C77)	11/24/2015-3/24/2022	4,852,941	5,845,588	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-D72)	4/21/2016-3/24/2022	6,045,752	7,271,242	0.190 to 0.778	20Y
Bonds issued by the JFM - Sub-total	-	158,490,322	156,647,111	-	-
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1-2)	1/26/2009-4/30/2009	694,254	694,279	2.07 to 2.29	20Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	694,254	694,279	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 2-5)	4/18/2006-7/18/2007	1,184,522	531,039 (531,039)	2.0 to 2.2	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	4,655,912	4,656,114 (408,484)	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	1,551,599	1,551,649	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	178,023	160,294 (17,729)	1.39 to 2.01	28Y
Bonds issued by the Predecessor - Sub-total	-	7,570,056	6,899,096	-	-
Total	-	\$166,754,632	\$164,240,486	-	-

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 20,103,035 million yen (164,240,486 thousand U.S. dollars) as of 31 March 2022.

2. Amounts in square brackets under "Balance as of 31 March 2022" for "Non-guaranteed bonds issued by the JFM (international)"—(Series 43-45, 47-49, 53-58 and 61-92)" are denominated in foreign currencies.

3. Amounts in parentheses under "Balance as of 31 March 2022" are to be repaid within one year.

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

As of 31 March 2021

(Millions of yen)

	Within 1	After 1	After 2	After 3	After 4
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	year	year through 2 years	years through 3 years	years through 4 years	years through 5 years
Bonds	¥2,345,072	¥2,142,677	¥2,335,910	¥1,927,159	¥1,855,037

As of 31 March 2022

(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	¥2,142,677	¥2,335,910	¥2,012,996	¥2,015,037	¥1,367,846

(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	\$17,505,538	\$19,084,232	\$16,446,053	\$16,462,722	\$ 11,175,216

11. Borrowed Money

Borrowed money as of 31 March 2021 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2020	Balance as of 31 March 2021	Average interest rate (%)	Repayment date
Short-term borrowed money	¥-	¥-	-	-
Long-term borrowed money (repayment within 1 year)	¥-	¥1,000	0.080	9/27/2021
Long-term borrowed money (excluding repayment within 1 year)	¥203,000	¥293,000	0.259	5/29/2023- 3/16/2040
Total	¥203,000	¥294,000	-	-

Borrowed money as of 31 March 2022 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2021	Balance as of 31 March 2022	Average interest rate (%)	Repayment date
Short-term borrowed money	¥-	¥-	-	-
Long-term borrowed money (repayment within 1 year)	¥1,000	¥-	-	-
Long-term borrowed money (excluding repayment within 1 year)	¥293,000	¥399,500	0.219	5/29/2023- 3/16/2040
Total	¥294,000	¥399,500	-	-

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2021	Balance as of 31 March 2022	Average interest rate (%)	Repayment date
Short-term borrowed money	\$-	\$-	-	-
Long-term borrowed money (repayment within 1 year)	\$8,170	\$-	-	-
Long-term borrowed money (excluding repayment within 1 year)	\$2,393,791	\$3,263,889	0.219	5/29/2023- 3/16/2040
Total	\$2,401,961	\$3,263,889	-	-

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 2021

(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	¥88,000

As of 31 March 2022

(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	¥-	¥86,200	¥83,400	¥ 88,000	¥104,500

(Thousands of U.S. dollars)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
Borrowed money	\$-	\$704,248	\$681,373	\$718,954	\$853,758

12. Reserves

Reserves as of 31 March 2021 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2020	Increase during the year	Decrease during the year		Balance as of 31 March 2021
			Intended purpose	Other	
Reserve for bonuses	¥58	¥59	¥58	¥-	¥59
Reserve for bonuses for directors and corporate auditors	10	10	10	-	10
Reserve for retirement benefits	62	6	2	13	52
Reserve for retirement benefits for directors and corporate auditors	32	6	15	1	21

Reserves as of 31 March 2022 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2021	Increase during the year	Decrease during the year		Balance as of 31 March 2022
			Intended purpose	Other	
Reserve for bonuses	¥59	¥59	¥59	¥-	¥59
Reserve for bonuses for directors and corporate auditors	10	10	10	-	10
Reserve for retirement benefits	52	22	2	7	64
Reserve for retirement benefits for directors and corporate auditors	21	9	13	1	15

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2021	Increase during the year	Decrease during the year		Balance as of 31 March 2022
			Intended purpose	Other	
Reserve for bonuses	\$483	\$489	\$483	\$-	\$489
Reserve for bonuses for directors and corporate auditors	84	84	84	-	84
Reserve for retirement benefits	430	182	23	61	528
Reserve for retirement benefits for directors and corporate auditors	172	78	112	14	124

13. Reserve for Interest Rate Volatility

Reserve for interest rate volatility as of 31 March 2021 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2020	Increase during the year	Decrease during the year		Balance as of 31 March 2021
			Amount provided	Amount withdrawn	
Reserve for interest rate volatility	¥2,200,000	¥-	¥-	¥-	¥2,200,000
Management account reserve for interest rate volatility	605,607	95,314		60,000	¥-
Total	¥2,805,607	¥95,314	¥-	¥60,000	¥-

Reserve for interest rate volatility as of 31 March 2022 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2021	Increase during the year	Decrease during the year		Balance as of 31 March 2022
			Amount provided	Amount withdrawn	
Reserve for interest rate volatility	¥2,200,000	¥-	¥-	¥-	¥2,200,000
Management account reserve for interest rate volatility	640,921	81,754		40,000	¥-
Total	¥2,840,921	¥81,754	¥-	¥40,000	¥-

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2021	Increase during the year		Decrease during the year		Balance as of 31 March 2022
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	\$17,973,856	\$-	\$-	\$-		\$17,973,856
Management account reserve for interest rate volatility	5,236,291	667,925		326,798	\$-	5,577,418
Total	\$23,210,147	\$667,925	\$-	\$326,798	\$-	\$23,551,274

Note: The “Decrease during the year” for the “Management account reserve for interest rate volatility” in the amount of 40,000 million yen (326,798 thousand U.S. dollars) consists of the payment to the national treasury in accordance with the ministerial ordinance for attribution to the national government.

14. Fund for Lending Rate Reduction

Fund for lending rate reduction as of 31 March 2021 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2020	Increase during the year		Decrease during the year		Balance as of 31 March 2021
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥920,287	¥9,041	¥-	¥9,041	¥-	¥920,287
Total	¥920,287	¥9,041	¥-	¥9,041	¥-	¥920,287

Fund for lending rate reduction as of 31 March 2022 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2021	Increase during the year		Decrease during the year		Balance as of 31 March 2022
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥920,287	¥13,691	¥-	¥13,691	¥-	¥920,287
Total	¥920,287	¥13,691	¥-	¥13,691	¥-	¥920,287

(Thousands of U.S. dollars)

Classification of fund	Balance as of 1 April 2021	Increase during the year		Decrease during the year		Balance as of 31 March 2022
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	\$7,518,689	\$111,862	\$-	\$111,862	\$-	\$7,518,689
Total	\$7,518,689	\$111,862	\$-	\$111,862	\$-	\$7,518,689

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.

15. Reserve for Retirement Benefits

As of and for the year ended 31 March 2021

(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:	62 million yen
Pension expenses:	0 million yen
Employee retirement benefits paid:	2 million yen
Contributions to the defined benefit plan:	<u>7 million yen</u>
Reserve for retirement benefits at the end of the fiscal year:	<u><u>52 million yen</u></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>(181) million yen</u>
Balance:	2 million yen
Unfunded retirement benefit obligation:	<u>49 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u><u>52 million yen</u></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><u>52 million yen</u></u>

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 0 million yen

As of and for the year ended 31 March 2022

(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	(430 thousand U.S. dollars)
Pension expenses:	22 million yen	(182 thousand U.S. dollars)
Employee retirement benefits paid:	2 million yen	(23 thousand U.S. dollars)
Contributions to the defined benefit plan:	<u>7 million yen</u>	<u>(61 thousand U.S. dollars)</u>
Reserve for retirement benefits at the end of the fiscal year:	<u><u>64 million yen</u></u>	<u><u>(528 thousand U.S. dollars)</u></u>

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

Funded retirement benefit obligation:	196 million yen	(1,605 thousand U.S. dollars)
Plan assets:	<u>(186) million yen</u>	<u>((1,520) thousand U.S. dollars)</u>
Balance:	10 million yen	(85 thousand U.S. dollars)
Unfunded retirement benefit obligation:	<u>54 million yen</u>	<u>(443 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u><u>64 million yen</u></u>	<u><u>(528 thousand U.S. dollars)</u></u>
Reserve for retirement benefits at the end of the fiscal year:	<u>64 million yen</u>	<u>(528 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u><u>64 million yen</u></u>	<u><u>(528 thousand U.S. dollars)</u></u>

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 22 million yen (182 thousand U.S. dollars)

16. Net Income by Account

(For the year ended 31 March 2021)

Net income of the general account was 27,388 million yen, while there was no net income of management account.

(For the year ended 31 March 2022)

Net income of the general account was 32,263 million yen (263,587 thousand U.S. dollars), while there was no net income of management account.

17. Information by Account (Balance sheets)

Balance sheets of general account and management account as of 31 March 2021 were as follows:

Item	(Millions of yen)			
	General account	Management account	Offset	Total
(Assets)				
Loans	¥17,329,790	¥5,814,599		¥23,144,389
Securities	593,000			593,000
Cash and bank deposits	1,106,432			1,106,432
Cash collateral paid for financial instruments	3,282			3,282
Other assets	3,381	3,533		6,914
Tangible fixed assets	2,654			2,654
Intangible fixed assets	933			933
Due from general account		600,823	¥(600,823)	
Total assets	19,039,474	6,418,956	(600,823)	24,857,606
(Liabilities)				
Bonds	14,706,147	5,704,619		20,410,767
Borrowed money	294,000			294,000
Cash collateral received for financial instruments	33,480			33,480
Other liabilities	1,779	2,891		4,670
Reserve for bonuses	59			59
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	21			21
Fund for lending rate reduction	920,287			920,287
Basic fund for lending rate reduction	920,287			920,287
Due to management account	600,823		(600,823)	
Reserves under special laws	2,200,000	653,636		2,853,636
Reserve for interest rate volatility	2,200,000			2,200,000
Management account reserve for interest rate volatility		640,921		640,921
Reserve for interest rate reduction		12,714		12,714
Total liabilities	18,756,661	6,361,147	(600,823)	24,516,985
(Net Assets)				
Capital	16,602			16,602
Retained earnings	265,772			265,772
General account surplus reserve	265,772			265,772
Valuation, translation adjustments and others	437			437
Management account surplus reserve		57,808		57,808
Total net assets	282,812	57,808		340,621
Total liabilities and net assets	¥19,039,474	¥6,418,956	¥(600,823)	¥24,857,606

Balance sheets of general account and management account as of 31 March 2022 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥18,611,519	¥4,939,300		¥23,550,819
Securities	920,000			920,000
Cash and bank deposits	353,491			353,491
Cash collateral paid for financial instruments	812			812
Other assets	3,260	2,932		6,193
Tangible fixed assets	2,572			2,572
Intangible fixed assets	976			976
Due from general account		600,043	¥(600,043)	
Total assets	19,892,632	5,542,276	(600,043)	24,834,865
(Liabilities)				
Bonds	15,313,128	4,789,906		20,103,035
Borrowed money	399,500			399,500
Cash collateral received for financial instruments	147,451			147,451
Other liabilities	1,776	2,868		4,644
Reserve for bonuses	59			59
Reserve for bonuses for directors and corporate auditors	10			10
Reserve for retirement benefits	64			64
Reserve for retirement benefits for directors and corporate auditors	15			15
Fund for lending rate reduction	920,287			920,287
Basic fund for lending rate reduction	920,287			920,287
Due to management account	600,043		(600,043)	
Reserves under special laws	2,200,000	691,692		2,891,692
Reserve for interest rate volatility	2,200,000			2,200,000
Management account reserve for interest rate volatility		682,675		682,675
Reserve for interest rate reduction		9,017		9,017
Total liabilities	19,582,337	5,484,467	(600,043)	24,466,761
(Net Assets)				
Capital	16,602			16,602
Retained earnings	298,035			298,035
General account surplus reserve	298,035			298,035
Valuation, translation adjustments and others	(4,342)			(4,342)
Management account surplus reserve		57,808		57,808
Total net assets	310,295	57,808		368,104
Total liabilities and net assets	¥19,892,632	¥5,542,276	¥(600,043)	¥24,834,865

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	\$152,054,895	\$40,353,763		\$192,408,658
Securities	7,516,340			7,516,340
Cash and bank deposits	2,888,002			2,888,002
Cash collateral paid for financial instruments	6,634			6,634
Other assets	26,642	23,957		50,599
Tangible fixed assets	21,017			21,017
Intangible fixed assets	7,982			7,982
Due from general account		4,902,319	\$(4,902,319)	
Total assets	162,521,512	45,280,039	(4,902,319)	202,899,232
(Liabilities)				
Bonds	125,107,261	39,133,225		164,240,486
Borrowed money	3,263,889			3,263,889
Cash collateral received for financial instruments	1,204,665			1,204,665
Other liabilities	14,514	23,433		37,947
Reserve for bonuses	489			489
Reserve for bonuses for directors and corporate auditors	84			84
Reserve for retirement benefits	528			528
Reserve for retirement benefits for directors and corporate auditors	124			124
Fund for lending rate reduction	7,518,689			7,518,689
Basic fund for lending rate reduction	7,518,689			7,518,689
Due to management account	4,902,319		(4,902,319)	
Reserves under special laws	17,973,856	5,651,086		23,624,942
Reserve for interest rate volatility	17,973,856			17,973,856
Management account reserve for interest rate volatility		5,577,418		5,577,418
Reserve for interest rate reduction		73,668		73,668
Total liabilities	159,986,418	44,807,744	(4,902,319)	199,891,843
(Net Assets)				
Capital	135,638			135,638
Retained earnings	2,434,931			2,434,931
General account surplus reserve	2,434,931			2,434,931
Valuation, translation adjustments and others	(35,477)			(35,477)
Management account surplus reserve		472,297		472,297
Total net assets	2,535,092	472,297		3,007,389
Total liabilities and net assets	\$162,521,510	\$45,280,041	\$(4,902,319)	\$202,899,232

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.

18. Information by Account (Statements of income)

Statements of income of general account and management account from 1 April 2020 through 31 March 2021 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥127,026	¥138,908	¥(6,011)	¥259,923
Interest income	117,492	133,288		250,780
Fees and commissions	83			83
Other operating income	7			7
Other income	9,052			9,052
Contributions from fund for lending rate reduction	9,041			9,041
Others	11			11
Administrative fee for management account	391		(391)	
Interest on due from general account		5	(5)	
Transfer from general account for fund for lending rate reduction		5,615	(5,615)	
Expenses	99,637	48,049	(6,011)	141,675
Interest expenses	87,135	47,445		134,580
Fees and commissions	189	102		292
Other operating expenses	3,622	91		3,713
General and administrative expenses	3,069	19		3,088
Other expenses	0			0
Interest on due to management account	5		(5)	
Transfer to management account for fund for lending rate reduction	5,615		(5,615)	
Administrative fee for general account		391	(391)	
Ordinary income	27,388	90,859	-	118,247
Special gains	-	64,454	-	64,454
Reversal of management account reserve for interest rate volatility		60,000		60,000
Reversal of reserve for interest rate reduction		4,454		4,454
Special losses	-	155,314	-	155,314
Loss on disposal of fixed assets				
Provision for management account reserve for interest rate volatility		95,314		95,314
Payment to national treasury		60,000		60,000
Net income	¥27,388	¥-	¥-	¥27,388

Statements of income of general account and management account from 1 April 2021 through 31 March 2022 were as follows:

(Millions of yen)				
Item	General account	Management account	Offset	Total
Income	¥124,505	¥116,609	¥(5,246)	¥235,867
Interest income	110,310	111,760		222,071
Fees and commissions	76			76
Other operating income	15			15
Other income	13,703			13,703
Contributions from fund for lending rate reduction	13,691			13,691
Others	11			11
Administrative fee for management account	398		(398)	
Interest on due from general account		5	(5)	
Transfer from general account for fund for lending rate reduction		4,843	(4,843)	
Expenses	92,242	38,553	(5,246)	125,548
Interest expenses	81,002	37,784		118,786
Fees and commissions	199	94		294
Other operating expenses	2,839	242		3,081
General and administrative expenses	3,352	33		3,385
Interest on due to management account	5		(5)	
Transfer to management account for fund for lending rate reduction	4,843		(4,843)	
Administrative fee for general account		398	(398)	
Ordinary income	32,263	78,056	-	110,319
Special gains	-	43,697	-	43,697
Reversal of management account reserve for interest rate volatility		40,000		40,000
Reversal of reserve for interest rate reduction		3,697		3,697
Special losses	-	121,754	-	121,754
Loss on disposal of fixed assets				
Provision for management account reserve for interest rate volatility		81,754		81,754
Payment to national treasury		40,000		40,000
Net income	¥32,263	¥-	¥-	¥32,263

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
Income	\$1,017,199	\$952,693	\$(42,867)	\$1,927,025
Interest income	901,232	913,079		1,814,311
Fees and commissions	629			629
Other operating income	131			131
Other income	111,954			111,954
Contributions from fund for lending rate reduction	111,862			111,862
Others	92			92
Administrative fee for management account	3,253		(3,253)	
Interest on due from general account		43	(43)	
Transfer from general account for fund for lending rate reduction		39,571	(39,571)	
Expenses	753,612	314,978	(42,867)	1,025,723
Interest expenses	661,782	308,699		970,481
Fees and commissions	1,633	770		2,403
Other operating expenses	23,196	1,981		25,177
General and administrative expenses	27,387	275		27,662
Interest on due to management account	43		(43)	
Transfer to management account for fund for lending rate reduction	39,571		(39,571)	
Administrative fee for general account		3,253	(3,253)	
Ordinary income	263,587	637,715	-	901,302
Special gains	-	357,008	-	357,008
Reversal of management account reserve for interest rate volatility		326,798		326,798
Reversal of reserve for interest rate reduction		30,210		30,210
Special losses	-	994,723	-	994,723
Loss on disposal of fixed assets				
Provision for management account reserve for interest rate volatility		667,925		667,925
Payment to national treasury		326,798		326,798
Net income	\$263,587	\$-	\$-	\$263,587

19. Fair Value of Marketable Securities

Marketable held-to-maturity securities as of 31 March 2021 consisted of the following:

(Millions of yen)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	Negotiable certificates of deposit	-	-	-
	Sub total	-	-	-
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	¥593,000	¥593,000	-
	Sub total	593,000	593,000	-
Total		¥593,000	¥593,000	-

Marketable held-to-maturity securities as of 31 March 2022 consisted of the following:

(Millions of yen)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	Negotiable certificates of deposit	-	-	-
	Sub total	-	-	-
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	¥920,000	¥920,000	-
	Sub total	920,000	920,000	-
Total		¥920,000	¥920,000	-

(Thousands of U.S. dollars)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	Negotiable certificates of deposit	-	-	-
	Sub total	-	-	-
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	\$7,516,340	\$7,516,340	-
	Sub total	7,516,340	7,516,340	-
Total		\$7,516,340	\$7,516,340	-

Note: Fair value of negotiable certificates of deposit is book value.

20. 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, such as interest rate swaps and currency swaps, 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 is omitted for interest rate swaps that qualify for exceptional accrual method and currency swaps and forward contracts that qualify for deferral hedge accounting.

(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.

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, 2021 and 2022, 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, 2021 and 2022, and its financial performance and its cash flows for the years then ended in accordance with the Law and regulations applicable to the 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Applying hedge accounting to derivative transactions against pipeline risk (interest rate risk)	
Description of Key Audit Matter	Auditor's Response
<p>As stated in Note 7 "Financial Instruments," the JFM applies hedge accounting to interest rate swaps used to hedge against pipeline risk, whereby losses would be incurred or profits would decrease 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.</p> <p>As stated in Note 20 "Information on Derivative Transactions," in applying hedge accounting, the JFM designated bonds and long-term borrowed money as hedged items and interest rate swaps as hedging instruments and adopted deferral hedge accounting.</p> <p>Since the JFM ensured hedging instruments and hedged items have the same major terms, as the assessment of hedge effectiveness, the JFM deemed these to be highly effective and thus did not assess effectiveness.</p> <p>Unrealized gain or loss from hedging instruments of (4,342) million yen ((35,477) thousand U.S. dollars) was recorded on the balance sheet for the current fiscal year.</p> <p>With the diversification of financing methods and the sophistication of risk management methods, derivative transactions to hedge against interest rate risks are expected to become more complicated, and the notional amount of interest rate swaps will be the same as financing amounts (around several to tens of billions of yen per transaction). Therefore, considering the size and frequency of transactions, if a derivative transaction entered into does not qualify for hedge accounting as a result, principle accounting treatment for the derivative transaction must be applied, which may have a great impact on profits and losses.</p> <p>Based on the above, given that applying hedge accounting to derivative transactions to hedge against pipeline risk (interest rate risk) is particularly significant in the current fiscal year we determined it to be a key audit matter.</p>	<p>The audit procedures we performed to evaluate whether the JFM's derivative transactions qualify for hedge accounting include the following, among others:</p> <ul style="list-style-type: none"> • We evaluated the design and tested the operating effectiveness of the controls related to entering into derivative transactions and applying hedge accounting. • In order to evaluate whether all derivative transactions contracted by the JFM are recorded in the derivative transactions control table, we inspected the authorized document that determined it may possibly enter into derivative transactions at the beginning of the current fiscal year, and have obtained external confirmations for derivative transactions up until the end of the current fiscal year from all counterparties described in this document. We considered no transactions in the obtained external confirmations other than recorded in the derivative transactions control table and considered no derivative transactions in the obtained external confirmations from financial institutions other than the counterparties the JFM determined. • In order to evaluate whether 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, we considered whether the notional amount and contract period of all interest rate swaps recorded in the derivative transaction control table match the principal amount and redemption period (or maturity) of the bond and long-term borrowed money to be hedged. We also considered whether the interest payment and receipt conditions on interest rate swaps are such that fixed interest on bonds and long-term borrowed money is substantially converted into floating interest.

	<ul style="list-style-type: none"> • In order to evaluate, if the application of hedge accounting was discontinued for interest rate swaps, whether gains and losses on settlement at the time of cancellation were transferred to the unrealized gain or loss from hedging instruments and amortized as an adjustment of the interest to be hedged, we inspected evidences of agreement with the counterparty to terminate the contracts and considered gains and losses on settlement at the time of cancellation. We considered these gains and losses on settlement to be transferred to the unrealized gain or loss from hedging instruments. We recalculated the amortized amounts of the unrealized gain or loss from hedging instruments, and considered the amounts to be amortized to profit or loss by maturity of the hedged item.
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Other Information

The other information comprises the information included in the JFM's Annual Report 2022 that contains audited financial statements but does not include the financial statements and our audit report thereon. The JFM's Annual Report 2022 is expected to be made available to us after the date of this auditor's report. The President is responsible for preparation and disclosure of the other information. The Corporate Auditors are responsible for overseeing the JFM's reporting process of the other information.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

The President is responsible for the preparation and fair presentation of these financial statements in accordance with the Law and regulations applicable to the JFM and accounting principles generally accepted in Japan, and for such internal control as the 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, the 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 the JFM and accounting principles generally accepted in Japan, matters related to going concern.

The 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.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, 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 the President.
- Conclude on the appropriateness of the 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 the 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.

From the matters communicated with the Corporate Auditors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the JFM which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended March 31, 2022 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

June 28, 2022

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