

Fiscal 2023

(1 April 2023 to 31 March 2024)

Japan Finance Organization for Municipalities Financial Statements

Japan Finance Organization for Municipalities

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■ Balance Sheet

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

Item	Fiscal 2022 (As of 31 March 2023)		Fiscal 2023 (As of 31 March 2024)		Item	Fiscal 2022 (As of 31 March 2023)		Fiscal 2023 (As of 31 March 2024)	
	Amount					Amount			
Assets					Liabilities				
Loans (Note 4)	¥23,300,200	¥23,074,004	\$152,555,405		Bonds (Notes 8 and 9)	¥19,626,484	¥18,949,328	\$125,284,817	
Securities (Note 19)	747,000	204,500	1,352,066		Borrowed money (Note 10)	526,500	530,300	3,506,116	
Cash and bank deposits	497,337	873,692	5,776,482		Cash collateral received for financial instruments	171,013	413,091	2,731,180	
Cash collateral paid for financial instruments	1,016	-	-		Other liabilities	6,832	6,807	45,009	
Other assets	5,748	5,545	36,663		Reserve for bonuses (Note 11)	54	60	397	
Tangible fixed assets (Note 7)	2,795	2,933	19,392		Reserve for bonuses for directors and corporate auditors (Note 11)	8	10	69	
Intangible fixed assets (Note 7)	2,231	3,447	22,791		Reserve for retirement benefits (Notes 11 and 14)	74	45	303	
					Reserve for retirement benefits for directors and corporate auditors (Note 11)	15	15	103	
					Fund for lending rate reduction	923,873	926,499	6,125,614	
					Basic fund for lending rate reduction (Note 13)	923,873	926,499	6,125,614	
					Reserves under special laws	2,907,523	2,912,073	19,253,379	
					Reserve for interest rate volatility (Note 12)	2,200,000	2,200,000	14,545,455	
					Management account reserve for interest rate volatility (Note 12)	701,566	708,654	4,685,317	
					Reserve for interest rate reduction	5,957	3,419	22,607	
					Total liabilities	24,162,382	23,738,231	156,946,987	
					Net assets				
					Capital	16,602	16,602	109,766	
					Retained earnings	334,114	370,406	2,448,970	
					General account appropriated surplus reserve	334,114	370,406	2,448,970	
					Valuation, translation adjustments and others	(14,579)	(18,926)	(125,132)	
					Management account surplus reserve	57,808	57,808	382,208	
					Total net assets	393,946	425,891	2,815,812	
Total assets	¥24,556,329	¥24,164,123	\$159,762,799		Total liabilities and net assets	¥24,556,329	¥24,164,123	\$159,762,799	

See notes to financial statements.

■ Statement of Income

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

Item	Fiscal 2022 (For the year ended 31 March 2023)	Fiscal 2023 (For the year ended 31 March 2024)	
	Amount	Amount	
Income	¥217,989	¥209,118	\$1,382,603
Interest income	201,415	191,948	1,269,081
Fees and commissions (Note 16)	71	66	440
Other operating income	81	99	660
Other income	16,420	17,003	112,422
Contributions from fund for lending rate reduction (Note 13)	16,410	16,964	112,159
Others	10	39	263
Expenses	116,212	118,277	781,997
Interest expenses	109,678	110,974	733,716
Fees and commissions	282	275	1,819
Other operating expenses	2,424	2,712	17,934
General and administrative expenses	3,826	4,314	28,528
Other expenses	-	0	0
Ordinary income	101,776	90,841	600,606
Special gains	53,192	52,538	347,362
Gain on disposal of fixed assets	133	-	-
Reversal of management account reserve for interest rate volatility (Note 12)	50,000	50,000	330,578
Reversal of reserve for interest rate reduction	3,059	2,538	16,784
Special losses	118,890	107,088	708,020
Provision for management account reserve for interest rate volatility (Note 12)	68,890	57,088	377,442
Payment to the national treasury (Notes 5 and 12)	50,000	50,000	330,578
Net income	¥36,079	¥36,292	\$239,948

See notes to financial statements.

■ Statement of Appropriation of Profit [General account]

(For the year ended 31 March 2023)

(Millions of yen)

I Profit available for appropriation		¥36,079	¥36,079
Net income		¥36,079	
Accumulated deficit brought forward	-		
II Profit appropriated		36,079	36,079
Surplus reserve		36,079	36,079

(For the year ended 31 March 2024)

(Millions of yen)

I Profit available for appropriation		¥36,292	¥36,292
Net income		¥36,292	
Accumulated deficit brought forward	-		
II Profit appropriated		36,292	36,292
Surplus reserve		36,292	36,292

(Thousands of U.S. dollars)

I Profit available for appropriation		\$239,948	\$239,948
Net income		\$239,948	
Accumulated deficit brought forward	-		
II Profit appropriated		239,948	239,948
Surplus reserve		239,948	239,948

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 appropriated surplus reserve on the balance sheet.

See notes to financial statements.

■ Statement of Appropriation of Profit [Management account]

(For the year ended 31 March 2023)

(Millions of yen)

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

(For the year ended 31 March 2024)

(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.

■ Statement of Changes in Net Assets
(For the year ended 31 March 2023)

(Millions of yen)

	Stockholders' equity				Valuation, translation adjustments and others	Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity			
		General account appropriated surplus reserve	Total retained earnings		Unrealized gain/(loss) from hedging instruments		
Balance as of 1 April 2022	¥16,602	¥298,035	¥298,035	¥314,637	¥(4,342)	¥57,808	¥368,104
Changes during accounting period							
Net income	-	36,079	36,079	36,079	-	-	36,079
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(10,236)	-	(10,236)
Net changes during accounting period	-	36,079	36,079	36,079	(10,236)	-	25,842
Balance as of 31 March 2023	¥16,602	¥334,114	¥334,114	¥350,716	¥(14,579)	¥57,808	¥393,946

(For the year ended 31 March 2024)

(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 appropriated surplus reserve	Total retained earnings				
Balance as of 1 April 2023	¥16,602	¥334,114	¥334,114	¥350,716	¥(14,579)	¥57,808	¥393,946
Changes during accounting period							
Net income	-	36,292	36,292	36,292	-	-	36,292
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(4,347)	-	(4,347)
Net changes during accounting period	-	36,292	36,292	36,292	(4,347)	-	31,945
Balance as of 31 March 2024	¥16,602	¥370,406	¥370,406	¥387,008	¥(18,926)	¥57,808	¥425,891

(For the year ended 31 March 2024)

(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 appropriated surplus reserve	Total retained earnings				
Balance as of 1 April 2023	\$109,766	\$2,209,022	\$2,209,022	\$2,318,788	\$(96,392)	\$382,208	\$2,604,604
Changes during accounting period							
Net income	-	239,948	239,948	239,948	-	-	239,948
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(28,740)	-	(28,740)
Net changes during accounting period	-	239,948	239,948	239,948	(28,740)	-	211,208
Balance as of 31 March 2024	\$109,766	\$2,448,970	\$2,448,970	\$2,558,736	\$(125,132)	\$382,208	\$2,815,812

See notes to financial statements.

■ Statement of Cash Flows

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

Item	Fiscal 2022 (For the year ended 31 March 2023)	Fiscal 2023 (For the year ended 31 March 2024)	
	Amount	Amount	
I Cash flows from operating activities			
Net income	¥36,079	¥36,292	\$239,948
Depreciation and amortization	511	545	3,606
Interest income	(201,415)	(191,948)	(1,269,081)
Interest expenses	109,678	110,974	733,716
(Decrease)/increase in reserve for bonuses	(5)	5	34
(Decrease)/increase in reserve for bonuses for directors and corporate auditors	(1)	1	10
Increase/(decrease) in reserve for retirement benefits	10	(29)	(193)
Increase/(decrease) in reserve for retirement benefits for directors and corporate auditors	0	(0)	(1)
Decrease in fund for lending rate reduction	(16,410)	(16,964)	(112,159)
Increase in management account reserve for interest rate volatility	68,890	57,088	377,442
Decrease in reserve for interest rate reduction	(3,059)	(2,538)	(16,784)
Net decrease in loans	250,618	226,195	1,495,510
Net decrease in bonds	(477,336)	(678,072)	(4,483,126)
Net increase in borrowed money	127,000	3,800	25,124
Interest received	201,860	192,158	1,270,469
Interest paid	(108,678)	(109,899)	(726,611)
Others	13,231	238,891	1,579,449
Net cash provided by/(used in) operating activities	973	(133,500)	(882,647)
II Cash flows from investing activities			
Proceeds from redemption of securities	2,741,500	1,975,500	13,061,157
Purchases of securities	(2,568,500)	(1,433,000)	(9,474,381)
Purchases of tangible fixed assets	(145)	(701)	(4,635)
Purchases of intangible fixed assets	(534)	(1,532)	(10,132)
Proceeds from sales of tangible fixed assets	555	-	-
Net cash provided by investing activities	172,875	540,266	3,572,009
III Cash flows from financing activities			
Payment to the national treasury	(50,000)	(50,000)	(330,578)
Revenue from contributions made from municipally operated racing	19,997	19,589	129,516
Net cash used in financing activities	(30,002)	(30,410)	(201,062)
IV Effect of exchange rate changes on cash and cash equivalents	-	-	-
V Net increase in cash and cash equivalents	143,846	376,355	2,488,300
VI Cash and cash equivalents at beginning of year	353,491	497,337	3,288,182
VII Cash and cash equivalents at end of year	¥497,337	¥873,692	\$5,776,482

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 29 March 2024, the final business day of the fiscal year, which was ¥151.25 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: 41 to 47 years

Others: 2 to 20 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, 31 March 2020) and the “Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, 31 March 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 statement of cash flows consist of “Cash and bank deposits” on the balance sheet.
- (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 2023: 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 and quasi-bankrupt, etc. loans and the JFM has never experienced any loan losses, as stated in Note 4 “Loans”.
- The JFM provides loans exclusively to local governments and there is a system to prevent local governments from default, as stated in Note 6 “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. Loans

There are no bankrupt and quasi-bankrupt loans, doubtful 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 and quasi-bankrupt loans represent loans to borrowers who are in bankruptcy due to a petition to commence bankruptcy proceedings, reorganization proceedings or rehabilitation proceedings, and loans equivalent to these.

Doubtful loans represent loans other than bankrupt and quasi-bankrupt loans that the borrower is not in bankruptcy but on which principal and interest are unlikely to be collected as stipulated in a contract due to the borrower’s deteriorating financial conditions and operating results.

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

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

In accordance with the Supplementary Provisions of the Law, a portion of the JFM’s management account reserve for interest rate volatility is being attributed to the Japanese national government in fiscal 2024, with the aim of transferring 200 billion yen for securing funds for local allocation tax.

In addition, 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 fiscal 2022, 50 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 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 “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. 2 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2022).”

In fiscal 2023, 50 billion yen (330,578 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 of fiscal 2023 and 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 of fiscal 2023 and fiscal 2024 (Ordinance No. 3 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2023).”

Additional information

In connection with the attribution of the JFM's management account reserve for interest rate volatility, etc. in accordance with the provisions of Article 14 of the Supplementary Provisions of the Law, in fiscal 2024, the JFM will reverse 230 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 of 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 of fiscal 2023 and fiscal 2024 (Ordinance No. 2 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2024)."

6. 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 required 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 other aspects of management, such as development of financing plans, 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 indicator for three years from fiscal 2023, in which the duration gap is to be maintained below approximately two years.
- Based on the management indicator, 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 interest rate environment at the time 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:
 - 200 billion yen for securing funds for local allocation tax for fiscal 2024
 - 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

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 forward 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 indicator by 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 indicator 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 as of 31 March 2023 and 2024 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 27,521 million yen and 24,436 million yen (161,565 thousand U.S. dollars), respectively. On the contrary, for an indicative interest rate as of 31 March 2023 and 2024 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 27,891 million yen and 24,747 million yen (163,618 thousand U.S. dollars), 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 indicator or use the quantitative analysis for the management account.

With respect to these financial instruments in the management account, based on an assumption that the risk variables, except for interest rate risk, hold steady, for an indicative interest rate as of 31 March 2023 and 2024 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 5,727 million yen and 5,170 million yen (34,187 thousand U.S. dollars), respectively. On the contrary, for an indicative interest rate as of 31 March 2023 and 2024 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 5,780 million yen and 5,211 million yen (34,457 thousand U.S. dollars), 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 2023 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,300,200	¥23,626,650	¥326,449
(2) Securities			
Held-to-maturity securities	747,000	747,000	-
(3) Cash and bank deposits	497,337	497,337	-
(4) Cash collateral paid for financial instruments	1,016	1,016	-
Total assets	24,545,554	24,872,004	326,449
(1) Bonds	19,626,484	19,553,561	(72,923)
(2) Borrowed money	526,500	525,123	(1,376)
(3) Cash collateral received for financial instruments	171,013	171,013	-
Total liabilities	20,323,997	20,249,697	(74,300)
Derivative transactions ^(*)			
Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

The book value, fair value and difference between them as of 31 March 2024 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,074,004	¥22,709,260	¥(364,744)
(2) Securities			
Held-to-maturity securities	204,500	204,500	-
(3) Cash and bank deposits	873,692	873,692	-
(4) Cash collateral paid for financial instruments	-	-	-
Total assets	24,152,197	23,787,453	(364,744)
(1) Bonds	18,949,328	18,547,846	(401,482)
(2) Borrowed money	530,300	526,817	(3,482)
(3) Cash collateral received for financial instruments	413,091	413,091	-
Total liabilities	19,892,719	19,487,754	(404,964)
Derivative transactions ^(*)			
Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans	\$152,555,405	\$150,143,869	\$(2,411,536)
(2) Securities			
Held-to-maturity securities	1,352,066	1,352,066	-
(3) Cash and bank deposits	5,776,482	5,776,482	-
(4) Cash collateral paid for financial instruments	-	-	-
Total assets	159,683,953	157,272,417	(2,411,536)
(1) Bonds	125,284,817	122,630,390	(2,654,427)
(2) Borrowed money	3,506,116	3,483,089	(23,027)
(3) Cash collateral received for financial instruments	2,731,180	2,731,180	-
Total liabilities	131,522,113	128,844,659	(2,677,454)
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 2023 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	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Long-term borrowed money	-	-	-	(*1)
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	¥20,000	¥20,000	(*2)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	2,005,257	1,570,017	(*3)	
Deferral hedge accounting for foreign exchange forward contracts	Foreign exchange forward contracts	Foreign currency-denominated deposits	10,000	-	(*3)	
Total			¥2,035,257	¥1,590,017		

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 2024 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	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Long-term borrowed money	-	-	-	(*1)
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	¥20,000	¥20,000	(*2)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,898,042	1,554,715	(*3)	
Deferral hedge accounting for foreign exchange forward contracts	Foreign exchange forward contracts	Foreign currency-denominated deposits	24,100	-	(*3)	
Total			¥1,942,142	¥1,574,715		

(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	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Long-term borrowed money	-	-	-	(*1)
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	\$132,231	\$132,231	(*2)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	12,549,042	10,279,112	(*3)	
Deferral hedge accounting for foreign exchange forward contracts	Foreign exchange forward contracts	Foreign currency-denominated deposits	159,339	-	(*3)	
Total			\$12,840,612	\$10,411,343		

(*1) The fair value of interest rate swaps for which the principal accounting is applied is calculated by the discounted cash flow method, which uses observable inputs such as interest rates.

(*2) 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.

(*3) Since currency swaps and foreign exchange forward 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 2023

(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	¥1,802,401	¥1,761,538	¥1,716,614	¥1,648,313	¥1,573,696	¥6,506,316	¥6,563,314	¥1,681,801	¥46,201
Securities									
Held-to-maturity securities	747,000	-	-	-	-	-	-	-	-
Deposits	497,337	-	-	-	-	-	-	-	-

As of 31 March 2024

(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	¥1,785,747	¥1,756,567	¥1,709,512	¥1,643,920	¥1,572,957	¥6,390,024	¥6,477,781	¥1,681,323	¥56,169
Securities									
Held-to-maturity securities	204,500	-	-	-	-	-	-	-	-
Deposits	873,692	-	-	-	-	-	-	-	-

(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	\$11,806,594	\$11,613,672	\$11,302,565	\$10,868,898	\$10,399,717	\$42,248,096	\$42,828,309	\$11,116,187	\$371,368
Securities									
Held-to-maturity securities	1,352,066	-	-	-	-	-	-	-	-
Deposits	5,776,482	-	-	-	-	-	-	-	-

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

As of 31 March 2023

(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	¥2,335,910	¥2,012,996	¥2,069,380	¥1,367,846	¥1,782,405	¥5,555,523	¥4,080,144	¥304,000	¥122,000
Borrowed money	86,200	83,400	88,000	104,500	140,000	20,800	3,600	-	-

As of 31 March 2024

(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	¥2,012,996	¥2,069,380	¥1,476,386	¥1,782,405	¥1,455,107	¥5,397,400	¥4,279,144	¥369,000	¥111,000
Borrowed money	83,400	88,000	104,500	140,000	97,800	13,000	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	\$13,309,071	\$13,681,855	\$9,761,233	\$11,784,500	\$9,620,548	\$35,685,291	\$28,291,866	\$2,439,669	\$733,884
Borrowed money	551,405	581,818	690,909	925,620	646,612	85,950	23,802	-	-

(3) 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 2023

(Millions of yen)

	Fair value			Total
	Level 1	Level 2	Level 3	
(1) Loans	¥-	¥-	¥23,626,650	¥23,626,650
(2) Securities				
Held-to-maturity securities	-	747,000	-	747,000
(3) Cash and bank deposits	-	497,337	-	497,337
(4) Cash collateral paid for financial instruments	-	1,016	-	1,016
Total assets	-	1,245,353	23,626,650	24,872,004
(1) Bonds	-	19,553,561	-	19,553,561
(2) Borrowed money	-	525,123	-	525,123
(3) Cash collateral received for financial instruments	-	171,013	-	171,013
Total liabilities	-	20,249,697	-	20,249,697
Derivative transactions				
Hedge accounting applied	-	-	-	-
Total of derivative transactions	¥-	¥-	¥-	¥-

As of 31 March 2024

(Millions of yen)

	Fair value			Total
	Level 1	Level 2	Level 3	
(1) Loans	¥-	¥-	¥22,709,260	22,709,260
(2) Securities				
Held-to-maturity securities	-	204,500	-	204,500
(3) Cash and bank deposits	-	873,692	-	873,692
(4) Cash collateral paid for financial instruments	-	-	-	-
Total assets	-	1,078,192	22,709,260	23,787,453
(1) Bonds	-	18,547,846	-	18,547,846
(2) Borrowed money	-	526,817	-	526,817
(3) Cash collateral received for financial instruments	-	413,091	-	413,091
Total liabilities	-	19,487,754	-	19,487,754
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	\$-	\$-	\$150,143,869	\$150,143,869
(2) Securities				
Held-to-maturity securities	-	1,352,066	-	1,352,066
(3) Cash and bank deposits	-	5,776,482	-	5,776,482
(4) Cash collateral paid for financial instruments	-	-	-	-
Total assets	-	7,128,548	150,143,869	157,272,417
(1) Bonds	-	122,630,390	-	122,630,390
(2) Borrowed money	-	3,483,089	-	3,483,089
(3) Cash collateral received for financial instruments	-	2,731,180	-	2,731,180
Total liabilities	-	128,844,659	-	128,844,659
Derivative transactions				
Hedge accounting applied	-	-	-	-
Total of derivative transactions	\$-	\$-	\$-	\$-

Note 1: 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 2024.

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.

Derivative transactions

Derivative transactions

The fair value of interest rate swaps is calculated by the discounted cash flow method, which uses observable inputs such as interest rates. Therefore, the fair value is classified as Level 2.

Note 2: Information on the Level 3 fair value of financial assets and liabilities whose fair value is recorded in the balance sheet
Not applicable

7. Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets as of 31 March 2023 consisted of the following:

(Millions of yen)							
Type of assets	Balance as of 1 April 2022 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2023 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2023	Depreciation and amortization during the year	Balance as of 31 March 2023 (Net book value)
Tangible fixed assets							
Buildings	¥1,196	¥-	¥186	¥1,010	¥495	¥20	¥515
Land	1,659	-	327	1,332	-	-	1,332
Other tangible fixed assets	669	784	1	1,452	504	118	947
Total tangible fixed assets	3,525	784	515	3,795	999	139	2,795
Intangible fixed assets							
Software	1,816	475	216	2,075	997	372	1,077
Other intangible fixed assets	2	1,153	2	1,153	-	-	1,153
Total intangible fixed assets	¥1,819	¥1,628	¥219	¥3,229	¥997	¥372	¥2,231

Tangible and intangible fixed assets as of 31 March 2024 consisted of the following:

(Millions of yen)							
Type of assets	Balance as of 1 April 2023 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2024 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2024	Depreciation and amortization during the year	Balance as of 31 March 2024 (Net book value)
Tangible fixed assets							
Buildings	¥1,010	¥1	¥-	¥1,012	¥514	¥19	¥498
Land	1,332	-	-	1,332	-	-	1,332
Other tangible fixed assets	1,452	275	6	1,721	618	120	1,103
Total tangible fixed assets	3,795	276	6	4,065	1,132	139	2,933
Intangible fixed assets							
Software	2,075	89	339	1,825	1,064	406	760
Other intangible fixed assets	1,153	1,547	14	2,686	-	-	2,686
Total intangible fixed assets	¥3,229	¥1,636	¥353	¥4,511	¥1,064	¥406	¥3,447

(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2023 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2024 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2024	Depreciation and amortization during the year	Balance as of 31 March 2024 (Net book value)
Tangible fixed assets							
Buildings	\$6,681	\$11	\$-	\$6,692	\$3,400	\$126	\$3,292
Land	8,807	-	-	8,807	-	-	8,807
Other tangible fixed assets	9,604	1,820	43	11,381	4,088	794	7,293
Total tangible fixed assets	25,092	1,831	43	26,880	7,488	920	19,392
Intangible fixed assets							
Software	13,722	592	2,243	12,071	7,039	2,686	5,032
Other intangible fixed assets	7,627	10,229	97	17,759	-	-	17,759
Total intangible fixed assets	\$21,349	\$10,821	\$2,340	\$29,830	\$7,039	\$2,686	\$22,791

8. 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 19,626,484 million yen and 18,949,328 million yen (125,284,817 thousand U.S. dollars) as of 31 March 2023 and 2024, respectively.

9. Bonds

Bonds as of 31 March 2023 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2022	Balance as of 31 March 2023	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 35-123)	4/23/2012- 1/21/2020	¥3,305,000	¥2,815,000 (680,000)	0.001 to 0.977	10Y
Government-guaranteed bonds issued by the JFM (domestic) 8-year bonds (Series 4-7)	7/30/2015- 2/24/2017	220,032	220,019 (100,000)	0.001 to 0.311	8Y
Government-guaranteed bonds issued by the JFM (domestic) 6-year bonds (Series 18-20)	5/30/2016- 10/28/2016	200,036	-	0.001	6Y
Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 11-13)	8/28/2020- 8/26/2021	220,388	220,262	0.001	4Y
Non-guaranteed bonds issued by the JFM (domestic) 5-year bonds (Series 21-32)	4/20/2017- 12/20/2022	135,000	137,000 (20,000)	0.001 to 0.249	5Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 35-166)	4/19/2012- 3/20/2023	3,375,000	3,200,000 (415,000)	0.049 to 1.006	10Y
Non-guaranteed bonds issued by the JFM (domestic)	1/31/2013- 1/22/2014	50,000	50,000	1.161 to 1.334	15Y

15-year bonds (Series 1-3)					
Non-guaranteed bonds issued by the JFM (domestic) 20-year bonds (Series 1-103)	6/25/2009- 1/23/2023	1,890,000	2,020,000	0.180 to 2.266	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-16)	6/26/2014- 10/21/2022	180,000	200,000	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-F11, F13-F14, F16, 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, F112, F115-F125, F127-F134, F136-F139, F142-F143, F145-F152, F155-F164, F166-F169, F172-F179, F181-F210, F213-F243, F245-F250, F252-F270, F272-F276, F278-F298, F300-F310, F317-F319, F325, F329-F333, F338-F345, F348-F369, F371-F400, and F403-F733)	7/23/2009- 3/31/2023	3,303,546	3,402,175 (283,500)	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 43-44, 47-49, 54, 57-58, 61-98, and 100-101)	5/1/2014- 2/22/2023	1,977,602	1,999,004 [USD 12,529 million] [AUD 1,564 million] [EUR 3,880 million] (435,075)	0.010 to 5.092	3Y to 15Y
Non-guaranteed bonds issued by the JFM (international) (Series 99)	10/26/2022	-	3,730 [USD 25 million]	Floating rate	5Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series A27-A158)	4/19/2012- 3/27/2023	2,110,000	1,960,000 (300,000)	0.069 to 1.020	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series B1-B89)	11/24/2015- 3/27/2023	541,500	641,500	0.069 to 0.834	10Y
Non-guaranteed bonds issued by the JFM (domestic)	11/24/2015- 3/27/2023	715,500	845,500	0.190 to 1.453	20Y

Private placements with pension funds for local government officials (Series C1-C89)					
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series D1-D84)	4/21/2016- 3/27/2023	890,000	1,040,000	0.190 to 1.453	20Y
Bonds issued by the JFM - Sub-total	-	19,173,606	18,814,191	-	-
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1-2)	1/26/2009- 4/30/2009	84,979	84,982	2.07 to 2.29	20Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	84,979	84,982	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 4-5)	4/24/2007- 7/18/2007	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	569,908	519,932 (99,995)	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	189,921	189,927	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	19,620	17,450 (2,170)	1.39 to 2.01	28Y
Bonds issued by the Predecessor - Sub-total	-	844,449	727,310	-	-
Total	-	¥20,103,035	¥19,626,484	-	-

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 19,626,484 million yen as of 31 March 2023.

2. Amounts in square brackets under "Balance as of 31 March 2023" for "Non-guaranteed bonds issued by the JFM (international)— (Series 43-44, 47-49, 54, 57-58, 61-98 and 100-101)" and "Non-guaranteed bonds issued by the JFM (international)— (Series 99)" are denominated in foreign currencies.

3. Amounts in parentheses under "Balance as of 31 March 2023" are to be repaid within one year.

Bonds as of 31 March 2024 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2023	Balance as of 31 March 2024	Coupon rate (%)	Maturity

Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 47-123)	4/22/2013- 1/21/2020	¥2,815,000	¥2,135,000 (430,000)	0.001 to 0.911	10Y
Government-guaranteed bonds issued by the JFM (domestic) 8-year bonds (Series 4-7)	7/30/2015- 2/24/2017	220,019	120,005 (120,005)	0.001 to 0.311	8Y
Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 11-13)	8/28/2020- 8/26/2021	220,262	220,136 (60,008)	0.001	4Y
Non-guaranteed bonds issued by the JFM (domestic) 5-year bonds (Series 23-34)	4/19/2018- 12/21/2023	137,000	149,000 (20,000)	0.001 to 0.453	5Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 47-178)	4/18/2013- 3/22/2024	3,200,000	3,128,000 (355,000)	0.049 to 0.972	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 1-110)	6/25/2009- 1/26/2024	2,020,000	2,160,000	0.180 to 2.266	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-18)	6/26/2014- 10/20/2023	200,000	233,000	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-F11, F13-F14, F16, F28, F37, F42-F43, F45-F47, F49, F51-F52, F54-F56, F59-F68, F71-F73, F75-F80, F82-F85, F87-F90, F92-F93, F95-F98, F101-F109, F112, F115-F125, F127-F134, F136-F139, F142-F143, F145-F152, F156-F164, F166-F169, F172-F174, F176-F179, F181-F185, F188-F198, F200-F210, F213-F217, F219-F222, F224-F243, F245-F250, F252-F256, F258-F270, F272-F276, F278-F288, F290-F298, F301-F310, F318-F319, F330-F333, F338-F345, F348-F354, F356-F360, F367-F369, F374-F379, F384-F389, F391-F398, F400, F403-F418, F420-F530, F532-F564, and F566-F784)	7/23/2009- 3/27/2024	3,402,175	3,367,804 (302,500)	0.001 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by the JFM (domestic)	2/26/2014- 7/25/2014	20,000	20,000	Floating rate	20Y to 30Y

FLIP bonds (Floater, Series F211, F244)					
Non-guaranteed bonds issued by the JFM (international) (Series 43-44, 47-48, 54, 58, 63-64, 66-98, and 100-105)	5/1/2014- 1/23/2024	1,999,004	1,891,998 [USD 10,279 million] [AUD 1,620 million] [EUR 4,380 million] (343,263)	0.010 to 5.125	3Y to 15Y
Non-guaranteed bonds issued by the JFM (international) (Series 99)	10/26/2022	3,730	3,730 [USD 25 million]	Floating rate	5Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series A39-A170)	4/18/2013- 3/22/2024	1,960,000	1,810,000 (300,000)	0.069 to 1.002	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series B1-B101)	11/24/2015- 3/22/2024	641,500	745,500	0.069 to 1.002	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series C1-C101)	11/24/2015- 3/22/2024	845,500	975,000	0.190 to 1.596	20Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series D1-D96)	4/21/2016- 3/22/2024	1,040,000	1,190,000	0.190 to 1.596	20Y
Bonds issued by the JFM - Sub-total	-	18,814,191	18,239,175	-	-
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1-2)	1/26/2009- 4/30/2009	84,982	84,985	2.07 to 2.29	20Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	84,982	84,985	-	-
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 4-25)	11/7/2003- 6/16/2008	519,932	419,953 (79,997)	2.03 to 2.58	20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004- 9/20/2006	189,927	189,933	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic)	2/14/2003- 6/9/2004	17,450	15,280 (2,170)	1.39 to 2.01	28Y

Bonds with scheduled repayment (Series 1-3)					
Bonds issued by the Predecessor - Sub-total	-	727,310	625,167	-	-
Total	-	¥19,626,484	¥18,949,328	-	-

(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2023	Balance as of 31 March 2024	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 47-123)	4/22/2013- 1/21/2020	\$18,611,570	\$14,115,702 (2,842,975)	0.001 to 0.911	10Y
Government-guaranteed bonds issued by the JFM (domestic) 8-year bonds (Series 4-7)	7/30/2015- 2/24/2017	1,454,672	793,426 (793,426)	0.001 to 0.311	8Y
Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 11-13)	8/28/2020- 8/26/2021	1,456,282	1,455,449 (396,747)	0.001	4Y
Non-guaranteed bonds issued by the JFM (domestic) 5-year bonds (Series 23-34)	4/19/2018- 12/21/2023	905,785	985,124 (132,231)	0.001 to 0.453	5Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 47-178)	4/18/2013- 3/22/2024	21,157,025	20,680,992 (2,347,107)	0.049 to 0.972	10Y
Non-guaranteed bonds issued by the JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013- 1/22/2014	330,579	330,579	1.161 to 1.334	15Y
Non-guaranteed bonds issued by the JFM (domestic) 20-year bonds (Series 1-110)	6/25/2009- 1/26/2024	13,355,372	14,280,992	0.180 to 2.266	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-18)	6/26/2014- 10/20/2023	1,322,314	1,540,496	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	264,463	264,463	0.646 to 0.882	40Y
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Series F2-F6, F8-F11, F13-F14, F16, F28-F37, F42-F43, F45-F47, F49, F51-F52, F54-F56, F59-F68, F71-F73, F75-F80, F82-F85, F87-F90, F92-F93, F95-F98, F101-F109,	7/23/2009- 3/27/2024	22,493,723	22,266,476 (2,000,000)	0.001 to 2.334	2Y to 40Y

F112, F115-F125, F127-F134, F136-F139, F142-F143, F145-F152, F156-F164, F166-F169, F172-F174, F176-F179, F181-F185, F188-F198, F200-F210, F213-F217, F219-F222, F224-F243, F245-F250, F252-F256, F258-F270, F272-F276, F278-F288, F290-F298, F301-F310, F318-F319, F330-F333, F338-F345, F348-F354, F356-F360, F367-F369, F374-F379, F384-F389, F391-F398, F400, F403-F418, F420-F530, F532-F564, and F566-F784)					
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Floater, Series F211, F244)	2/26/2014-7/25/2014	132,231	132,231	Floating rate	20Y to 30Y
Non-guaranteed bonds issued by the JFM (international) (Series 43-44, 47-48, 54, 58, 63-64, 66-98, and 100-105)	5/1/2014-1/23/2024	13,216,559	12,509,081 [USD 10,279 million] [AUD 1,620 million] [EUR 4,380 million] (2,269,510)	0.010 to 5.125	3Y to 15Y
Non-guaranteed bonds issued by the JFM (international) (Series 99)	10/26/2022	24,661	24,661 [USD 25 million]	Floating rate	5Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series A39-A170)	4/18/2013-3/22/2024	12,958,678	11,966,942 (1,983,471)	0.069 to 1.002	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series B1-B101)	11/24/2015-3/22/2024	4,241,322	4,928,926	0.069 to 1.002	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series C1-C101)	11/24/2015-3/22/2024	5,590,083	6,446,281	0.190 to 1.596	20Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series D1-D96)	4/21/2016-3/22/2024	6,876,033	7,867,769	0.190 to 1.596	20Y
Bonds issued by the JFM - Sub-total	-	124,391,352	120,589,590	-	-
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1-2)	1/26/2009-4/30/2009	561,869	561,889	2.07 to 2.29	20Y

Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	561,869	561,889	-	-
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 4-25)	11/7/2003- 6/16/2008	3,437,569	2,776,552 (528,906)	2.03 to 2.58	20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004- 9/20/2006	1,255,721	1,255,761	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	115,372	101,025 (14,347)	1.39 to 2.01	28Y
Bonds issued by the Predecessor - Sub-total	-	4,808,662	4,133,338	-	-
Total	-	\$129,761,883	\$125,284,817	-	-

- 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 18,949,328 million yen (125,284,817 thousand U.S. dollars) as of 31 March 2024.
2. Amounts in square brackets under "Balance as of 31 March 2024" for "Non-guaranteed bonds issued by the JFM (international)— (Series 43-44, 47-48, 54, 58, 63-64, 66-98 and 100-105)" and "Non-guaranteed bonds issued by the JFM (international)— (Series 99)" are denominated in foreign currencies.
3. Amounts in parentheses under "Balance as of 31 March 2024" are to be repaid within one year.
4. Annual schedule of redemption within five years after the fiscal year-end:

As of 31 March 2023

(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	¥2,335,910	¥2,012,996	¥2,069,380	¥1,367,846	¥1,782,405

As of 31 March 2024

(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	¥2,012,996	¥2,069,380	¥1,476,386	¥1,782,405	¥1,455,107

(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	\$13,309,071	\$13,681,855	\$9,761,233	\$11,784,500	\$9,620,548

10. Borrowed Money

Borrowed money as of 31 March 2023 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2022	Balance as of 31 March 2023	Average interest rate (%)	Repayment date
Short-term borrowed money	¥-	¥-	-	-
Long-term borrowed money (repayment within 1 year)	¥-	¥86,200	0.529	5/29/2023- 3/15/2024
Long-term borrowed money (excluding repayment within 1 year)	¥399,500	¥440,300	0.150	4/4/2024- 3/16/2040
Total	¥399,500	¥526,500	-	-

Borrowed money as of 31 March 2024 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2023	Balance as of 31 March 2024	Average interest rate (%)	Repayment date
Short-term borrowed money	¥-	¥-	-	-
Long-term borrowed money (repayment within 1 year)	¥86,200	¥83,400	0.045	4/4/2024- 3/17/2025
Long-term borrowed money (excluding repayment within 1 year)	¥440,300	¥446,900	0.237	9/3/2025- 3/16/2040
Total	¥526,500	¥530,300	-	-

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2023	Balance as of 31 March 2024	Average interest rate (%)	Repayment date
Short-term borrowed money	\$-	\$-	-	-
Long-term borrowed money (repayment within 1 year)	\$569,917	\$551,405	0.045	4/4/2024- 3/17/2025
Long-term borrowed money (excluding repayment within 1 year)	\$2,911,074	\$2,954,711	0.237	9/3/2025- 3/16/2040
Total	\$3,480,991	\$3,506,116	-	-

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 2023

(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	¥140,000

As of 31 March 2024

(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	¥83,400	¥88,000	¥104,500	¥140,000	¥97,800

(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	\$551,405	\$581,818	\$690,909	\$925,620	\$646,612

11. Reserves

Reserves as of 31 March 2023 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2022	Increase during the year	Decrease during the year		Balance as of 31 March 2023
			Intended purpose	Other	
Reserve for bonuses	¥59	¥54	¥59	¥-	¥54
Reserve for bonuses for directors and corporate auditors	10	8	10	-	8
Reserve for retirement benefits	64	18	1	7	74
Reserve for retirement benefits for directors and corporate auditors	15	9	6	1	15

Reserves as of 31 March 2024 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2023	Increase during the year	Decrease during the year		Balance as of 31 March 2024
			Intended purpose	Other	
Reserve for bonuses	¥54	¥60	¥54	¥-	¥60
Reserve for bonuses for directors and corporate auditors	8	10	8	-	10
Reserve for retirement benefits for directors and corporate auditors	15	7	-	7	15

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2023	Increase during the year	Decrease during the year		Balance as of 31 March 2024
			Intended purpose	Other	
Reserve for bonuses	\$363	\$397	\$363	\$-	\$397
Reserve for bonuses for directors and corporate auditors	59	69	59	-	69
Reserve for retirement benefits for directors and corporate auditors	104	48	-	49	103

Note: The “Other” in the “Decrease during the year” for the “Reserve for retirement benefits for directors and corporate auditors” represents the reversal amount as a result of decrease in the amount deemed accrued at the fiscal year-end.

12. Reserve for Interest Rate Volatility

Reserve for interest rate volatility as of 31 March 2023 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2022	Increase during the year		Decrease during the year		Balance as of 31 March 2023
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	¥2,200,000	¥-	¥-	¥-		¥2,200,000
Management account reserve for interest rate volatility	682,675	68,890		50,000	¥-	701,566
Total	¥2,882,675	¥68,890	¥-	¥50,000	¥-	¥2,901,566

Reserve for interest rate volatility as of 31 March 2024 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2023	Increase during the year		Decrease during the year		Balance as of 31 March 2024
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	¥2,200,000	¥-	¥-	¥-		¥2,200,000
Management account reserve for interest rate volatility	701,566	57,088		50,000	¥-	708,654
Total	¥2,901,566	¥57,088	¥-	¥50,000	¥-	¥2,908,654

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2023	Increase during the year		Decrease during the year		Balance as of 31 March 2024
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	\$14,545,455	\$-	\$-	\$-		\$14,545,455
Management account reserve for interest rate volatility	4,638,453	377,442		330,578	\$-	4,685,317
Total	\$19,183,908	\$377,442	\$-	\$330,578	\$-	\$19,230,772

Note: The “Decrease during the year” for the “Management account reserve for interest rate volatility” in the amount of 50,000 million yen (330,578 thousand U.S. dollars) consists of the payment to the national treasury in accordance with the Ministerial ordinance for attribution to the national government.

13. Fund for Lending Rate Reduction

Fund for lending rate reduction as of 31 March 2023 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2022	Increase during the year		Decrease during the year		Balance as of 31 March 2023
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥920,287	¥19,997	¥-	¥16,410	¥-	¥923,873
Total	¥920,287	¥19,997	¥-	¥16,410	¥-	¥923,873

Fund for lending rate reduction as of 31 March 2024 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2023	Increase during the year		Decrease during the year		Balance as of 31 March 2024
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥923,873	¥19,589	¥-	¥16,964	¥-	¥926,499
Total	¥923,873	¥19,589	¥-	¥16,964	¥-	¥926,499

(Thousands of U.S. dollars)

Classification of fund	Balance as of 1 April 2023	Increase during the year		Decrease during the year		Balance as of 31 March 2024
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	\$6,108,257	\$129,516	\$-	\$112,159	\$-	\$6,125,614
Total	\$6,108,257	\$129,516	\$-	\$112,159	\$-	\$6,125,614

- 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.

14. Reserve for Retirement Benefits

As of and for the year ended 31 March 2023

(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:	64 million yen
Pension expenses:	18 million yen
Employee retirement benefits paid:	1 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>74 million yen</u></u>

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

Funded retirement benefit obligation:	189 million yen
Plan assets:	<u>(174) million yen</u>
Balance:	15 million yen
Unfunded retirement benefit obligation:	<u>59 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u><u>74 million yen</u></u>
Reserve for retirement benefits at the end of the fiscal year:	<u>74 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u><u>74 million yen</u></u>

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 18 million yen

As of and for the year ended 31 March 2024

(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:	74 million yen	(496 thousand U.S. dollars)
Pension expenses:	(20) million yen	((133) thousand U.S. dollars)
Employee retirement benefits paid:	0 million yen	(1 thousand U.S. dollars)
Contributions to the defined benefit plan:	<u>8 million yen</u>	<u>(59 thousand U.S. dollars)</u>
Reserve for retirement benefits at the end of the fiscal year:	<u><u>45 million yen</u></u>	<u><u>(303 thousand U.S. dollars)</u></u>

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

Funded retirement benefit obligation:	215 million yen	(1,424 thousand U.S. dollars)
Plan assets:	<u>(236) million yen</u>	<u>((1,565) thousand U.S. dollars)</u>
Balance:	(21) million yen	((141) thousand U.S. dollars)
Unfunded retirement benefit obligation:	<u>67 million yen</u>	<u>(444 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u><u>45 million yen</u></u>	<u><u>(303 thousand U.S. dollars)</u></u>
Reserve for retirement benefits at the end of the fiscal year:	<u>45 million yen</u>	<u>(303 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u><u>45 million yen</u></u>	<u><u>(303 thousand U.S. dollars)</u></u>

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: (20) million yen ((133) thousand U.S. dollars)

15. Net Income by Account

(For the year ended 31 March 2023)

Net income of the general account was 36,079 million yen, while there was no net income of management account.

(For the year ended 31 March 2024)

Net income of the general account was 36,292 million yen (239,948 thousand U.S. dollars), while there was no net income of management account.

16. Revenues

Revenues from contracts with customers are mainly as follows:

Fees and commissions

Fees and commissions includes commissions related to the lending of funds entrusted by Japan Finance Corporation, and revenue is recognized at the point in time when the obligations is deemed to be satisfied when the loan is executed or the interest collected is paid to the customer.

17. Information by Account (Balance sheet)

Balance sheet of general account and management account as of 31 March 2023 were as follows:

(Millions of yen)				
Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥19,153,208	¥4,146,992	¥-	¥23,300,200
Securities	747,000	-	-	747,000
Cash and bank deposits	497,337	-	-	497,337
Cash collateral paid for financial instruments	1,016	-	-	1,016
Other assets	3,336	2,411	-	5,748
Tangible fixed assets	2,795	-	-	2,795
Intangible fixed assets	2,231	-	-	2,231
Due from general account	-	601,213	(601,213)	-
Total assets	20,406,925	4,750,616	(601,213)	24,556,329
(Liabilities)				
Bonds	15,643,892	3,982,591	-	19,626,484
Borrowed money	526,500	-	-	526,500
Cash collateral received for financial instruments	171,013	-	-	171,013
Other liabilities	4,140	2,691	-	6,832
Reserve for bonuses	54	-	-	54
Reserve for bonuses for directors and corporate auditors	8	-	-	8
Reserve for retirement benefits	74	-	-	74
Reserve for retirement benefits for directors and corporate auditors	15	-	-	15
Fund for lending rate reduction	923,873	-	-	923,873
Basic fund for lending rate reduction	923,873	-	-	923,873
Due to management account	601,213	-	(601,213)	-
Reserves under special laws	2,200,000	707,523	-	2,907,523
Reserve for interest rate volatility	2,200,000	-	-	2,200,000
Management account reserve for interest rate volatility	-	701,566	-	701,566
Reserve for interest rate reduction	-	5,957	-	5,957
Total liabilities	20,070,788	4,692,807	(601,213)	24,162,382
(Net Assets)				
Capital	16,602	-	-	16,602
Retained earnings	334,114	-	-	334,114
General account appropriated surplus reserve	334,114	-	-	334,114
Valuation, translation adjustments and others	(14,579)	-	-	(14,579)
Management account surplus reserve	-	57,808	-	57,808
Total net assets	336,137	57,808	-	393,946
Total liabilities and net assets	¥20,406,925	¥4,750,616	¥(601,213)	¥24,556,329

Balance sheets of general account and management account as of 31 March 2024 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥19,639,348	¥3,434,656	¥-	¥23,074,004
Securities	204,500	-	-	204,500
Cash and bank deposits	873,692	-	-	873,692
Other assets	3,580	1,964	-	5,545
Tangible fixed assets	2,933	-	-	2,933
Intangible fixed assets	3,447	-	-	3,447
Due from general account	-	436,101	(436,101)	-
Total assets	20,727,501	3,872,722	(436,101)	24,164,123
(Liabilities)				
Bonds	15,849,018	3,100,309	-	18,949,328
Borrowed money	530,300	-	-	530,300
Cash collateral received for financial instruments	413,091	-	-	413,091
Other liabilities	4,276	2,530	-	6,807
Reserve for bonuses	60	-	-	60
Reserve for bonuses for directors and corporate auditors	10	-	-	10
Reserve for retirement benefits	45	-	-	45
Reserve for retirement benefits for directors and corporate auditors	15	-	-	15
Fund for lending rate reduction	926,499	-	-	926,499
Basic fund for lending rate reduction	926,499	-	-	926,499
Due to management account	436,101	-	(436,101)	-
Reserves under special laws	2,200,000	712,073	-	2,912,073
Reserve for interest rate volatility	2,200,000	-	-	2,200,000
Management account reserve for interest rate volatility	-	708,654	-	708,654
Reserve for interest rate reduction	-	3,419	-	3,419
Total liabilities	20,359,419	3,814,913	(436,101)	23,738,231
(Net assets)				
Capital	16,602	-	-	16,602
Retained earnings	370,406	-	-	370,406
General account appropriated surplus reserve	370,406	-	-	370,406
Valuation, translation adjustments and others	(18,926)	-	-	(18,926)
Management account surplus reserve	-	57,808	-	57,808
Total net assets	368,082	57,808	-	425,891
Total liabilities and net assets	¥20,727,501	¥3,872,722	¥(436,101)	¥24,164,123

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	\$129,846,930	\$22,708,475	\$-	\$152,555,405
Securities	1,352,066	-	-	1,352,066
Cash and bank deposits	5,776,482	-	-	5,776,482
Other assets	23,672	12,991	-	36,663
Tangible fixed assets	19,392	-	-	19,392
Intangible fixed assets	22,791	-	-	22,791
Due from general account	-	2,883,313	(2,883,313)	-
Total assets	137,041,333	25,604,779	(2,883,313)	159,762,799
(Liabilities)				
Bonds	104,786,902	20,497,915	-	125,284,817
Borrowed money	3,506,116	-	-	3,506,116
Cash collateral received for financial instruments	2,731,180	-	-	2,731,180
Other liabilities	28,277	16,732	-	45,009
Reserve for bonuses	397	-	-	397
Reserve for bonuses for directors and corporate auditors	69	-	-	69
Reserve for retirement benefits	303	-	-	303
Reserve for retirement benefits for directors and corporate auditors	103	-	-	103
Fund for lending rate reduction	6,125,614	-	-	6,125,614
Basic fund for lending rate reduction	6,125,614	-	-	6,125,614
Due to management account	2,883,313	-	(2,883,313)	-
Reserves under special laws	14,545,455	4,707,924	-	19,253,379
Reserve for interest rate volatility	14,545,455	-	-	14,545,455
Management account reserve for interest rate volatility	-	4,685,317	-	4,685,317
Reserve for interest rate reduction	-	22,607	-	22,607
Total liabilities	134,607,729	25,222,571	(2,883,313)	156,946,987
(Net assets)				
Capital	109,766	-	-	109,766
Retained earnings	2,448,970	-	-	2,448,970
General account appropriated surplus reserve	2,448,970	-	-	2,448,970
Valuation, translation adjustments and others	(125,132)	-	-	(125,132)
Management account surplus reserve	-	382,208	-	382,208
Total net assets	2,433,604	382,208	-	2,815,812
Total liabilities and net assets	\$137,041,333	\$25,604,779	\$(2,883,313)	\$159,762,799

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 appropriated surplus reserve and management account surplus reserve

“Net income” of the general account is posted as “General account appropriated 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 (Statement of income)

Statements of income of general account and management account from 1 April 2022 through 31 March 2023 were as follows:

Item	(Millions of yen)			
	General account	Management Account	Offset	Total
Income	¥125,769	¥96,771	¥(4,552)	¥217,989
Interest income	108,891	92,524	-	201,415
Fees and commissions	71	-	-	71
Other operating income	81	-	-	81
Other income	16,420	-	-	16,420
Contributions from fund for lending rate reduction	16,410	-	-	16,410
Others	10	-	-	10
Administrative fee for management account	305	-	(305)	-
Interest on due from general account	-	3	(3)	-
Transfer from general account for fund for lending rate reduction	-	4,243	(4,243)	-
Expenses	89,823	30,940	(4,552)	116,212
Interest expenses	79,124	30,553	-	109,678
Fees and commissions	207	74	-	282
Other operating expenses	2,424	-	-	2,424
General and administrative expenses	3,819	7	-	3,826
Interest on due to management account	3	-	(3)	-
Transfer to management account for fund for lending rate reduction	4,243	-	(4,243)	-
Administrative fee for general account	-	305	(305)	-
Ordinary income	35,945	65,830	-	101,776
Special gains	133	53,059	-	53,192
Gain on disposal of fixed assets	133	-	-	133
Reversal of management account reserve for interest rate volatility	-	50,000	-	50,000
Reversal of reserve for interest rate reduction	-	3,059	-	3,059
Special losses	-	118,890	-	118,890
Provision for management account reserve for interest rate volatility	-	68,890	-	68,890
Payment to the national treasury	-	50,000	-	50,000
Net income	¥36,079	¥-	¥-	¥36,079

Statements of income of general account and management account from 1 April 2023 through 31 March 2024 were as follows:

(Millions of yen)				
Item	General account	Management account	Offset	Total
Income	¥133,471	¥79,689	¥(4,042)	¥209,118
Interest income	116,013	75,934	-	191,948
Fees and commissions	66	-	-	66
Other operating income	99	-	-	99
Other income	17,003	-	-	17,003
Contributions from fund for lending rate reduction	16,964	-	-	16,964
Others	39	-	-	39
Administrative fee for management account	287	-	(287)	-
Interest on due from general account	-	4	(4)	-
Transfer from general account for fund for lending rate reduction	-	3,750	(3,750)	-
Expenses	97,179	25,139	(4,042)	118,277
Interest expenses	86,192	24,782	-	110,974
Fees and commissions	211	63	-	275
Other operating expenses	2,712	-	-	2,712
General and administrative expenses	4,308	6	-	4,314
Other expenses	0	-	-	0
Interest on due to management account	4	-	(4)	-
Transfer to management account for fund for lending rate reduction	3,750	-	(3,750)	-
Administrative fee for management account	-	287	(287)	-
Ordinary income	36,292	54,549	-	90,841
Special gains	-	52,538	-	52,538
Reversal of management account reserve for interest rate volatility	-	50,000	-	50,000
Reversal of reserve for interest rate reduction	-	2,538	-	2,538
Special losses	-	107,088	-	107,088
Provision for management account reserve for interest rate volatility	-	57,088	-	57,088
Payment to the national treasury	-	50,000	-	50,000
Net income	¥36,292	¥-	¥-	¥36,292

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
Income	\$882,459	\$526,872	\$(26,728)	\$1,382,603
Interest income	767,033	502,048	-	1,269,081
Fees and commissions	440	-	-	440
Other operating income	660	-	-	660
Other income	112,422	-	-	112,422
Contributions from fund for lending rate reduction	112,159	-	-	112,159
Others	263	-	-	263
Administrative fee for management account	1,904	-	(1,904)	-
Interest on due from general account	-	28	(28)	-
Transfer from general account for fund for lending rate reduction	-	24,796	(24,796)	-
Expenses	642,511	166,214	(26,728)	781,997
Interest expenses	569,866	163,850	-	733,716
Fees and commissions	1,401	418	-	1,819
Other operating expenses	17,934	-	-	17,934
General and administrative expenses	28,486	42	-	28,528
Other expenses	0	-	-	0
Interest on due to management account	28	-	(28)	-
Transfer to management account for fund for lending rate reduction	24,796	-	(24,796)	-
Administrative fee for management account	-	1,904	(1,904)	-
Ordinary income	239,948	360,658	-	600,606
Special gains	-	347,362	-	347,362
Reversal of management account reserve for interest rate volatility	-	330,578	-	330,578
Reversal of reserve for interest rate reduction	-	16,784	-	16,784
Special losses	-	708,020	-	708,020
Provision for management account reserve for interest rate volatility	-	377,442	-	377,442
Payment to the national treasury	-	330,578	-	330,578
Net income	\$239,948	\$-	\$-	\$239,948

19. Fair Value of Marketable Securities

Marketable held-to-maturity securities as of 31 March 2023 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	¥747,000	¥747,000	-
	Sub total	747,000	747,000	-
Total		¥747,000	¥747,000	-

Marketable held-to-maturity securities as of 31 March 2024 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	¥204,500	¥204,500	-
	Sub total	204,500	204,500	-
Total		¥204,500	¥204,500	-

(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	\$1,352,066	\$1,352,066	-
	Sub total	1,352,066	1,352,066	-
Total		\$1,352,066	\$1,352,066	-

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 forward 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.