Fiscal 2025

(1 April 2025 to 31 March 2026)

Japan Finance Organization for Municipalities

Financial Statements

Japan Finance Organization for Municipalities

Contents

■Balance Sheet

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

Item	Fiscal 2024 (As of 31 March 2025)	Fiscal 2025 (As of 31 March 2026)		Item	Fiscal 2024 (As of 31 March 2025)	Fiscal 2025 (As of 31 March 2026)	
	Amount				Amount		
Assets				Liabilities			
Loans (Note 4)	¥22,700,180	¥22,564,078	$141,201,990	Bonds (Notes 8 and 9)	¥18,677,661	¥18,315,800	$114,617,026
Securities (Note 19)	272,000	255,000	1,595,745	Borrowed money (Note 10)	529,500	521,800	3,265,332
Cash and bank deposits	908,700	859,086	5,376,013	Cash collateral received for financial instruments	370,616	456,380	2,855,945
Other assets	6,527	7,470	46,751	Other liabilities	6,341	8,432	52,768
Tangible fixed assets (Note 7)	2,807	2,713	16,980	Reserve for bonuses (Note 11)	63	73	462
Intangible fixed assets (Note 7)	3,583	3,290	20,592	Reserve for bonuses for directors and corporate auditors (Note 11)	10	10	69
Prepaid pension costs (Note 14)	25	56	351	Reserve for retirement benefits (Note 14)	78	87	550
				Reserve for retirement benefits for directors and corporate auditors (Note 11)	11	19	122
				Fund for lending rate reduction	931,870	937,248	5,865,138
				Basic fund for lending rate reduction (Note 13)	931,870	937,248	5,865,138
				Reserves under special laws	2,928,649	2,966,640	18,564,709
				Reserve for interest rate volatility (Note 12)	2,200,000	2,200,000	13,767,209
				Management account reserve for interest rate volatility (Note 12)	727,327	766,640	4,797,500
				Reserve for interest rate reduction	1,321	-	-
				Total liabilities	23,444,803	23,206,494	145,222,121
				Net assets			
				Capital	16,602	16,602	103,893
				Retained earnings	406,639	441,759	2,764,453
				General account appropriated surplus reserve	406,639	441,759	2,764,453
				Valuation, translation adjustments and others	(32,029)	(30,969)	(193,803)
				Management account surplus reserve	57,808	57,808	361,758
				Total net assets	449,020	485,200	3,036,301
Total assets	¥23,893,823	¥23,691,695	$148,258,422	Total liabilities and net assets	¥23,893,823	¥23,691,695	$148,258,422

See notes to financial statements.

■Statement of Income

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

Item	Fiscal 2024 (For the year ended 31 March 2025)	Fiscal 2025 (For the year ended 31 March 2026)	
	Amount	Amount	
Income	¥208,625	¥220,028	$1,376,897
Interest income	191,146	202,477	1,267,068
Fees and commissions (Note 16)	62	57	362
Other operating income	3	4	29
Other income	17,413	17,488	109,438
Contributions from fund for lending rate reduction (Note 13)	17,304	17,438	109,128
Others	108	49	310
Expenses	125,816	146,916	919,378
Interest expenses	116,879	136,094	851,656
Fees and commissions	264	281	1,759
Other operating expenses	3,744	4,773	29,875
General and administrative expenses	4,928	5,766	36,088
Ordinary income	82,808	73,111	457,519
Special gains	32,097	1,321	8,269
Reversal of management account reserve for interest rate volatility (Note 12)	30,000	-	-
Reversal of reserve for interest rate reduction	2,097	1,321	8,269
Special losses	78,673	39,312	246,013
Provision for management account reserve for interest rate volatility (Note 12)	48,673	39,312	246,013
Payment to the national treasury (Notes 5 and 12)	30,000	-	-
Net income	¥36,232	¥35,119	$219,775

See notes to financial statements.

■Statement of Appropriation of Profit [General account]

(For the year ended 31 March 2025) (Millions of yen)

Ⅰ Profit available for appropriation			¥36,232
Net income		¥36,232	
Accumulated deficit brought forward	-		
Ⅱ Profit appropriated			
Surplus reserve		36,232	36,232

(For the year ended 31 March 2026) (Millions of yen)

Ⅰ Profit available for appropriation			¥35,119
Net income		¥35,119	
Accumulated deficit brought forward	-		
Ⅱ Profit appropriated			
Surplus reserve		35,119	35,119

(Thousands of U.S. dollars)

Ⅰ Profit available for appropriation			$219,775
Net income		$219,775	
Accumulated deficit brought forward	-		
Ⅱ Profit appropriated			
Surplus reserve		219,775	219,775

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 2025) (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 2026) (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 2025) (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 2024	¥16,602	¥370,406	¥370,406	¥387,008	¥(18,926)	¥57,808	¥425,891
Changes during accounting period							
Net income	-	36,232	36,232	36,232	-	-	36,232
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(13,103)	-	(13,103)
Net changes during accounting period	-	36,232	36,232	36,232	(13,103)	-	23,129
Balance as of 31 March 2025	¥16,602	¥406,639	¥406,639	¥423,241	¥(32,029)	¥57,808	¥449,020

(For the year ended 31 March 2026) (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 2025	¥16,602	¥406,639	¥406,639	¥423,241	¥(32,029)	¥57,808	¥449,020
Changes during accounting period							
Net income	-	35,119	35,119	35,119	-	-	35,119
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	1,060	-	1,060
Net changes during accounting period	-	35,119	35,119	35,119	1,060	-	36,180
Balance as of 31 March 2026	¥16,602	¥441,759	¥441,759	¥458,361	¥(30,969)	¥57,808	¥485,200

(For the year ended 31 March 2026) (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 2025	$103,893	$2,544,678	$2,544,678	$2,648,571	$(200,437)	$361,758	$2,809,892
Changes during accounting period							
Net income	-	219,775	219,775	219,775	-	-	219,775
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	6,634	-	6,634
Net changes during accounting period	-	219,775	219,775	219,775	6,634	-	226,409
Balance as of 31 March 2026	$103,893	$2,764,453	$2,764,453	$2,868,346	$(193,803)	$361,758	$3,036,301

See notes to financial statements.

■Statement of Cash Flows

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

Item	Fiscal 2024 (For the year ended 31 March 2025)	Fiscal 2025 (For the year ended 31 March 2026)	
	Amount	Amount	
Ⅰ Cash flows from operating activities			
Net income	¥36,232	¥35,119	$219,775
Depreciation and amortization	927	1,227	7,682
Interest income	(191,146)	(202,477)	(1,267,068)
Interest expenses	116,879	136,094	851,656
Increase in reserve for bonuses	3	10	65
Increase in reserve for bonuses for directors and corporate auditors	0	0	2
Increase in reserve for retirement benefits	32	9	61
(Decrease)/increase in reserve for retirement benefits for directors and corporate auditors	(4)	7	49
Increase in prepaid pension costs	(25)	(31)	(194)
Decrease in fund for lending rate reduction	(17,304)	(17,438)	(109,128)
Increase in management account reserve for interest rate volatility	48,673	39,312	246,013
Decrease in reserve for interest rate reduction	(2,097)	(1,321)	(8,269)
Net decrease in loans	373,824	136,102	851,705
Net decrease in bonds	(272,557)	(362,824)	(2,270,493)
Net decrease in borrowed money	(800)	(7,700)	(48,185)
Interest received	190,265	201,668	1,262,008
Interest paid	(114,893)	(133,042)	(832,557)
Others	(55,891)	86,914	543,893
Net cash provided by/(used in) operating activities	112,118	(88,367)	(552,985)
Ⅱ Cash flows from investing activities			
Proceeds from redemption of securities	1,982,900	2,163,500	13,538,798
Purchases of securities	(2,050,400)	(2,146,499)	(13,432,413)
Purchases of tangible fixed assets	(342)	(171)	(1,074)
Purchases of intangible fixed assets	(1,945)	(892)	(5,583)
Net cash (used in)/provided by investing activities	(69,787)	15,936	99,728
Ⅲ Cash flows from financing activities			
Payment to the national treasury	(30,000)	-	-
Revenue from contributions made from municipally operated racing	22,676	22,816	142,785
Net cash (used in)/provided by financing activities	(7,323)	22,816	142,785
Ⅳ Effect of exchange rate changes on cash and cash equivalents	-	-	-
Ⅴ Net increase/(decrease) in cash and cash equivalents	35,007	(49,613)	(310,472)
Ⅵ Cash and cash equivalents at beginning of year	873,692	908,700	5,686,485
Ⅶ Cash and cash equivalents at end of year	¥908,700	¥859,086	$5,376,013

See notes to financial statements.

■Notes to Financial Statements

1. Basis of Presentation

Japan Finance Organization for Municipalities (hereinafter, the "JFM") has prepared financial statements in accordance with the Japan Finance Organization for Municipalities Law (Law No. 64, 2007; hereinafter the "Law"), the ordinances based on the Law and other regulations applicable to the JFM and accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. Since the JFM does not have any subsidiaries or affiliates, it does not prepare consolidated financial statements.

Amounts less than 1 million yen have been omitted. As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of 31 March 2026, the final business day of the fiscal year, which was ¥159.80 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 (including prepaid pension costs) 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 (including prepaid pension costs) 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.

If the future issuance of bonds is designated as the hedged items, at the end of the period, the gain or loss arising from measuring the currency swaps at fair value are recognized and deferred as unrealized gain/(loss) from hedging instruments until the forecast transaction occurs.

(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 33 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.

3. Significant Accounting Estimates

Reserve for possible loan losses

(a) Amount of reserve for possible loan losses recorded in fiscal 2025: 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 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 attributed to the Japanese national government. If it deems that the JFM’s business is operated smoothly, the amount is attributed to the national government when the amount of the JFM’s management account reserve for interest rate volatility exceeds the requisite amount of reserve necessary for the future smooth operation of the JFM’s management operations for the Predecessor, in light of the JFM’s financial condition.

For the purpose of securing the increase in the concession amount charged for Forest Environment Concession Tax, a portion of the JFM’s management account reserve for interest rate volatility was scheduled to be attributed to the Japanese national government over a period of five years from fiscal 2020 through fiscal 2024, with the aim of transferring up to 230 billion yen over this period.

In addition, a portion of the JFM’s management account reserve for interest rate volatility was scheduled to be attributed to the Japanese national government in fiscal 2025 with the aim of transferring 200 billion yen for securing funds for local allocation tax. However, in the supplementary budget for fiscal 2025 of the Japanese national government, the schedule of its use was changed and it was determined to use it in subsequent fiscal years as a source of funding for local governments.

A portion of the JFM’s management account reserve for interest rate volatility will be attributed to the Japanese national government in fiscal 2026, with the aim of transferring 200 billion yen for securing funds for local allocation tax.

In fiscal 2024, the final year of the period of five years mentioned above, 30 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 of 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”),” 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 2024 (Ordinance No. 6 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2024).”

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 2026, the JFM will reverse 200 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 2026 (Ordinance No.1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2026)."

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 maturity mismatch between loans and bonds/long-term borrowed money and pipeline risk.

- Interest rate risk associated with maturity mismatch between loans and bonds/long-term borrowed money

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 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 2026, 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 1/4 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.
• Regarding with the management account reserve for interest rate volatility in the management account which manages assets related to loans extended by the Predecessor, 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 attributed to the Japanese national government. If it deems that the JFM's business is operated smoothly, the amount is attributed to the national government when the amount of the JFM's management account reserve for interest rate volatility exceeds the requisite amount of reserve necessary for the future smooth operation of the JFM's management operations for the Predecessor, in light of the JFM's financial condition.
• A portion of the JFM's management account reserve for interest rate volatility was scheduled to be attributed to the Japanese national government in fiscal 2025 with the aim of transferring 200 billion yen for securing funds for local allocation tax. However, in the supplementary budget for fiscal 2025 of the Japanese national government, the schedule of its use was changed and it was determined to use it in subsequent fiscal years as a source of funding for local governments.
• A portion of the JFM's management account reserve for interest rate volatility will be attributed to the Japanese national government in fiscal 2026, with the aim of transferring 200 billion yen for securing funds for local allocation tax.

- 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 2025 and 2026 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 20,738 million yen and 18,692 million yen (116,973 thousand U.S. dollars), respectively. On the contrary, for an indicative interest rate as of 31 March 2025 and 2026 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 20,992 million yen and 18,921 million yen (118,410 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 2025 and 2026 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 3,837 million yen and 2,948 million yen (18,449 thousand U.S. dollars), respectively. On the contrary, for an indicative interest rate as of 31 March 2025 and 2026 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 3,864 million yen and 2,966 million yen (18,564 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 2025 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥22,700,180	¥21,197,673	¥(1,502,507)
(2) Securities			
Held-to-maturity securities	272,000	272,000	-
(3) Cash and bank deposits	908,700	908,700	-
(4) Cash collateral paid for financial instruments	-	-	-
Total assets	23,880,880	22,378,373	(1,502,507)
(1) Bonds	18,677,661	17,501,886	(1,175,775)
(2) Borrowed money	529,500	518,032	(11,467)
(3) Cash collateral received for financial instruments	370,616	370,616	-
Total liabilities	19,577,777	18,390,534	(1,187,242)
Derivative transactions(*)			
Hedge accounting applied	102	102	-
Total of derivative transactions	¥102	¥102	¥-

The book value, fair value and difference between them as of 31 March 2026 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans(*1)	¥22,564,078	¥19,683,342	¥(2,880,735)
(2) Securities			
Held-to-maturity securities	255,000	255,000	-
(3) Cash and bank deposits	859,086	859,086	-
(4) Cash collateral paid for financial instruments	-	-	-
Total assets	23,678,164	20,797,429	(2,880,735)
(1) Bonds	18,315,800	16,376,451	(1,939,349)
(2) Borrowed money	521,800	508,274	(13,525)
(3) Cash collateral received for financial instruments	456,380	456,380	-
Total liabilities	19,293,980	17,341,105	(1,952,875)
Derivative transactions(*2)			
Hedge accounting applied	237	237	-
Total of derivative transactions	¥237	¥237	¥-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans(*1)	$141,201,990	$123,174,860	$(18,027,130)
(2) Securities			
Held-to-maturity securities	1,595,745	1,595,745	-
(3) Cash and bank deposits	5,376,013	5,376,013	-
(4) Cash collateral paid for financial instruments	-	-	-
Total assets	148,173,748	130,146,618	(18,027,130)
(1) Bonds	114,617,026	102,480,922	(12,136,104)
(2) Borrowed money	3,265,332	3,180,690	(84,642)
(3) Cash collateral received for financial instruments	2,855,945	2,855,945	-
Total liabilities	120,738,303	108,517,557	(12,220,746)
Derivative transactions(*2)			
Hedge accounting applied	1,486	1,486	-
Total of derivative transactions	$1,486	$1,486	$-

(*1) The JFM has not assigned, and does not plan to assign, any loan receivables.

(*2) 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 “Fair Value of Marketable Securities.”

(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 2025 is as follows:

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount	Of which 1 year or more	Fair value	Method for calculating fair value
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	1,868,110	1,536,900	(*3)	(*3)
			150,930	150,930	¥102	(*4)
Deferral hedge accounting for foreign exchange forward contracts	Foreign exchange forward contracts	Foreign currency-denominated deposits	-	-	(*3)	
Total			¥2,039,040	¥1,707,830	¥102	

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 2026 is as follows:

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount	Of which 1 year or more	Fair value	Method for calculating fair value
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	1,935,017	1,621,301	(*3)	(*3)
			79,576	79,576	¥237	(*4)
Deferral hedge accounting for foreign exchange forward contracts	Foreign exchange forward contracts	Foreign currency-denominated deposits	-	-	(*3)	
Total			¥2,034,593	¥1,720,877	¥237	

(Thousands of U.S. dollars)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount	Of which 1 year or more	Fair value	Method for calculating fair value
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	$125,156	$125,156	(*2)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	12,108,996	10,145,814	(*3)	(*3)
			497,973	497,973	1,486	(*4)
Deferral hedge accounting for foreign exchange forward contracts	Foreign exchange forward contracts	Foreign currency-denominated deposits	-	-	(*3)	
Total			$12,732,125	$10,768,943	$1,486	

(*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.

(*4) If the future issuance of bonds is designated as the hedged items, at the end of the period, the gain or loss arising from measuring the currency swaps at fair value are recognized and deferred as unrealized gain/(loss) from hedging instruments until the forecast transaction occurs. The fair value of the currency swaps is calculated by the discounted cash flow method, which uses observable inputs such as foreign exchange.

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

As of 31 March 2025

(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	¥1,777,570	¥1,745,215	¥1,699,225	¥1,633,913	¥1,571,802	¥6,185,416	¥6,365,063	¥1,657,683	¥64,288
Securities									
Held-to-maturity securities	272,000	-	-	-	-	-	-	-	-
Deposits	908,700	-	-	-	-	-	-	-	-

As of 31 March 2026

(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	¥1,770,860	¥1,742,254	¥1,699,287	¥1,646,696	¥1,551,588	¥6,082,463	¥6,328,677	¥1,669,774	¥72,475
Securities									
Held-to-maturity securities	255,000	-	-	-	-	-	-	-	-
Deposits	859,086	-	-	-	-	-	-	-	-

(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	$11,081,733	$10,902,716	$10,633,837	$10,304,733	$9,709,562	$38,062,974	$39,603,741	$10,449,151	$453,542
Securities									
Held-to-maturity securities	1,595,745	-	-	-	-	-	-	-	-
Deposits	5,376,013	-	-	-	-	-	-	-	-

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

As of 31 March 2025

(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	¥2,069,380	¥1,476,386	¥1,782,405	¥1,595,107	¥1,601,498	¥5,188,296	¥4,508,144	¥361,000	¥99,000
Borrowed money	88,000	104,500	140,000	97,800	82,600	13,000	3,600	-	-

As of 31 March 2026

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Bonds	¥1,476,386	¥1,791,405	¥1,654,107	¥1,697,498	¥1,805,384	¥4,954,874	¥4,488,000	¥363,000	¥89,000
Borrowed money	104,500	140,000	127,800	82,600	61,300	4,000	1,600	-	-

(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	$9,238,964	$11,210,298	$10,351,113	$10,622,645	$11,297,775	$31,006,724	$28,085,106	$2,271,589	$556,946
Borrowed money	653,942	876,095	799,750	516,896	383,605	25,031	10,013	-	-

(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

As of 31 March 2025

(Millions of yen)

	Fair value			Total
	Level 1	Level 2	Level 3	
Derivative transactions Hedge accounting applied	¥-	¥102	¥-	¥102
Total of derivative transactions	¥-	¥102	¥-	¥102

As of 31 March 2026

(Millions of yen)

	Fair value			Total
	Level 1	Level 2	Level 3	
Derivative transactions Hedge accounting applied	¥-	¥237	¥-	¥237
Total of derivative transactions	¥-	¥237	¥-	¥237

(Thousands of U.S. dollars)

	Fair value			Total
	Level 1	Level 2	Level 3	
Derivative transactions Hedge accounting applied	$-	$1,486	$-	$1,486
Total of derivative transactions	$-	$1,486	$-	$1,486

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

As of 31 March 2025

(Millions of yen)

	Fair value			Total
	Level 1	Level 2	Level 3	
(1) Loans	¥-	¥-	¥21,197,673	¥21,197,673
(2) Securities Held-to-maturity securities	-	272,000	-	272,000
(3) Cash and bank deposits	-	908,700	-	908,700
(4) Cash collateral paid for financial instruments	-	-	-	-
Total assets	-	1,180,700	21,197,673	22,378,373
(1) Bonds	-	17,501,886	-	17,501,886
(2) Borrowed money	-	518,032	-	518,032
(3) Cash collateral received for financial instruments	-	370,616	-	370,616
Total liabilities	¥-	¥18,390,534	¥-	¥18,390,534

As of 31 March 2026

(Millions of yen)

	Fair value			Total
	Level 1	Level 2	Level 3	
(1) Loans	¥-	¥-	¥19,683,342	¥19,683,342
(2) Securities				
Held-to-maturity securities	-	255,000	-	255,000
(3) Cash and bank deposits	-	859,086	-	859,086
(4) Cash collateral paid for financial instruments	-	-	-	-
Total assets	-	1,114,086	19,683,342	20,797,429
(1) Bonds	-	16,376,451	-	16,376,451
(2) Borrowed money	-	508,274	-	508,274
(3) Cash collateral received for financial instruments	-	456,380	-	456,380
Total liabilities	¥-	¥17,341,105	¥-	¥17,341,105

(Thousands of U.S. dollars)

	Fair value			Total
	Level 1	Level 2	Level 3	
(1) Loans	$-	$-	$123,174,860	$123,174,860
(2) Securities				
Held-to-maturity securities	-	1,595,745	-	1,595,745
(3) Cash and bank deposits	-	5,376,013	-	5,376,013
(4) Cash collateral paid for financial instruments	-	-	-	-
Total assets	-	6,971,758	123,174,860	130,146,618
(1) Bonds	-	102,480,922	-	102,480,922
(2) Borrowed money	-	3,180,690	-	3,180,690
(3) Cash collateral received for financial instruments	-	2,855,945	-	2,855,945
Total liabilities	$-	$108,517,557	$-	$108,517,557

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 2026.

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 and the fair value of currency swaps for which the gain or loss was recognized as unrealized gain/(loss) from hedging instruments are calculated by the discounted cash flow method, which uses observable inputs such as interest rates and foreign exchange. 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 2025 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2024 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2025 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2025	Depreciation and amortization during the year	Balance as of 31 March 2025 (Net book value)
Tangible fixed assets							
Buildings	¥1,012	¥2	¥2	¥1,012	¥531	¥18	¥480
Land	1,332	-	-	1,332	-	-	1,332
Other tangible fixed assets	1,721	1,050	1,400	1,370	376	191	994
Total tangible fixed assets	4,065	1,052	1,402	3,714	907	210	2,807
Intangible fixed assets							
Software	1,825	3,536	655	4,706	1,125	716	3,580
Other intangible fixed assets	2,686	2	2,686	2	-	-	2
Total intangible fixed assets	¥4,511	¥3,538	¥3,341	¥4,708	¥1,125	¥716	¥3,583

Tangible and intangible fixed assets as of 31 March 2026 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2025 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2026 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2026	Depreciation and amortization during the year	Balance as of 31 March 2026 (Net book value)
Tangible fixed assets							
Buildings	¥1,012	¥108	-	¥1,120	¥549	¥18	¥570
Land	1,332	-	-	1,332	-	-	1,332
Other tangible fixed assets	1,370	63	27	1,406	595	242	810
Total tangible fixed assets	3,714	172	27	3,858	1,145	261	2,713
Intangible fixed assets							
Software	4,706	660	205	5,161	1,886	966	3,275
Other intangible fixed assets	2	74	61	15	-	-	15
Total intangible fixed assets	¥4,708	¥735	¥266	¥5,177	¥1,886	¥966	¥3,290

(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2025 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2026 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2026	Depreciation and amortization during the year	Balance as of 31 March 2026 (Net book value)
Tangible fixed assets							
Buildings	$6,334	$680	$-	$7,014	$3,441	$117	$3,573
Land	8,335	-	-	8,335	-	-	8,335
Other tangible fixed assets	8,577	396	174	8,799	3,727	1,517	5,072
Total tangible fixed assets	23,246	1,076	174	24,148	7,168	1,634	16,980
Intangible fixed assets							
Software	29,452	4,134	1,286	32,300	11,805	6,048	20,495
Other intangible fixed assets	14	467	384	97	-	-	97
Total intangible fixed assets	$29,466	$4,601	$1,670	$32,397	$11,805	$6,048	$20,592

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 18,677,661 million yen and 18,315,800 million yen (114,617,026 thousand U.S. dollars) as of 31 March 2025 and 2026, respectively.

9. Bonds

Bonds as of 31 March 2025 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2024	Balance as of 31 March 2025	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 59-123)	4/14/2014-1/21/2020	¥2,135,000	¥1,705,000 (500,000)	0.001 to 0.669	10Y
Government-guaranteed bonds issued by the JFM (domestic) 8-year bonds (Series 6-7)	9/27/2016-2/24/2017	120,005	-	0.001 to 0.095	8Y
Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 11-15)	8/28/2020-9/27/2024	220,136	300,026 (160,026)	0.001 to 0.494	4Y
Non-guaranteed bonds issued by the JFM (domestic) 5-year bonds (Series 25-36)	4/18/2019-12/20/2024	149,000	170,000 (30,000)	0.001 to 0.809	5Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 59-190)	4/17/2014-3/21/2025	3,128,000	3,098,000 (255,000)	0.049 to 1.643	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 1-117)	6/25/2009-1/24/2025	2,160,000	2,268,000	0.180 to 2.266	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-20)	6/26/2014-10/22/2024	233,000	266,000	0.446 to 2.253	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, F43, F45-F47, F49, F51-F52, F55-F56, F59-F68, F71, F73, F76-F80, F82-F85, F88-F90, F93, F95-F98, F102, F104, F107-F109, F112, F115-F125, F128-F134, F136-F139, F142-F143, F145-F152,	7/23/2009-3/27/2025	3,367,804	3,306,933 (357,000)	0.001 to 2.334	3Y to 40Y

F156-F164, F166-F169, F172-F174, F176-F179, F181-F185, F188-F198, F200-F210, F213-F217, F219-F222, F224-F228, F230-F234, F236-F243, F245-F250, F252-F256, F258-F263, F265-F270, F273-F276, F278-F288, F291-F298, F301-F308, F310, F318-F319, F332-F333, F339-F341, F343-F345, F348-F354, F356-F360, F368-F369, F374-F379, F385-F389, F392-F395, F398, F400, F404-F406, F409-F411, F420-F424, F426-F443, F445-F454, F457-F530, F532-F559, F561-F564, and F566-F834)					
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, 47-48, 58, 64, 67, 69-98, and 100-107)	5/1/2014- 1/16/2025	1,891,998	1,861,962 [USD 8,879 million] [AUD 1,415 million] [EUR 4,880 million] (331,132)	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 A51-A182)	4/17/2014- 3/21/2025	1,810,000	1,660,000 (300,000)	0.069 to 1.673	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series B1-B113)	11/24/2015- 3/21/2025	745,500	853,000 (34,000)	0.069 to 1.673	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series C1-C113)	11/24/2015- 3/21/2025	975,000	1,107,000	0.190 to 2.329	20Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series D1-D108)	4/21/2016- 3/21/2025	1,190,000	1,340,000	0.190 to 2.329	20Y
Bonds issued by the JFM - Sub-total	-	18,239,175	18,049,652	-	-
Non-guaranteed bonds issued by Japan Finance Organization for Municipal	1/26/2009- 4/30/2009	84,985	84,988	2.070 to 2.290	20Y

Enterprises (domestic) 20-year bonds (Series 1-2)					
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	84,985	84,988	-	-
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 9-25)	10/21/2004- 6/16/2008	419,953	339,970 (99,997)	2.030 to 2.580	20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004- 9/20/2006	189,933	189,939	2.390 to 2.950	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003- 6/9/2004	15,280	13,110 (2,170)	1.390 to 2.010	28Y
Bonds issued by the Predecessor - Sub-total	-	625,167	543,020	-	-
Total	-	¥18,949,328	¥18,677,661	-	-

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 18,677,661 million yen as of 31 March 2025.

2. Amounts in square brackets under "Balance as of 31 March 2025" for "Non-guaranteed bonds issued by the JFM (international)— (Series 43-44, 47-48, 58, 64, 67, 69-98 and 100-107)" 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 2025" are to be repaid within one year.

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

Bonds as of 31 March 2026 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2025	Balance as of 31 March 2026	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 71-123)	4/27/2015-1/21/2020	¥1,705,000	¥1,205,000 (240,000)	0.001 to 0.557	10Y
Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 12-17)	6/30/2021-9/30/2025	300,026	230,000	0.001 to 1.104	4Y
Non-guaranteed bonds issued by the JFM (domestic) 5-year bonds (Series 27-38)	5/26/2020-11/28/2025	170,000	192,000 (35,000)	0.001 to 1.329	5Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 71-202)	4/20/2015-3/23/2026	3,098,000	3,146,000 (240,000)	0.049 to 2.386	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 1-124)	6/25/2009-1/23/2026	2,268,000	2,367,000	0.180 to 3.134	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-22)	6/26/2014-10/21/2025	266,000	287,000	0.446 to 3.272	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, F43, F45-F47, F49, F51-F52, F55-F56, F59-F61, F63-F64, F66-68, F71, F73, F76-F77, F79-F80, F83-F85, F88-F90, F93, F96-F98, F102, F108-F109, F112, F116-F125, F129-F134, F136-F137, F139, F143, F146-F152, F156-F164, F167-F169, F172-F174, F177-F179, F181-F185, F189, F191-F198, F201-F210, F213-F217, F219-F222, F224-F228, F230-F234, F236-F243, F245-F250, F252-F256, F258-F263, F265-F270, F273-F276, F278-F284, F286-F288, F291-F298, F302-F308, F318-F319, F332-F333, F339-F341, F343-F345, F348-F354, F357-F360, F368-F369, F374-F379, F385-F389, F393-F395, F398, F400, F404-F406, F409-F411,	7/23/2009-3/26/2026	3,306,933	3,200,062 (394,000)	0.001 to 2.989	3Y to 40Y

F420-F424, F426-F443, F445-F454, F457-F459, F461-F466, F470-F484, F486, F489, F491-F494, F496-F530, F532-F543, F546-F559, F561-F564, and F566-F880)					
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 58, 64, 67, 72-91, 93-98, and 100-110)	6/26/2017-1/16/2026	1,861,962	1,928,446 [USD 7,629 million] [AUD 1,274 million] [EUR 5,630 million] (313,701)	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 A63-A194)	4/20/2015-3/24/2026	1,660,000	1,435,000 (150,000)	0.069 to 2.416	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series B1-B126)	11/24/2015-3/27/2026	853,000	1,001,700 (41,500)	0.069 to 2.416	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series C1-C125)	11/24/2015-3/24/2026	1,107,000	1,269,000	0.190 to 3.225	20Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series D1-D120)	4/21/2016-3/24/2026	1,340,000	1,415,000	0.190 to 3.225	20Y
Bonds issued by the JFM - Sub-total	-	18,049,652	17,789,939	-	-
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1-2)	1/26/2009-4/30/2009	84,988	84,991	2.070 to 2.290	20Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	84,988	84,991	-	-
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 13-25)	9/7/2005-6/16/2008	339,970	239,983 (59,998)	2.100 to 2.580	20Y
Non-guaranteed bonds issued by the Predecessor (domestic)	1/29/2004-9/20/2006	189,939	189,946	2.390 to 2.950	30Y

30-year bonds (Series 1-10)					
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003- 6/9/2004	13,110	10,940 (2,170)	1.390 to 2.010	28Y
Bonds issued by the Predecessor - Sub-total	-	543,020	440,869	-	-
Total	-	¥18,677,661	¥18,315,800	-	-

(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2025	Balance as of 31 March 2026	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 71-123)	4/27/2015- 1/21/2020	$10,669,587	$7,540,676 (1,501,877)	0.001 to 0.557	10Y
Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 12-17)	6/30/2021- 9/30/2025	1,877,514	1,439,299	0.001 to 1.104	4Y
Non-guaranteed bonds issued by the JFM (domestic) 5-year bonds (Series 27-38)	5/26/2020- 11/28/2025	1,063,830	1,201,502 (219,024)	0.001 to 1.329	5Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 71-202)	4/20/2015- 3/23/2026	19,386,733	19,687,109 (1,501,877)	0.049 to 2.386	10Y
Non-guaranteed bonds issued by the JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013- 1/22/2014	312,891	312,891	1.161 to 1.334	15Y
Non-guaranteed bonds issued by the JFM (domestic) 20-year bonds (Series 1-124)	6/25/2009- 1/23/2026	14,192,741	14,812,265	0.180 to 3.134	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-22)	6/26/2014- 10/21/2025	1,664,581	1,795,995	0.446 to 3.272	30Y
Non-guaranteed bonds issued by the JFM (domestic) 40-year bonds (Series 1-3)	2/26/2019- 9/24/2020	250,313	250,313	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, F43, F45-F47, F49, F51-F52, F55-F56, F59-F61, F63-F64, F66-68, F71, F73, F76-F77, F79-F80, F83-F85, F88-F90, F93, F96-F98, F102, F108-	7/23/2009- 3/26/2026	20,694,203	20,025,424 (2,465,582)	0.001 to 2.989	3Y to 40Y

F109, F112, F116-F125, F129-F134, F136-F137, F139, F143, F146-F152, F156-F164, F167-F169, F172-F174, F177-F179, F181-F185, F189, F191-F198, F201-F210, F213-F217, F219-F222, F224-F228, F230-F234, F236-F243, F245-F250, F252-F256, F258-F263, F265-F270, F273-F276, F278-F284, F286-F288, F291-F298, F302-F308, F318-F319, F332-F333, F339-F341, F343-F345, F348-F354, F357-F360, F368-F369, F374-F379, F385-F389, F393-F395, F398, F400, F404-F406, F409-F411, F420-F424, F426-F443, F445-F454, F457-F459, F461-F466, F470-F484, F486, F489, F491-F494, F496-F530, F532-F543, F546-F559, F561-F564, and F566-F880)					
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Floater, Series F211, F244)	2/26/2014- 7/25/2014	125,156	125,156	Floating rate	20Y to 30Y
Non-guaranteed bonds issued by the JFM (international) (Series 58, 64, 67, 72-91, 93-98, and 100-110)	6/26/2017- 1/16/2026	11,651,829	12,067,878 [USD 7,629 million] [AUD 1,274 million] [EUR 5,630 million] (1,963,087)	0.010 to 5.125	3Y to 15Y
Non-guaranteed bonds issued by the JFM (international) (Series 99)	10/26/2022	23,342	23,342 [USD 25 million]	Floating rate	5Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series A63-A194)	4/20/2015- 3/24/2026	10,387,985	8,979,975 (938,673)	0.069 to 2.416	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series B1-B126)	11/24/2015- 3/27/2026	5,337,922	6,268,461 (259,700)	0.069 to 2.416	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series C1-C125)	11/24/2015- 3/24/2026	6,927,409	7,941,176	0.190 to 3.225	20Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series D1-D120)	4/21/2016- 3/24/2026	8,385,482	8,854,819	0.190 to 3.225	20Y
Bonds issued by the JFM - Sub-total	-	112,951,519	111,326,280	-	-
Non-guaranteed bonds issued by Japan Finance Organization for Municipal	1/26/2009- 4/30/2009	531,844	531,863	2.070 to 2.290	20Y

Enterprises (domestic) 20-year bonds (Series 1-2)					
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	531,844	531,863	-	-
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 13-25)	9/7/2005- 6/16/2008	2,127,475	1,501,773 (375,460)	2.100 to 2.580	20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004- 9/20/2006	1,188,611	1,188,649	2.390 to 2.950	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003- 6/9/2004	82,040	68,461 (13,579)	1.390 to 2.010	28Y
Bonds issued by the Predecessor - Sub-total	-	3,398,126	2,758,883	-	-
Total	-	$116,881,489	$114,617,026	-	-

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 18,315,800 million yen (114,617,026 thousand U.S. dollars) as of 31 March 2026.
2. Amounts in square brackets under "Balance as of 31 March 2026" for "Non-guaranteed bonds issued by the JFM (international)— (Series 58, 64, 67, 72-91, 93-98 and 100-110)" 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 2026" are to be repaid within one year.
4. Annual schedule of redemption within five years after the fiscal year-end:

As of 31 March 2025

(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	¥2,069,380	¥1,476,386	¥1,782,405	¥1,595,107	¥1,601,498

As of 31 March 2026

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
Bonds	¥1,476,386	¥1,791,405	¥1,654,107	¥1,697,498	¥1,805,384

(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	$9,238,964	$11,210,298	$10,351,113	$10,622,645	$11,297,775

10. Borrowed Money

Borrowed money as of 31 March 2025 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2024	Balance as of 31 March 2025	Average interest rate (%)	Repayment date
Short-term borrowed money	¥-	¥-	-	-
Long-term borrowed money (repayment within 1 year)	¥83,400	¥88,000	0.107	9/3/2025-3/19/2026
Long-term borrowed money (excluding repayment within 1 year)	¥446,900	¥441,500	0.339	9/16/2026-3/16/2040
Total	¥530,300	¥529,500	-	-

Borrowed money as of 31 March 2026 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2025	Balance as of 31 March 2026	Average interest rate (%)	Repayment date
Short-term borrowed money	¥-	¥-	-	-
Long-term borrowed money (repayment within 1 year)	¥88,000	¥104,500	0.072	-
Long-term borrowed money (excluding repayment within 1 year)	¥441,500	¥417,300	0.560	9/14/2027-3/16/2040
Total	¥529,500	¥521,800	-	-

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2025	Balance as of 31 March 2026	Average interest rate (%)	Repayment date
Short-term borrowed money	$-	$-	-	-
Long-term borrowed money (repayment within 1 year)	$550,688	$653,942	0.072	-
Long-term borrowed money (excluding repayment within 1 year)	$2,762,829	$2,611,390	0.560	9/14/2027-3/16/2040
Total	$3,313,517	$3,265,332	-	-

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 2025

(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	¥88,000	¥104,500	¥140,000	¥97,800	¥82,600

As of 31 March 2026

(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	¥104,500	¥140,000	¥127,800	¥82,600	¥61,300

(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	$653,942	$876,095	$799,750	$516,896	$383,605

11. Reserves

Reserves as of 31 March 2025 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2024	Increase during the year	Decrease during the year		Balance as of 31 March 2025
			Intended purpose	Other	
Reserve for bonuses	¥60	¥63	¥60	¥-	¥63
Reserve for bonuses for directors and corporate auditors	10	10	10	-	10
Reserve for retirement benefits for directors and corporate auditors	15	9	13	-	11

Reserves as of 31 March 2026 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2025	Increase during the year	Decrease during the year		Balance as of 31 March 2026
			Intended purpose	Other	
Reserve for bonuses	¥63	¥73	¥63	¥-	¥73
Reserve for bonuses for directors and corporate auditors	10	10	10	-	10
Reserve for retirement benefits for directors and corporate auditors	11	7	-	-	19

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2025	Increase during the year	Decrease during the year		Balance as of 31 March 2026
			Intended purpose	Other	
Reserve for bonuses	$397	$462	$397	$-	$462
Reserve for bonuses for directors and corporate auditors	67	69	67	-	69
Reserve for retirement benefits for directors and corporate auditors	73	49	-	-	122

12. Reserve for Interest Rate Volatility

Reserve for interest rate volatility as of 31 March 2025 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2024	Increase during the year		Decrease during the year		Balance as of 31 March 2025
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	¥2,200,000	¥-	¥-	¥-		¥2,200,000
Management account reserve for interest rate volatility	708,654	48,673		30,000	¥-	727,327
Total	¥2,908,654	¥48,673	¥-	¥30,000	¥-	¥2,927,327

Note: The “Decrease during the year” for the “Management account reserve for interest rate volatility” in the amount of 30,000 million yen consists of the payment to the national treasury in accordance with the Ministerial Ordinance for Attribution to the National Government.

Reserve for interest rate volatility as of 31 March 2026 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2025	Increase during the year		Decrease during the year		Balance as of 31 March 2026
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	¥2,200,000	¥-	¥-	¥-		¥2,200,000
Management account reserve for interest rate volatility	727,327	39,312		-	¥-	766,640
Total	¥2,927,327	¥39,312	¥-	¥-	¥-	¥2,966,640

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2025	Increase during the year		Decrease during the year		Balance as of 31 March 2026
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	$13,767,209	$-	$-	$-		$13,767,209
Management account reserve for interest rate volatility	4,551,487	246,013		-	$-	4,797,500
Total	$18,318,696	$246,013	$-	-	$-	$18,564,709

13. Fund for Lending Rate Reduction

Fund for lending rate reduction as of 31 March 2025 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2024	Increase during the year		Decrease during the year		Balance as of 31 March 2025
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥926,499	¥22,676	¥-	¥17,304	¥-	¥931,870
Total	¥926,499	¥22,676	¥-	¥17,304	¥-	¥931,870

Fund for lending rate reduction as of 31 March 2026 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2025	Increase during the year		Decrease during the year		Balance as of 31 March 2026
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥931,870	¥22,816	¥-	¥17,438	¥-	¥937,248
Total	¥931,870	¥22,816	¥-	¥17,438	¥-	¥937,248

(Thousands of U.S. dollars)

Classification of fund	Balance as of 1 April 2025	Increase during the year		Decrease during the year		Balance as of 31 March 2026
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	$5,831,481	$142,785	$-	$109,128	$-	$5,865,138
Total	$5,831,481	$142,785	$-	$109,128	$-	$5,865,138

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 2025

(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:	45 million yen
Pension expenses:	20 million yen
Employee retirement benefits paid:	- million yen
Contributions to the defined benefit plan:	9 million yen
Prepaid pension costs:	(21) million yen
Reserve for retirement benefits at the end of the fiscal year:	78 million yen

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

Funded retirement benefit obligation:	212 million yen
Plan assets:	(233) million yen
Balance:	(21) million yen
Unfunded retirement benefit obligation:	78 million yen
Net liability for retirement benefits in the balance sheet:	56 million yen
Reserve for retirement benefits at the end of the fiscal year:	78 million yen
Prepaid pension costs:	(21) million yen
Net liability for retirement benefits in the balance sheet:	56 million yen

Note: Prepaid pension costs recorded in the balance sheet include prepaid pension costs related to directors and corporate auditors.

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 20 million yen

As of and for the year ended 31 March 2026

(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:	78 million yen	(489 thousand U.S. dollars)
Pension expenses:	(4) million yen	((30) thousand U.S. dollars)
Employee retirement benefits paid:	1 million yen	(11 thousand U.S. dollars)
Contributions to the defined benefit plan:	11 million yen	(72 thousand U.S. dollars)
Prepaid pension costs:	(27) million yen	((174) thousand U.S. dollars)
Reserve for retirement benefits at the end of the fiscal year:	87 million yen	(550 thousand U.S. dollars)

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

Funded retirement benefit obligation:	246 million yen	(1,545 thousand U.S. dollars)
Plan assets:	(296) million yen	((1,853) thousand U.S. dollars)
Balance:	(49) million yen	((308) thousand U.S. dollars)
Unfunded retirement benefit obligation:	87 million yen	(550 thousand U.S. dollars)
Net liability for retirement benefits in the balance sheet:	38 million yen	(242 thousand U.S. dollars)
Reserve for retirement benefits at the end of the fiscal year:	87 million yen	(550 thousand U.S. dollars)
Prepaid pension costs:	(49) million yen	((308) thousand U.S. dollars)
Net liability for retirement benefits in the balance sheet:	38 million yen	(242 thousand U.S. dollars)

Note: Prepaid pension costs recorded in the balance sheet include prepaid pension costs related to directors and corporate auditors.

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: (4) million yen ((30) thousand U.S. dollars)

15. Net Income by Account

(For the year ended 31 March 2025)

Net income of the general account was 36,232 million yen, while there was no net income of management account.

(For the year ended 31 March 2026)

Net income of the general account was 35,119 million yen (219,775 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 sheets of general account and management account as of 31 March 2025 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥19,908,218	¥2,791,962	¥-	¥22,700,180
Securities	272,000	-	-	272,000
Cash and bank deposits	908,700	-	-	908,700
Other assets	4,940	1,587	-	6,527
Tangible fixed assets	2,807	-	-	2,807
Intangible fixed assets	3,583	-	-	3,583
Prepaid pension costs	25	-	-	25
Due from general account	-	543,438	(543,438)	-
Total assets	21,100,273	3,336,988	(543,438)	23,893,823
(Liabilities)				
Bonds	16,129,614	2,548,047	-	18,677,661
Borrowed money	529,500	-	-	529,500
Cash collateral received for financial instruments	370,616	-	-	370,616
Other liabilities	3,858	2,483	-	6,341
Reserve for bonuses	63	-	-	63
Reserve for bonuses for directors and corporate auditors	10	-	-	10
Reserve for retirement benefits	78	-	-	78
Reserve for retirement benefits for directors and corporate auditors	11	-	-	11
Fund for lending rate reduction	931,870	-	-	931,870
Basic fund for lending rate reduction	931,870	-	-	931,870
Due to management account	543,438	-	(543,438)	-
Reserves under special laws	2,200,000	728,649	-	2,928,649
Reserve for interest rate volatility	2,200,000	-	-	2,200,000
Management account reserve for interest rate volatility	-	727,327	-	727,327
Reserve for interest rate reduction	-	1,321	-	1,321
Total liabilities	20,709,062	3,279,179	(543,438)	23,444,803
(Net assets)				
Capital	16,602	-	-	16,602
Retained earnings	406,639	-	-	406,639
General account appropriated surplus reserve	406,639	-	-	406,639
Valuation, translation adjustments and others	(32,029)	-	-	(32,029)
Management account surplus reserve	-	57,808	-	57,808
Total net assets	391,211	57,808	-	449,020
Total liabilities and net assets	¥21,100,273	¥3,336,988	¥(543,438)	¥23,893,823

Balance sheets of general account and management account as of 31 March 2026 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥20,310,525	¥2,253,552	¥-	¥22,564,078
Securities	255,000	-	-	255,000
Cash and bank deposits	859,086	-	-	859,086
Other assets	6,182	1,288	-	7,470
Tangible fixed assets	2,713	-	-	2,713
Intangible fixed assets	3,290	-	-	3,290
Prepaid pension costs	56	-	-	56
Due from general account	-	447,696	(447,696)	-
Total assets	21,436,855	2,702,537	(447,696)	23,691,695
(Liabilities)				
Bonds	16,439,931	1,875,869	-	18,315,800
Borrowed money	521,800	-	-	521,800
Cash collateral received for financial instruments	456,380	-	-	456,380
Other liabilities	6,214	2,218	-	8,432
Reserve for bonuses	73	-	-	73
Reserve for bonuses for directors and corporate auditors	10	-	-	10
Reserve for retirement benefits	87	-	-	87
Reserve for retirement benefits for directors and corporate auditors	19	-	-	19
Fund for lending rate reduction	937,248	-	-	937,248
Basic fund for lending rate reduction	937,248	-	-	937,248
Due to management account	447,696	-	(447,696)	-
Reserves under special laws	2,200,000	766,640	-	2,966,640
Reserve for interest rate volatility	2,200,000	-	-	2,200,000
Management account reserve for interest rate volatility	-	766,640	-	766,640
Total liabilities	21,009,462	2,644,728	(447,696)	23,206,494
(Net assets)				
Capital	16,602	-	-	16,602
Retained earnings	441,759	-	-	441,759
General account appropriated surplus reserve	441,759	-	-	441,759
Valuation, translation adjustments and others	(30,969)	-	-	(30,969)
Management account surplus reserve	-	57,808	-	57,808
Total net assets	427,392	57,808	-	485,200
Total liabilities and net assets	¥21,436,855	¥2,702,537	¥(447,696)	¥23,691,695

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	$127,099,658	$14,102,332	$-	$141,201,990
Securities	1,595,745	-	-	1,595,745
Cash and bank deposits	5,376,013	-	-	5,376,013
Other assets	38,690	8,061	-	46,751
Tangible fixed assets	16,980	-	-	16,980
Intangible fixed assets	20,592	-	-	20,592
Prepaid pension costs	351	-	-	351
Due from general account	-	2,801,605	(2,801,605)	-
Total assets	134,148,029	16,911,998	(2,801,605)	148,258,422
(Liabilities)				
Bonds	102,878,169	11,738,857	-	114,617,026
Borrowed money	3,265,332	-	-	3,265,332
Cash collateral received for financial instruments	2,855,945	-	-	2,855,945
Other liabilities	38,886	13,882	-	52,768
Reserve for bonuses	462	-	-	462
Reserve for bonuses for directors and corporate auditors	69	-	-	69
Reserve for retirement benefits	550	-	-	550
Reserve for retirement benefits for directors and corporate auditors	122	-	-	122
Fund for lending rate reduction	5,865,138	-	-	5,865,138
Basic fund for lending rate reduction	5,865,138	-	-	5,865,138
Due to management account	2,801,605	-	(2,801,605)	-
Reserves under special laws	13,767,209	4,797,500	-	18,564,709
Reserve for interest rate volatility	13,767,209	-	-	13,767,209
Management account reserve for interest rate volatility	-	4,797,500	-	4,797,500
Total liabilities	131,473,487	16,550,239	(2,801,605)	145,222,121
(Net assets)				
Capital	103,893	-	-	103,893
Retained earnings	2,764,453	-	-	2,764,453
General account appropriated surplus reserve	2,764,453	-	-	2,764,453
Valuation, translation adjustments and others	(193,803)	-	-	(193,803)
Management account surplus reserve	-	361,758	-	361,758
Total net assets	2,674,543	361,758	-	3,036,301
Total liabilities and net assets	$134,148,030	$16,911,997	$(2,801,605)	$148,258,422

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 2024 through 31 March 2025 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥146,392	¥66,139	¥(3,907)	¥208,625
Interest income	128,631	62,514	-	191,146
Fees and commissions	62	-	-	62
Other operating income	3	-	-	3
Other income	17,413	-	-	17,413
Contributions from fund for lending rate reduction	17,304	-	-	17,304
Others	108	-	-	108
Administrative fee for management account	282	-	(282)	-
Interest on due from general account	-	329	(329)	-
Transfer from general account for fund for lending rate reduction	-	3,295	(3,295)	-
Expenses	110,160	19,564	(3,907)	125,816
Interest expenses	97,885	18,993	-	116,879
Fees and commissions	215	49	-	264
Other operating expenses	3,532	212	-	3,744
General and administrative expenses	4,901	26	-	4,928
Interest on due to management account	329	-	(329)	-
Transfer to management account for fund for lending rate reduction	3,295	-	(3,295)	-
Administrative fee for management account	-	282	(282)	-
Ordinary income	36,232	46,575	-	82,808
Special gains	-	32,097	-	32,097
Reversal of management account reserve for interest rate volatility	-	30,000	-	30,000
Reversal of reserve for interest rate reduction	-	2,097	-	2,097
Special losses	-	78,673	-	78,673
Provision for management account reserve for interest rate volatility	-	48,673	-	48,673
Payment to the national treasury	-	30,000	-	30,000
Net income	¥36,232	¥-	¥-	¥36,232

Statements of income of general account and management account from 1 April 2025 through 31 March 2026 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥170,413	¥54,139	¥(4,525)	¥220,028
Interest income	152,615	49,862	-	202,477
Fees and commissions	57	-	-	57
Other operating income	4	-	-	4
Other income	17,488	-	-	17,488
Contributions from fund for lending rate reduction	17,438	-	-	17,438
Others	49	-	-	49
Administrative fee for management account	247	-	(247)	-
Interest on due from general account	-	1,446	(1,446)	-
Transfer from general account for fund for lending rate reduction	-	2,830	(2,830)	-
Expenses	135,293	16,148	(4,525)	146,916
Interest expenses	120,390	15,703	-	136,094
Fees and commissions	239	42	-	281
Other operating expenses	4,636	136	-	4,773
General and administrative expenses	5,748	17	-	5,766
Interest on due to management account	1,446	-	(1,446)	-
Transfer to management account for fund for lending rate reduction	2,830	-	(2,830)	-
Administrative fee for management account	-	247	(247)	-
Ordinary income	35,119	37,991	-	73,111
Special gains	-	1,321	-	1,321
Reversal of reserve for interest rate reduction	-	1,321	-	1,321
Special losses	-	39,312	-	39,312
Provision for management account reserve for interest rate volatility	-	39,312	-	39,312
Net income	¥35,119	¥-	¥-	¥35,119

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
Income	$1,066,416	$338,797	$(28,316)	$1,376,897
Interest income	955,039	312,029	-	1,267,068
Fees and commissions	362	-	-	362
Other operating income	29	-	-	29
Other income	109,438	-	-	109,438
Contributions from fund for lending rate reduction	109,128	-	-	109,128
Others	310	-	-	310
Administrative fee for management account	1,548	-	(1,548)	-
Interest on due from general account	-	9,054	(9,054)	-
Transfer from general account for fund for lending rate reduction	-	17,714	(17,714)	-
Expenses	846,641	101,053	(28,316)	919,378
Interest expenses	753,384	98,272	-	851,656
Fees and commissions	1,496	263	-	1,759
Other operating expenses	29,017	858	-	29,875
General and administrative expenses	35,976	112	-	36,088
Interest on due to management account	9,054	-	(9,054)	-
Transfer to management account for fund for lending rate reduction	17,714	-	(17,714)	-
Administrative fee for management account	-	1,548	(1,548)	-
Ordinary income	219,775	237,744	-	457,519
Special gains	-	8,269	-	8,269
Reversal of reserve for interest rate reduction	-	8,269	-	8,269
Special losses	-	246,013	-	246,013
Provision for management account reserve for interest rate volatility	-	246,013	-	246,013
Net income	$219,775	$-	$-	$219,775

19. Fair Value of Marketable Securities

Marketable held-to-maturity securities as of 31 March 2025 consisted of the following:

(Millions of yen)

	Type	Book value	Fair value	Difference
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	¥272,000	¥272,000	-
	Sub total	272,000	272,000	-
Total		¥272,000	¥272,000	-

Marketable held-to-maturity securities as of 31 March 2026 consisted of the following:

(Millions of yen)

	Type	Book value	Fair value	Difference
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	¥255,000	¥255,000	-
	Sub total	255,000	255,000	-
Total		¥255,000	¥255,000	-

(Thousands of U.S. dollars)

	Type	Book value	Fair value	Difference
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	$1,595,745	$1,595,745	-
	Sub total	1,595,745	1,595,745	-
Total		$1,595,745	$1,595,745	-

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. If the future issuance of bonds is designated as the hedged items, at the end of the period, the gain or loss arising from measuring the currency swaps at fair value are recognized and deferred as unrealized gain/(loss) from hedging instruments until the forecast transaction occurs.

(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.