For the six months ended 30 September 2023

Japan Finance Organization for Municipalities

Semiannual Financial Statements

Japan Finance Organization for Municipalities

Contents

■Semiannual Balance Sheet

(Millions of yen)

Item	As of 30 September 2022	As of 30 September 2023	Item	As of 30 September 2022	As of 30 September 2023
	Amount			Amount	
Assets			Liabilities		
Loans (Note 4)	¥23,343,936	¥23,151,966	Bonds (Note 6)	¥19,763,726	¥19,493,119
Securities	939,800	741,000	Borrowed money	444,500	515,000
Cash and bank deposits	424,869	750,739	Cash collateral received for financial instruments	307,115	407,249
Cash collateral paid for financial instruments	1,361	4,459	Other liabilities	6,337	13,757
Other assets	5,630	5,658	Reserve for bonuses	55	59
Tangible fixed assets (Note 7)	2,500	2,722	Reserve for bonuses for directors and corporate auditors	9	10
Intangible fixed assets (Note 7)	890	2,168	Reserve for retirement benefits	76	56
			Reserve for retirement benefits for directors and corporate auditors	13	14
			Fund for lending rate reduction	920,287	923,873
			Basic fund for lending rate reduction	920,287	923,873
			Reserves under special laws	2,900,953	2,910,579
			Reserve for interest rate volatility	2,200,000	2,200,000
			Management account reserve for interest rate volatility	693,535	705,946
			Reserve for interest rate reduction	7,418	4,632
			Total liabilities	24,343,075	24,263,719
			Net assets		
			Capital	16,602	16,602
			Retained earnings	308,340	344,197
			General account appropriated surplus reserve	298,035	334,114
			General account semiannual unappropriated retained earnings	10,305	10,082
			Valuation, translation adjustments and others	(6,838)	(23,614)
			Management account surplus reserve	57,808	57,808
			Total net assets	375,913	394,993
Total assets	¥24,718,988	¥24,658,713	Total liabilities and net assets	¥24,718,988	¥24,658,713

See notes to semiannual financial statements.

■Semiannual Statement of Income

(Millions of yen)

Item	For the six-month ended 30 September 2022	For the six-month ended 30 September 2023
	Amount	
Income	¥102,545	¥96,998
Interest income	102,463	96,852
Fees and commissions	47	43
Other operating income	29	76
Other income	5	24
Expenses	57,979	58,859
Interest expenses	54,914	55,108
Fees and commissions	142	138
Other operating expenses	1,283	1,745
General and administrative expenses	1,638	1,867
Other expenses	-	0
Ordinary income	44,566	38,138
Special gains	26,598	26,324
Reversal of management account reserve for interest rate volatility	25,000	25,000
Reversal of reserve for interest rate reduction	1,598	1,324
Special losses	60,859	54,380
Provision for management account reserve for interest rate volatility	35,859	29,380
Payment to the national treasury	25,000	25,000
Semiannual net income	¥10,305	¥10,082

See notes to semiannual financial statements.

■Semiannual Statement of Changes in Net Assets

(For the six-month period ended 30 September 2022)

(Millions of yen)

	Stockholders' equity				Valuation, translation adjustments and others	Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized gain/(loss) from hedging instruments		
		General account appropriated surplus reserve	General account semiannual unappropriated retained earnings				
Balance as of 1 April 2022	¥16,602	¥298,035	¥-	¥314,637	¥(4,342)	¥57,808	¥368,104
Changes during semiannual accounting period							
Semiannual net income	-	-	10,305	10,305	-	-	10,305
Net changes during semiannual accounting period in items other than stockholders' equity	-	-	-	-	(2,496)	-	(2,496)
Net changes during semiannual accounting period	-	-	10,305	10,305	(2,496)	-	7,808
Balance as of 30 September 2022	¥16,602	¥298,035	¥10,305	¥324,943	¥(6,838)	¥57,808	¥375,913

See notes to semiannual financial statements.

(For the six-month period ended 30 September 2023)

(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	General account semiannual unappropriated retained earnings				
Balance as of 1 April 2023	¥16,602	¥334,114	¥-	¥350,716	¥(14,579)	¥57,808	¥393,946
Changes during semiannual accounting period							
Semiannual net income	-	-	10,082	10,082	-	-	10,082
Net changes during semiannual accounting period in items other than stockholders' equity	-	-	-	-	(9,035)	-	(9,035)
Net changes during semiannual accounting period	-	-	10,082	10,082	(9,035)	-	1,047
Balance as of 30 September 2023	¥16,602	¥334,114	¥10,082	¥360,799	¥(23,614)	¥57,808	¥394,993

See notes to semiannual financial statements.

■Semiannual Statement of Cash Flows

(Millions of yen)

Item	For the six-month ended 30 September 2022	For the six-month ended 30 September 2023
	Amount	
Ⅰ Cash flows from operating activities		
Semiannual net income	¥10,305	¥10,082
Depreciation and amortization	257	282
Interest income	(102,463)	(96,852)
Interest expenses	54,914	55,108
(Decrease)/increase in reserve for bonuses	(4)	4
(Decrease)/increase in reserve for bonuses for directors and corporate auditors	(0)	1
Increase/(decrease) in reserve for retirement benefits	11	(18)
Decrease in reserve for retirement benefits for directors and corporate auditors	(2)	(1)
Increase in management account reserve for interest rate volatility	35,859	29,380
Decrease in reserve for interest rate reduction	(1,598)	(1,324)
Net decrease in loans	206,883	148,234
Net decrease in bonds	(339,648)	(133,873)
Net increase/(decrease) in borrowed money	45,000	(11,500)
Interest received	103,094	97,015
Interest paid	(54,850)	(54,587)
Others	158,720	232,439
Net cash provided by operating activities	116,479	274,391
Ⅱ Cash flows from investing activities		
Proceeds from redemption of securities	1,379,000	1,095,000
Purchases of securities	(1,398,800)	(1,089,000)
Purchases of tangible fixed assets	(47)	(687)
Purchases of intangible fixed assets	(253)	(1,301)
Net cash (used in)/provided by investing activities	(20,101)	4,010
Ⅲ Cash flows from financing activities		
Payment to the national treasury	(25,000)	(25,000)
Net cash used in financing activities	(25,000)	(25,000)
Ⅳ Effect of exchange rate changes on cash and cash equivalents	-	-
Ⅴ Net increase in cash and cash equivalents	71,377	253,401
Ⅵ Cash and cash equivalents at beginning of period	353,491	497,337
Ⅶ Cash and cash equivalents at end of period	¥424,869	¥750,739

See notes to semiannual financial statements.

■Notes to Semiannual Financial Statements

1. Basis of Presentation

Japan Finance Organization for Municipalities (hereinafter, the "JFM") has prepared semiannual 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 and practices applicable to semiannual financial statements 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 semiannual financial statements.

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

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 semiannual period.

(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 semiannual period.

(d) Reserve for retirement benefits

The reserve for retirement benefits is provided for payment of retirement benefits to employees, in the amount deemed accrued at the end of the semiannual period, based on the projected retirement benefit obligation and fair value of plan assets at the end of the semiannual period. 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 end of the semiannual period.

(e) Reserve for retirement benefits for directors and corporate auditors

The reserve for retirement benefits for directors and corporate auditors is provided for payment of retirement benefits to directors and corporate auditors, in the amount deemed accrued at the end of the semiannual period based on the internal policies.

(7) Revenue recognition

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

(8) Hedge accounting

(a) Hedge accounting method

Interest rate swaps used to hedge the risk of interest rate fluctuations that qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. If swap contracts or forward contracts used to hedge the risk of foreign currency fluctuation qualify for deferral hedge accounting, the foreign currency-denominated assets and liabilities are translated at the contracted rate.

(b) Hedging instruments and hedged items

(i) Hedging instruments・・・Interest rate swaps

Hedged items・・・・・・・・・Bonds and long-term borrowed money

(ii) Hedging instruments・・・Currency swaps

Hedged items・・・・・・・・・Foreign currency-denominated bonds

(iii) Hedging instruments・・・Foreign exchange forward contracts

Hedged items・・・・・・・・・Foreign currency-denominated bank deposits

(c) Hedging policy

The JFM uses hedging instruments as a means of hedging exposure to interest rate risk and foreign exchange risk. Hedged items are identified by each individual contract.

As a means of hedging foreign exchange fluctuation risks associated with the receipt of interest and principal of foreign currency-denominated bank deposits, a foreign exchange forward contract is entered into at the time of each deposit by the JFM.

(d) Assessment of hedge effectiveness

The JFM ensures hedging instruments and hedged items have the same major terms when entering into hedge transactions to offset market fluctuation risks associated with bonds and long-term borrowed money. Accordingly, the JFM deems these to be highly effective and thus does not assess effectiveness. Moreover, a periodic assessment of hedge effectiveness for interest rate swaps and currency swaps and forward contracts that qualify for deferral hedge accounting is omitted when the exceptional accrual method is applied.

(9) Cash and cash equivalents

Cash and cash equivalents in the semiannual statement of cash flows consist of "Cash and bank deposits" on the semiannual balance sheet.

(10) Fund for lending rate reduction

In accordance with the provisions of Article 46, Section 1 of the Law, the JFM has established the fund for lending rate reduction to reserve contributions as stipulated in Article 32-2 of the Local Government Finance Law (Law No. 109, 1948). Also, pursuant to the provisions of Article 46, Section 5 of the Law, income arising from the investment of the fund (hereinafter, "investment income") is used to reduce interest rates of the loans to municipalities, and if there is any surplus in the investment income after this interest rate reduction process, the surplus amount is added to the fund. Further, pursuant to the provisions of Article 46, Section 6 of the Law, if there is any shortfall after the interest rate reduction process, the shortfall is covered by withdrawal of the fund within the limits of the total of the additional portion to the fund made up to the previous fiscal year and the contributions made in the most current fiscal year.

(11) Reserve for interest rate volatility and management account reserve for interest rate volatility

The reserve for interest rate volatility is set aside to prepare for interest rate risk associated with refinancing of the JFM bonds (excluding the bonds issued by the former Japan Finance Corporation for Municipal Enterprises; hereinafter, the "Predecessor") pursuant to the provisions of Article 38, Sections 1 and 3 of the Law, and Article 9, Sections 8 and 10 of the Supplementary Provisions of the Law, and is calculated and accounted for based on the provisions of Article 34 of the Ministerial Ordinance on Finance and Accounting of Japan Finance Organization for Municipalities (Ordinance No. 87 of the Ministry of Internal Affairs and Communications, 2008) and Articles 22 and 23 of the Government Ordinance on preparation of relevant government ordinances and provisional measures for the abolishment of the Japan Finance Corporation for Municipal Enterprises Law (Government Ordinance No. 226, 2008; hereinafter, "Preparation Ordinance"). The management account reserve for interest rate volatility is set aside to manage interest rate risk associated with refinancing of bonds issued by the Predecessor pursuant to the provisions of Article 9, Sections 9 and 10, and Article 13, Sections 5 and 7 of the Supplementary Provisions of the Law, and is calculated and accounted for based on the provisions of Articles 1 through 3 of the Ministerial Ordinance on the operations of the Management Account at Japan Finance Organization for Municipal Enterprises (Ordinance No. 2 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2008; hereinafter, "Management Account Operations Ordinance") and Articles 3 and 5 of the Supplementary Provisions of the above ordinance.

(12) Reserve for interest rate reduction

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

(13) Consumption taxes

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

3. Significant Accounting Estimates

Reserve for possible loan losses

(a) Amount of reserve for possible loan losses recorded for the six-month period ended 30 September 2023: N/A

(b) Information on significant accounting estimates for identified items

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

• Currently, there are no bankrupt and quasi-bankrupt, etc. loans and the JFM has never experienced any loan losses, as stated in Note 4 "Loans.".

• The JFM provides loans exclusively to local governments and there is a system to prevent local governments from default, as stated in Note 6 "Financial Instruments (1) (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 the six-month period ended 30 September 2022, 25 billion yen was reversed from the management account reserve for interest rate volatility and the same amount was transferred to the national treasury by the JFM, pursuant to "Ministerial Ordinance Specifying the Amount to be Attributed to the National Government pursuant to the provisions of Article 14 of the Supplementary Provision of the Law for the period from fiscal 2022 through fiscal 2024 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2020).

In the six-month period ended 30 September 2023, 25 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 fiscal 2023 and fiscal 2024 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2020) before the amendment.

Subsequent Events

"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 Provisions of the Law for fiscal 2023 and fiscal 2024(Ordinance No.3 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2023)" was promulgated on 6 December 2023, and "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 fiscal 2023 and fiscal 2024 (Ordinance No.1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2020)" was amended.

As a result, the amount that the JFM will reverse from the management account reserve for interest rate volatility and transfer to the national treasury in fiscal 2023 was reduced from 150 billion yen to 50 billion yen.

As mentioned above, 25 billion yen was reversed in the six-month period ended 30 September 2023 in accordance with the ministerial ordinance before the amendment.

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 its bond issuance plans and other aspects of management and endeavors to reduce interest rate risk.

(c) Risk management for financial instruments

(i) Credit risk

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

A. Credit risk on loans

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

- The Japanese national government includes principal and interest payments of local government bonds and loans in the expenditure of the Local Government Finance Program, and secures the total amount of local allocation tax which balances local governments' total expenditures including principal and interest payments, and total revenue. Thus, the national government effectively secures revenue sources for principal and interest payments by local governments. The national government also secures revenue sources for principal and interest payments by individual local governments by including a portion of such principal and interest in the Standard Financial Needs when calculating local allocation tax.
- Under the consultation system for local government bonds and loans, credit reviews must include checks on the repayment status of local governments, and tax revenue and necessary revenue sources to be secured. Additionally, under the Early Warning System, the local governments whose principal and interest payments or financial deficits exceed a certain level must apply for approval to issue bonds or obtain loans, so that the credit standing of local government bonds and loans is maintained.
- Under the Law Relating to the Financial Soundness of Local Governments (No. 94, 2007), local governments whose fiscal indicators exceed the early warning limits must make their own efforts toward achieving fiscal soundness, and local governments whose fiscal indicators exceed the reconstruction limits must take necessary actions to restore their finances under the supervision of the national government or the respective prefectural governments with regard to redemption of local government bonds and loans, and other operations.

The JFM is not subject to the "Banking Law" (No. 59, 1981) or the "Financial Reconstruction Law" (No. 132, 1998) but performs self-assessment of loans in accordance with the JFM's internal rules in order to manage risks appropriately.

B. Credit risk on transactions

The JFM is exposed to the risk of loss arising from credit events, such as deterioration in the financial condition of a counterparty, which causes an asset to lose value or become worthless.

However, the JFM appropriately manages credit risk of this type by constantly monitoring counterparties' financial standing, taking measures including suspension of new deals and cancellation of transactions in case of a deterioration of their credit standings. Moreover, the JFM limits counterparties to financial institutions that achieve a certain credit rating and other criteria, and conducts transactions within the credit lines for each counterparty in order to diversify risks. In addition, the JFM enters into ISDA (International Swaps and Derivatives Association) Master Agreements and CSA (Credit Support Annex) with all derivatives counterparties to reduce credit risk.

(ii) Market risk

Market risk is the risk of loss resulting from changes in the value of assets and liabilities due to fluctuations in risk factors such as interest rates, securities prices and foreign exchange rates, or the risk of loss resulting from changes in earnings generated from assets and liabilities. Market risk includes interest rate risk, foreign exchange risk, inflation risk and price change risk.

A. Interest rate risk

Interest rate risk is the risk of losses incurred or a decrease in profits due to fluctuations in interest rates when there is an interest rate or duration gap between assets and liabilities. The interest rate risk at the JFM includes the interest rate risk associated with bond and borrowed money refinancing and pipeline risk.

- Interest rate risk associated with bond and borrowed money refinancing

The JFM makes loans to local governments. The maximum term to maturity is 40 years, but the majority of the funds for these loans are raised mainly through issuance of 10-year bonds, which creates interest rate risk associated with bond refinancing. The JFM takes the following measures to address the interest rate risk resulting from a duration gap between lending and funding.

- The JFM maintains necessary reserves to cope with the interest rate risk resulting from a duration gap between lending and funding.
- As assets and liabilities in the JFM's general account will expand as a result of lending to local governments and funding, the JFM carries out an ALM analysis of this account in a timely and appropriate manner to further enhance the effectiveness of its management of interest rate risk. In order to reduce exposure to interest rate risk, the JFM has established a medium-term management indicator for three years from fiscal 2023, in which the duration gap is to be maintained below approximately two years.
- Based on the management indicator, from the viewpoint of controlling the duration on assets (lending), the interest rates for temporary financial countermeasures funding which accounts for approximately 1/3 of the overall outstanding loans in the general account, are revised every 5 or 10 years. In addition, the JFM will revise its lending rate by the 30th year at the latest for its loans with maturities longer than 30 years. And, in terms of funding, the JFM has taken measures to manage the duration on liabilities (bonds and loans) by issuing bonds with maturities longer than 10 years continuously under the interest rate environment at the time and carefully choosing maturities of bonds to be issued by utilizing its FLIP and Open Issuance scheme.
- The management account, which manages assets related to loans extended by the Predecessor, is exposed to

interest rate risk. To address such risk, the JFM contributes to the required reserves for interest rate volatility as described above. In accordance with the provisions of Article 14 of the Supplementary Provisions of the Law, a portion of the JFM's management account reserve for interest rate volatility is to be transferred to the Japanese national government. The following transfers are scheduled:

- Up to 230 billion yen due to the increase in concession amount charged for Forest Environment Concession Tax, which promotes forest maintenance, over a period of five years from fiscal 2020 through fiscal 2024; and
- Up to 1.5 billion yen for securing funds of the Trust Fund Bureau for exemptions of early redemption charges in relation to concessions of water supply and sewerage business over a period of six years from fiscal 2018 through 2023.

The amount of transfer is to be within the amount which the Japanese national government deems as an amount exceeding the requisite amount of reserve necessary for the smooth operation of the JFM's management account at the time of transfer and in the future, in light of the JFM's financial condition.

- Pipeline risk

The JFM is also exposed to pipeline risk, whereby losses would be incurred or profits decreased as a result of interest rate fluctuations during the time from when the JFM raises money until the point at which the money is loaned to local governments. The JFM, in principle, uses swap transactions to hedge against pipeline risk.

B. Foreign exchange and other risks

Various risks associated with bond principal and interest payments are hedged by swap transactions. These risks include foreign exchange risk related to foreign currency-denominated bonds and interest rate risk related to floating rate bonds.

The JFM's investments of surplus funds are exposed to the risk of losses on the sale of securities resulting from price declines and the risk of realized losses on the cancellation of foreign currency-denominated deposits resulting from fluctuations in foreign exchange rates. Accordingly, in principle, the JFM minimizes the risk of price fluctuation by holding investments until maturity, and hedges foreign exchange risk by using foreign exchange 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 30 September 2022 and 2023 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 25,445 million yen and 21,710 million yen, respectively. On the contrary, for an indicative interest rate as of 30 September 2022 and 2023 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 25,774 million yen and 21,969 million yen, 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 30 September 2022 and 2023 that is 10 basis points higher than the actual rate, it is assumed that the fair value of the net amount (assets side), after offsetting such financial instruments with the financial liabilities, would decline by 5,967 million yen and 5,361 million yen, respectively. On the contrary, for an indicative interest rate as of 30 September 2022 and 2023 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 6,024 million yen and 5,407 million yen, 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 30 September 2022 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,343,936	¥23,612,674	¥268,737
(2) Securities			
Held-to-maturity securities	939,800	939,800	-
(3) Cash and bank deposits	424,869	424,869	-
(4) Cash collateral paid for financial instruments	1,361	1,361	-
Total assets	24,709,966	24,978,704	268,737
(1) Bonds	19,763,726	19,761,070	(2,656)
(2) Borrowed money	444,500	442,788	(1,711)
(3) Cash collateral received for financial instruments	307,115	307,115	-
Total liabilities	20,515,341	20,510,973	(4,368)
Derivative transactions(*)			
Hedge accounting applied	(1,985)	(1,985)	-
Total of derivative transactions	¥(1,985)	¥(1,985)	¥-

The book value, fair value and difference between them as of 30 September 2023 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,151,966	¥22,778,854	¥(373,111)
(2) Securities			
Held-to-maturity securities	741,000	741,000	-
(3) Cash and bank deposits	750,739	750,739	-
(4) Cash collateral paid for financial instruments	4,459	4,459	-
Total assets	24,648,164	24,275,052	(373,111)
(1) Bonds	19,493,119	19,072,894	(420,225)
(2) Borrowed money	515,000	511,788	(3,211)
(3) Cash collateral received for financial instruments	407,249	407,249	-
Total liabilities	20,415,368	19,991,931	(423,436)
Derivative transactions(*)			
Hedge accounting applied	(8,573)	(8,573)	-
Total of derivative transactions	¥(8,573)	¥(8,573)	¥-

(*) 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

As of 30 September 2022

(Millions of yen)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the semiannual balance sheet amount	Negotiable certificates of deposit	¥-	¥-	¥-
	Sub total	-	-	-
Securities with fair values that do not exceed the semiannual balance sheet amount	Negotiable certificates of deposit	939,800	939,800	-
	Sub total	939,800	939,800	-
Total		¥939,800	¥939,800	¥-

As of 30 September 2023

(Millions of yen)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the semiannual balance sheet amount	Negotiable certificates of deposit	¥-	¥-	¥-
	Sub total	-	-	-
Securities with fair values that do not exceed the semiannual balance sheet amount	Negotiable certificates of deposit	741,000	741,000	-
	Sub total	741,000	741,000	-
Total		¥741,000	¥741,000	¥-

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

(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 30 September 2022 is as follows:

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which more than 1 year		
Principal accounting	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Long-term borrowed money	¥68,500	¥68,500	¥(1,985)	(*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	1,935,725	1,708,944	(*3)	
Deferral hedge accounting for foreign exchange forward contracts	Foreign exchange forward contracts	Foreign currency-denominated deposits	10,900	-	(*3)	
Total			¥2,035,125	¥1,797,444		

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 30 September 2023 is as follows:

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which more than 1 year		
Principal accounting	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Long-term borrowed money	¥276,000	¥276,000	¥(8,573)	(*1)
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	20,000	20,000	(*2)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	2,034,152	1,695,182	(*3)	
Deferral hedge accounting for foreign exchange forward contracts	Foreign exchange forward contracts	Foreign currency-denominated deposits	16,000	-	(*3)	
Total			¥2,346,152	¥1,991,182		

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

(*2) Since interest rate swaps for which hedge accounting is applied are accounted for together with the bond being hedged, the fair value is presented together with the fair value of the relevant bond.

(*3) Since currency swaps and foreign exchange forward contracts for which deferral hedge accounting is applied are accounted for together with the foreign currency-denominated bond or foreign currency-denominated deposit being hedged, the fair value is presented together with the fair value of the relevant hedged item.

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

As of 30 September 2022

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Loans	¥1,806,338	¥1,765,971	¥1,721,785	¥1,654,468	¥1,578,565	¥6,562,118	¥6,581,542	¥1,631,188	¥41,958
Securities									
Held-to-maturity securities	939,800	-	-	-	-	-	-	-	-
Deposits	424,869	-	-	-	-	-	-	-	-

As of 30 September 2023

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Loans	¥1,781,640	¥1,764,974	¥1,718,305	¥1,655,744	¥1,582,020	¥6,476,347	¥6,503,293	¥1,626,369	¥43,270
Securities									
Held-to-maturity securities	741,000	-	-	-	-	-	-	-	-
Deposits	750,739	-	-	-	-	-	-	-	-

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

As of 30 September 2022

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Bonds	¥2,075,950	¥2,253,640	¥2,218,739	¥1,419,269	¥1,646,942	¥5,804,071	¥3,933,144	¥294,000	¥122,000
Borrowed money	51,500	74,700	84,400	74,000	133,500	22,800	3,600	-	-

As of 30 September 2023

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Bonds	¥2,253,640	¥2,223,739	¥1,571,809	¥1,646,942	¥1,579,254	¥5,475,985	¥4,255,644	¥355,000	¥135,000
Borrowed money	74,700	84,400	74,000	133,500	127,000	17,800	3,600	-	-

(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 semiannual balance sheet amount

Not applicable

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

As of 30 September 2022

(Millions of yen)

	Fair value			Total
	Level 1	Level 2	Level 3	
(1) Loans	¥-	¥-	¥23,612,674	¥23,612,674
(2) Securities				
Held-to-maturity securities	-	939,800	-	939,800
(3) Cash and bank deposits	-	424,869	-	424,869
(4) Cash collateral paid for financial instruments	-	1,361	-	1,361
Total assets	-	1,366,030	23,612,674	24,978,704
(1) Bonds	-	19,761,070	-	19,761,070
(2) Borrowed money	-	442,788	-	442,788
(3) Cash collateral received for financial instruments	-	307,115	-	307,115
Total liabilities	-	20,510,973	-	20,510,973
Derivative transactions				
Hedge accounting applied	-	(1,985)	-	(1,985)
Total of derivative transactions	¥-	¥(1,985)	¥-	¥(1,985)

As of 30 September 2023

(Millions of yen)

	Fair value			Total
	Level 1	Level 2	Level 3	
(1) Loans	¥-	¥-	¥22,778,854	¥22,778,854
(2) Securities				
Held-to-maturity securities	-	741,000	-	741,000
(3) Cash and bank deposits	-	750,739	-	750,739
(4) Cash collateral paid for financial instruments	-	4,459	-	4,459
Total assets	-	1,496,198	22,778,854	24,275,052
(1) Bonds	-	19,072,894	-	19,072,894
(2) Borrowed money	-	511,788	-	511,788
(3) Cash collateral received for financial instruments	-	407,249	-	407,249
Total liabilities	-	19,991,931	-	19,991,931
Derivative transactions				
Hedge accounting applied	-	(8,573)	-	(8,573)
Total of derivative transactions	¥-	¥(8,573)	¥-	¥(8,573)

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 30 September 2023.

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.

<u>Liabilities</u>
(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.

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

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

7. Accumulated Depreciation
Accumulated depreciation of tangible fixed assets amounted to 1,025 million yen and 1,072 million yen as of 30 September 2022 and 2023, respectively.

8. Assets Pledged as Collateral
Pursuant to the provisions of Article 40, Section 2 of the Law, the JFM's total assets are pledged as general collateral for the JFM bonds in the amount of 19,763,726 million yen and 19,493,119 million yen as of 30 September 2022 and 2023, respectively.

9. Semiannual Net Income by Account
(For the six-month period ended 30 September 2022)
Semiannual net income of general account was 10,305 million yen, while there was no semiannual net income of management account.

(For the six-month period ended 30 September 2023)

Semiannual net income of general account was 10,082 million yen, while there was no semiannual net income of management account.

10. Revenue Recognition Standards

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 obligation is deemed to be satisfied when the loan is executed or the interest collected is paid to the customer.

11. Information by Account (Semiannual Balance Sheet)

Semiannual balance sheets of general account and management account as of 30 September 2022 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥18,799,053	¥4,544,882	¥-	¥23,343,936
Securities	939,800	-	-	939,800
Cash and bank deposits	424,869	-	-	424,869
Cash collateral paid for financial instruments	1,361	-	-	1,361
Other assets	3,199	2,430	-	5,630
Tangible fixed assets	2,500	-	-	2,500
Intangible fixed assets	890	-	-	890
Due from general account	-	527,875	(527,875)	-
Total assets	20,171,675	5,075,187	(527,875)	24,718,988
(Liabilities)				
Bonds	15,449,995	4,313,731	-	19,763,726
Borrowed money	444,500	-	-	444,500
Cash collateral received for financial instruments	307,115	-	-	307,115
Other liabilities	3,643	2,693	-	6,337
Reserve for bonuses	55	-	-	55
Reserve for bonuses for directors and corporate auditors	9	-	-	9
Reserve for retirement benefits	76	-	-	76
Reserve for retirement benefits for directors and corporate auditors	13	-	-	13
Fund for lending rate reduction	920,287	-	-	920,287
Basic fund for lending rate reduction	920,287	-	-	920,287
Due to management account	527,875	-	(527,875)	-
Reserves under special laws	2,200,000	700,953	-	2,900,953
Reserve for interest rate volatility	2,200,000	-	-	2,200,000
Management account reserve for interest rate volatility	-	693,535	-	693,535
Reserve for interest rate reduction	-	7,418	-	7,418
Total liabilities	19,853,571	5,017,378	(527,875)	24,343,075
(Net assets)				
Capital	16,602	-	-	16,602
Retained earnings	308,340	-	-	308,340
General account appropriated surplus reserve	298,035	-	-	298,035
General account semiannual unappropriated retained earnings	10,305	-	-	10,305
Valuation, translation adjustments and others	(6,838)	-	-	(6,838)
Management account surplus reserve	-	57,808	-	57,808
Total net assets	318,104	57,808	-	375,913
Total liabilities and net assets	¥20,171,675	¥5,075,187	¥(527,875)	¥24,718,988

Semiannual balance sheets of general account and management account as of 30 September 2023 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥19,359,156	¥3,792,809	¥-	¥23,151,966
Securities	741,000	-	-	741,000
Cash and bank deposits	750,739	-	-	750,739
Cash collateral paid for financial instruments	4,459	-	-	4,459
Other assets	3,667	1,990	-	5,658
Tangible fixed assets	2,722	-	-	2,722
Intangible fixed assets	2,168	-	-	2,168
Due from general account	-	517,664	(517,664)	-
Total assets	20,863,913	4,312,464	(517,664)	24,658,713
(Liabilities)				
Bonds	15,951,668	3,541,451	-	19,493,119
Borrowed money	515,000	-	-	515,000
Cash collateral received for financial instruments	407,249	-	-	407,249
Other liabilities	11,132	2,624	-	13,757
Reserve for bonuses	59	-	-	59
Reserve for bonuses for directors and corporate auditors	10	-	-	10
Reserve for retirement benefits	56	-	-	56
Reserve for retirement benefits for directors and corporate auditors	14	-	-	14
Fund for lending rate reduction	923,873	-	-	923,873
Basic fund for lending rate reduction	923,873	-	-	923,873
Due to management account	517,664	-	(517,664)	-
Reserves under special laws	2,200,000	710,579	-	2,910,579
Reserve for interest rate volatility	2,200,000	-	-	2,200,000
Management account reserve for interest rate volatility	-	705,946	-	705,946
Reserve for interest rate reduction	-	4,632	-	4,632
Total liabilities	20,526,728	4,254,655	(517,664)	24,263,719
(Net assets)				
Capital	16,602	-	-	16,602
Retained earnings	344,197	-	-	344,197
General account appropriated surplus reserve	334,114	-	-	334,114
General account semiannual unappropriated retained earnings	10,082	-	-	10,082
Valuation, translation adjustments and others	(23,614)	-	-	(23,614)
Management account surplus reserve	-	57,808	-	57,808
Total net assets	337,184	57,808	-	394,993
Total liabilities and net assets	¥20,863,913	¥4,312,464	¥(517,664)	¥24,658,713

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 semiannual unappropriated retained earnings

"Semiannual net income" of the general account is posted as "General account semiannual unappropriated retained earnings."

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.

12. Information by Account (Semiannual Statement of Income)

Semiannual statements of income of general account and management account for the six-month period ended 30 September 2022 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥54,534	¥50,358	¥(2,346)	¥102,545
Interest income	54,292	48,171	-	102,463
Fees and commissions	47	-	-	47
Other operating income	29	-	-	29
Other income	5	-	-	5
Administrative fee for management account	159	-	(159)	-
Interest on due from general account	-	1	(1)	-
Transfer from general account for fund for lending rate reduction	-	2,185	(2,185)	-
Expenses	44,228	16,097	(2,346)	57,979
Interest expenses	39,020	15,894	-	54,914
Fees and commissions	103	39	-	142
Other operating expenses	1,283	-	-	1,283
General and administrative expenses	1,634	3	-	1,638
Interest on due to management account	1	-	(1)	-
Transfer to management account for fund for lending rate reduction	2,185	-	(2,185)	-
Administrative fee for management account	-	159	(159)	-
Ordinary income	10,305	34,260	-	44,566
Special gains	-	26,598	-	26,598
Reversal of management account reserve for interest rate volatility	-	25,000	-	25,000
Reversal of reserve for interest rate reduction	-	1,598	-	1,598
Special losses	-	60,859	-	60,859
Provision for management account reserve for interest rate volatility	-	35,859	-	35,859
Payment to the national treasury	-	25,000	-	25,000
Semiannual net income	¥10,305	¥-	¥-	¥10,305

Semiannual statements of income of general account and management account for the six-month period ended 30 September 2023 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥57,551	¥41,524	¥(2,078)	¥96,998
Interest income	57,262	39,590	-	96,852
Fees and commissions	43	-	-	43
Other operating income	76	-	-	76
Other income	24	-	-	24
Administrative fee for management account	143	-	(143)	-
Interest on due from general account	-	2	(2)	-
Transfer from general account for fund for lending rate reduction	-	1,932	(1,932)	-
Expenses	47,468	13,469	(2,078)	58,859
Interest expenses	41,819	13,288	-	55,108
Fees and commissions	105	33	-	138
Other operating expenses	1,745	-	-	1,745
General and administrative expenses	1,864	3	-	1,867
Other expenses	0	-	-	0
Interest on due to management account	2	-	(2)	-
Transfer to management account for fund for lending rate reduction	1,932	-	(1,932)	-
Administrative fee for management account	-	143	(143)	-
Ordinary income	10,082	28,055	-	38,138
Special gains	-	26,324	-	26,324
Reversal of management account reserve for interest rate volatility	-	25,000	-	25,000
Reversal of reserve for interest rate reduction	-	1,324	-	1,324
Special losses	-	54,380	-	54,380
Provision for management account reserve for interest rate volatility	-	29,380	-	29,380
Payment to the national treasury	-	25,000	-	25,000
Semiannual net income	¥10,082	¥-	¥-	¥10,082

13. Information on Derivative Transactions

(1) Types of derivative transactions

Derivative transactions entered into by the JFM are interest rate swaps for interest rate related transactions, and currency swaps and foreign exchange forward contracts for currency related transactions.

(2) Policies and purposes of derivative transactions

The JFM uses interest rate swaps, currency swaps and foreign exchange forward contracts as a means of hedging exposure to interest rate and foreign exchange fluctuation risks, and does not enter into derivatives for speculative purposes.

Interest rate swaps are used to hedge exposure to interest rate risk on funding activities. Currency swaps and foreign exchange forward contracts are used to hedge exposure to foreign exchange risk associated with issuance of foreign currency-denominated bonds and foreign currency-denominated deposits.

Hedge accounting is applied to interest rate swaps, currency swaps and foreign exchange forward contracts.

(a) Hedge accounting method

Interest rate swaps used to hedge the risk of interest rate fluctuations that qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. If swap contracts or forward contracts used to hedge the risk of foreign currency fluctuation qualify for deferral hedge accounting, the foreign currency-denominated assets and liabilities are translated at the contracted rate.

(b) Hedging instruments and hedged items

(i) Hedging instruments: Interest rate swaps
Hedged items: Bonds and long-term borrowed money

(ii) Hedging instruments: Currency swaps
Hedged items: Foreign currency-denominated bonds

(iii) Hedging instruments: Foreign exchange forward contracts
Hedged items: Foreign currency-denominated bank deposits

(c) Hedging policy

The JFM uses hedging instruments, such as interest rate swaps and currency swaps, as a means of hedging exposure to interest rate risk and foreign exchange risk. Hedged items are identified by each individual contract.

As a means of hedging foreign exchange fluctuation risks associated with the receipt of interest and principal of foreign currency-denominated bank deposits, a foreign exchange forward contract is entered into at the time of each deposit to hedge the risks.

(d) Assessment of hedge effectiveness

The JFM ensures hedging instruments and hedged items have the same major terms when entering into hedge transactions to offset market fluctuation risks associated with bonds and long-term borrowed money.

Accordingly, the JFM deems these to be highly effective and thus does not assess effectiveness. Moreover, a periodic assessment of hedge effectiveness is omitted for interest rate swaps that qualify for the 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.