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Japan Finance Organization for Municipalities

ANNUAL REPORT 2019



JFM

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Japan Finance Organization for Municipalities

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Note to Financial Statements

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 2019, the final day of the fiscal year, which was JPY 110.92 to USD 1. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

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Name	Japan Finance Organization for Municipalities (JFM)
Establishment	1 August 2008 (Reorganized on 1 June 2009)
Governing Law	Japan Finance Organization for Municipalities Law (Law No. 64 of 2007, as amended)
Address	Shisei Kaikan, 1-3 Hibiya Koen, Chiyoda-ku, Tokyo
President and CEO	Kinya Takino
Capital	USD 149.7 million
Number of Employees	88 (as of April 2019)
Outstanding Loans as of 31 March 2019	USD 211.9 billion
Outstanding Bonds and Bank Loans as of 31 March 2019	USD 185.0 billion
Credit Ratings as of 31 March 2019	S&P: A+ Moody's : A1 R&I: AA+



Japan Finance Organization for Municipalities (JFM), as a joint funding organization wholly contributed by all Japanese local governments, sets forth the following three policies as its management philosophy with the purpose of contributing to fiscal soundness of local governments through our financing activities

1

Being Responsive to Local Government Needs

As a reliable provider of long-term and low-interest funds for local governments, JFM closely supports local government funding based on their needs as well as the environment.

JFM focus on related investigation and research and offer information with the aim of becoming a good partner in financial management for local governments.

2

Strengthening Capital Market Confidence

JFM aims to strengthen its market confidence and secure low-cost funding through appropriate disclosure as required in capital markets, as well as its sound financial standing maintained through prudent risk management. Furthermore, JFM, as a leading public-sector bond issuer, is committed to contributing to the sound development of capital markets.

3

Ensuring Responsible Corporate Governance as a Joint Organization of Local Governments

JFM ensures responsible corporate governance through prudent risk management, monitoring and recommendations by the Supervisory Committee, as well as audits by external accounting auditors and deepen communication with local governments as a responsible joint organization of local governments.

2019 Message

from
the President and CEO

Japan Finance Organization for Municipalities

JFM is a joint funding organization established under the laws of Japan, which is wholly owned by all the Japanese local governments, with the objective to provide long-term and low-interest funds for local governments.

Last fiscal year was the 10th anniversary of JFM and in order to obtain our goal, which is to support sound fiscal management of local governments in Japan through the capital markets, we have set forth the following three management philosophy. “Being Responsive to Local Government Needs”, “Strengthening Capital Market Confidence” and “Ensuring Responsible Corporate Governance as a Joint Organization of Local Governments”.

Local finance is working on key topics in this fiscal year, which is to reduce temporary fiscal measures bond for the sound fiscal management of local finance and also taking initiatives to prevent and mitigate natural disasters and building national resilience. The volume of JFM funding increased due to the increase in the Local Government Borrowing Program. JFM has supported local governments’ policies by lending to new projects such as urgent natural disaster prevention measures, and extending maturities in certain projects upon demand.

Japanese local governments have faced fast population decrease and aging society and have consulted on regional revitalization. JFM expects

increasing funding demands by local governments as repair and renewal are required for various public infrastructure facilities built after the World War II and to prepare for natural disasters which occurred recently multiple times. JFM also understands that its financial support for local governments will be more significant given uncertain market conditions such as trade friction and monetary policies in each central bank. JFM as a joint funding organization will continue to focus on meeting expectations from local governments by complying with regulations and internal control systems and maintaining sound financial conditions with confidence from the markets.



Kinya Takino
President and CEO
2019

Kinya Takino

The Joint Funding Organization for All Japanese Local Governments

- High credit quasi-sovereign issuer, wholly owned by Japanese local governments with the capital contribution from 1,789¹ local governments²
- Operates as a non-profit organization under the JFM Law with the objective to provide long-term and low-interest rate loans exclusively to Japanese local governments
- JFM has never experienced any default on its loans

Japanese Local Governments

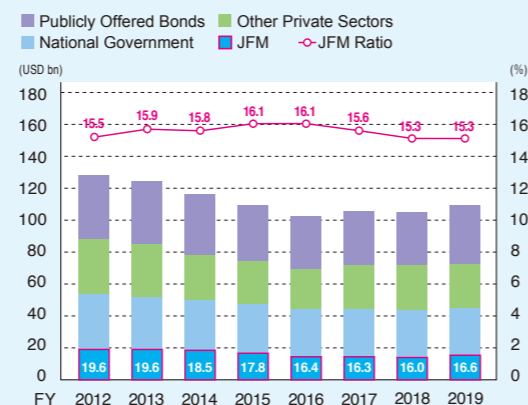
- Japanese local governments include 47 prefectures and a total of 1,741¹ cities and special wards of Tokyo, government-designated cities, as well as towns and villages
- Revenue sources for the local governments are secured by the national government
 - The national government allocates a part of national tax revenue to the local governments, in order to adjust revenue disparities among the local governments (Local Allocation Tax system)
 - The national government also prepares the Local Government Borrowing Programme (LGBP) each fiscal year, which specifies the amount of local government borrowing as well as funding sources
 - In the case of each local government funding, a consent or an approval must, in principle, be obtained from the relevant authorities
- The national government also establishes a legal framework to monitor fiscal indices for each local government and implement early correction measures if the local governments with the indices exceeding the early warning limits or reconstruction limits shall restore their financial soundness
- Thus, none of the local governments has defaulted
- BIS 0% risk weight for Japanese local governments³

Lending

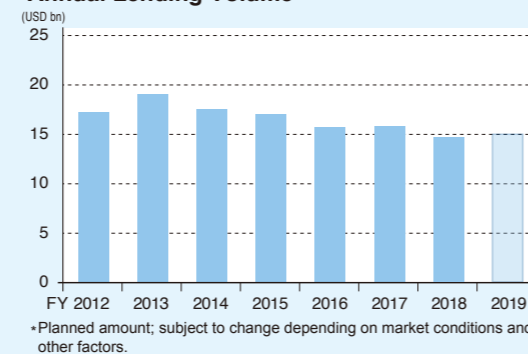
- JFM funds have accounted for around 15-16% of the LGBP since fiscal 2012
- JFM provides loans to almost all local governments
- Loans planned to be made in fiscal 2019 ending 31 March 2020 are amounted to USD 15.0 bn
- Maximum term to maturity of JFM loans is 40 years

Note: Figures in USD are converted at USD 1 = JPY 110.92 as of 31 March 2019, unless otherwise noted.

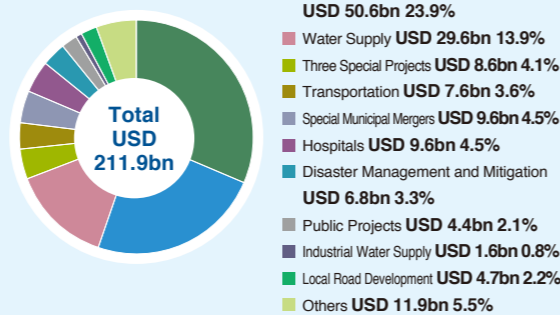
LGBP - Funding Sources for Local Governments



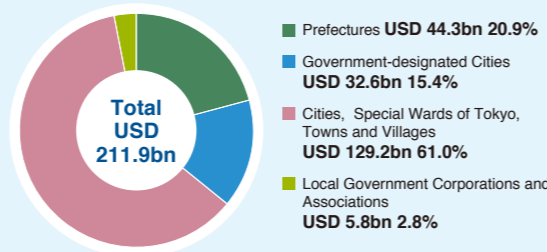
Annual Lending Volume



Outstanding Loans by Business



Outstanding Loans by Borrower



Funding

- Leading issuer in the Japanese bond market with an average annual funding volume of USD 17 – 19 bn
- Aiming to diversify its funding sources and expand its investor base – continues to access the international market through benchmark transactions as well as private placements, making use of its MTN Program
- In the international market, only non-government guaranteed bonds will be issued
- In fiscal 2018, JFM has issued a total of USD 3.2 bn worth of international bonds through 3 benchmark transactions^(*), 2 private placements and an Uridashi transaction

(*) Includes USD 1.0 bn benchmark transaction issued on 12 March 2019 which we have prefunded for fiscal 2019

Support Structure

- Under the JFM Law, if JFM is to be dissolved and its obligations cannot be satisfied in full with its assets, local governments bear all costs necessary to satisfy the relevant obligations in full via payment to JFM

Solid Risk Management

- JFM maintained USD 25 bn of the reserves for interest rate volatility for the purpose of dealing with interest rate risk resulting from a duration gap between lending (8.09 years) and funding (7.22 years)
- The duration gap of 0.87 years¹ in the general account qualifies JFM's management target of the duration gap below 2 years

Credit Ratings

- A1 (Moody's), A+ (S&P)
- The ratings of JFM are the same as those of the Japanese sovereign
- BIS risk weight³: 10% for JFM bonds (non-guaranteed) denominated in JPY

Note: A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agencies.

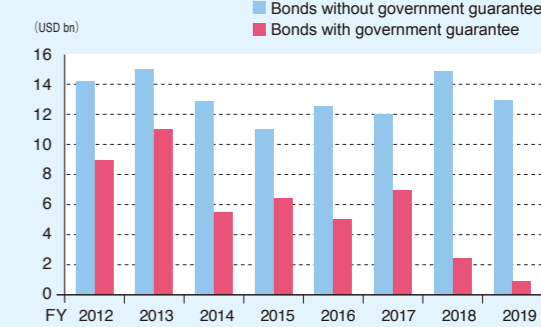
¹: As of 31 March 2019.
²: Local governments comprise all of the prefectures, cities and special wards of Tokyo, government-designated cities, towns and villages, as well as some local government associations.
³: Value for investors in Japan. For overseas bonds, the value is determined by respective authorities in each country (as of 31 March 2019).

Funding Plan

Type of Funding Instruments	FY2019 (plan) ⁽¹⁾	FY2018 (achieved)
Non-Guaranteed Bonds	USD 14.7 bn	USD 14.9 bn
Domestic Public Offerings	USD 6.7 bn	USD 7.3 bn
Domestic Private Placements	USD 4.3 bn	USD 4.4 bn
Overseas Offerings - GMTN		USD 3.2 bn ⁽²⁾
Benchmark	USD 2.3 bn	USD 3.0 bn ⁽³⁾
Uridashi Bonds		USD 90 mm ⁽²⁾
Private Placements		USD 145 mm ⁽²⁾
Open Issuance ⁽⁴⁾	USD 1.4 bn	—
Guaranteed Bonds⁽⁴⁾	USD 0.9 bn	USD 2.3 bn
Long-Term Bank Loans	USD 0.7 bn	USD 0.4 bn

(1) Planned amount; subject to change depending on lending status, market conditions and other factors.
(2) Includes USD, AUD and EUR denominated bonds, each converted at the exchange rate at the time of pricing.
(3) Details of issuance such as tenor, issue size and issue market will be determined as necessary based on the lending status, market conditions and other factors.
(4) Denominated in JPY only and issued in the domestic market for refinancing our predecessor's government guaranteed bonds.
(5) Includes USD 1.0 bn benchmark transaction issued on 12 March 2019 which we have prefunded for fiscal year 2019.

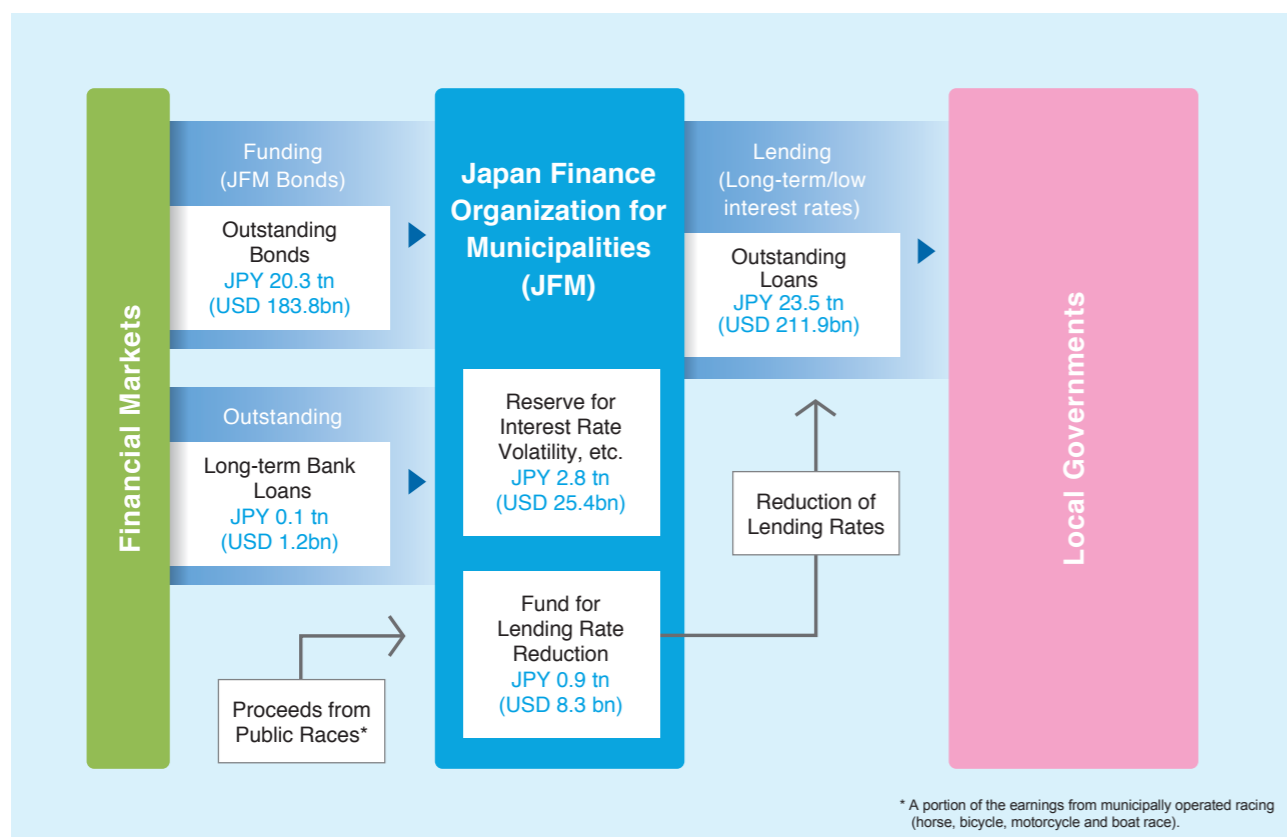
Bond Issuance



*Planned amount; subject to change depending on lending status, market conditions and other factors.

Outstanding Non-JPY Public Bonds (non-guaranteed)

Issue Date	Currency	Issue Amount	Coupon(%)	Tenor
12 Mar 2019	USD	1,000 mm	3.000	5y
27 Sep 2018	USD	1,000 mm	3.375	5y
24 Apr 2018	USD	1,000 mm	3.250	5y
8 Sep 2017	USD	1,000 mm	2.000	3y
20 Apr 2017	USD	1,000 mm	2.625	5y
25 Oct 2016	USD	1,000 mm	2.125	7y
13 Apr 2016	USD	1,500 mm	2.125	5y
12 Feb 2016	USD	500 mm	2.125	5y
21 Apr 2015	USD	1,000 mm	2.000	7y
13 Feb 2015	USD	1,000 mm	2.375	10y
22 Sep 2014	EUR	1,000 mm	0.875	7y



(As of 31 March 2019)

Public Institution Wholly Owned by Japanese Local Governments

JFM is a joint funding organization for all local governments, wholly owned by Japanese local governments under the Japan Finance Organization for Municipalities Law (Act No. 64 of 2007, as amended; the “JFM Law”).

JFM loans are provided exclusively to local governments, and local governments must, in principle, receive consents or approvals of the Minister for Internal Affairs and Communications or their respective prefectural governors when they borrow from JFM. Within this structure, JFM has never had a default since its establishment.

Joint Funding Organization for All Local Governments

JFM contributes to the sound financial operation of local governments and improves the welfare of local residents with the aim of efficiently and effectively complementing local government fund-raising by providing long-term funding at low-interest rates to local governments.

For social infrastructure improvements to be implemented by local governments, long-term funding is usually desirable given that it takes a long time to recoup such capital expenditures, and also the cost burden should be shared across generations. However, local governments generally raise funds in capital markets for terms of 10 years or less.

In response to this situation, JFM issues bonds in capital markets with a wide variety of maturities ranging from medium-term to super long-term to provide stable and low-interest funds to local governments.

Under the JFM Law (Article 52, Paragraph 1), local governments have an obligation to bear the cost necessary to satisfy all JFM obligations in the event JFM is to be dissolved and its obligations remain unpaid.

Solid Financial Foundation

JFM primarily issues 10-year bonds to raise funds and extends long-term loans to local governments, which creates a duration gap between lending and funding. To cope with the interest rate risk associated with bond refinancing (a potential negative margin caused by the interest payable exceeding the interest receivable), JFM maintains reserves for interest rate volatility.

Reduction of Lending Rates by Utilizing the Fund for Lending Rate Reduction

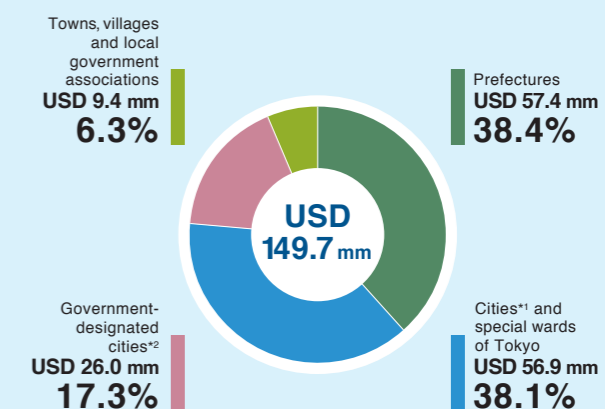
JFM receives a portion of the earnings from various racing events (horse, bicycle, motorcycle and boat races) operated by local governments, which is directed to the Fund for Lending Rate Reduction. The investment gains from the fund are used for lowering interest rates on JFM loans.

Capital

Capital Contribution by Local Government Group

As of 31 March 2019, JFM's capital was USD 149.7 million contributed by 1,789 Japanese local governments, i.e., all of the prefectures, cities, special wards of Tokyo, government-designated cities, towns and villages, as well as some local government associations.

The amount of capital contribution from each local government is decided based on 1) outstanding JFM loans to each local government, and 2) the amount of revenue of each local government (mainly comprised of local taxes, local allocation taxes and temporary financial countermeasures funding).



(As of 31 March 2019)

Notes:
 1. Excludes government-designated cities.
 2. Government-designated cities:
 Cities with populations of 500,000 or more designated in accordance with Paragraph 1, Article 252-19 of the Local Autonomy Act. Such government-designated cities are allowed to administer certain matters such as social welfare, food safety, and urban planning, for which prefectures are responsible in principle.

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Review and Plan

Review of Operations for Fiscal 2018

1 Lending Operations

In fiscal 2018, JFM provided loans totaling USD 14.9 billion, which was below the initial plan by USD 62 million, mainly as a result of actual lending underperforming plan in water supply business.

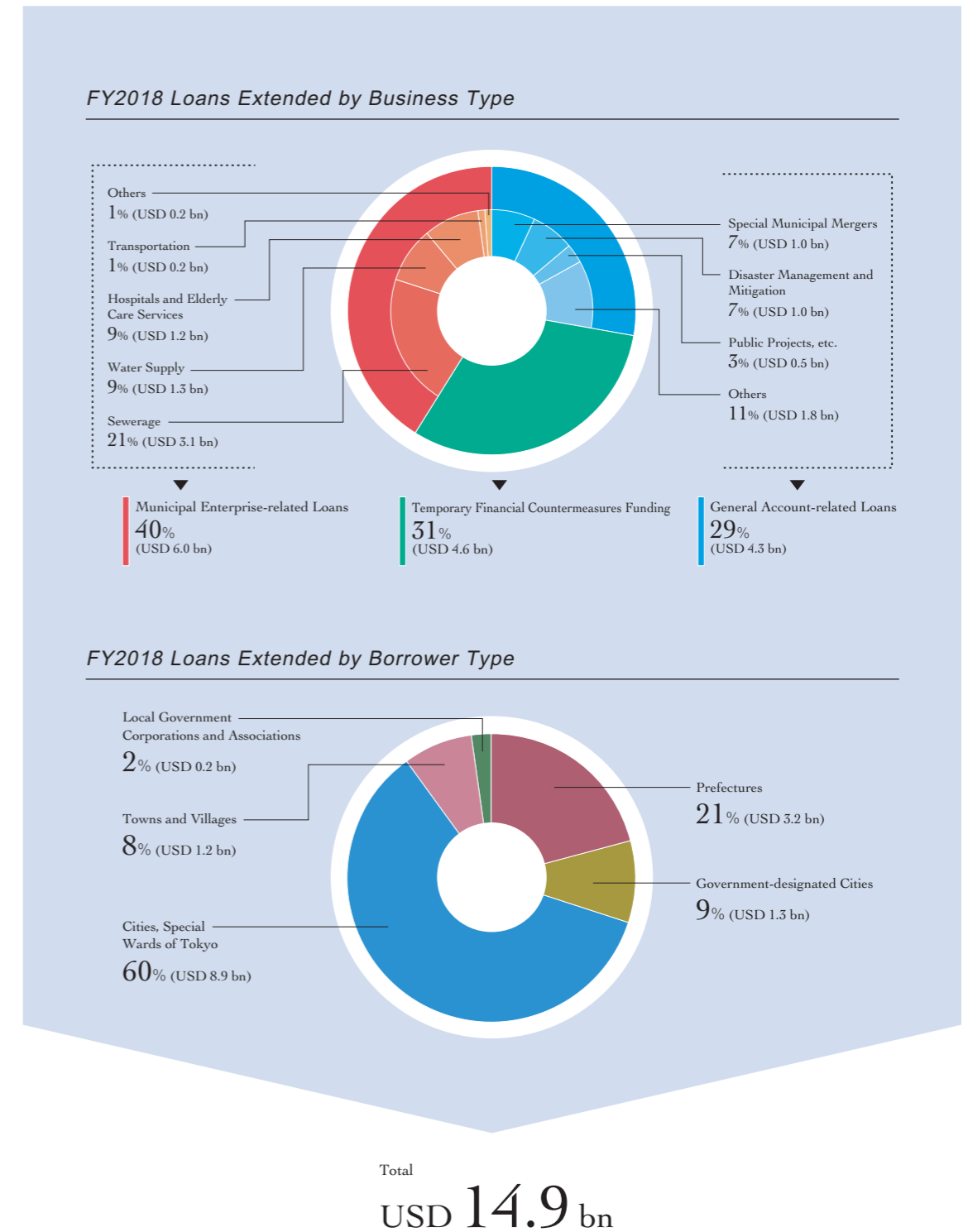
General account-related loans totaled USD 4.3 billion, or 29% of the total lending volume, mainly represented by disaster management and mitigation and special municipal mergers. Loans for temporary financial countermeasures funding* were USD 4.6 billion (31%), followed by municipal enterprise-related loans in the amount of USD 6.0 billion (40%), of which sewerage and water supply businesses were the main contributors.

Note: Represents local government funding to cover shortfalls in local government revenue sources pursuant to the provisions of the Local Government Finance Law (Law No. 109 of 1948, as amended).

Lending Operations by Business Type in Fiscal 2018

Business	Number of Loans Made	Loan Amount (USD in millions)	
			% of total
General Account-related Loans			
Public Projects, etc.	702	499	3.3
Public Housing	224	160	1.1
Educational Facilities Development	298	144	1.0
Social Welfare Facilities Development	267	133	0.9
General Waste Disposal	118	114	0.8
General Service Facilities Development	6	13	0.1
General Projects	119	110	0.7
Regional Revitalization	268	120	0.8
Disaster Prevention	389	162	1.1
Local Road Development	471	349	2.3
Special Municipal Mergers	608	1,048	7.0
Disaster Management and Mitigation	1,497	983	6.6
Optimization of the Public Facilities	16	37	0.2
Proper Management of Public Facilities and Infrastructures	275	380	2.5
Anti depopulation measure project	119	39	0.3
Subtotal	5,377	4,289	28.8
Municipal Enterprise-related Loans			
Water Supply	1,127	1,342	9.0
Industrial Water Supply	78	71	0.5
Transportation	39	170	1.1
Electricity and Gas Supply	40	65	0.4
Port Facilities	18	14	0.1
Hospitals and Elderly Care Services	523	1,202	8.1
Markets and Slaughterhouses	42	76	0.5
Sewerage	2,237	3,072	20.6
Tourism and Others	17	6	0.0
Subtotal	4,121	6,019	40.4
Refinancing Loans for Facilities Affected by Earthquake	-	-	0.0
Temporary Financial Countermeasures Funding	690	4,596	30.8
Total	10,188	14,904	100.0

Note: Totals may not add up due to rounding.



Note: Totals may not add up due to rounding.

Review of Operations for Fiscal 2018

2 | Funding Operations

1. Overview*1

In fiscal 2018, JFM raised a total of USD 17.7 billion including USD 14.9 billion in JFM bonds (non-government guaranteed), and USD 2.3 billion in government-guaranteed bonds for the repayment of existing bonds issued by Japan Finance Corporation for Municipal Enterprises (the "Predecessor"). And, with the aim of diversifying funding source, JFM raised USD 0.4 billion through long-term bank loans.

With regard to JFM bonds, a total of USD 10.5 billion was raised by the regular issuance of 5-year, 10-year, 20-year and 30-year domestic bonds, as well as opportunistic issuances through JFM's Flexible Issuance Programme ("FLIP") and the MTN Programme.

As for domestic public offerings, a total of USD 7.3 billion was issued in the fiscal year. In order to cope with highly volatile market conditions through the period, JFM have increased 10-year, 20-year of the regular issuance and FLIP amount from the initial plan by utilizing the budget of Open Issuance scheme.

JFM have also issued 40-year bond as spot issuance subject to demand from investors.

In overseas offerings, JFM issued USD denominated benchmark bonds in 5-year tenor (USD 1.0 billion) in April 2018, September 2018 and March 2019. In addition to these successful public offerings, JFM have issued a total of USD 235 million equivalent Uridashi and private placement bonds in three tranches. Through these activities, the total volume of international bonds issued for fiscal 2018 amounted to USD 3.2 billion*2.

The private placements with the pension funds for local government officials were totaled USD 4.4 billion.

As a result, JFM's outstanding bonds were USD 183.9 billion, including the Predecessor's bonds to which JFM succeeded. Outstanding long-term bank loans totaled USD 1.2 billion as of 31 March 2019.

Notes: 1. Issued amounts are calculated based on issue prices.

2. Includes an offering of AUD and EUR denominated bonds, converted at the exchange rate at the time of pricing.

Flexible Issuance Programme ("FLIP")

FLIP is JFM's unique framework for domestic bond issuance which is similar to the MTN programme in some ways. JFM issues domestic bonds under the FLIP, in order to meet both the needs of investors in the domestic market and the borrowing needs of local governments in a timely and flexible manner. FLIP permits minimum and maximum issue sizes of JPY 3 billion (USD 27.0 million) and JPY 20 billion (USD 180.3 million), respectively.

Funding in Fiscal 2018

1. JFM Bonds (Non-government Guaranteed)

(1) Domestic and Overseas Offerings

Type of Bonds	Plan (Initial)	Achieved
Domestic Public Offerings	USD 5.4 bn	USD 7.3 bn
10-year	USD 2.0 bn	USD 2.5 bn
20-year	USD 0.9 bn	USD 1.2 bn
5-year	USD 0.2 bn	USD 0.2 bn
30-year	USD 0.2 bn	USD 0.2 bn
Opportunistic Issuance	USD 2.1 bn	USD 3.2 bn
Overseas Offerings - MTN	USD 2.3 bn	USD 3.2 bn
Open Issuance*1	USD 1.0 bn	-
Total	USD 8.7 bn	USD 10.5 bn

(2) Private Placements with Pension Funds for Local Government Officials

Type of Bonds	Plan	Achieved
10-year	USD 2.0 bn	USD 2.0 bn
20-year	USD 2.4 bn	USD 2.4 bn
Total	USD 4.4 bn	USD 4.4 bn

Notes: 1. Details of issuance such as tenor, issue size and issue market will be determined as necessary based on the lending status, market conditions and other factors.

2. Planned amount was increased to USD 10.5 bn in total after funding plan revision in December 2018 and March 2019.

2. Government-guaranteed Domestic Bonds

Type of Bonds	Plan	Achieved
10-year	USD 2.3 bn	USD 2.3 bn
6-year	USD 1.3 bn	-
Total	USD 3.6 bn	USD 2.3 bn

3. Long-term Bank Loans

Type of Bonds	Plan	Achieved
Long-term Bank Loans	USD 0.5 bn	USD 0.4 bn

2. Issue Spreads

In the domestic market, JFM bonds had been priced under the low interest rate environment on the back of the introduction of BOJ's QQE with yield curve control during fiscal 2018.

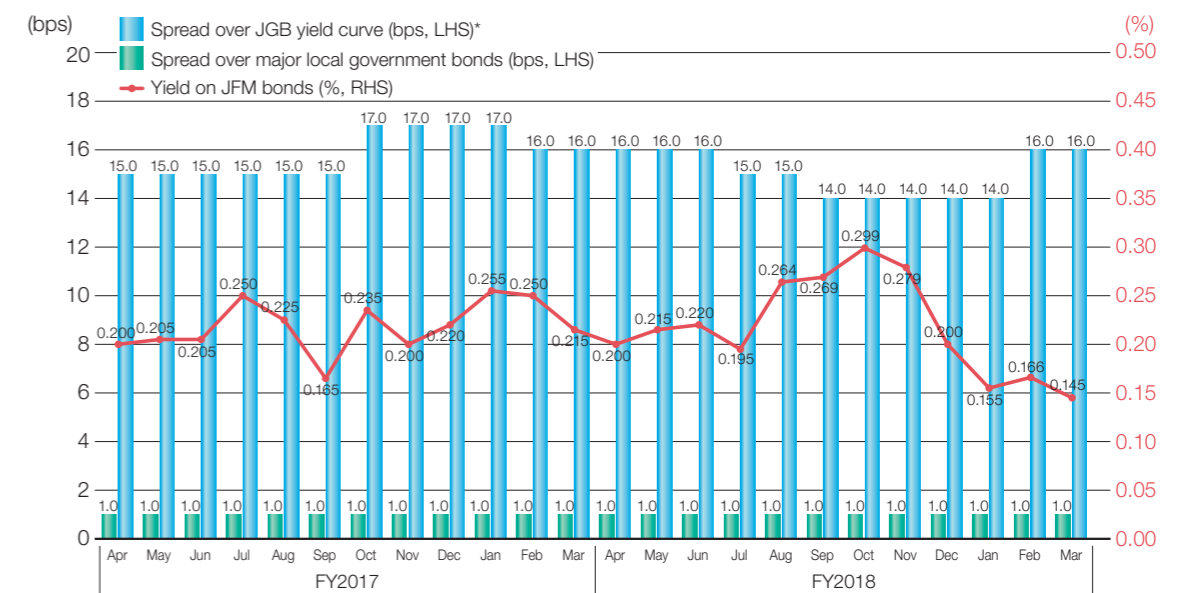
In July and September 2018, the premium of JFM 10-year domestic bonds over respective JGB yield curve was 14.0 bps with the premium over major municipal bonds at 1.0 bps, which continued till January 2019. However in February 2019, the yield for 10 year JGB recorded negative which resulted in widening of JFM bonds by 2.0 bp in parallel with municipal bonds. The yield of JFM 10-year bonds had been hovering around 0.15% to 0.30% during fiscal 2018.

There were strong demands from the investor for 5-year, 20-year and 30-year JFM bonds. 5 year bonds attracted investors as substitutes for JGB, while 20-year and 30-year bonds had been supported by investors looking for higher yields. This strong demand made it possible for JFM to issue bonds at the same spread as municipality bonds for these tenors and spread have been moving stably at tight levels post issuance.

JFM's international bonds have been issued based on investor demands and market conditions by referring to credit spreads observed in the international primary and secondary markets at the time of pricing.

Note: See pages 106-109 for the terms of issuances in fiscal 2018.

Issue Conditions of JFM 10-Year Domestic Bonds



Note: Spreads over the JGB curve are theoretical values calculated by JFM.

Review of Operations for Fiscal 2018

3 | Financial Review

1. Income Statement

In fiscal 2018, JFM's income was USD 2.9 billion, a decrease of USD 0.3 billion from the previous year. This decrease was mainly due to a decrease in interest income caused by a decrease in the average interest rate on loans as a result of redemptions of loans made in the past with relatively high interest rates. Expenses also decreased by USD 0.1 billion from the previous fiscal year resulting in USD 1.6 billion. As a result, net income has decreased by USD 0.1 billion from previous year, resulting in USD 1.3 billion.

Pursuant to the relevant laws, a portion of the revenue generated by the refinancing of bonds and borrowed money of JFM* is to be directed into the reserves for interest rate volatility. As a result of such provisions as well as other factors, net income remains similar level to the previous year at USD 209.0 million.

*This revenue is calculated based on the difference between JFM's funding rates at the time the loans were made and the current refinancing rates.

2. Balance Sheet

As of 31 March 2019, JFM's total assets amounted to USD 221.7 billion, a decrease of USD 1.5 billion from the previous year. This mainly resulted from a decrease in loans by USD 2.4 billion.

Total liabilities decreased by USD 1.8 billion resulting in USD 219.0 billion. This decrease primarily reflected a decrease of USD 2.5 billion in management account reserve for interest rate volatility.

Total net assets were USD 2.7 billion, up USD 0.3 billion. This mainly reflected net income of USD 0.2 billion in the general account being recorded as the general account surplus reserve.

Financial highlights since fiscal 2016 are on the next page.

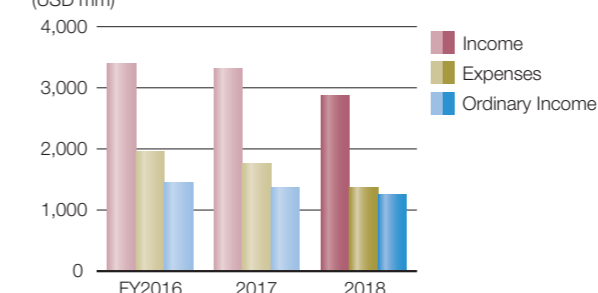
Financial Highlights

1. Income Statement

(USD Millions)

	FY2016	FY2017	FY2018	YoY
Income	3,394	3,133	2,875	-258
Expenses	1,950	1,763	1,618	-145
Ordinary Income	1,444	1,370	1,257	-113
Net Income	251	235	209	-26

(USD mm)

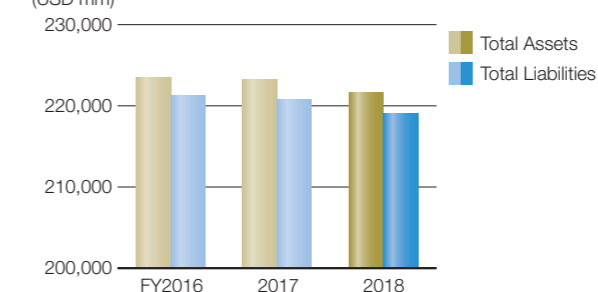


2. Balance Sheet

(USD Millions)

	End of FY2016	End of FY2017	End of FY2018	YoY
Total Assets	223,461	223,186	221,684	-1,502
Loans	213,848	214,283	211,892	-2,390
Others	9,613	8,904	9,792	888
Total Liabilities	221,287	220,775	219,023	-1,753
Bonds	179,910	182,875	183,846	971
Cash collateral received for financial instruments	1,002	111	249	139
Fund for lending rate reduction	8,297	8,297	8,297	-
Reserves under special laws	30,465	27,993	25,419	-2,574
Reserve for interest rate volatility	17,851	19,834	19,834	-
Management account reserve for interest rate volatility	12,244	7,848	5,383	-2,465
Reserve for interest rate reduction	370	311	202	-109
Others	1,614	1,500	1,212	-288
Total Net assets	2,173	2,411	2,661	250

(USD mm)



Note: Totals may not add up due to rounding.

Management Plan for Fiscal 2019

1 Lending Operations

JFM's lending plan is formulated based on the amount of local government borrowing for which the consent or approval is scheduled to be given by the Minister for Internal Affairs and Communications or the respective prefectural governors, under the Local Government Borrowing Programme (the "LGBP").

Based on the LGBP, JFM plans to extend loans in the amount of USD 16.6 billion in fiscal 2019, USD 0.6 billion or 3.3% increase from fiscal 2018.

Lending Plan

	FY2019	FY2018	YoY
Planned Amount	USD 15.0 bn	USD 15.0 bn	0.0%

JFM Funds in Local Government Borrowing Programme

	FY2019	FY2018	YoY
JFM Funds	USD 16.6 bn	USD 16.0 bn	3.3%
General Account-related Loans	USD 5.4 bn	USD 4.5 bn	20.8%
Municipal Enterprise-related Loans	USD 7.3 bn	USD 6.6 bn	9.8%
Temporary Financial Countermeasures Funding	USD 3.9 bn	USD 4.9 bn	-21.3%

Notes: 1. The amount of JFM funds in the LGBP does not match JFM's lending plan due to the timing for consent or approval being different from when JFM loans will actually be extended.
2. See page 56 for more information on JFM funds in the LGBP.

2 Funding Operations

In order to raise funds for lending operations, JFM primarily issues non-government guaranteed bonds through domestic public offerings and overseas offerings. For fiscal 2018, JFM plans to issue USD 10.3 billion of JFM bonds through these methods.

In addition, private placements with pension funds for local government officials are projected to amount to USD 4.3 billion in fiscal 2019. In addition to issuing JFM bonds, JFM plans to raise USD 0.7 bn through long-term bank loans.

As for government-guaranteed bonds, JFM plans to issue USD 0.9 billion during fiscal 2019.

Funding Plan for FY2019

1. JFM Bonds (Non-government Guaranteed)

(1) Domestic and Overseas Offerings

Type of Bonds	FY2019 (Plan)	FY2018 (Achieved)
Domestic Public Offerings	USD 6.7 bn	USD 7.3 bn
10-year	USD 2.3 bn	USD 2.5 bn
20-year	USD 1.0 bn	USD 1.2 bn
5-year	USD 0.2 bn	USD 0.2 bn
30-year	USD 0.2 bn	USD 0.2 bn
Opportunistic Issuance	USD 3.0 bn	USD 3.2 bn
Overseas Offerings - MTN	USD 2.3 bn	USD 2.1 bn
Open Issuance	USD 1.4 bn	-
Total	USD 10.3 bn	USD 9.4 bn

Notes: 1. Subject to change depending on lending status, market conditions and other factors.
2. For Open Issuance, details of issuance such as tenor, issue size and issue market will be determined as necessary based on the lending status, market conditions and other factors.

(2) Private Placements with Pension Funds for Local Government Officials

Type of Bonds	FY2019 (Plan)	FY2018 (Achieved)
10-year	USD 2.2 bn	USD 2.0 bn
20-year	USD 2.2 bn	USD 2.4 bn
Total	USD 4.3 bn	USD 4.4 bn

2. Government-guaranteed Domestic Bonds

Type of Bonds	FY2019 (Plan)	FY2018 (Achieved)
10-year	USD 0.9 bn	USD 2.3 bn
Total	USD 0.9 bn	USD 2.3 bn

3. Long-term Bank Loans

Type of Loans	FY2019 (Plan)	FY2018 (Achieved)
Long-term Bank Loans	USD 0.7 bn	USD 0.4 bn

3 Scheduled Payment to the National Treasury

In accordance with Article 14 of the Supplementary Provisions of the Law, a portion of JFM's management account reserve for interest rate volatility is being attributed to the Japanese national government over a period of three years from fiscal 2017 through fiscal 2019, with the aim of transferring up to USD 8.1 billion over this period. In fiscal 2017 and 2018, USD 3.6 billion was transferred to the national treasury by JFM and, in fiscal 2019, USD 0.9 billion is scheduled to be transferred to the national treasury to secure financial resources of the local allocation tax.

Furthermore, it has been also determined that an additional amount of up to USD 13.5 million from fiscal 2018 through fiscal 2023 shall be attributed to the government attributed to the government to secure financial resources for water and sewage concession. In fiscal 2018, USD 0.5 million was transferred to the national treasury and the same amount is scheduled to be transferred in fiscal 2019 for this purpose.

Lending Operations

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Funding Operations

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Operations

Lending Operations

JFM's primary objective is to contribute to the sound operation of the local government financing and to improve the welfare of local residents by providing long-term funding at low interest rates to local governments.

1 | Outline

As public funds included in the LGBP, JFM loans are offered to local governments which have the consent or approval of the Minister for Internal Affairs and Communications or the respective prefectural governors.

1. Eligible Borrowers

JFM provides loans exclusively to local governments.

2. Types of Loans

JFM classifies general loans into the following three categories depending on the term.

- **Long-Term Loans**
Loans provided to local governments that have the consent or approval, and mature in or after the second fiscal year.
- **Pre-Consent or Pre-Approval Loans**
Bridge loans to cover the period up to the disbursement of Long-Term Loans for projects for which the consent or approval is assured.
- **Short-Term Loans**
Loans to be repaid with revenues in the same fiscal year.

3. Lending Scopes and Maturities of Loans

JFM lends mainly to the following local government businesses with respective loan maturities.

Business Type		Loans for Fiscal 2019				
		Fixed Lending Rate		Adjustable Lending Rate ¹		
		Maturity	Grace Period for Principal Repayment	Maturity	Grace Period for Principal Repayment	
General Account-related Loans	Public Projects, etc. ²	Within (Years) 25	Within (Years) 5	Within (Years) 25	Within (Years) 5	
	Public Housing	25	5	25	5	
	Educational and Social Welfare Facilities Projects	Educational Facilities Development ²	25	3	25	3
		Social Welfare Facilities Development	25	3	25	3
		General Waste Disposal	20	3	20	3
	Unsubsidized Projects	General Projects ²	30	5	30	5
		Regional Revitalization	30	5	30	5
		Disaster Prevention	30	5	30	5
		Local Road Development	20	5	20	5
		Special Municipal Mergers	30	5	30	5
		Disaster Management and Mitigation	30	5	30	5
		Public Facilities Optimization	30	5	30	5
		Emergency Natural Disaster Prevention	30	5	30	5
	Anti-depopulation Measure Project		30	5	40	5
	Municipal Enterprise-related Loans	Water Supply	30	5	40	5
Industrial Water Supply		30	5	40	5	
Transportation ²		30	5	40	5	
Electricity Supply ²		30	5	30	5	
Gas Supply		25	5	25	5	
Port Facilities ²		30	5	40	5	
Hospitals ²		30	5	30	5	
Markets		30	5	40	5	
Slaughterhouses		30	5	30	5	
Sewerage		30	5	40	5	
Temporary Financial Countermeasures Funding	Prefectures and Government-Designated Cities	-	-	30	3	
	Cities, Towns and Villages	-	-	20	3	

Notes: 1. Adjustable lending rates are reviewed depending on the maturity of the loan every 5 years, every 10 years or every 15 years or 20th, or 30th anniversary of the initial disbursement. Lending rates for Temporary Financial Countermeasures Fundings are reviewed every 5 years or 10 years.
2. Figures represent maximum maturities and grace period for principal payment.

Lending Operations

2 | Loan Interest Rates

JFM sets standard lending rates, which are determined to balance its funding cost, and also offers special lending rates at a discount to the standard rates by making use of its Fund for Lending Rate Reduction.

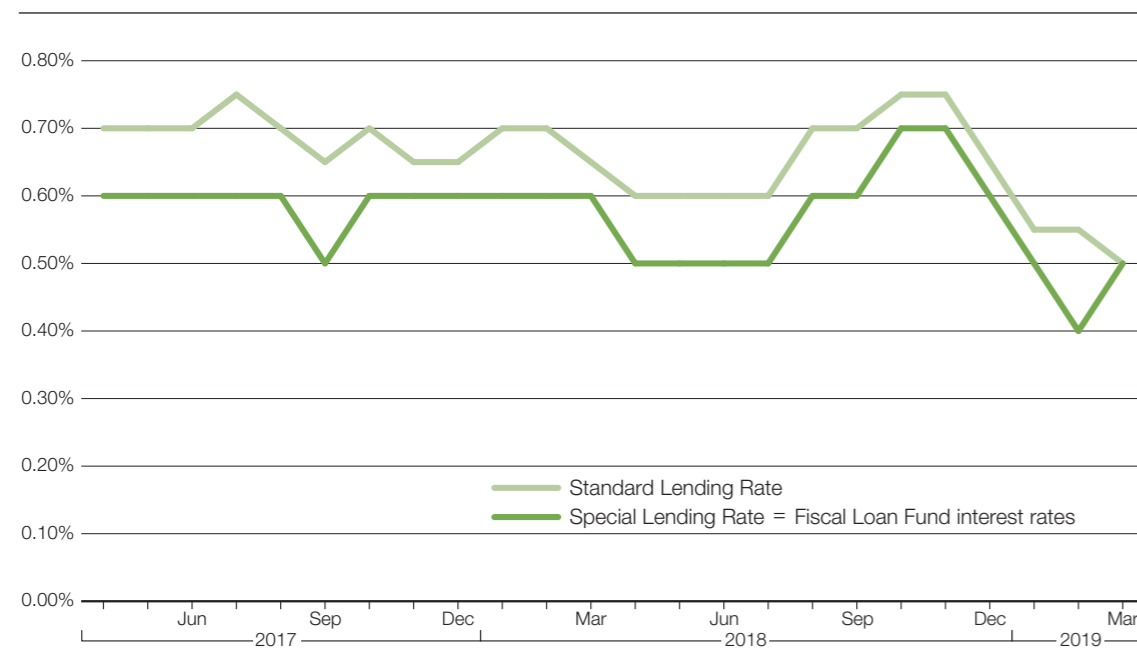
1. Loan Interest Rates

JFM offers two types of loan interest rates: the standard lending rate and the special lending rate. The standard lending rate is calculated in order to balance JFM's funding cost with interest income from its lending. Specifically, this rate is determined in a manner that the discounted present value of the cash flows of the funds raised to make the loans equals the discounted present value of the cash flows to be generated by those loans with their respective terms to maturity, grace period for principal repayment and repayment methods.

The special lending rate is set at 0.35% per annum below the standard rate with the minimum interest rate set at the same level as the interest rates for Fiscal Loan Fund provided by the national government. At the end of fiscal 2018, approximately 99% of outstanding JFM loans consisted of special interest rate loans.

The trends of JFM loan interest rates since April 2017 are shown below. The special lending rate has been at the same level as the national government's lending rates that are applicable to loans for specific public projects (the Fiscal Loan Fund). This is due to the floor rates of the special lending rates being set equal to respective lending rates of the Fiscal Loan Fund which have identical terms on redemptions to those of JFM loans.

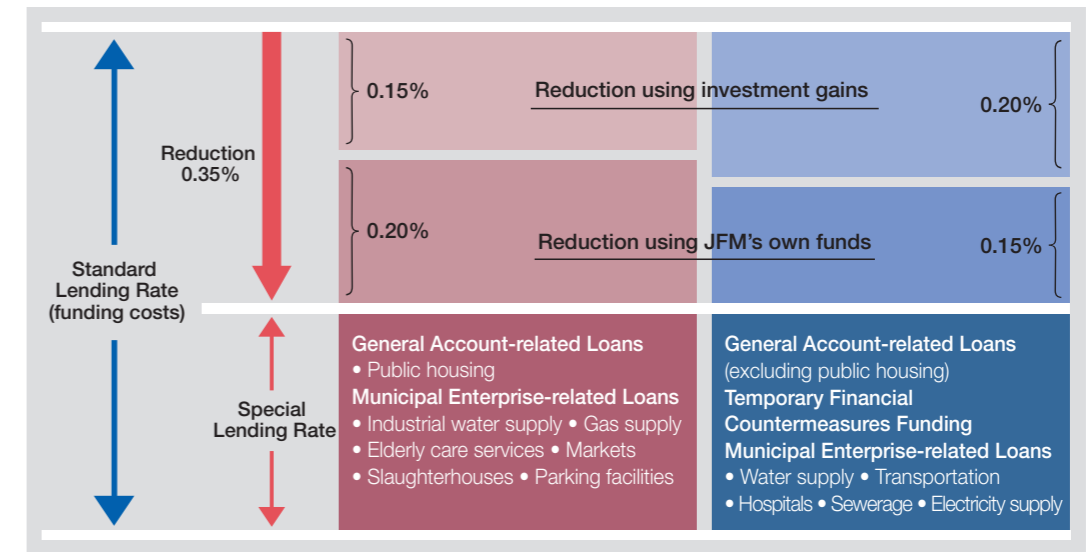
Trends of Lending Rates



Note: The lending rates above represent a 30-year fixed rate loan with a 5-year grace period for semi-annually equal total payment.

2. Lending Rate Reduction

The interest rate differentials between the special lending rates and the standard lending rates are covered by investment gains in the Fund for Lending Rate Reduction. The fund is comprised of payments by local governments of a portion of proceeds they earn from municipally operated racing in accordance with the Local Government Finance Law, and also JFM's own funds.



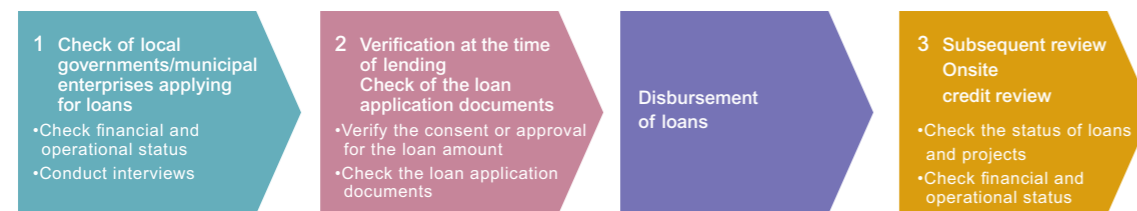
- Notes: 1. The minimum interest rates for JFM loans are set at the same level as the interest rates of the Fiscal Loan Fund provided by the national government.
 2. The discount rates using the investment gains (0.15% or 0.20%) applicable to each business category are determined by the Minister for Internal Affairs and Communications, pursuant to the Ministerial Ordinance on Finance and Accounting of the Japan Finance Organization for Municipalities (Ordinance No. 87 of the Ministry of Internal Affairs and Communications, 2008).

Lending Operations

3 | Credit Check System

JFM conducts the following credit check process for all loans on the assumption that the details and legality of each project as well as assurance of loan repayment have been confirmed during the consultation and checking process to obtain the consent or approval for loans.

- 1) JFM checks the financial and operational status of local governments and municipal enterprises to which it plans to lend, in light of the fiscal indicators as stipulated in the Law Relating to the Financial Soundness of Local Governments of Japan (Act No. 94 of 2007). This credit check process may include an interview of the staff of prefectures, cities, towns, and villages.
- 2) JFM reviews loan applications submitted by local governments to determine if conditions are met. The conditions include the consent or approval, any required resolution by the local government assembly and budget appropriation for loans.
- 3) After a loan is disbursed, JFM conducts an onsite review to verify the use of funds and to check the operational status of the project and the financial and operational status of the borrower.



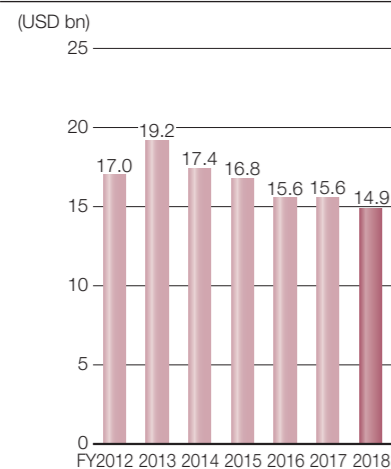
4 | Trends in Lending Operations

1. Overview

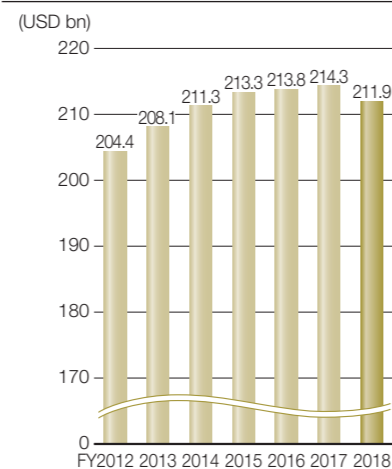
JFM's annual lending volume has dropped since fiscal 2014 due mainly to decrease in the budget of disaster management and mitigation and Temporary financial countermeasures funding.

In fiscal 2018, the lending volume amounted to USD 14.9 billion. At year-end, outstanding loans were USD 211.9 billion.

Annual Lending Volume



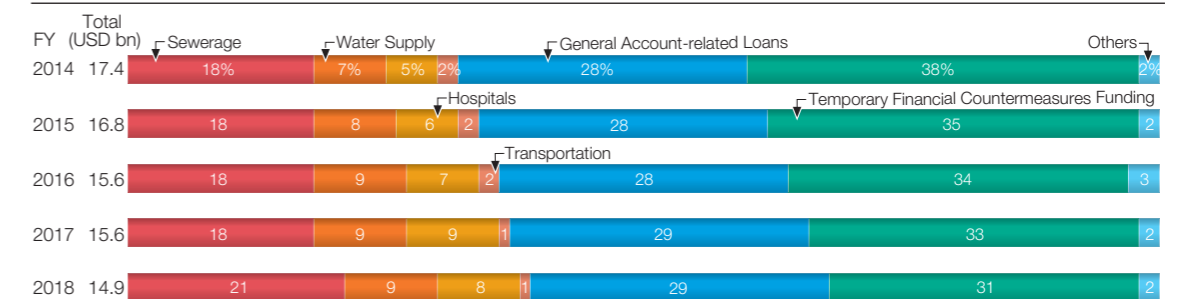
Outstanding Loans



2. Annual Lending Volume by Business and Borrower

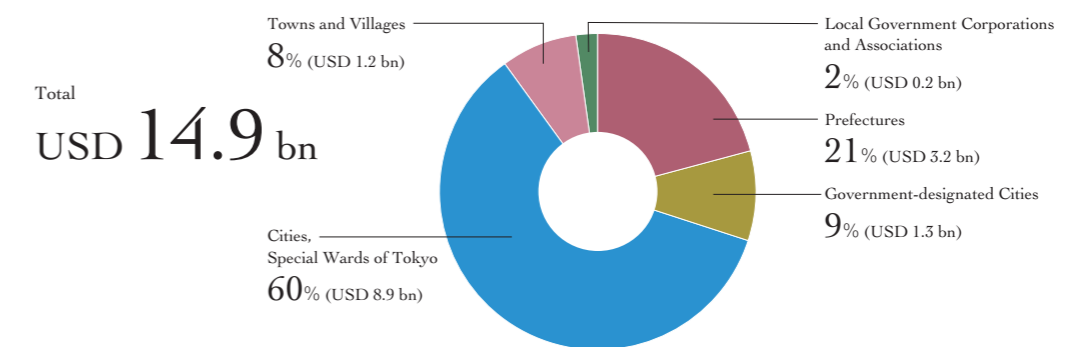
In fiscal 2018, loans for temporary financial countermeasures funding were USD 4.6 billion, accounting for the largest share of lending, at 31% of the total. Ranked next were USD 3.1 billion in the sewerage business, representing 21% of the total, and USD 1.3 billion in the water supply, for 9% of the total.

Long-Term Loans Extended by Business



- Notes: 1. Pre-consent or pre-approval loans are accounted for in the year when they are converted into long-term loans.
 2. "Others" includes refinancing loans for municipal enterprise-related projects, and refinancing loans for facilities and specified local governments affected by earthquake.
 3. Totals may not add up due to rounding.

FY2018 Loans Extended by Borrower



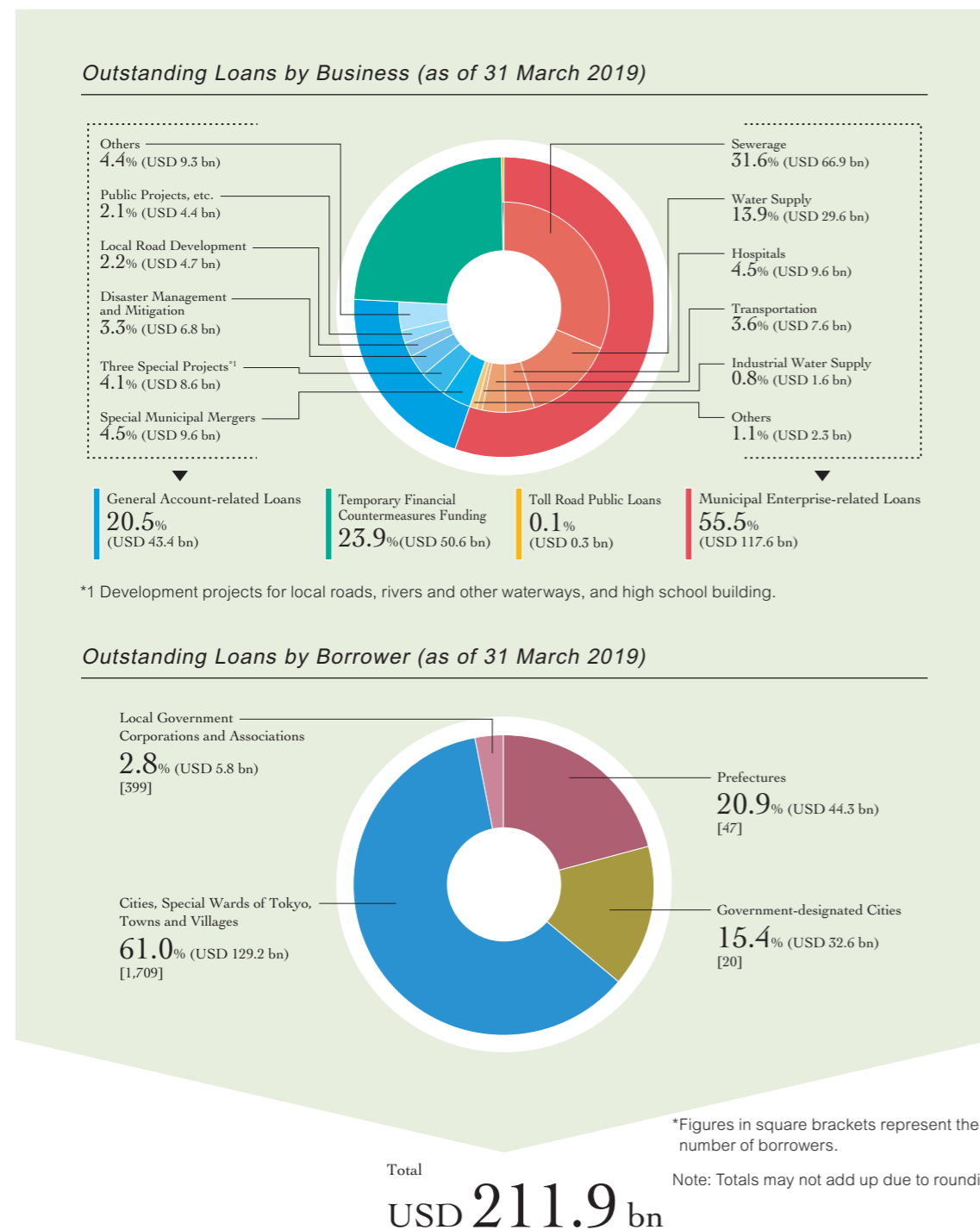
Note: Totals may not add up due to rounding.

Lending Operations

3. Outstanding Loans by Business and Borrower

At the end of fiscal 2018, the outstanding loans were USD 211.9 billion, of which the sewerage business accounted for the largest share at 31.6%, followed by temporary financial countermeasures funding at 23.9% and water supply at 13.9%.

There was a total of 2,175 local governments, local government associations and corporations with outstanding JFM loans, including all prefectures. Cities, special wards of Tokyo, towns and villages accounted for the largest portion at 61.0% of the total, followed by prefectures at 20.9% and government-designated cities at 15.4%. Local government associations and corporations represented the remaining 2.7%.



5 | Lending Operations by Business

JFM provides loans to local government businesses specified in the LGBP that the national government formulates each fiscal year.

The major JFM-funded businesses are as follows.

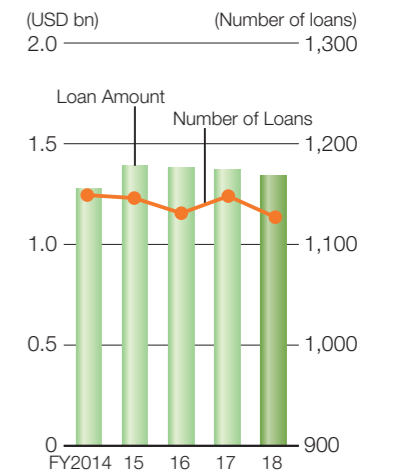
Water Supply Business

At the end of fiscal 2017, the water supply coverage was 97.3% of the population. The water supply business (including small-scale water supply) operated by local governments totaled 1,926 projects and provided about 18.1 billion cubic meters of water annually for approximately 124.2 million people.

In fiscal 2018, loans extended to the water supply business amounted to USD 1.3 billion.



Kaneda Water Distribution Station (Kisarazu City, Chiba Prefecture)



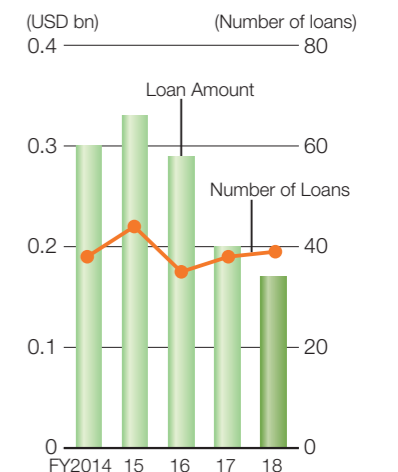
Transportation Business

At the end of fiscal 2017, the transportation projects managed by local governments totaled 86 projects and public transportation is used by approximately 4.4 billion people annually (12.11 million people on an average daily basis).

In fiscal 2018, loans extended to the transportation business amounted to USD 0.2 billion.



Kumamoto City Tram (Kumamoto City, Kumamoto Prefecture)



Lending Operations

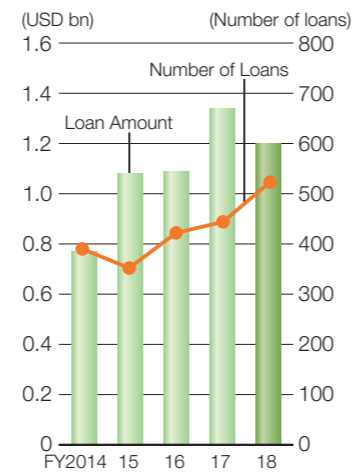
Hospitals Business

At the end of fiscal 2017, hospital projects managed by local governments totaled 630 with 783 hospitals, which included 751 general hospitals and 32 mental hospitals.

In fiscal 2018, loans extended to the hospitals business (including those run by local independent administrative institutions) totaled USD 1.2 billion.



Atsugi City Hospital (Atsugi City, Kanagawa Prefecture)



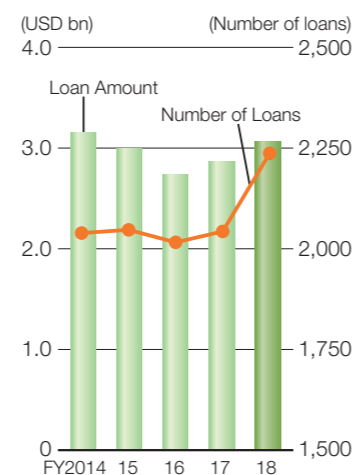
Sewerage Business

At the end of fiscal 2017, the sewerage system covered 90.9% of the nation's total population. There were 3,631 projects involved, with a total annual sewerage processing capacity (combined storm water and sewerage treatment, excluding river basin sewerage) of around 15.1 billion cubic meters serving areas with a population of nearly 104 million people.

In fiscal 2018, loans extended to the sewerage business totaled USD 3.1 billion.



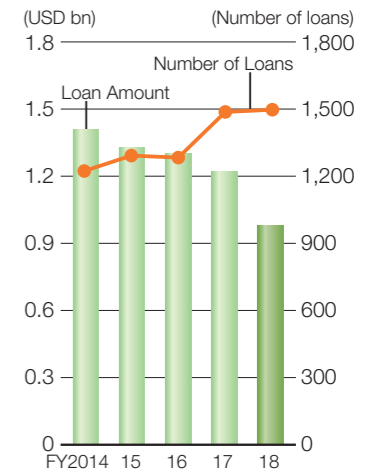
Shiojiri City Sewage Purification Center (Shiojiri City, Nagano Prefecture)



Disaster Management and Mitigation

Disaster management and mitigation represents projects to support and build strong disaster-resistant cities and towns by extending loans to facilities that can gather information promptly in case of emergent situations and other projects that can increase disaster prevention capability.

In fiscal 2018, loans extended for disaster management and mitigation amounted to USD 1.0 billion.

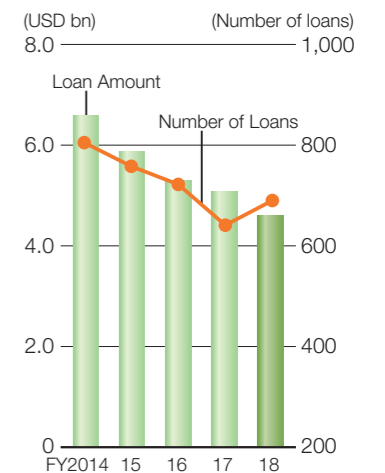


Temporary Financial Countermeasures Funding

Temporary financial countermeasures funding represents the funding for local governments in order to cover general resource shortfalls pursuant to the provisions of the Local Government Finance Law.

In order to secure the payments of the principal and interest of funds borrowed by local governments under temporary financial countermeasures funding, the national government includes the entire amount of such payments in the total amount of local allocation tax grants, which are to be allocated to local governments in subsequent years.

In fiscal 2018, loans extended for temporary financial countermeasures funding amounted to USD 4.6 billion.



Funding Operations

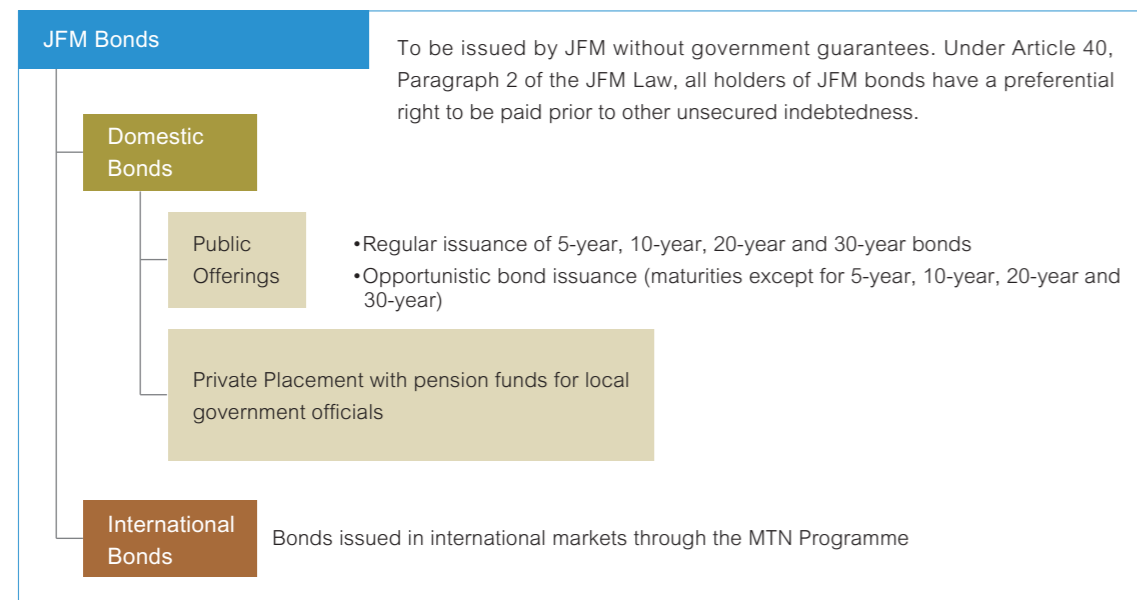
As a joint funding organization for local governments, JFM raises funds in a consistent manner to provide local governments with long-term and low-interest funds, while endeavoring to focus on market fluctuations.

1 Issue Type

JFM primarily issues non-government guaranteed bonds (i.e., JFM bonds) through public offerings in order to raise funds for its lending operations. Private placements with the pension funds for local government officials are also taken as a means of fund-raising.

JFM issues government-guaranteed bonds only for refinancing the existing government-guaranteed bonds of the Predecessor in order to manage the Predecessor's assets to which JFM has succeeded.

In addition to issuing bonds, JFM raises money from long-term bank loans as a supplemental source for overall funding operations.



Government-Guaranteed Bonds
To be issued only in the domestic market denominated in Japanese Yen for the purpose of refinancing outstanding government guaranteed bonds issued by the Predecessor.

Long-term Bank Loans
JFM utilises long-term bank loans as a complementary means of fundraising.

2 Basic Funding Policy

To secure stable funding at fair value, JFM pursues diversified funding options and strives to build confidence in capital markets by proactively disclosing information and thoroughly fulfilling responsibilities. JFM also endeavors to seek more flexible funding operations than ever in response to volatile market conditions and shift in investor demands on the back of the change of monetary policy of major central banks.

1. Diversification of Funding Methods

From the viewpoint of stable funding, JFM endeavors to issue bonds with various maturities and structures, including medium-term and super-long-term bonds in response to the market environment and market needs, in order to broaden its investor base, while also considering funding costs and risk management.

JFM's basic means of funding is the issuance of bonds. JFM accesses the domestic market through the regular issuance of 5-year, 10-year, 20-year and 30-year bonds, and also continues to take advantage of its Flexible Issuance Programme (FLIP) for opportunistic funding as well as long-term bank loans. JFM also utilizes the MTN Programme, being committed to the regular issuance of benchmark bonds to the international investors and Uridashi bonds to Japanese retail investors. In addition to that, JFM is going to issue private placement bonds in a flexible manner.

2. Proactive Disclosure and Investor Relations

JFM proactively discloses information on its operations, financial conditions and risk management status in order to support investment decisions by investors. In this context, JFM announces its annual funding plan prior to the start of the new fiscal year and its second half-year funding plan in August.

In addition, JFM performs investor relations activities, including presentation meetings and/or one-on-one meetings with investors in both domestic and international markets. JFM thereby helps investors correctly understand JFM's management and bonds as well as strengthens market confidence toward JFM.

3. Contribution to the Sound Development of Capital Markets

While capturing funding opportunities in response to the needs of capital markets, JFM will further strengthen its role as a leading public-sector bond issuer and be committed to contributing to the sound development of capital markets.

Funding Operations

3 Features of JFM Bonds

JFM bonds are generally recognized as having high credit standing with the following features.

- JFM's assets can be deemed to be highly stable based on the fact that JFM lends exclusively to local governments, and no local governments have ever defaulted.
- JFM has a solid financial foundation, backed by its reserve for interest rate volatility and the Fund for Lending Rate Reduction prescribed in the JFM Law.
- JFM is a joint funding organization established with a capital contribution from Japanese local governments encompassing all prefectures, cities, special wards of Tokyo, government-designated cities, towns and villages, as well as some local government associations.
- Under the JFM Law, local governments have an obligation to bear the costs necessary to satisfy all JFM obligations in the event JFM is to be dissolved and its obligations remain unpaid.
- All holders of JFM bonds have a preferential right to be paid prior to other unsecured indebtedness.

JFM has received the highest credit rating among the Japanese public-sector bond issuers from Standard and Poor's (S&P), Moody's Investors Service (Moody's) and Rating and Investment Information, Inc. (R&I). The BIS risk weighting is 10% for JFM bonds denominated in yen.

In addition to JGBs and local government bonds, interest received by foreign investors (non-residents, foreign corporations, etc.) on JFM's domestic bonds in book-entry form as well as JFM's international bonds (both of which include government-guaranteed bonds) shall be exempted from Japanese income tax, subject to certain procedural requirements.

Issuer Credit Rating	S&P: A+ Moody's: A1 R&I: AA+ (As of 31 March 2019)	
BIS Risk Weighting (denominated in yen)	JFM bonds: 10%	For reference: Japanese Government Bonds: 0% Japanese Government-Guaranteed Bonds: 0% Local Government Bonds: 0%
Preferential Rights for JFM Bonds	All holders of JFM bonds (as well as JFM's government-guaranteed bonds) have a preferential right to be paid prior to other unsecured indebtedness, and such preferential right shall rank immediately after the general preferential rights as provided for in the Civil Code of Japan (Law No. 89 of 1896, as amended). (Article 40, Paragraph 2 and Paragraph 3 of the JFM Law)	

Note: The risk weights are values for investors in Japan. For international bonds, the values are determined by respective authorities in each country. (as of 31 March 2019)

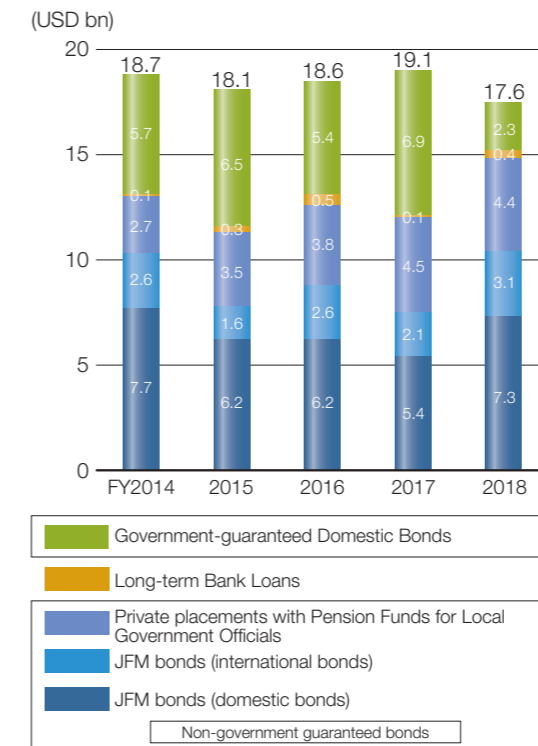
4 Trends in Funding Operations

JFM issues JFM bonds (non-government guaranteed bonds to be issued through domestic public offerings or under the MTN Programme, or private placements with pension funds for local government officials) and government-guaranteed bonds for the purpose of refinancing existing government guaranteed bonds of the Predecessor. And, from the perspective of diversifying funding source, long-term bank loans are also an important for JFM's funding operations.

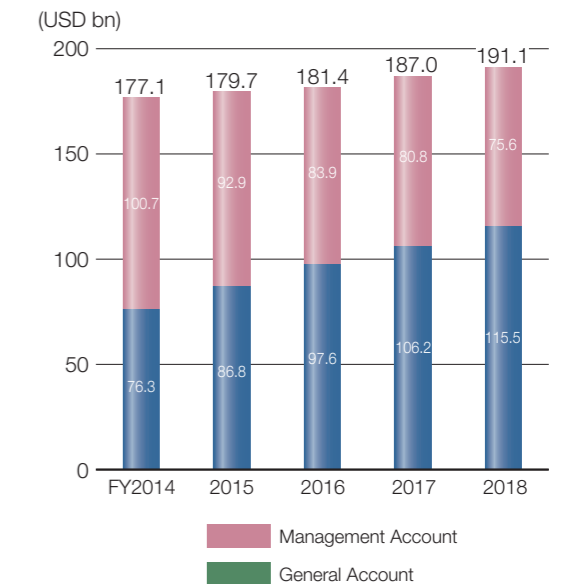
In fiscal 2018, JFM raised a total of USD 17.7 billion, slightly decreased from the previous year. This was mainly result of an decrease in the amount of government guaranteed bonds and private placements with the pension funds issued during fiscal 2018 while the issuance volume of JFM bonds was increased.

As of 31 March 2019, outstanding bonds were USD 183.9 billion. Outstanding long-term bank loans totaled USD 1.2 billion. The total amount of outstanding bonds and long-term bank loans was USD 185.0 billion, which was comprised of USD 115.6 billion in the general account and USD 69.5 billion in the management account. Since the end of fiscal 2016 the volume of outstanding debt in the general account exceeds that of the management account as a result of the trend the management account has been decreasing while the general account has been increasing.

Funding Volume



Outstanding Bonds and Bank Loans





Management Structure

Corporate Governance

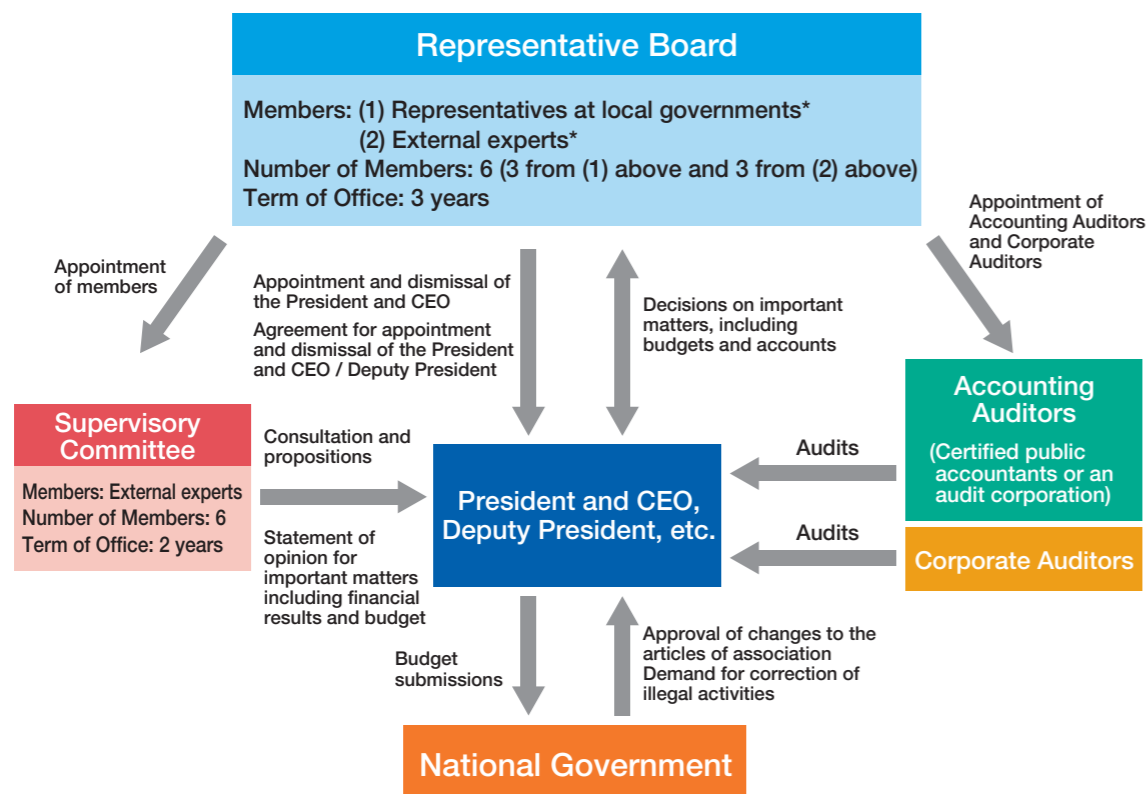
1. Corporate Governance	38
2. Internal Control over Financial Reporting	40
3. Internal Audit	40
General Account and Management Account	41
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Corporate Governance

JFM ensures responsible corporate governance through the participation of external experts on the Representative Board and the Supervisory Committee and audits by external accounting auditors.

1 Corporate Governance

Corporate Governance System



*Elected by the national associations of prefectural governors, mayors of cities, and mayors of towns and villages.

1. Representative Board

As an organization autonomously managed by local governments, JFM has the Representative Board as its supreme decision-making body.

To ensure independence and transparency, the Representative Board consists of one prefectural governor, one city mayor, one town/village mayor and three members from among experts in local administration, economics, finance, law or accounting.

The Representative Board has the authority to make decisions on important matters related to the overall management of JFM, including budgets, settlement of accounts and business plans and to appoint and dismiss the President and CEO as well as Corporate Auditors. As its supervisory function, the Board is also authorized to obtain from the President and CEO information relating to JFM's operations and financial condition, and to order the President and CEO to take corrective actions with respect to any illegal or other inappropriate activities.

2. Supervisory Committee

JFM has focused on establishing highly transparent management that incorporates unbiased opinions of external parties, and responsible corporate governance. To ensure such a governing structure, JFM has the Supervisory Committee as a deliberative committee comprising external experts.

The Representative Board appoints the members of the Supervisory Committee from among experts in local administration, economics, finance, law or accounting, and other experts in the academic world.

The Supervisory Committee has the function of monitoring the operations of JFM and may offer its opinions on important matters such as JFM's operations including budgets, settlement of accounts and business plans. The Committee may also, if necessary, request that the President and CEO report on those matters. The President and CEO must respect and report the Committee's opinions to the Representative Board.

3. Audits by Corporate Auditors

The Corporate Auditors are responsible for auditing the accounts of JFM, and may, at their discretion, submit reports to the Representative Board, the President and CEO and the Minister for Internal Affairs and Communications.

4. Audits by External Accounting Auditors

As JFM raises funds in capital markets, the proper disclosure of information and external checks on accounting procedures are essential in order to build market confidence toward JFM.

From this viewpoint, JFM has its financial statements audited not only by corporate auditors but also by external accounting auditors (certified public accountants or an audit corporation) appointed by the Representative Board.

Corporate Governance

2 Internal Control over Financial Reporting

Pursuant to the Ministerial Ordinance on Finance and Accounting of the Japan Finance Organization for Municipalities, JFM has set up a system which is similar to the internal control reporting system under the Financial Instruments and Exchange Law in Japan. In accordance with the system, JFM prepares the Internal Control Report to evaluate the effectiveness of internal control over financial reporting to ensure the reliability of its financial statements, the base date of which is the end of the fiscal year (March 31), and it is audited by the external auditors and released together with the financial statements.

As for the Internal Control Report in which JFM viewed its internal controls on financial reporting as effective as of the end of fiscal 2019, the accounting auditors gave their opinion (unqualified audit opinion pursuant to Ministerial Ordinance Article 32, Paragraph 5, Clause 1) that, in all material respects, evaluation results of JFM's internal controls over financial reporting were in conformity with the standards of evaluation for internal controls over financial reporting generally accepted in Japan.

3 Internal Audit

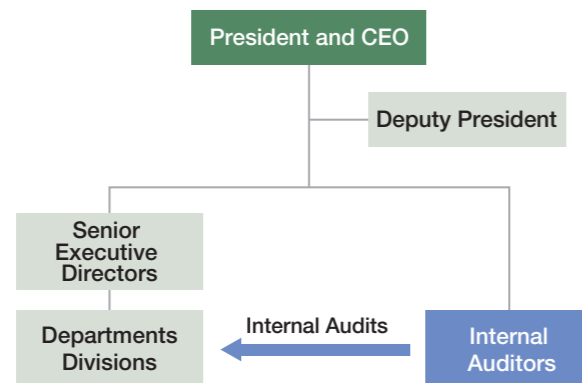
An internal auditor, who is independent from other departments, divisions and offices, examines and assesses the appropriateness and effectiveness of JFM's internal control systems, thereby helping ensure reliable financial reporting and appropriate and efficient operations.

On completing this task, the internal auditor submits a report to the president and CEO.

If the internal auditor identifies deficiencies, related divisions and offices must immediately take the required corrective actions. The internal auditor will then submit to the president and CEO an internal audit report that includes the progress of corrective actions.

The internal auditor also performs follow-up audits and reports the results to the president and CEO as necessary.

Internal Audit System



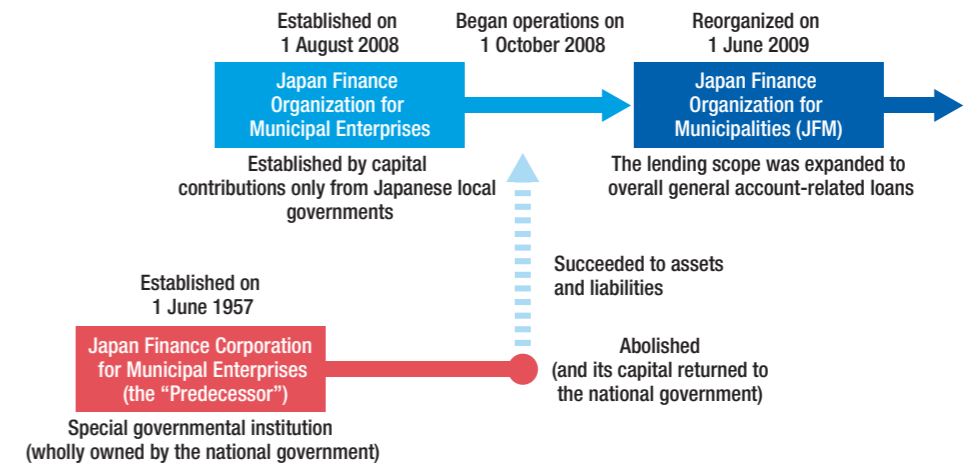
General Account and Management Account

Japan Finance Organization for Municipal Enterprises was established on 1 August 2008, with capital contributed by all prefectures, cities, special wards of Tokyo, government-designated cities, towns and villages, as well as some local government associations, to provide funds to local governments. JFM commenced its operations after succeeding to the assets and liabilities of the Predecessor on 1 October 2008.

As a result of the reorganization on 1 June 2009, JFM's lending scope was extended to overall general account-related loans.

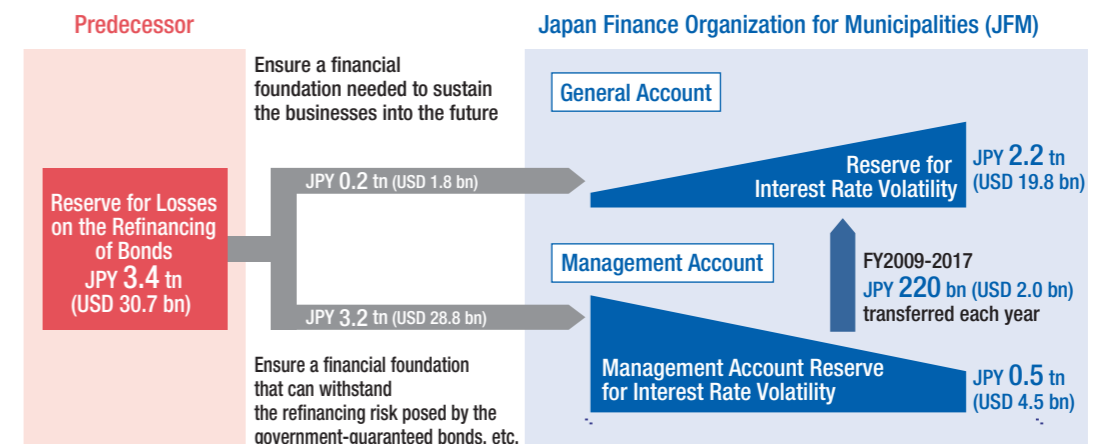
Under the JFM Law, JFM requires managing loans and bonds issued since JFM began its operations in the general account of JFM, whereas loans and operations carried over from the Predecessor are administered in the separate account known as the management account of JFM.

With regard to the management account, JFM issues government-guaranteed bonds solely for the purpose of refinancing government-guaranteed bonds of the Predecessor.



When JFM was founded, it succeeded to the Reserve for Losses on the Refinancing of Bonds in the amount of approximately JPY 3.4 trillion (USD 30.7 billion) to ensure its future stable management from the Predecessor.

Of this amount which was recorded in the management account, the JPY 2.2 trillion (USD 19.8 billion) needed to ensure the future continuity of JFM's operations is being transferred to the general account in equal installments over 10 years, with the remainder which is expected to remain in the management account to ensure a sufficient financial foundation to appropriately manage the Predecessor's bonds and loans and prepare for the risk with refinancing bonds of the Predecessor.



General Account and Management Account

Under the JFM Law, if any assets remain when the asset management operations of the Predecessor are completed and the management account is closed, those assets shall be returned to the national treasury.

Even before the management account is closed, in the event that the businesses of JFM are determined to have been executed smoothly in light of the condition of the management of JFM, the Minister for Internal Affairs and Communications and the Minister of Finance shall, if the management account reserve for interest rate volatility and the management account surplus reserve are determined to exceed the amount necessary for the smooth operation of the asset management operations of the Predecessor in the future, cause the amount that is determined to be in excess to belong to the national treasury (Article 14 of the Supplementary Provisions of the JFM Law).

In accordance with this provision, JFM has transferred a portion of its reserve for interest rate volatility within the management account to the Japanese national government and such portion has been allocated to the national treasury to secure financial resources of the local allocation tax for regional revitalization.

Risk Management

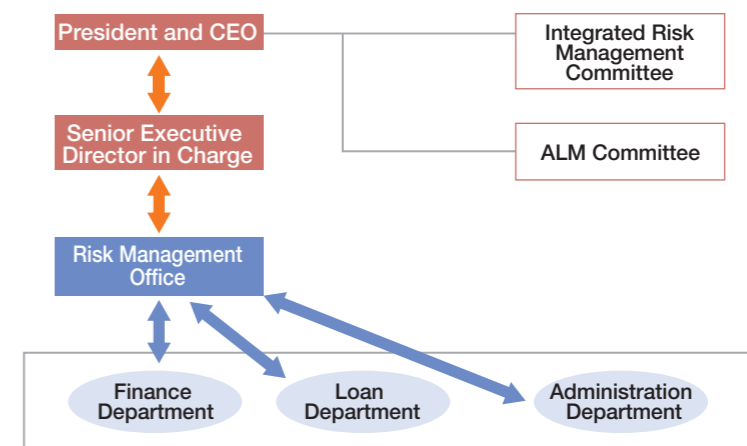
1 Overall Risk Management

1. Risk Management System

JFM adopts an integrated risk management approach to respond to various risks, while pursuing for a higher level of risk analysis and management.

Accordingly, JFM has developed a system for appropriate risk management, including the establishment of the Integrated Risk Management Committee, which supervises JFM's overall risk management, and the Risk Management Office to ensure comprehensive risk management. Risk management can then be appropriately reflected in management decisions.

Risk Management System



2. Characteristics of JFM's Risks

JFM lends to local governments with the maximum maturity of 40 years while JFM raises funds primarily by issuing 10-year bonds. Among other risks, JFM considers the interest rate risk associated with bond refinancing as its major risk (the risk of the negative margin caused by the interest payable exceeding the interest receivable).

To address such interest rate risk, JFM maintains reserves for interest rate fluctuations (the Reserve for Interest Rate Volatility) and has set up the ALM Committee to comprehensively analyze and manage JFM's assets and liabilities in a timely and appropriate manner.

The ALM Committee conducts medium-term and long-term management and risk analysis through scenario, Value at Risk, duration, and other analyses. JFM reflects the findings in its bond issuance plans and other aspects of management and endeavors to lower interest rate risk.

2 | Management of Specific Risks

1. Credit Risk

Credit risk is the risk of loss arising from deterioration in the financial condition of a borrower and other situations, which could cause an asset to lose value or become worthless. Loans and financial transactions involve credit risk.

1) Credit risk associated with loans

JFM lends exclusively to local governments. Local government bonds and loans have a zero risk weighting under the Basel regulatory framework. For the reasons outlined below, JFM believes it is unlikely that any of its borrowers will default those loans. In fact, JFM and its Predecessor have never experienced any loan losses.

- Financial sources for the payment of the principal and interest of local government bonds and loans are secured through the following mechanisms. First, local governments can obtain local tax revenues pursuant to their right to impose tax. Second, in addition to such local tax revenues, local allocation tax grants are allocated as follows: (i) the national government includes certain local government debt servicing costs, i.e., expenditures for the payment of the principal and interest of certain local government bonds and loans including those issued or borrowed with consents or approvals, in the amount of “expenditures” in the Local Government Finance Programme formulated by the national government; and (ii) the total amount of local allocation tax grants is calculated so that the total amount of local government expenditures, including such debt servicing costs, is equivalent to the total amount of the local government revenues, in the Local Government Finance Programme. Thus, the national government effectively secures revenue sources for the payment of principal and interest of such local governments bonds and loans in terms of the total amount. When calculating the amount of local allocation tax grants to be allocated to an individual local government, a part of the “expenditures” for the payment of the principal and interest of such local government bonds and loans are included.
- Before issuing a loan, JFM checks the financial and operational status of the local government, including its debt servicing costs, tax revenues and necessary funds. In addition, when reviewing the ability of a local government to repay the loan, where such local government’s expenditures exceed the revenue generated by local taxes, JFM takes into account the local allocation tax grants from the national government described above.
- The Early Correction Measure requires certain local governments, such as those whose debt servicing costs or financial deficits exceed specified levels, to obtain approval from the Minister for Internal Affairs and Communications or their respective prefectural governors in cases where they issue additional bonds or borrow additional loans. In addition, local governments whose fiscal indicators exceed certain early warning limits must make their own efforts toward achieving fiscal soundness, and local governments whose fiscal indicators exceed certain “reconstruction limits” must take necessary actions to restore fiscal soundness under the oversight of the national government with regard to redemption of local government bonds and loans, and other operations. This system facilitates the maintenance of the credit standing of local government bonds and loans.

As of 31 March 2019, JFM’s total outstanding loans stood at USD 211.9 billion. The amount of loans outstanding made to local governments whose fiscal indicators exceeded the early warning limits or the reconstruction limits accounted for less than 0.03% in aggregate of total loans outstanding as of 31 March 2019.

2) Credit risk associated with market transactions

JFM is, however, 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. JFM works to appropriately manage credit risk of this type by constantly monitoring counterparties’ financial standings and taking measures including suspension of new deals and cancellation of transactions with counterparties that have come to poor credit standings. Moreover, JFM limits counterparties to financial institutions that meet the credit rating and other criteria, and conducts transactions within the credit lines for each counterparty in order to diversify risks.

In addition, JFM entered into the ISDA Master Agreement and the CSAs (Credit Support Annexes) with its derivatives counterparties to reduce the credit risk resulting from fluctuations in the value of derivative transactions.

Risk Management

2. Market Risk

Market risk is the risk of losses 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 fluctuation risk.

1) Interest rate risk

- **Interest rate risk associated with bond refinancing**

JFM is exposed to the interest rate risk resulting from a duration gap between lending and funding. To address such risk, JFM takes measures described on page 45.

- **Interest rate risk associated with a gap in lending and funding schedules**

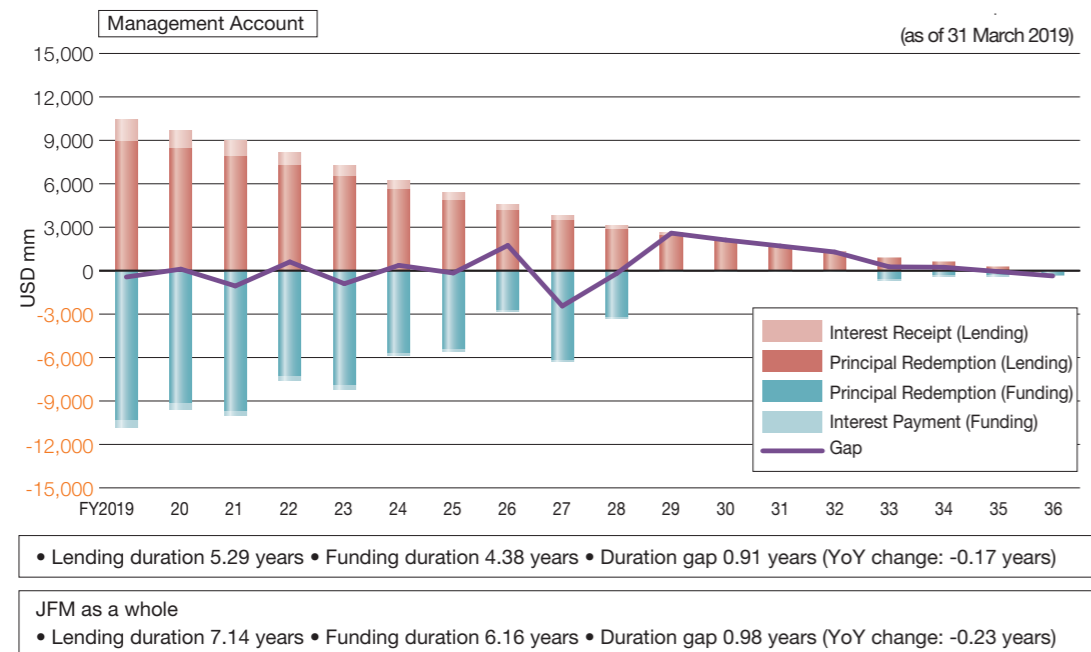
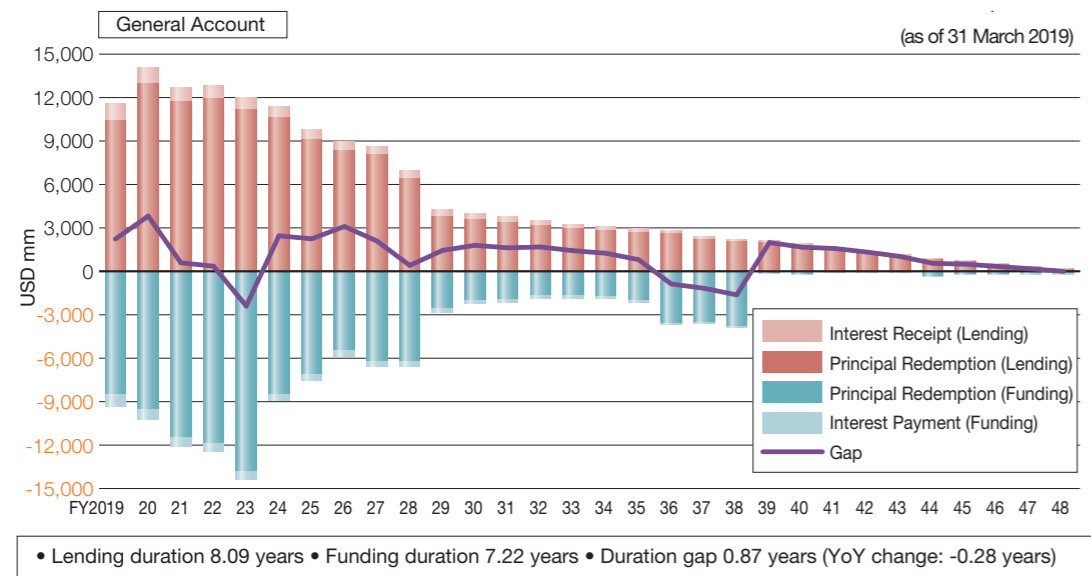
JFM generally raises funds required to finance a loan by issuing bonds prior to the loan disbursements. Proceeds from bond issuances may not be earmarked for a particular loan. Thus, fluctuations in interest rates in the period where lending and funding schedules differ affect the profitability of loans ("pipeline" risk). In order to hedge against pipeline risk, JFM utilizes interest rate swaps.

Managing interest rate risk associated with bond refinancing

- JFM maintains reserves to prepare for interest rate risk associated with bond refinancing. At the end of fiscal 2018, the total amount of the reserves stood at USD 25.2 billion, which consisted of USD 19.8 billion in the general account and USD 5.4 billion in the management account.
- As assets and liabilities in the general account are expected to expand as a result of an increase in loans and fund-raising, JFM carries out an ALM analysis of this account in order to further enhance the effectiveness of its interest rate risk management. Furthermore, JFM has established a medium-term management target of five years from fiscal 2018, in which the duration gap is maintained below two years. In order to implement the management target, JFM takes the following measures:
 - (1) Controlling lending duration – Lending rates for loans for temporary financial countermeasures funding, which account for approximately one third of JFM's outstanding loans in the general account, are revised every 5 years or 10 years depending on loans. In addition, JFM will revise its lending rate by 30th year at the latest for its loans with maturities longer than 30 years, while maturities of the loans were extended to be a maximum of 40 years from April 2015.
 - (2) Extending funding duration – Utilizing its FLIP and Open Issuance scheme, JFM aims to extend the funding duration by carefully choosing maturities of bonds to be issued e.g., continuously issuing long-dated bonds with maturities over 10 years.
- At the end of fiscal 2018, the duration gap in the general account was 0.87 years, staying within the management target.
- In the management account, which manages assets transferred from the Predecessor, JFM maintains USD 5.4 billion of the management account reserve for interest rate volatility as described above. As no new lending from the management account has been made since October 2008, JFM expects that the interest rate risk in the management account will decline overall as the size of the account declines over time.
- Pursuant to Article 14 of the Supplementary Provisions of the JFM Law, a portion of JFM's management account reserve for interest rate volatility is being attributed to the Japanese national government over a period of three years from fiscal 2017 through fiscal 2019, with the aim of transferring up to USD 8.1 billion over this period. Furthermore, it has been also determined that an additional amount of up to USD 13.5 million from fiscal 2018 through fiscal 2023 shall be attributed to the government. The amount of transfer is to be within the amount which the Minister for Internal Affairs and Communications and the Minister of Finance deem as an amount exceeding the requisite amount of reserve necessary for the smooth operation of JFM's management account at the time of transfer and in the future, in light of JFM's financial condition. Even after these transfers, JFM does not expect the transfers to have a material effect on JFM's business, results of operations or financial condition, due primarily to sufficient amount of the reserve for this account.

Risk Management

Maturity Ladder (JFM Loans, Bonds and Bank Loans)



2) Foreign exchange and other risks

Various risks associated with bond principal and interest payments are generally 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. 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 foreign currency denominated deposits resulting from fluctuations in foreign exchange rates. Accordingly, in principle, JFM reduces the price fluctuation risk by holding investments until maturity and hedges foreign exchange risk by using forward foreign exchange contracts.

3. Liquidity Risk

Liquidity risk is the risk that JFM would incur losses because of difficulty in funding, or because of funding at far higher interest rates than under ordinary conditions. It also includes the risk that JFM would incur losses because of the inability to conduct market transactions or because of transactions at prices far more unfavorable than under normal conditions due to market disruption or other situations. However, JFM's current exposure to liquidity risk is low because loans are made based on a pre-set schedule, and the daily cash and liquidity management is carried out. Moreover, JFM has entered into overdraft agreements with a wide range of financial institutions to prepare for unexpected fund shortfalls, and invests surplus funds only in short-term financial products.

In addition, JFM has implemented a policy to maintain a certain amount of liquid assets so that, in the event of market disruption, JFM may continue to timely make its payments of interest and principal on the bonds and other debt securities.

4. Operational Risk

Operational risk is the risk of loss resulting from inadequate operation processes, inadequate activities by management and staff, and inadequate computer systems, or from external events.

1) Administrative risk

Administrative risk is the risk of loss resulting from the neglect or inadequacy of attention by management and employees to properly conduct administrative work, accidents and/or violation of laws caused by them in the course of the administrative work process. JFM endeavors to mitigate its exposure to administrative risk by preparing operational manuals, holding educational seminars and training sessions, and reducing operational workload through systematization.

2) Systems risk

Systems risk is the risk of the confidentiality, integrity and availability of information assets being impaired as a result of computer system inadequacies or the fraudulent use of computer systems. JFM has established and implemented the Systems Risk Management Policy and the Systems Risk Management Standard to appropriately manage systems risk and ensure smooth business operations.

5. Contingency Measures

JFM has prepared the Contingency Plan to minimize the scope of losses and the impact on operations and restore normal operations promptly and efficiently in the event that computer systems break down or cannot be used due to unexpected incidents, disasters or malfunctions. Furthermore, in order to prepare for a contingency, JFM has a backup server outside JFM so that its business operations can be continued.

Compliance

1 Basic Policy

JFM has prepared the Compliance Rules to ensure that operations are conducted in accordance with laws and regulations and indicate what actions management and staff should take when a breach of laws or regulations is identified. The rules include the following basic policy on compliance.

- Management and employees must be aware of JFM's social responsibility and public mission and realize that a breach of laws or regulations would cause a great hindrance to JFM's business operations, such as a loss in credibility of JFM as a whole. Management and staff must also observe laws and regulations and fulfill their duties with integrity and fairness.
- Management and employees must strive to earn the trust of society by appropriately disclosing information on JFM's operations.

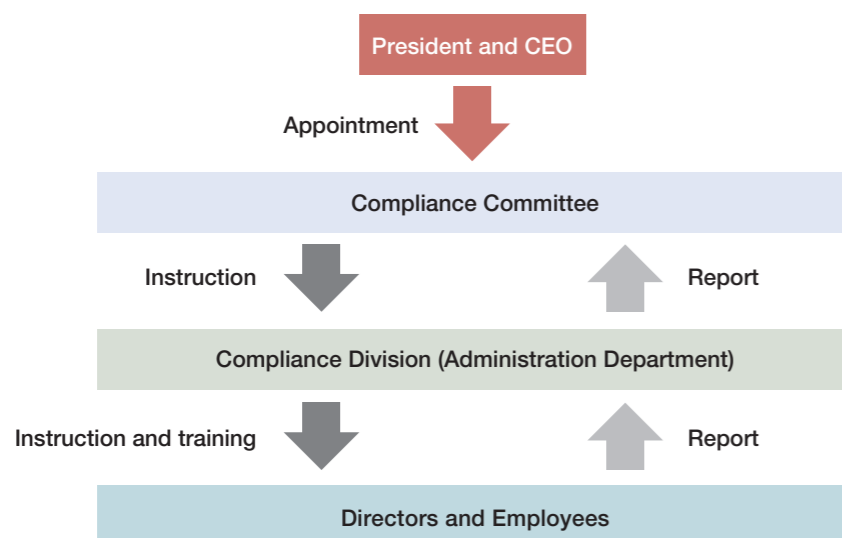
2 Compliance System

Based on the Compliance Rules, JFM has the Compliance Committee.

JFM's deputy president serves as the chairman of the committee, with senior executive directors and department heads serving as committee members. The committee deliberates on important compliance issues, such as the formulation, revision and abolition of compliance-related rules and regulations and the preparation of guidelines and action plans for compliance.

JFM has also established the compliance division to oversee compliance arrangements. This unit deploys compliance-based initiatives (providing system guidance and training or producing manuals) in keeping with the committee's guidelines.

Compliance System



Disclosure

1 Basic Stance on Information Disclosure

From the viewpoint of investor protection, JFM strives to ensure the transparency of JFM's management by disclosing information on its financial conditions and other relevant information.

2 Materials for Disclosure

The following materials are available on JFM's website (www.jfm.go.jp/en/).

1. Materials for Disclosure Pursuant to Laws and Regulations

- Financial statements
- Business reports and statement of accounts (in Japanese only)
- Explanatory documents based on Article 36, Paragraph 3 of the JFM Law (Documents corresponding to annual securities reports specified in the Financial Instruments and Exchange Act and the Internal Control Report) (in Japanese only)

2. Other Documents for Disclosure

- Budgets, business plans, funding plans, and medium-term plans on income and expenditures
- Management plan
- Funding plan
- Brochure
- Annual Report
- JFM News magazine



Website (<http://www.jfm.go.jp/en/>)



Annual Report

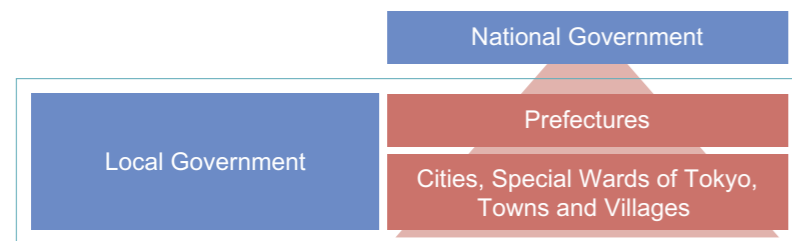
JFM's Role in Local Government Finance

1 Japanese Local Government System

Local governments are responsible for extensive areas of public administration for the welfare of citizens.

While the national government focuses on administrative affairs for the state as a member of the international community, local governments engage in administration that relates to the daily lives of citizens. Local governments are responsible for social welfare, education, fire defense, and infrastructure such as road and waterways.

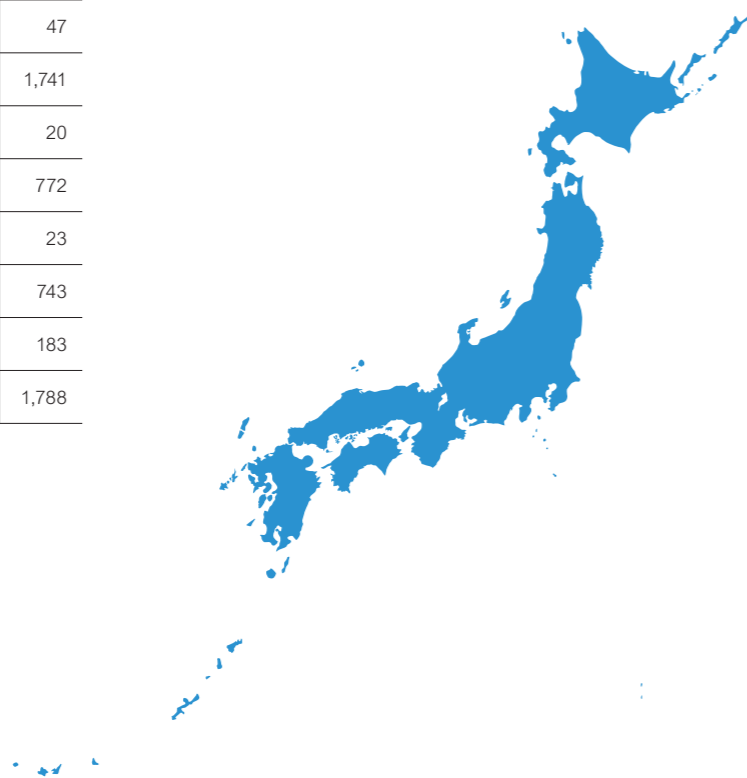
Japanese local government system adopts a two-tier system with prefectures serving broader geographic areas, and cities, special wards of Tokyo, as well as government-designated cities, towns and villages providing local services.



Number of Japanese Local Governments

Prefectures	47
Cities, special wards of Tokyo, etc.	1,741
Government-designated cities	20
Cities	772
Special wards of Tokyo	23
Towns	743
Villages	183
Total	1,788

(as of 1 April 2019)



2 Local Government Finance Programme

Each local government is unique in terms of its natural and historic situations, industrial structures, population sizes, and other attributes. As a result, each local government handles diverse administration. The term "local government finance" collectively refers to funding for individual local governments engaging in such administration. Just as with national finance, local government finance plays a major role in the nation's economy and the lives of citizens. In fiscal 2019, local government finance will total JPY 90.8 trillion (USD 818.7 billion) (based on the Local Government Finance Programme (the "LGFP").

Because local governments engage in numerous activities that closely relate to residents, they need to provide stable public services regardless of regional differences stemming from varying populations, industry densities, and/or tax revenue fluctuations over years. Accordingly, the national government formulates the LGFP each fiscal year based on assessments of the scales of local government finance and forecasts of overall revenues and expenditures. In response to annual national budget plans, the national government balances the total amount of local government revenues and expenditures in the LGFP. Under this Programme, revenue sources for all local governments, including local allocation tax grants as well as bonds and loans to be issued or borrowed, are secured so that local governments can ensure uniform public service standards.

Local Government Finance Programme (Initial Plan for FY2019)

Annual Expenditure (USD 818.6 bn)	Annual Revenue (USD 818.7 bn)
<ul style="list-style-type: none"> - Social welfare - Education - Fire defense - Infrastructure, etc. 	Local Tax USD 387.2 bn
	Local Allocation Tax USD 149.5 bn
	Local Government Bonds and Loans USD 85.0 bn
	Others USD 196.9 bn

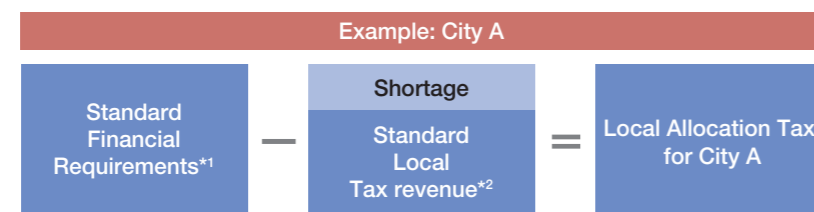
Note: The above programme includes Great East Japan Earthquake related budgets.

JFM's Role in Local Government Finance

3 | Local Allocation Tax

Local governments would ideally cover the expenditures necessary to provide public services with their local tax revenues. In reality, however, tax revenues are distributed unevenly. In order to adjust disparities and secure funds for local governments that have low tax revenues, the national government distributes Local Allocation Tax, which comprises certain percentages of national taxes, including personal and corporate income taxes and consumption taxes. Local Allocation Tax is an important source of funds for local governments to maintain an appropriate level of public services.

Local Allocation Tax System



Notes: 1. Standard financial requirements are the amount of funds necessary to provide standard public services. The requirements are calculated for each local government according to the standard specified by the Ministry of Internal Affairs and Communications.

2. Local governments have taxation rights in Japan, but there are regional imbalances in tax revenues.

4 | Local Government Borrowings

Local government borrowings are bonds and loans to be issued by local governments for securing necessary external funds, and mature no earlier than the first fiscal year. In principle, a local government should cover expenditures with its revenues other than local government borrowings. However, local governments can finance through borrowings in the case that it is desirable to share costs with future residents such as for constructions of facilities, or that large temporary expenses are required due to disasters.

5 | Security of Local Government Borrowings

The following framework secures principal and interest payments of local government borrowings. On the back of this framework, the BIS risk weighting for local government borrowings is 0%, based on the standardized approach (as of 31 March 2019).

1) Secured funds for repayments of local government borrowings

The national government effectively secures revenue sources for repayments of local government borrowings from both macro and micro perspectives.

- (i) Local tax revenues are secured by taxation rights of local governments
- (ii) The national government includes repayments of local government borrowings (i.e., principal and interest payments) in the amount of expenditures in the LGFP
- (iii) The total amount of Local Allocation Tax grants is set aside so that the total amount of local government expenditures, including the principal and interest payments, is equivalent to the total amount of local government revenues in the LGFP
- (iv) In the calculation of Local Allocation Tax grants to be allocated to an individual local government, a portion of the principal and interest payments are included in the Standard Financial Requirements of an individual local government

Note: In (ii), (iii) and (iv) above, only the local government borrowings to which the consent or approval has been given are covered.

2) Issuance restriction

Local governments with a real debt payment ratio of 18% or higher, or those with a real deficit ratio exceeding specified levels, are restricted from additional borrowings under the Local Government Finance Law.

3) Supervision of financial soundness

The Law Relating to the Financial Soundness of Local Governments of Japan, which was promulgated in June 2007, requires local governments the following measures in order to securely manage their fiscal soundness:

- (i) Specified fiscal indicators to be disclosed
- (ii) Local governments with those fiscal indicators exceeding certain early warning limits to restore fiscal soundness through their own efforts
- (iii) Local governments with those fiscal indicators exceeding certain reconstruction limits to take necessary actions under the supervision of the national government or the respective prefectural governments, in order to restore their fiscal soundness

6 | Local Government Borrowing Programme

The LGBP is an annual plan that the national government prepares for local government funding. The LGBP is closely linked to the national government budget-making. The LGBP plays the following crucial roles in terms of local government finance.

1) Consent (approval) based on LGBP

The LGBP specifies the total scheduled amount of local government borrowings including the amount by business type. Typically, the consent or approval for local government borrowings is given based on the LGBP.

2) Secured funding sources for local government borrowings

The national government balances the amount of local government funding needs and the amount of funding sources, and specifies funding sources for each business under the LGBP.

JFM's Role in Local Government Finance

7 | JFM Funds in Local Government Borrowing Programme

The sources for local government funding are classified into national government funds, JFM funds and private funds.

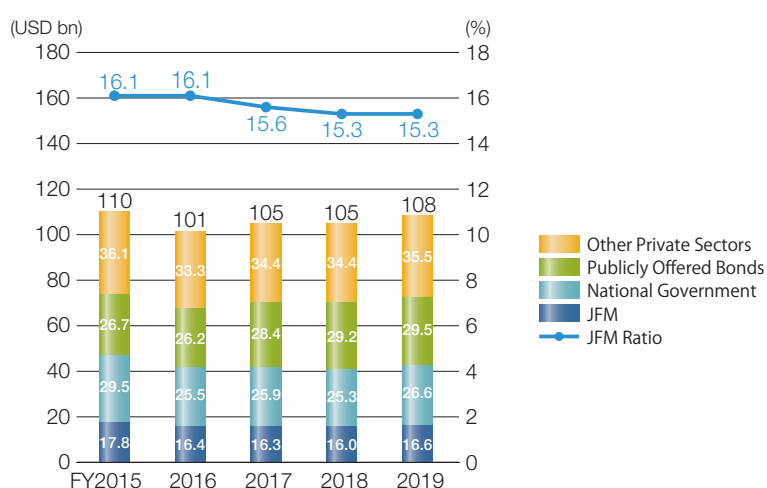
Local Government Borrowing Programme

		FY2018	FY2019	Share
1. Private Funds	Publicly Offered Bonds	USD 34 bn	USD 36 bn	33%
	Other Private Sectors	USD 29 bn	USD 30 bn	27%
2. Public Funds	JFM	USD 16 bn	USD 17 bn	15%
	National Government	USD 25 bn	USD 27 bn	25%
Total		USD 105 bn	USD 108 bn	100%

Note: The figures above are the planned numbers originally published by the Ministry of Internal Affairs and Communications and not the actual numbers.

Since fiscal 2015, JFM funds have accounted for around 15-16% of the LGBP. JFM plays a major role in Japanese local government finance, making a substantial contribution to project implementation and financial management of local governments.

LGBP Volume by Funding Source (Initial Plan)



Source: The Ministry of Internal Affairs and Communications

Financial Section

Review and Plan

Operations

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JFM's Role in
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Financial Section

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Financial Statements

Balance Sheets

(As of 31 March 2018 and 2019) (Millions of yen) (Thousands of U.S. dollars)

Item	Fiscal 2017 (31 March 2018)	Fiscal 2018 (31 March 2019)		Item	Fiscal 2017 (31 March 2018)	Fiscal 2018 (31 March 2019)	
	Amount				Amount		
Assets				Liabilities			
Loans (Note 3)	¥23,768,240	¥23,503,092	\$211,892,288	Bonds (Notes 7 and 8)	¥20,284,520	¥20,392,179	\$183,845,828
Securities (Note 17)	170,000	180,000	1,622,791	Borrowed money (Note 9)	159,500	128,000	1,153,985
Cash and bank deposits	747,767	870,480	7,847,824	Cash collateral received for financial instruments	12,260	27,630	249,098
Cash collateral paid for financial instruments	56,277	22,847	205,977	Other liabilities	6,692	6,261	56,446
Other assets	9,783	8,859	79,869	Reserve for bonuses (Note 10)	57	57	520
Tangible fixed assets (Note 6)	2,549	2,884	26,005	Reserve for bonuses for directors and corporate auditors (Note 10)	8	10	92
Intangible fixed assets (Note 6)	1,211	1,035	9,339	Reserve for retirement benefits (Notes 10 and 13)	47	52	475
				Reserve for retirement benefits for directors and corporate auditors (Note 10)	24	24	220
				Fund for lending rate reduction	920,287	920,287	8,296,859
				Basic fund for lending rate reduction (Note 12)	920,287	920,287	8,296,859
				Reserves under special laws	3,105,003	2,819,505	25,419,271
				Reserve for interest rate volatility (Note 11)	2,200,000	2,200,000	19,834,115
				Management account reserve for interest rate volatility (Note 11)	870,453	597,076	5,382,945
				Reserve for interest rate reduction	34,550	22,429	202,211
				Total liabilities	24,488,401	24,294,008	219,022,794
				Net Assets			
				Capital	16,602	16,602	149,676
				Retained earnings	191,890	212,616	1,916,844
				General account surplus reserve	191,890	212,616	1,916,844
				Valuation, translation adjustments and others	5,268	8,163	73,602
				Management account surplus reserve	53,666	57,808	521,177
				Total net assets	267,427	295,191	2,661,299
Total assets	¥24,755,829	¥24,589,199	\$221,684,093	Total liabilities and net assets	¥24,755,829	¥24,589,199	\$221,684,093

See notes to financial statements.

Statements of Income

(For the years ended 31 March 2018 and 2019) (Millions of yen) (Thousands of U.S. dollars)

Item	Fiscal 2017 (1 April 2017 to 31 March 2018)	Fiscal 2018 (1 April 2018 to 31 March 2019)	
	Amount	Amount	
Income	¥347,476	¥318,863	\$2,874,714
Interest income	343,305	313,785	2,828,939
Fees and commissions	98	93	840
Other operating income	46	21	197
Other income	4,026	4,962	44,738
Contributions from fund for lending rate reduction (Note 12)	4,011	4,949	44,625
Others	14	12	113
Expenses	195,499	179,428	1,617,638
Interest expenses	187,970	172,436	1,554,600
Fees and commissions	300	300	2,708
Other operating expenses	3,934	3,270	29,488
General and administrative expenses	3,295	3,397	30,627
Other expenses	-	23	215
Ordinary income	151,976	139,434	1,257,076
Special gains	626,467	406,190	3,662,009
Reversal of management account reserve for interest rate volatility (Note 11)	620,000	400,064	3,606,782
Reversal of reserve for interest rate reduction	6,467	6,125	55,227
Special losses	752,332	522,445	4,710,110
Provision for reserve for interest rate volatility (Note 11)	220,000	-	-
Provision for management account reserve for interest rate volatility (Note 11)	132,332	122,381	1,103,328
Payment to national treasury (Notes 4 and 11)	400,000	400,064	3,606,782
Net income	¥26,111	¥23,179	\$208,975

See notes to financial statements.

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Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2018)		(Millions of yen)	
1 Profit available for appropriation			¥26,111
Net income	¥26,111		
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve	26,111	26,111	

Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2019)		(Millions of yen)	
1 Profit available for appropriation			¥23,179
Net income	¥23,179		
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve	23,179	23,179	

		(Thousands of U.S. dollars)	
1 Profit available for appropriation			\$208,975
Net income	\$208,975		
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve	208,975	208,975	

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 of 2007; hereinafter the "Law").
2. Surplus reserve appropriated was posted as general account surplus reserve on the balance sheets.

See notes to financial statements.

Statements of Appropriation of Profit [Management account]

(For the year ended 31 March 2018)		(Millions of yen)	
1 Profit available for appropriation			¥-
Net income	¥-		
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve	-	-	

Statements of Appropriation of Profit [Management account]

(For the year ended 31 March 2019)		(Millions of yen)	
1 Profit available for appropriation			¥-
Net income	¥-		
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve	-	-	

		(Thousands of U.S. dollars)	
1 Profit available for appropriation			\$-
Net income	\$-		
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve	-	-	

See notes to financial statements.

Financial Statements

Statements of Changes in Net Assets

(For the year ended 31 March 2018)

(Millions of yen)

	Stockholders' equity				Valuation, translation adjustments and others		Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized gain/(loss) from hedging instruments			
		General account surplus reserve	Total retained earnings					
Balance as of 1 April 2017	¥16,602	¥165,779	¥165,779	¥182,381	¥5,035	¥53,666	¥241,082	
Changes during accounting period								
Net income	-	26,111	26,111	26,111	-	-	26,111	
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	233	-	233	
Net changes during accounting period	-	26,111	26,111	26,111	233	-	26,345	
Balance as of 31 March 2018	¥16,602	¥191,890	¥191,890	¥208,492	¥5,268	¥53,666	¥267,427	

(For the year ended 31 March 2019)

(Millions of yen)

	Stockholders' equity				Valuation, translation adjustments and others		Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized gain/(loss) from hedging instruments			
		General account surplus reserve	Total retained earnings					
Balance as of 1 April 2018	¥16,602	¥191,890	¥191,890	¥208,492	¥5,268	¥53,666	¥267,427	
Cumulative effects of error correction (Note 19)	-	(2,453)	(2,453)	(2,453)	-	4,142	1,688	
Balance at the beginning of current period after retrospective adjustment for error correction	¥16,602	¥189,436	¥189,436	¥206,038	¥5,268	¥57,808	¥269,116	
Changes during accounting period								
Net income	-	23,179	23,179	23,179	-	-	23,179	
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	2,895	-	2,895	
Net changes during accounting period	-	23,179	23,179	23,179	2,895	-	26,074	
Balance as of 31 March 2019	¥16,602	¥212,616	¥212,616	¥229,218	¥8,163	¥57,808	¥295,191	

(For the year ended 31 March 2019)

(Thousands of U.S. dollars)

	Stockholders' equity				Valuation, translation adjustments and others		Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized gain/(loss) from hedging instruments			
		General account surplus reserve	Total retained earnings					
Balance as of 1 April 2018	\$149,676	\$1,729,992	\$1,729,992	\$1,879,668	\$47,501	\$483,827	\$2,410,996	
Cumulative effects of error correction (Note 19)	-	(22,123)	(22,123)	(22,123)	-	37,350	15,227	
Balance at the beginning of current period after retrospective adjustment for error correction	\$149,676	\$1,707,869	\$1,707,869	\$1,857,545	\$47,501	\$521,177	\$2,426,223	
Changes during accounting period								
Net income	-	208,975	208,975	208,975	-	-	208,975	
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	26,101	-	26,101	
Net changes during accounting period	-	208,975	208,975	208,975	26,101	-	235,076	
Balance as of 31 March 2019	\$149,676	\$1,916,844	\$1,916,844	\$2,066,520	\$73,602	\$521,177	\$2,661,299	

See notes to financial statements.

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Statements of Cash Flows

(For the years ended 31 March 2018 and 2019)

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

Item	Fiscal 2017 (1 April 2017 to 31 March 2018)	Fiscal 2018 (1 April 2018 to 31 March 2019)	
	Amount	Amount	
I Cash flows from operating activities			
Net income	¥26,111	¥23,179	\$208,975
Depreciation and amortization	659	726	6,546
Interest income	(343,305)	(313,785)	(2,828,939)
Interest expenses	187,970	172,436	1,554,600
Increase in reserve for bonuses	2	0	1
Increase in reserve for bonuses for directors and corporate auditors	0	2	19
Increase in reserve for retirement benefits	2	5	45
Increase in reserve for retirement benefits for directors and corporate auditors	6	0	2
Decrease in fund for lending rate reduction	(4,011)	(4,949)	(44,625)
Increase in reserve for interest rate volatility	220,000	-	-
Increase/(decrease) in management account reserve for interest rate volatility	(87,667)	122,381	1,103,329
Decrease in reserve for interest rate reduction	(6,467)	(6,125)	(55,227)
Net (increase)/decrease in loans	(48,218)	265,147	2,390,441
Net increase in bonds	326,799	105,848	954,279
Net increase/(decrease) in borrowed money	(11,000)	(31,500)	(283,988)
Interest received	344,134	314,710	2,837,270
Interest paid	(187,420)	(171,555)	(1,546,656)
Others	(130,597)	51,734	466,413
Net cash provided by operating activities	286,997	528,254	4,762,485
II Cash flows from investing activities			
Proceeds from redemption of securities	612,000	578,000	5,210,963
Purchases of securities	(616,000)	(588,000)	(5,301,118)
Purchases of tangible fixed assets	(51)	(91)	(821)
Purchases of intangible fixed assets	(416)	(336)	(3,033)
Net cash provided by investing activities	(4,467)	(10,427)	(94,009)
III Cash flows from financing activities			
Payment to national treasury	(400,000)	(400,064)	(3,606,782)
Revenue from contributions made from municipally operated racing	4,011	4,949	44,625
Net cash used in financing activities	(395,988)	(395,114)	(3,562,157)
IV Effect of exchange rate changes on cash and cash equivalents	-	-	-
V Net increase/(decrease) in cash and cash equivalents	(113,458)	122,712	1,106,319
VI Cash and cash equivalents at beginning of year	861,226	747,767	6,741,505
VII Cash and cash equivalents at end of year	¥747,767	¥870,480	\$7,847,824

See notes to financial statements.

Notes to Financial Statements

1. Basis of Presentation

Japan Finance Organization for Municipalities (hereinafter, "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 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 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 2019, the final day of the fiscal year, which was ¥110.92 to U.S. \$1. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

2. Summary of Significant Accounting Policies

- (1) Securities
Held-to-maturity securities are carried at amortized cost (straight-line method).
- (2) Derivative transactions
Derivative transactions are carried at fair value with changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for hedge accounting.
- (3) Depreciation and amortization
 - (a) Tangible fixed assets
Depreciation of tangible fixed assets is calculated by the straight-line method based on the estimated useful lives and the residual value determined by management. The estimated useful lives of major items are as follows:
Buildings: 23 to 47 years
Others: 2 to 19 years
 - (b) Intangible fixed assets
Amortization of intangible fixed assets is calculated by the straight-line method based on the estimated useful lives and the residual value determined by management. Software for internal use owned by 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
JFM has never experienced any loan losses. Accordingly, no reserve for possible loan losses has been maintained.
 - (b) Reserve for bonuses
The reserve for bonuses is provided for payment of bonuses to employees, in the amount of estimated bonuses, which are attributable to the fiscal year.
 - (c) Reserve for bonuses for directors and corporate auditors
The reserve for bonuses for directors and corporate auditors is provided for payment of bonuses to directors and corporate auditors, in the amount of estimated bonuses, which are attributable to the fiscal year.
 - (d) Reserve for retirement benefits
The reserve for retirement benefits is provided for payment of retirement benefits to employees, in the amount deemed accrued at the fiscal year-end, based on the projected retirement benefit obligation and fair value of plan assets at the fiscal year-end. The reserve for retirement benefits and pension expenses are calculated using the simplified method, which assumes JFM's retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at the fiscal year-end.
 - (e) Reserve for retirement benefits for directors and corporate auditors
The reserve for retirement benefits for directors and corporate auditors is provided for payment of retirement benefits to directors and corporate auditors, in the amount deemed accrued at the fiscal year-end based on the internal policies.

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- (7) Hedge accounting
- (a) Hedge accounting method
Interest rate swaps used to hedge the risk of interest rate fluctuations that qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. If swap contracts or forward contracts used to hedge the risk of foreign currency fluctuation qualify for deferral hedge accounting, the foreign currency-denominated assets and liabilities are translated at the contracted rate.
- (b) Hedging instruments and hedged items
- (i) Hedging instruments . . . Interest rate swaps
Hedged items . . . Bonds and long-term borrowed money
- (ii) Hedging instruments . . . Currency swaps
Hedged items . . . Foreign currency-denominated bonds
- (iii) Hedging instruments . . . Foreign exchange forward contracts
Hedged items . . . Foreign currency-denominated bank deposits
- (c) Hedging policy
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 JFM.
- (d) Assessment of hedge effectiveness
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, JFM deems these to be highly effective and thus does not assess effectiveness. Moreover, a periodic assessment of hedge effectiveness for interest rate swaps and currency swaps and forward contracts that qualify for deferral hedge accounting is omitted when the exceptional accrual method is applied.
- (8) Cash and cash equivalents
Cash and cash equivalents in the statements of cash flows consist of "Cash and bank deposits" on the balance sheets.
- (9) Fund for lending rate reduction
In accordance with the provisions of Article 46, Section 1 of the Law, JFM has established the fund for lending rate reduction to reserve contributions as stipulated in Article 32-2 of the Local Government Finance Law (Law No. 109, 1948). Also, pursuant to the provisions of Article 46, Section 5 of the Law, income arising from the investment of the fund (hereinafter, "investment income") is used to reduce interest rates of the loans to municipalities, and if there is any surplus in the investment income after this interest rate reduction process, the surplus amount is added to the fund. Further, pursuant to the provisions of Article 46, Section 6 of the Law, if there is any shortfall after the interest rate reduction process, the shortfall is covered by withdrawal of the fund within the limits of the total of the additional portion to the fund made up to the previous fiscal year and the contributions made in the most current fiscal year.
- (10) Reserve for interest rate volatility and management account reserve for interest rate volatility
The reserve for interest rate volatility is set aside to prepare for interest rate risk associated with refinancing of JFM bonds (excluding the bonds issued by the former Japan Finance Corporation for Municipal Enterprises; hereinafter, the "Predecessor") pursuant to the provisions of Article 38, Sections 1 and 3 of the Law, and Article 9, Sections 8 and 10 of the Supplementary Provisions of the Law, and is calculated and accounted for based on the provisions of Article 34 of the Ministerial Ordinance on Finance and Accounting of Japan Finance Organization for Municipalities (Ordinance No. 87 of the Ministry of Internal Affairs and Communications, 2008; hereinafter, "Ordinance on Finance and Accounting") and Articles 22 and 23 of the Government Ordinance on preparation of relevant government ordinances and provisional measures for the abolishment of the Japan Finance Corporation for Municipal Enterprises Law (Government Ordinance No. 226, 2008; hereinafter, "Preparation Ordinance").
The management account reserve for interest rate volatility is set aside to manage interest rate risk associated with refinancing of bonds issued by the Predecessor pursuant to the provisions of Article 9, Sections 9 and 10, and Article 13, Sections 5 and 7 of the Supplementary Provisions of the Law, and is calculated and accounted for based on the provisions of Articles 1 through 3 of the Ministerial Ordinance on the operations of the Management Account at Japan Finance Organization for Municipal Enterprises (Ordinance No. 2 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2008; hereinafter, "Management Account Operations Ordinance") and Articles 3 and 5 of the Supplementary Provisions of the above ordinance.
- (11) Reserve for interest rate reduction
Reserve for interest rate reduction is set aside to reduce interest rates on the loans made by the Predecessor to local governments pursuant to the provisions of Article 9, Section 13, and Article 13, Section 8 of the Supplementary Provisions of the Law, and Article 26, Sections 1, 3 and 4 of the Preparation Ordinance, and is calculated and accounted for based on the provisions of Article 5 of the Management Account Operations Ordinance.

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

3. Loans

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

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

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

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

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

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

In accordance with the Supplementary Provisions of the Law, a portion of JFM's management account reserve for interest rate volatility is being attributed to the Japanese national government over a period of three years from fiscal 2015 through fiscal 2017, with the aim of transferring up to 600 billion yen over this period. Furthermore, it has been also determined that an additional amount of up to 900 billion yen from fiscal 2017 through fiscal 2019 shall be attributed to the government.

In fiscal 2017, 400,000 million yen was reversed from the Management Account Reserve for Interest Rate Volatility and the same amount was transferred to the national treasury by JFM, pursuant to Article 14 of the Supplementary Provisions of the Law for fiscal 2017 (Ordinance No. 2 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2017). And, in fiscal 2018, 400,064 million yen (3,606,782 thousand U.S. dollars) was reversed from the Management Account Reserve for Interest Rate Volatility and the same amount was transferred to the national treasury by JFM, pursuant to Article 14 of the Supplementary Provision of the Law for fiscal 2018 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2018).

JFM obtained the approval of the Minister of Health, Labour and Welfare, dated 1 October 2014, for the transfer to the Japanese national government of the payment obligation of the substitutional portion of the Employees' Pension Fund established under the Japanese Welfare Pension Insurance Law. Furthermore, on 22 September 2017, JFM completed the transfer of the total amount of the refund (minimum policy reserve) to the Japanese national government. There will be no impact on JFM's profit or loss in conjunction with this because Clause 46 of "Guidance on Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan Guidance No. 25) has been applied.

Additional information

In fiscal 2019, 100 billion yen is scheduled to be transferred to the national treasury by JFM, pursuant to Article 14 of the Supplementary Provision of the Law for fiscal 2019 (Ordinance No. 4 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2019).

The Act on Promotion of Private Finance Initiative (Law No. 60, 2018) was amended on 20 June 2018 and it was determined that an amount of up to 1.5 billion yen of a portion of JFM's Management Account Reserve for Interest Rate Volatility would be transferred to the national treasury over a six-year period ending 31 March 2024 for securing funds of the Trust Fund Bureau Fund for exemptions of early redemption charges in relation to concessions of water supply and sewerage businesses.

5. Financial Instruments

- (1) Status of financial instruments
- (a) Policy for financial instruments
In order to maintain a sound and good financial standing as well as the solid confidence of capital markets,

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JFM needs to appropriately manage various risks including interest rate risk.

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

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

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

JFM has set aside reserves for interest rate fluctuations (the reserve for interest rate volatility), and has set up the ALM Committee separately from the Integrated Risk Management Committee to comprehensively analyze and manage 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, 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

JFM extends loans exclusively to local governments. Local governments have a zero Bank of International Settlements (BIS) risk weighting and JFM does not expect any default on loans made to local governments for the reasons outlined below. JFM and the Predecessor have never experienced any loan losses.

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

B. Credit risk on transactions

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, 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, 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, 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 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

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

- 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 JFM's general account will expand as a result of lending to local governments and funding, 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, JFM has established a medium-term management target for five years from fiscal 2018, in which the duration gap is to be maintained below approximately two years.
- To achieve its objective, from the viewpoint of controlling the duration on assets (lending), the interest rates for temporary financial countermeasures funding which accounts for approximately 1/3 of the overall outstanding loans in the general account, are revised every 5 or 10 years. In addition, 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, JFM has taken measures to manage the duration on liabilities (bonds and loans) by issuing bonds with maturities longer than 10 years continuously under the ultra-low interest rate circumstances and carefully choosing maturities of bonds to be issued by utilizing its FLIP and Open Issuance scheme.
- The management account, which manages assets related to loans extended by the Predecessor, is exposed to interest rate risk. To address such risk, JFM contributes to the required reserves for interest rate volatility as described above. In accordance with Article 14 of the Supplementary Provisions of the Law, a portion of JFM's management account reserve for interest rate volatility is to be transferred to the Japanese national government. The transfer is scheduled to occur over a period of three years from fiscal 2017 through fiscal 2019, with the aim of transferring up to 900 billion yen of which the transfer of 100 billion yen is pursuant to the January 2015 determination, and over a period of six years from fiscal 2018 through fiscal 2023, with the aim of transferring up to 1.5 billion yen for securing funds of the Trust Fund Bureau Fund for exemptions of early redemption charges in relation to concessions of water supply and sewerage businesses. 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 JFM's management account at the time of transfer and in the future, in light of JFM's financial condition.

- Pipeline risk

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

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, JFM minimizes the risk of price fluctuation by holding investments until maturity, and hedges foreign exchange risk by using foreign exchange contracts.

C. Quantitative information on market risk

Loans, bonds and long-term borrowed money are primarily affected by interest rate risk, which is a major risk variable among the market risks.

With respect to loans, bonds and long-term borrowed money in the general account, JFM establishes a management target for the duration gap in order to manage interest rate risk appropriately. With regard to the quantitative analysis of interest rate risk, while JFM does not have a management target for the quantitative figures, it reports the results of calculating the quantitative information to the ALM Committee and tracks the status of the interest rate risk.

With respect to these financial instruments in the general account, based on an assumption that the risk variables, except for interest rate risk, hold steady, for an indicative interest rate that is 10

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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 42,454 million yen and 38,399 million yen (346,189 thousand U.S. dollars) as of 31 March 2018 and 2019, respectively. On the contrary, for an indicative interest rate that is 10 basis points lower than the actual rate, it is assumed that the fair value of the net amount (assets side), after offsetting such financial instruments with the financial liabilities, would increase by 43,181 million yen and 39,013 million yen (351,726 thousand U.S. dollars) as of 31 March 2018 and 2019, respectively. These basis point values are presented in the financial statements from fiscal 2017 instead of the outlier ratio (A maximum loss of market value expressed as a percentage of net assets in the event of a parallel rate hike or drop of 200 basis points) in accordance with an amendment to Comprehensive Guidelines for Supervision of Major Banks, etc. issued by the FSA in Japan.

With respect to loans and bonds in the management account, JFM raises funds by the issuance of bonds as necessary in order to manage existing loans until their redemption. For this reason, while 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, JFM does not establish a management target or use the quantitative analysis for the management account.

With respect to these financial instruments in the management account, based on an assumption that the risk variables, except for interest rate risk, hold steady, for an indicative interest rate that is 10 basis points higher than the actual rate, it is assumed that the fair value of the net amount (assets side), after offsetting such financial instruments with the financial liabilities, would decline by 15,157 million yen and 10,560 million yen (95,209 thousand U.S. dollars) as of 31 March 2018 and 2019, respectively. On the contrary, for an indicative interest rate that is 10 basis points lower than the actual rate, it is assumed that the fair value of the net amount (assets side), after offsetting such financial instruments with the financial liabilities, would increase by 15,352 million yen and 10,692 million yen (96,396 thousand U.S. dollars) as of 31 March 2018 and 2019, respectively.

(iii) Liquidity risk

Liquidity risk is the risk that 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 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).

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 quarterly plan for fund management. Moreover, 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, JFM has implemented a plan to secure liquidity support assets in advance in order to prepare for potential market disruption which may prevent JFM from securing the necessary funds for scheduled bond principal and interest payments.

(iv) Supplemental remarks on fair value of financial instruments

In addition to the amount based on the market price, the fair value of illiquid financial instruments includes a value that has been rationally calculated. Since certain assumptions were made when calculating the fair value, the value may differ in the event that the assumptions change.

(2) Items related to fair value of financial instruments

The book value, fair value and difference between them as of 31 March 2018 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,768,240	¥25,641,198	¥1,872,958
(2) Securities held-to-maturity securities	170,000	170,000	-
(3) Cash and bank deposits	747,767	747,767	-
(4) Cash collateral paid for financial instruments	56,277	56,277	-
Total assets	24,742,285	26,615,243	1,872,958
(1) Bonds	20,284,520	21,100,871	816,350
(2) Borrowed money	159,500	161,601	2,101
(3) Cash collateral received for financial instruments	12,260	12,260	-
Total liabilities	20,456,280	21,274,733	818,452
Derivative transactions Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

The book value, fair value and difference between them as of 31 March 2019 are as follows:

(Millions of yen)

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

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(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans	\$211,892,288	\$228,715,430	\$16,823,142
(2) Securities held-to-maturity securities	1,622,791	1,622,791	-
(3) Cash and bank deposits	7,847,824	7,847,824	-
(4) Cash collateral paid for financial instruments	205,977	205,977	-
Total assets	221,568,880	238,392,022	16,823,142
(1) Bonds	183,845,828	191,366,614	7,520,786
(2) Borrowed money	1,153,985	1,174,474	20,489
(3) Cash collateral received for financial instruments	249,098	249,098	-
Total liabilities	185,248,911	192,790,186	7,541,275
Derivative transactions Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

Note 1. Method for calculating fair value of financial instruments and items related to marketable securities and derivative transactions

Assets

(1) Loans

The fair value of loans is calculated by discounting future cash flows assuming prepayment at the discount rate calculated using the Japanese government bond rates as of 31 March 2018 and 2019.

(2) Securities

All bonds are held until maturity, and the fair value of treasury discount bills is the market price. Since all negotiable certificates of deposit are short-term, the fair value approximates the book value. As a result, the book value is deemed to be the fair value.

As of 31 March 2018

(Millions of yen)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	-	-	-	-
	Sub total	-	-	-
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	¥170,000	¥170,000	-
	Sub total	170,000	170,000	-
Total		¥170,000	¥170,000	-

As of 31 March 2019

(Millions of yen)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	-	-	-	-
	Sub total	-	-	-
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	¥180,000	¥180,000	-
	Sub total	180,000	180,000	-
Total		¥180,000	¥180,000	-

(Thousands of U.S. dollars)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	-	-	-	-
	Sub total	-	-	-
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	\$1,622,791	\$1,622,791	-
	Sub total	1,622,791	1,622,791	-
Total		\$1,622,791	\$1,622,791	-

(3) Cash and bank deposits

The book value is used as the fair value for deposits without maturities. Since all deposits with maturities are short-term, the fair value approximates the book value. As a result, the book value is deemed to be the fair value.

(4) Cash collateral paid for financial instruments

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

Liabilities

(1) Bonds

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

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

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

(2) Borrowed money

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

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

(3) Cash collateral received for financial instruments

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

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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 2018 is as follows:

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions	Bonds Long-term borrowed money	-	-	-	Based on prices provided by the counterparty financial institution
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	¥35,000	¥35,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,411,742	1,117,763	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	140,000	-	(*2)	
Total			¥1,586,742	¥1,152,763	-	

For derivative transactions for which hedge accounting is applied, the contractual amount or the amount equivalent to the principal in the contract under each hedge accounting method as of 31 March 2019 is as follows:

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions	Bonds Long-term borrowed money	-	-	-	Based on prices provided by the counterparty financial institution
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	¥35,000	¥20,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,474,819	1,436,071	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	3,000	-	(*2)	
Total			¥1,512,819	¥1,456,071	-	

(Thousands of U.S. dollars)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions	Bonds Long-term borrowed money	-	-	-	Based on prices provided by the counterparty financial institution
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	\$315,543	\$180,310	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	13,296,241	12,946,912	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	27,047	-	(*2)	
Total			\$13,638,831	\$13,127,222	-	

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

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

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

As of 31 March 2018

(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	¥1,728,937	¥1,758,517	¥1,760,017	¥1,719,241	¥1,642,751	¥6,624,170	¥6,814,112	¥1,694,676	¥25,815
Securities held-to-maturity securities	170,000	-	-	-	-	-	-	-	-
Deposits	747,767	-	-	-	-	-	-	-	-

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As of 31 March 2019

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Loans	¥1,763,913	¥1,784,040	¥1,769,220	¥1,709,516	¥1,605,880	¥6,520,793	¥6,648,578	¥1,665,063	¥36,084
Securities held-to-maturity securities	180,000	-	-	-	-	-	-	-	-
Deposits	870,480	-	-	-	-	-	-	-	-

(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	\$15,902,575	\$16,084,033	\$15,950,421	\$15,412,160	\$14,477,830	\$58,788,257	\$59,940,306	\$15,011,387	\$325,319
Securities held-to-maturity securities	1,622,791	-	-	-	-	-	-	-	-
Deposits	7,847,824	-	-	-	-	-	-	-	-

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

As of 31 March 2018

(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	¥1,804,268	¥2,078,327	¥2,069,865	¥2,345,072	¥2,094,780	¥6,960,448	¥2,736,600	¥175,500	¥26,000
Borrowed money	80,000	10,000	-	1,000	-	68,500	-	-	-

As of 31 March 2019

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Bonds	¥2,078,327	¥2,072,865	¥2,345,072	¥2,124,677	¥2,332,910	¥6,272,932	¥2,917,863	¥183,000	¥70,000
Borrowed money	10,000	-	1,000	-	86,200	30,800	-	-	-

(Thousands of U.S. dollars)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	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	\$18,737,175	\$18,687,929	\$21,142,015	\$19,155,048	\$21,032,366	\$56,553,666	\$26,306,019	\$1,649,838	\$631,085
Borrowed money	90,155	-	9,016	-	777,137	277,678	-	-	-

6. Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets as of 31 March 2018 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2017 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2018 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2018	Depreciation and amortization during the year	Balance as of 31 March 2018 (Net book value)
Tangible fixed assets							
Buildings	¥1,182	¥2	-	¥1,185	¥442	¥33	¥742
Land	1,659	-	-	1,659	-	-	1,659
Other tangible fixed assets	395	48	¥4	439	292	71	147
Total tangible fixed assets	3,237	51	4	3,284	735	105	2,549
Intangible fixed assets							
Software	2,692	261	23	2,930	1,750	554	1,180
Other intangible fixed assets	0	79	48	31	-	-	31
Total intangible fixed assets	¥2,692	¥341	¥71	¥2,962	¥1,750	¥554	¥1,211

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

(Millions of yen)

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

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(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2018 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2019 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2019	Depreciation and amortization during the year	Balance as of 31 March 2019 (Net book value)
Tangible fixed assets							
Buildings	\$10,684	-	-	\$10,684	\$4,295	\$303	\$6,389
Land	14,964	-	-	14,964	-	-	14,964
Other tangible fixed assets	3,965	4,096	8	8,053	3,401	773	4,652
Total tangible fixed assets	29,613	4,096	8	33,701	7,696	1,076	26,005
Intangible fixed assets							
Software	26,418	3,059	30	29,447	21,220	5,470	8,227
Other intangible fixed assets	287	1,100	275	1,112	-	-	1,112
Total intangible fixed assets	\$26,705	\$4,159	\$305	\$30,559	\$21,220	\$5,470	\$9,339

7. Assets Pledged as Collateral

Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds in the amount of 20,284,520 million yen and 20,392,179 million yen (183,845,828 thousand U.S. dollars) as of 31 March 2018 and 2019, respectively.

8. Bonds

Bonds as of 31 March 2018 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2017	Balance as of 31 March 2018	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-106)	6/15/2009-3/14/2018	¥4,186,197	¥4,792,105	0.005 to 1.500	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013-2/24/2017	420,100	420,086	0.001 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-20)	9/27/2011-10/28/2016	1,330,732	1,130,594 (320,000)	0.001 to 0.400	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 5-10)	6/24/2013-2/26/2018	150,126	200,336	0.001 to 0.249	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	83,170	83,170 [USD 1,000 million]	4	10Y
Non-guaranteed bonds issued by JFM (domestic) 2-year bonds (Series 3)	2/19/2016	25,000	-	0.03	2Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 9-22)	4/19/2012-10/20/2017	190,000	160,000 (45,000)	0.001 to 0.360	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	20,000	20,000	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-106)	6/18/2009-3/19/2018	2,755,000	2,970,000	0.06 to 1.648	10Y
Non-guaranteed bonds issued by 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 JFM (domestic) 20-year bonds (Series 1-65)	6/25/2009-1/26/2018	1,195,000	1,295,000	0.18 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1-5)	6/26/2014-10/20/2017	35,000	55,000	0.569 to 1.864	30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F6, F8-F20, F22-F29, F31, F33-F37, F39, F41-F52, F54-F153, F155-F164, F166-F169, F171-F210, F212-F243, F245-F401)	7/22/2009-2/27/2018	2,029,401	2,206,530 (167,500)	0.001 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011-7/25/2014	35,000	35,000	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) (Series 15, 31, 33-35, 40-62)	3/1/2012-1/30/2018	1,211,337	1,257,266 [USD 9,825 million] [AUD 516 million] [NZD 58 million] [EUR 1,000 million] (273,832)	0.875 to 5.092	3Y to 10Y
Non-guaranteed bonds issued by JFM (international) (Floater, Series 29, 30, 32, 36, 38, 39)	5/22/2012-7/22/2013	74,465	40,376 [USD 330 million] [AUD 100 million] (20,146)	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series A1-A98)	7/31/2009-3/26/2018	2,330,000	2,480,000	0.069 to 1.53	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series B1-B29)	11/24/2015-3/26/2018	75,500	159,000	0.069 to 0.511	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series C1-C29)	11/24/2015-3/26/2018	134,000	248,500	0.19 to 1.154	20Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series D1-D24)	4/21/2016-3/26/2018	150,000	300,000	0.19 to 0.778	20Y

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Bonds issued by JFM - Sub-total	-	16,480,031	17,902,966 (826,478)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	562,010	562,285 (422,500)	1.3 to 1.6	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	139,991	139,996 (80,000)	1.59 to 1.77	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009-4/30/2009	84,964	84,967	2.07 to 2.29	20Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with pension funds for local government officials (Series A1, A2)	4/30/2009-5/26/2009	120,000	120,000	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	906,967	907,249 (502,500)	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 874-886)	4/19/2007-6/19/2008	808,536	221,115 (221,120)	1.4 to 1.9	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	184,793	184,815	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc.	8/9/1999-6/25/2008	223,122	103,366 [GBP 150 million] [USD 1,000 million] (75,000)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 27-30)	7/30/2007-6/16/2008	159,997	49,999 (50,000)	1.77 to 2.02	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	569,784	569,809	1.03 to 2.58	20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004-9/20/2006	189,891	189,897	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	20,000	-	Floating rate	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	30,470	28,300 (2,170)	1.39 to 2.01	28Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with pension funds for local government officials (Series Special No.1-24–No.1-31)	5/28/2007-7/31/2008	382,000	127,000 (127,000)	1.59 to 2.03	10Y
Bonds issued by the Predecessor - Sub-total	-	2,568,595	1,474,304 (475,290)	-	-
Total	-	¥19,955,593	¥20,284,520 (1,804,268)	-	-

Notes: 1. Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds in the amount of 20,284,520 million yen as of 31 March 2018.

2. Amounts in square brackets under "Balance as of 31 March 2018" for "Government-guaranteed bonds issued by JFM (international)—Global U.S. dollar bonds (Series 1)," "Non-guaranteed bonds issued by JFM (international)— (Series 15, 31, 33-35, 40-62)," "Non-guaranteed bonds issued by JFM (international)— (Floater, Series 29, 30, 32, 36, 38, 39)" and "Government-guaranteed bonds issued by the Predecessor (international)—Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc." are denominated in foreign currencies.

3. Amounts in parentheses under "Balance as of 31 March 2018" 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 2019 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2018	Balance as of 31 March 2019	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-118)	6/15/2009-3/18/2019	¥4,792,105	¥5,053,012 (683,910)	0.005 to 1.500	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013-2/24/2017	420,086	420,073	0.001 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 5-20)	4/26/2012-10/28/2016	1,130,594	810,455 (290,000)	0.001 to 0.385	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 7-10)	6/30/2016-2/26/2018	200,336	200,223	0.001	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	83,170	83,170 [USD 1,000 million]	4	10Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 12-24)	4/22/2013-11/19/2018	160,000	135,000 (30,000)	0.001 to 0.360	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	20,000	20,000 (20,000)	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-118)	6/18/2009-3/22/2019	2,970,000	3,250,000 (245,000)	0.06 to 1.648	10Y
Non-guaranteed bonds issued by 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 JFM (domestic) 20-year bonds (Series 1-73)	6/25/2009-3/22/2019	1,295,000	1,425,000	0.18 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1-7)	6/26/2014-10/19/2018	55,000	75,000	0.569 to 1.864	30Y
Non-guaranteed bonds issued by JFM (domestic) 40-year bonds (Series 1)	2/26/2019	-	15,000	0.882	40Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F2-F6, F8-F17,F19, F20, F22-25, F31, F34-F37, F39, F41-F52, F54-F153, F155-F164, F166-F169, F171-F210, F212-F243, F245-F276, F278-F456)	7/23/2009-3/26/2019	2,206,530	2,380,659 (153,500)	0.001 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011-7/25/2014	35,000	35,000 (15,000)	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) (Series 15, 35, 40-45, 47-68)	3/1/2012-3/12/2019	1,257,266	1,340,300 [USD 10,200 million] [AUD 604 million] [NZD 58 million] [EUR 1,080 million]	0.875 to 5.092	3Y to 10Y
Non-guaranteed bonds issued by JFM (international) (Floater, Series 30, 36, 38, 39)	6/6/2012-7/22/2013	40,376	20,230 [USD 230 million] (10,367)	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series A1-A110)	7/31/2009-3/26/2019	2,480,000	2,630,000 (280,000)	0.069 to 1.53	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series B1-B41)	11/24/2015-3/26/2019	159,000	229,500	0.069 to 0.511	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series C1-C41)	11/24/2015-3/26/2019	248,500	365,500	0.19 to 1.154	20Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series D1-D36)	4/21/2016-3/26/2019	300,000	450,000	0.19 to 0.778	20Y
Bonds issued by JFM - Sub-total	-	17,902,966	18,988,125 (1,727,777)	-	-

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Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	562,285	140,000 (140,000)	1.3 to 1.6	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	139,996	60,000 (60,000)	1.59 to 1.77	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009-4/30/2009	84,967	84,970	2.07 to 2.29	20Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with pension funds for local government officials (Series A1, A2)	4/30/2009-5/26/2009	120,000	120,000 (120,000)	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	907,249	404,970 (320,000)	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 884-886)	4/17/2008-6/19/2008	221,115	-	1.4 to 1.8	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	184,815	184,838	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc.	8/9/1999-6/25/2008	103,366	28,376 [GBP 150 million] (28,380)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 30)	6/16/2008	49,999	-	1.97	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	569,809	569,834	1.03 to 2.58	20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004-9/20/2006	189,897	189,903	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	28,300	26,130 (2,170)	1.39 to 2.01	28Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with pension funds for local government officials (Series Special No.29-31)	4/30/2008-7/31/2008	127,000	-	1.59 to 1.91	10Y
Bonds issued by the Predecessor - Sub-total	-	1,474,304	999,082 (30,550)	-	-
Total	-	¥20,284,520	¥20,392,179 (2,078,327)	-	-

(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2018	Balance as of 31 March 2019	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-118)	6/15/2009-3/18/2019	\$43,203,257	\$45,555,470 (6,165,796)	0.005 to 1.500	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013-2/24/2017	3,787,294	3,787,172	0.001 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 5-20)	4/26/2012-10/28/2016	10,192,886	7,306,664 (2,614,497)	0.001 to 0.385	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 7-10)	6/30/2016-2/26/2018	1,806,133	1,805,119	0.001	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	749,819	749,819 [USD 1,000 million]	4	10Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 12-24)	4/22/2013-11/19/2018	1,442,481	1,217,093 (270,465)	0.001 to 0.360	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	180,310	180,310 (180,310)	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-118)	6/18/2009-3/22/2019	26,776,055	29,300,397 (2,208,799)	0.06 to 1.648	10Y
Non-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	450,775	450,775	1.161 to 1.334	15Y
Non-guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-73)	6/25/2009-3/22/2019	11,675,081	12,847,097	0.18 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1-7)	6/26/2014-10/19/2018	495,853	676,163	0.569 to 1.864	30Y
Non-guaranteed bonds issued by JFM (domestic) 40-year bonds (Series 1)	2/26/2019	-	135,233	0.882	40Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F2-F6, F8-F17, F19, F20, F22-25, F31, F34-F37, F39, F41-F52, F54-F153, F155-F164, F166-F169, F171-F210, F212-F243, F245-F276, F278-F456)	7/23/2009-3/26/2019	19,892,993	21,462,853 (1,383,880)	0.001 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011-7/25/2014	315,543	315,543 (135,233)	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) (Series 15, 35, 40-45, 47-68)	3/1/2012-3/12/2019	11,334,891	12,083,489 [USD 10,200 million] [AUD 604 million] [NZD 58 million] [EUR 1,080 million]	0.875 to 5.092	3Y to 10Y
Non-guaranteed bonds issued by JFM (international) (Floater, Series 30, 36, 38, 39)	6/6/2012-7/22/2013	364,016	182,388 [USD 230 million] (93,468)	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series A1-A110)	7/31/2009-3/26/2019	22,358,457	23,710,783 (2,524,342)	0.069 to 1.53	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series B1-B41)	11/24/2015-3/26/2019	1,433,466	2,069,059	0.069 to 0.511	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series C1-C41)	11/24/2015-3/26/2019	2,240,353	3,295,168	0.19 to 1.154	20Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series D1-D36)	4/21/2016-3/26/2019	2,704,652	4,056,978	0.19 to 0.778	20Y
Bonds issued by JFM - Sub-total	-	161,404,315	171,187,573 (15,576,790)	-	-

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Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	5,069,288	1,262,171 (1,262,171)	1.3 to 1.6	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	1,262,141	540,930 (540,930)	1.59 to 1.77	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009-4/30/2009	766,027	766,054	2.07 to 2.29	20Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with pension funds for local government officials (Series A1, A2)	4/30/2009-5/26/2009	1,081,861	1,081,861 (1,081,861)	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	8,179,317	3,651,016 (2,884,962)	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 884-886)	4/17/2008-6/19/2008	1,993,467	-	1.4 to 1.8	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	1,666,209	1,666,410	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc.	8/9/1999-6/25/2008	931,899	255,832 [GBP 150 million] (255,860)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 30)	6/16/2008	450,774	-	1.97	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	5,137,122	5,137,345	1.03 to 2.58	20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004-9/20/2006	1,712,022	1,712,077	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	255,139	235,575 (19,564)	1.39 to 2.01	28Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with pension funds for local government officials (Series Special No.29-31)	4/30/2008-7/31/2008	1,144,969	-	1.59 to 1.91	10Y
Bonds issued by the Predecessor - Sub-total	-	13,291,601	9,007,239 (275,424)	-	-
Total	-	\$182,875,233	\$183,845,828 (18,737,176)	-	-

Notes: 1. Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds in the amount of 20,392,179 million yen (183,845,828 thousand U.S. dollars) as of 31 March 2019.

2. Amounts in square brackets under "Balance as of 31 March 2019" for "Government-guaranteed bonds issued by JFM (international)—Global U.S. dollar bonds (Series 1)," "Non-guaranteed bonds issued by JFM (international)— (Series 15, 35, 40-45, 47-68)," "Non-guaranteed bonds issued by JFM (international)— (Floater, Series 30, 36, 38, 39)" and "Government-guaranteed bonds issued by the Predecessor (international)—Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc." are denominated in foreign currencies.

3. Amounts in parentheses under "Balance as of 31 March 2019" are to be repaid within one year.

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

As of 31 March 2018

(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	¥1,804,268	¥2,078,327	¥2,069,865	¥2,345,072	¥2,094,780

As of 31 March 2019

(Millions of yen)

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

(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	\$18,737,175	\$18,687,929	\$21,142,015	\$19,155,048	\$21,032,366

9. Borrowed Money

Borrowed money as of 31 March 2018 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2017	Balance as of 31 March 2018	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	¥25,000	¥80,000	0.456	9/26/2018-3/26/2019
Long-term borrowed money (excluding repayment within 1 year)	145,500	79,500	0.541	3/9/2020-3/27/2028
Total	¥170,500	¥159,500	-	-

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

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2018	Balance as of 31 March 2019	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	¥80,000	¥10,000	0.21	3/9/2020
Long-term borrowed money (excluding repayment within 1 year)	79,500	118,000	0.445	9/27/2021-3/15/2029
Total	¥159,500	¥128,000	-	-

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2018	Balance as of 31 March 2019	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	\$721,241	\$90,155	0.21	3/9/2020
Long-term borrowed money (excluding repayment within 1 year)	716,733	1,063,830	0.445	9/27/2021-3/15/2029
Total	\$1,437,974	\$1,153,985	-	-

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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 2018

(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	¥80,000	¥10,000	¥-	¥1,000	¥-

As of 31 March 2019

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
Borrowed money	¥10,000	¥-	¥1,000	¥-	¥86,200

(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	\$90,155	\$-	\$9,016	\$-	\$777,137

10. Reserves

Reserves as of 31 March 2018 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2017	Increase during the year	Decrease during the year		Balance as of 31 March 2018
			Intended purpose	Other	
Reserve for bonuses	¥55	¥57	¥55	¥-	¥57
Reserve for bonuses for directors and corporate auditors	8	8	8	-	8
Reserve for retirement benefits	45	12	2	8	47
Reserve for retirement benefits for directors and corporate auditors	17	7	-	1	24

Reserves as of 31 March 2019 consisted of the following:

(Millions of yen)

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

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2018	Increase during the year	Decrease during the year		Balance as of 31 March 2019
			Intended purpose	Other	
Reserve for bonuses	\$519	\$520	\$519	\$-	\$520
Reserve for bonuses for directors and corporate auditors	74	92	74	-	92
Reserve for retirement benefits	430	153	38	70	475
Reserve for retirement benefits for directors and corporate auditors	218	75	62	11	220

11. Reserve for Interest Rate Volatility

Reserve for interest rate volatility as of 31 March 2018 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2017	Increase during the year	Decrease during the year		Balance as of 31 March 2018	
			Amount provided	Amount withdrawn		
Reserve for interest rate volatility	¥1,980,000	¥220,000	¥220,000	¥-	¥2,200,000	
Management account reserve for interest rate volatility	1,358,120	132,332	-	620,000	¥220,000	870,453
Total	¥3,338,120	¥352,332	¥220,000	¥620,000	¥220,000	¥3,070,453

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

(Millions of yen)

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

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2018	Cumulative effects of error correction	Balance at the beginning of current period after retrospective adjustment for error correction	Increase during the year	Decrease during the year		Balance as of 31 March 2019
					Amount provided	Amount withdrawn	
Reserve for interest rate volatility	\$19,834,115	\$0	\$19,834,115	\$-	\$-	\$-	\$19,834,115
Management account reserve for interest rate volatility	7,847,575	38,823	7,886,398	1,103,329	-	3,606,782	5,382,945
Total	\$27,681,690	\$38,823	\$27,720,513	\$1,103,329	\$-	\$3,606,782	\$25,217,060

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Notes: The “decrease during the year” for the “management account reserve for interest rate volatility” in the amount of 400,064 million yen (3,606,782 thousand U.S. dollars) consists of the payment to the national treasury in accordance with an ordinance pursuant to Article 14 of the Supplementary Provisions of the Law for fiscal 2018 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2018).

12. Fund for Lending Rate Reduction

Fund for lending rate reduction as of 31 March 2018 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2017	Increase during the year		Decrease during the year		Balance as of 31 March 2018
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥920,287	¥4,011	¥-	¥4,011	¥-	¥920,287
Total	¥920,287	¥4,011	¥-	¥4,011	¥-	¥920,287

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

(Millions of yen)

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

(Thousands of U.S. dollars)

Classification of fund	Balance as of 1 April 2018	Increase during the year		Decrease during the year		Balance as of 31 March 2019
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	\$8,296,859	\$44,625	\$-	\$44,625	\$-	\$8,296,859
Total	\$8,296,859	\$44,625	\$-	\$44,625	\$-	\$8,296,859

Notes: 1. The “amount of reserve” in the “increase during the year” for the “basic fund for lending rate reduction” represents the payment of the amount stipulated in Article 46, Section 1 of the Law and received in accordance with Article 46, Section 2 of the Law.

2. The “amount withdrawn” in the “decrease during the year” for the “basic fund for lending rate reduction” represents the payment of the amount reduced in the fund for interest rate reduction pursuant to the provisions of Article 46, Section 6 of the Law.

13. Reserve for Retirement Benefits

As of and for the year ended 31 March 2018

(1) Outline of retirement benefits system

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:	12 million yen
Employee retirement benefits paid:	2 million yen
Contributions to the defined benefit plan:	8 million yen
Reserve for retirement benefits at the end of the fiscal year:	<u>47 million yen</u>

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

Funded retirement benefit obligation:	190 million yen
Plan assets:	<u>(181) million yen</u>
Balance:	8 million yen
Unfunded retirement benefit obligation:	<u>39 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u>47 million yen</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>47 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u>47 million yen</u>

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method:	12million yen
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As of and for the year ended 31 March 2019

(1) Outline of retirement benefits system

JFM has a defined benefit plan that contributes to the Corporate Pension Fund and offers lump-sum payments upon retirement of employees and a defined contribution plan. The reserve for retirement benefits and pension expenses are calculated using the simplified method.

(2) Defined benefit plan

(a) Reconciliation of outstanding amounts of reserve for retirement benefits:

Reserve for retirement benefits at the beginning of the fiscal year:	47 million yen	(430 thousand U.S. dollars)
Pension expenses:	16 million yen	(153 thousand U.S. dollars)
Employee retirement benefits paid:	4 million yen	(38 thousand U.S. dollars)
Contributions to the defined benefit plan:	7 million yen	(70 thousand U.S. dollars)
Reserve for retirement benefits at the end of the fiscal year:	<u>52 million yen</u>	<u>(475 thousand U.S. dollars)</u>

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

Funded retirement benefit obligation:	184 million yen	(1,668 thousand U.S. dollars)
Plan assets:	<u>(171) million yen</u>	<u>((1,549) thousand U.S. dollars)</u>
Balance:	13 million yen	(119 thousand U.S. dollars)
Unfunded retirement benefit obligation:	<u>39 million yen</u>	<u>(356 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u>52 million yen</u>	<u>(475 thousand U.S. dollars)</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>52 million yen</u>	<u>(475 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u>52 million yen</u>	<u>(475 thousand U.S. dollars)</u>

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method:	16 million yen (153 thousand U.S. dollars)
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Additional information

JFM obtained the approval of the Minister of Health, Labour and Welfare, dated 1 October 2014, for the transfer to the Japanese national government of the payment obligation of the substitutional portion of the Employees' Pension Fund established under the Japanese Welfare Pension Insurance Law. Furthermore, on 22 September 2017, JFM completed the transfer of the total amount of the refund (minimum policy reserve) to the Japanese national government. There will be no impact on JFM's profit or loss in conjunction with this because Clause 46 of “Guidance on Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan Guidance No. 25) has been applied.

Financial Statements

14. Net Income by Account

(For the year ended 31 March 2018)

Net income of the general account was 26,111 million yen, while there was no net income of management account.

(For the year ended 31 March 2019)

Net income of the general account was 23,179 million yen (208,975 thousand U.S. dollars), while there was no net income of management account.

15. Information by Account (Balance sheets)

Balance sheets of general account and management account as of 31 March 2018 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥14,806,412	¥8,961,827		¥23,768,240
Securities	170,000			170,000
Cash and bank deposits	747,767			747,767
Cash collateral paid for financial instruments	56,277			56,277
Other assets	4,029	5,753		9,783
Tangible fixed assets	2,549			2,549
Intangible fixed assets	1,211			1,211
Due from general account		658,396	¥(658,396)	
Total assets	15,788,248	9,625,977	(658,396)	24,755,829
(Liabilities)				
Bonds	11,621,637	8,662,882		20,284,520
Borrowed money	159,500			159,500
Cash collateral received for financial instruments	12,260			12,260
Other liabilities	2,267	4,425		6,692
Reserve for bonuses	57			57
Reserve for bonuses for directors and corporate auditors	8			8
Reserve for retirement benefits	47			47
Reserve for retirement benefits for directors and corporate auditors	24			24
Fund for lending rate reduction	920,287			920,287
Basic fund for lending rate reduction	920,287			920,287
Due to management account	658,396		(658,396)	
Reserves under special laws	2,200,000	905,003		3,105,003
Reserve for interest rate volatility	2,200,000			2,200,000
Management account reserve for interest rate volatility		870,453		870,453
Reserve for interest rate reduction		34,550		34,550
Total liabilities	15,574,486	9,572,311	(658,396)	24,488,401
(Net Assets)				
Capital	16,602			16,602
Retained earnings	191,890			191,890
General account surplus reserve	191,890			191,890
Valuation, translation adjustments and others	5,268			5,268
Management account surplus reserve		53,666		53,666
Total net assets	213,761	53,666		267,427
Total liabilities and net assets	¥15,788,248	¥9,625,977	¥(658,396)	¥24,755,829

Balance sheets of general account and management account as of 31 March 2019 were as follows:

(Millions of yen)

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

Financial Statements

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	\$141,934,553	\$69,957,735		\$211,892,288
Securities	1,622,791			1,622,791
Cash and bank deposits	7,847,824			7,847,824
Cash collateral paid for financial instruments	205,977			205,977
Other assets	35,601	44,268		79,869
Tangible fixed assets	26,005			26,005
Intangible fixed assets	9,339			9,339
Due from general account		5,611,226	\$(5,611,226)	
Total assets	151,682,090	75,613,229	(5,611,226)	221,684,093
(Liabilities)				
Bonds	114,372,174	69,473,654		183,845,828
Borrowed money	1,153,985			1,153,985
Cash collateral received for financial instruments	249,098			249,098
Other liabilities	23,204	33,242		56,446
Reserve for bonuses	520			520
Reserve for bonuses for directors and corporate auditors	92			92
Reserve for retirement benefits	475			475
Reserve for retirement benefits for directors and corporate auditors	220			220
Fund for lending rate reduction	8,296,859			8,296,859
Basic fund for lending rate reduction	8,296,859			8,296,859
Due to management account	5,611,226		(5,611,226)	
Reserves under special laws	19,834,115	5,585,156		25,419,271
Reserve for interest rate volatility	19,834,115			19,834,115
Management account reserve for interest rate volatility		5,382,945		5,382,945
Reserve for interest rate reduction		202,211		202,211
Total liabilities	149,541,968	75,092,052	(5,611,226)	219,022,794
(Net Assets)				
Capital	149,676			149,676
Retained earnings	1,916,844			1,916,844
General account surplus reserve	1,916,844			1,916,844
Valuation, translation adjustments and others	73,602			73,602
Management account surplus reserve		521,177		521,177
Total net assets	2,140,122	521,177		2,661,299
Total liabilities and net assets	\$151,682,090	\$75,613,229	\$(5,611,226)	\$221,684,093

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 JFM inherited from the Predecessor (management of the assets of the Predecessor).

Management account is separated from the other account (general account) pursuant to the provisions of Article 13, Section 3 of the Supplementary Provisions of the Law.

2. General account surplus reserve and management account surplus reserve

"Net income" of the general account is posted as "General account surplus reserve" in accordance with the provisions of Article 39, Section 1 of the Law, while "Net income" of management account is posted as "Management account surplus reserve" in accordance with the provisions of Article 13, Section 8 of the Supplementary Provisions of the Law.

3. Due from general account and due to management account

These amounts represent funds lent between the general account and management account pursuant to the provisions of Article 13, Section 4 of the Supplementary Provisions of the Law.

16. Information by Account (Statements of income)

Statements of income of general account and management account from 1 April 2017 through 31 March 2018 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥137,907	¥218,401	¥(8,832)	¥347,476
Interest income	133,064	210,240		343,305
Fees and commissions	98			98
Other operating income	46			46
Other income	4,024	1		4,026
Contributions from fund for lending rate reduction	4,011			4,011
Others	12	1		14
Administrative fee for management account	673		(673)	
Interest on due from general account		24	(24)	
Transfer from general account for fund for lending rate reduction		8,134	(8,134)	
Expenses	111,795	92,536	(8,832)	195,499
Interest expenses	98,475	89,495		187,970
Fees and commissions	155	144		300
Other operating expenses	1,885	2,048		3,934
General and administrative expenses	3,119	175		3,295
Interest on due to management account	24		(24)	
Transfer to management account for fund for lending rate reduction	8,134		(8,134)	
Administrative fee for management account		673	(673)	
Ordinary income	26,111	125,864	-	151,976
Special gains	220,000	626,467	(220,000)	626,467
Transfer from management account	220,000		(220,000)	
Reversal of management account reserve for interest rate volatility		620,000		620,000
Reversal of reserve for interest rate reduction		6,467		6,467
Special losses	220,000	752,332	(220,000)	752,332
Provision for reserve for interest rate volatility	220,000			220,000
Provision for management account reserve for interest rate volatility		132,332		132,332
Transfer to general account		220,000	(220,000)	
Payment to national treasury		400,000		400,000
Net income	¥26,111	¥-	¥-	¥26,111

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Statements of income of general account and management account from 1 April 2018 through 31 March 2019 were as follows:

(Millions of yen)

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

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
Income	\$1,234,631	\$1,711,748	\$(71,665)	\$2,874,714
Interest income	1,183,985	1,644,954		2,828,939
Fees and commissions	840			840
Other operating income	197			197
Other income	44,738			44,738
Contributions from fund for lending rate reduction	44,625			44,625
Others	113			113
Administrative fee for management account	4,871		(4,871)	
Interest on due from general account		274	(274)	
Transfer from general account for fund for lending rate reduction		66,520	(66,520)	
Expenses	1,025,656	663,647	(71,665)	1,617,638
Interest expenses	904,696	649,904		1,554,600
Fees and commissions	1,502	1,206		2,708
Other operating expenses	22,480	7,008		29,488
General and administrative expenses	29,969	658		30,627
Interest on due to management account	215			215
Other expenses	274		(274)	
Transfer to management account for fund for lending rate reduction	66,520		(66,520)	
Administrative fee for management account		4,871	(4,871)	
Ordinary income	208,975	1,048,101	-	1,257,076
Special gains		3,662,009		3,662,009
Reversal of management account reserve for interest rate volatility		3,606,782		3,606,782
Reversal of reserve for interest rate reduction		55,227		55,227
Special losses		4,710,110		4,710,110
Provision for management account reserve for interest rate volatility		1,103,328		1,103,328
Payment to national treasury		3,606,782		3,606,782
Net income	\$208,975	\$-	\$-	\$208,975

Financial Statements

17. Fair Value of Marketable Securities

Marketable held-to-maturity securities as of 31 March 2018 consisted of the following:

(Millions of yen)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Negotiable certificates of deposit	¥170,000	¥170,000	-	-	-

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

(Millions of yen)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Negotiable certificates of deposit	¥180,000	¥180,000	-	-	-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Negotiable certificates of deposit	\$1,622,791	\$1,622,791	-	-	-

Notes: 1. The balance sheet amount for negotiable certificates of deposit is the fair value.
2. Difference is the net amount of "unrealized gains" and "unrealized losses."

18. Information on Derivative Transactions

(1) Types of derivative transactions

Derivative transactions entered into by 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

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

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

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

(a) Hedge accounting method

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

(b) Hedging instruments and hedged items

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

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

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

(c) Hedging policy

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

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

(d) Assessment of hedge effectiveness

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, JFM deems these to be highly effective and thus does not assess effectiveness. Moreover, a periodic assessment of hedge effectiveness for interest rate swaps and currency swaps and forward contracts that qualify for deferral hedge accounting is omitted when the exceptional accrual method is applied.

(3) Risks on derivative transactions

Major risks on derivative transactions are market risk and credit risk. Market risk is the risk of future revenue fluctuations due to market value changes. Credit risk is the risk of losses incurred when counterparties are unable to fulfill their contracts due to bankruptcy or other reasons.

As for derivative transactions used for hedging purposes, market risk is offset by the corresponding change in the underlying hedged items.

JFM enters into ISDA Master Agreements and CSA with financial institutions, which are its derivative transactions counterparties, to reduce credit risk. Moreover, 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 JFM with the approval of persons in charge in accordance with the operational guidelines which specify transaction authority and limits on the transaction amount.

Additionally, the total amount of derivative transactions, the status of risks, the assessed fair value, and the credit risk on counterparties are regularly reported to the Integrated Risk Management Committee.

19. Notes on error correction

(1) Contents of errors

During fiscal 2018, JFM discovered that the provisioned amount from the general account and the reversal amount of reserve for interest rate reduction in the management account for the loans extended by the Predecessor in fiscal 2007 were posted incorrectly. In order to correct this error, the management account reserve for interest rate volatility and the management account surplus reserve increased by 4,142 million yen (37,350 thousand U.S. dollars) and the reserve for interest rate reduction and the general account surplus reserve decreased by 2,453 million yen (22,123 thousand U.S. dollars) as of the beginning of the year ended 31 March 2019.

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

The effect of correcting this error on net assets of 1,688 million yen (15,227 thousand U.S. dollars) is shown as "Cumulative effects of error correction" on the "Statements of Changes in Net Assets."

Independent Auditor's Report



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Independent Auditor's Report

The President of Japan Finance Organization for Municipalities

Pursuant to Article 37, paragraph 1 of the Japan Finance Organization for Municipalities Law (the "Law"), we have audited the accompanying financial statements of Japan Finance Organization for Municipalities ("JFM"), which comprise the balance sheets as at March 31, 2019 and 2018, and the statements of income, appropriation of profit, changes in net assets, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

President's Responsibility for the Financial Statements

The President of JFM is responsible for the preparation and fair presentation of these financial statements in accordance with the Law, the ordinances based on the Law and other regulations applicable to JFM (collectively hereinafter, the "Law and regulations applicable to JFM") and accounting principles generally accepted in Japan, and for designing and operating such internal control as the President determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the President, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JFM as at March 31, 2019 and 2018, and its financial performance and cash flows for the years then ended in conformity with the Law and regulations applicable to JFM and accounting principles generally accepted in Japan (refer to Note 1 of the accompanying notes to the financial statements).

Convenience Translation

We have reviewed the translation of these financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying financial statements have been properly translated on the basis described in Note 1.

Conflicts of Interest

There is no interest in JFM which should be disclosed in compliance with the Certified Public Accountants Act.

May 29, 2019

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Appendix

Members of the Representative Board and the Supervisory Committee

The Representative Board members of JFM as of 1 August 2019 are as follows:

Name	Title	Background
Toshizo Ido	Chairman	Vice Chairman, National Governors' Association Governor, Hyogo prefecture
Masataka Matsuura	Deputy Chairman	Chairman, Finance committee of Japan Association of City Mayors Mayor, Matsue City, Shimane prefecture
Yasuomi Araki	Deputy Chairman	Chairman, National Association of Towns & Villages Mayor, Kashima Village, Kumamoto prefecture
Junko Obata	Member	Professor, Sophia University Law School
Naohiko Jinno	Member	Professor Emeritus, The University of Tokyo
Isao Sumihiro	Member	Chairman of The Hiroshima Bank, Ltd.

The Supervisory Committee members of JFM as of 1 August 2019 are as follows:

Name	Title	Background
Takahiro Mitani	Chairman	Chairman, Tanshi Association
Yutaka Suzuki	Deputy Chairman	Professor Emeritus, Aoyama Gakuin University
Tomoko Seiichi	Member	Professor, Seinan Gakuin University
Yasuharu Yoneda	Member	Professor Emeritus, Shinshu University
Hitomi Tamaoki	Member	Chief Executive Officer of Tsumugi Co., Ltd.
Masanori Kamizaki	Member	Director, Jiji Press, Ltd

Redemption of Loans in Fiscal 2018

Classification		Principal		Interest	
		Number of loans	Amount (USD millions)	Number of loans	Amount (USD millions)
Regular redemption of long-term loans	General loans	446,024	15,401	502,732	2,826
	Loans to local government corporations	355	73	355	5
	Subtotal	446,379	15,474	503,087	2,831
Prepayment of long-term loans	General loans	457	1,804	34	0
	Loans to local government corporations	8	16	-	-
	Subtotal	465	1,820	34	0
Redemption of loans with pre-consent or pre-approval		-	-	-	-
Redemption of short-term loans		-	-	-	-
Total		446,844	17,294	503,121	2,831

Note: Totals may not add up due to rounding.

Outstanding Loans by Business

(as of 31 March 2019)

Business	Number of Loans Made	Loan Amount (USD millions)		
			% of total	
General Account-related Loans	Public Projects, etc.	3,911	4,358	2.1
	Public Housing	3,918	2,461	1.2
	National Disaster Prevention	1,290	1,321	0.6
	Educational Facilities Development	1,185	627	0.3
	Social Welfare Facilities Development	1,414	991	0.5
	General Waste Disposal	355	374	0.2
	General Projects	804	730	0.3
	Regional Revitalization	1,494	655	0.3
	Disaster Management and Mitigation	8,684	6,833	3.3
	Local Road Development	5,526	4,674	2.2
	Special Municipal Mergers	5,257	9,589	4.5
	Disaster Prevention	2,197	1,496	0.7
	Others	17,522	9,274	4.3
	Subtotal	53,557	43,383	20.5
Municipal Enterprise-related Loans	Water Supply	54,428	29,636	13.9
	Transportation	835	7,591	3.6
	Hospitals and Elderly Care Services	4,355	9,739	4.6
	Sewerage	123,665	66,874	31.6
	Industrial Water Supply	2,246	1,625	0.8
	Electricity and Gas	837	707	0.3
	Port Facilities	922	398	0.2
	Markets and Slaughterhouses	734	857	0.4
	Tourism and Others	215	172	0.1
	Subtotal	188,237	117,600	55.5
Temporary Financial Countermeasures Funding		7,457	50,647	23.9
Total		249,251	211,629	99.9
Local Government Road Corporation, Toll Roads ¹⁾		153	263	0.1
Grand Total		249,404	211,892	100.0

Notes: 1. No loans will be extended to local government road corporations by JFM. The outstanding loans shown above was extended by the Predecessor.
2. Totals may not add up due to rounding.

Appendix

Outstanding Loans by Borrower

(as of 31 March 2019)

Borrower	Prefectures		Cities and Special Wards of Tokyo		Towns and Villages	
	Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)
Hokkaido	295	4,236	5,291	6,188	8,114	1,793
Aomori	194	340	2,027	2,299	1,391	404
Iwate	250	508	2,733	2,281	794	279
Miyagi	345	1,151	4,638	3,724	2,631	462
Akita	203	248	4,664	2,351	1,081	99
Yamagata	225	731	2,771	1,521	1,911	312
Fukushima	426	777	3,618	2,251	3,047	489
Ibaraki	480	1,268	6,734	4,149	1,407	378
Tochigi	269	659	3,234	1,990	814	244
Gunma	248	340	3,467	1,792	1,790	313
Saitama	252	2,321	6,486	6,140	1,766	494
Chiba	394	1,057	5,276	6,388	890	234
Tokyo	111	1,117	2,204	2,835	174	47
Kanagawa	217	1,928	3,211	7,731	1,176	405
Niigata	266	476	8,175	4,160	971	171
Toyama	255	267	3,753	2,704	558	215
Ishikawa	157	303	2,810	1,747	1,250	393
Fukui	227	325	2,216	1,424	825	109
Yamanashi	150	331	2,919	1,020	1,012	132
Nagano	256	322	4,205	2,411	3,141	544
Gifu	220	1,460	4,354	1,929	1,305	355
Shizuoka	327	475	5,096	3,291	788	238
Aichi	247	2,130	5,295	5,815	878	221
Mie	413	1,375	4,049	2,787	1,075	253

Local Government Associations		Local Government Road Corporations		Total		
Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)	% of Total
303	246	-	-	14,003	12,463	5.9
111	133	-	-	3,723	3,176	1.5
218	174	-	-	3,995	3,243	1.5
127	65	-	-	7,741	5,402	2.5
8	2	-	-	5,956	2,700	1.3
168	65	-	1	5,075	2,629	1.2
187	176	1	0	7,279	3,693	1.7
262	228	1	0	8,884	6,024	2.8
14	28	7	1	4,338	2,922	1.4
213	252	-	-	5,718	2,697	1.3
324	176	5	1	8,833	9,131	4.3
406	361	5	9	6,971	8,048	3.8
33	150	-	-	2,522	4,149	2.0
64	477	-	-	4,668	10,541	5.0
173	140	-	-	9,585	4,947	2.3
147	125	6	0	4,719	3,311	1.6
29	29	-	-	4,246	2,472	1.2
70	29	-	-	3,338	1,887	0.9
154	50	-	-	4,235	1,533	0.7
182	129	4	1	7,788	3,407	1.6
10	9	-	-	5,889	3,752	1.8
80	80	7	3	6,298	4,088	1.9
84	25	37	142	6,541	8,334	3.9
31	43	-	-	5,568	4,459	2.1

Appendix

Borrower	Prefectures		Cities and Special Wards of Tokyo		Towns and Villages	
	Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)
Shiga	194	716	4,211	2,109	597	127
Kyoto	196	305	3,654	4,347	1,108	269
Osaka	101	1,375	5,715	11,442	996	336
Hyogo	324	3,902	8,069	8,687	2,097	786
Nara	273	1,051	2,439	1,714	1,971	556
Wakayama	107	439	1,719	1,976	1,476	511
Tottori	345	855	1,283	975	1,827	408
Shimane	283	897	2,649	1,864	290	73
Okayama	265	843	4,591	3,174	1,268	255
Hiroshima	440	1,689	4,284	4,139	901	264
Yamaguchi	422	510	4,254	2,442	607	108
Tokushima	199	412	1,435	1,085	817	263
Kagawa	162	212	1,745	968	697	180
Ehime	83	236	2,265	1,774	632	222
Kochi	155	862	1,649	1,245	762	239
Fukuoka	94	1,278	5,191	7,963	2,150	890
Saga	63	332	1,630	1,454	661	272
Nagasaki	143	523	2,772	2,489	705	167
Kumamoto	152	630	2,713	1,823	1,617	433
Oita	91	221	2,241	1,267	190	64
Miyazaki	152	630	2,013	1,338	717	170
Kagoshima	175	1,247	2,303	1,514	837	244
Okinawa	233	943	1,573	1,432	882	230
Total	11,079	44,255	169,624	146,151	62,594	15,651

Note: Totals may not add up due to rounding.

Local Government Associations		Local Government Road Corporations		Total		
Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)	% of Total
138	73	-	-	5,140	3,026	1.4
30	62	7	3	4,995	4,986	2.4
284	611	5	5	7,101	13,770	6.5
429	469	21	8	10,940	13,853	6.5
32	51	-	-	4,715	3,372	1.6
92	75	-	-	3,394	3,001	1.4
32	22	-	-	3,487	2,259	1.1
75	33	-	-	3,297	2,868	1.4
110	144	-	-	6,234	4,416	2.1
15	20	15	38	5,655	6,150	2.9
109	60	-	-	5,392	3,120	1.5
3	0	-	-	2,454	1,761	0.8
625	244	-	-	3,229	1,604	0.8
16	8	-	-	2,996	2,240	1.1
10	80	-	-	2,576	2,426	1.1
311	220	24	50	7,770	10,402	4.9
104	98	-	-	2,458	2,156	1.0
15	29	5	2	3,640	3,209	1.5
40	25	3	0	4,525	2,911	1.4
-	-	-	-	2,522	1,552	0.7
13	8	-	-	2,895	2,146	1.0
19	21	-	-	3,334	3,026	1.4
54	24	-	-	2,742	2,629	1.2
5,954	5,572	153	264	249,404	211,893	100.0

Appendix

Bond Issuance in Fiscal 2018

1. JFM bonds

(1) International bonds

Series Number	Tenor (yr)	Format	Currency	Issue Size (in millions)	Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
63	5	Global	USD	1,000	3.250	99.982	24 Apr 2018	24 Apr 2023
64	10	Euro	AUD	73	3.370	100.000	26 Jun 2018	21 Jun 2028
65	4	Euro	AUD	125	2.400	99.990	26 Sep 2018	26 Sep 2022
66	5	Global	USD	1,000	3.375	99.499	27 Sep 2018	27 Sep 2023
67	11	Euro	EUR	80	1.106	100.000	24 Jan 2019	24 Jan 2030
68	5	Global	USD	1,000	3.000	99.682	12 Mar 2019	12 Mar 2024

(2) Domestic public offerings

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
107	10	25	235	0.200	100	19 Apr 2018	28 Apr 2028
108	10	20	188	0.215	100	22 May 2018	26 May 2028
109	10	20	188	0.220	100	15 Jun 2018	28 Jun 2028
110	10	20	188	0.195	100	20 Jul 2018	28 Jul 2028
111	10	25	235	0.264	100	20 Aug 2018	28 Aug 2028
112	10	30	283	0.269	100	21 Sep 2018	28 Sep 2028
113	10	30	283	0.299	100	19 Oct 2018	27 Oct 2028
114	10	25	235	0.279	100	19 Nov 2018	28 Nov 2028
115	10	25	235	0.200	100	20 Dec 2018	28 Dec 2028
116	10	20	188	0.155	100	25 Jan 2019	26 Jan 2029
117	10	20	188	0.166	100	22 Feb 2019	28 Feb 2029
118	10	20	188	0.145	100	22 Mar 2019	28 Mar 2029
66	20	15	141	0.559	100	19 Apr 2018	28 Apr 2038
67	20	20	188	0.564	100	15 Jun 2018	28 Jun 2038
68	20	20	188	0.530	100	20 Jul 2018	28 Jul 2038
69	20	15	141	0.654	100	21 Sep 2018	28 Sep 2038
70	20	15	141	0.729	100	19 Oct 2018	28 Oct 2038
71	20	15	141	0.635	100	20 Dec 2018	28 Dec 2038
72	20	15	141	0.534	100	25 Jan 2019	28 Jan 2039
73	20	15	141	0.468	100	22 Mar 2019	28 Mar 2039
23	5	10	94	0.040	100	19 Apr 2018	28 Apr 2023
24	5	10	94	0.020	100	19 Nov 2018	28 Nov 2023
6	30	10	94	0.850	100	19 Apr 2018	28 Apr 2048
7	30	10	94	1.029	100	19 Oct 2018	28 Oct 2048
1	40	15	141	0.882	100	26 Feb 2019	28 Feb 2059
F402	2	3	28	0.001	100.002	25 Apr 2018	28 Apr 2020
F403	6	3	28	0.058	100	25 Apr 2018	28 Nov 2023
F404	7	20	188	0.114	100	25 Apr 2018	28 Apr 2025

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
F405	9	3	28	0.151	100	25 Apr 2018	28 Jan 2027
F406	21	6	57	0.562	100	25 Apr 2018	26 Nov 2038
F407	5	8	75	0.040	100	26 Apr 2018	26 Jun 2023
F408	6	9	85	0.058	100	26 Apr 2018	27 Nov 2023
F409	7	3	28	0.092	100	26 Apr 2018	27 Jun 2025
F410	8	3	28	0.120	100	26 Apr 2018	28 May 2026
F411	21	3	28	0.551	100	26 Apr 2018	28 Mar 2039
F412	6	3	28	0.058	100	27 Apr 2018	17 Nov 2023
F413	6	3	28	0.058	100	27 Apr 2018	20 Nov 2023
F414	6	3	28	0.058	100	27 Apr 2018	21 Nov 2023
F415	6	3	28	0.058	100	27 Apr 2018	22 Nov 2023
F416	6	3	28	0.058	100	27 Apr 2018	24 Nov 2023
F417	6	3	28	0.058	100	27 Apr 2018	27 Nov 2023
F418	6	3	28	0.058	100	27 Apr 2018	29 Nov 2023
F419	4	20	188	0.025	100	22 Jun 2018	1 Dec 2022
F420	7	9	85	0.100	100	28 Jun 2018	27 Jun 2025
F421	7	3	28	0.085	100	25 Jul 2018	25 Jul 2025
F422	7	3	28	0.088	100	25 Jul 2018	29 Jul 2025
F423	17	3	28	0.394	100	31 Jul 2018	1 Mar 2035
F424	18	5	47	0.431	100	31 Jul 2018	28 Mar 2036
F425	5	16	151	0.030	100	26 Jul 2018	28 Sep 2023
F426	7	20	188	0.110	100	26 Jul 2018	20 Jun 2025
F427	12	3	28	0.249	100	26 Jul 2018	26 Jul 2030
F428	19	3	28	0.474	100	31 Jul 2018	27 Mar 2037
F429	7	3	28	0.082	100	27 Jul 2018	28 Jul 2025
F430	8	3	28	0.096	100	27 Jul 2018	27 Mar 2026
F431	15	3	28	0.348	100	27 Jul 2018	27 Jul 2033
F432	19	5	47	0.630	100	27 Sep 2018	28 Sep 2037
F433	9	20	188	0.247	100	24 Oct 2018	21 Sep 2027
F434	9	3	28	0.229	100	24 Oct 2018	28 Oct 2027
F435	36	3	28	1.173	100	24 Oct 2018	19 Mar 2055
F436	38	3	28	1.217	100	24 Oct 2018	28 Mar 2057
F437	40	15	141	1.256	100	24 Oct 2018	28 Oct 2058
F438	7	3	28	0.123	100	25 Oct 2018	27 Mar 2026
F439	8	3	28	0.174	100	25 Oct 2018	26 Oct 2026
F440	8	3	28	0.174	100	26 Oct 2018	27 Oct 2026
F441	9	3	28	0.227	100	25 Oct 2018	25 Oct 2027
F442	9	3	28	0.227	100	26 Oct 2018	26 Oct 2027
F443	40	3	28	1.249	100	25 Oct 2018	25 Oct 2058
F444	5	13	122	0.020	100	26 Oct 2018	26 Dec 2023
F445	8	3	28	0.169	100	26 Oct 2018	27 Oct 2026
F446	8	3	28	0.169	100	29 Oct 2018	30 Oct 2026
F447	9	3	28	0.227	100	26 Oct 2018	26 Oct 2027

Appendix

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
F448	9	3	28	0.227	100	29 Oct 2018	29 Oct 2027
F449	18	6	57	0.639	100	26 Oct 2018	27 Oct 2036
F450	8	3	28	0.132	100	30 Nov 2018	30 Nov 2026
F451	8	3	28	0.127	100	30 Nov 2018	27 Nov 2026
F452	23	3.5	33	0.696	100	26 Dec 2018	27 Jun 2042
F453	9	20	188	0.115	100	30 Jan 2019	28 Jan 2028
F454	35	5	47	0.852	100	5 Feb 2019	27 Mar 2054
F455	5	13	122	0.021	100	26 Feb 2019	26 Mar 2024
F456	5	20	188	0.020	100	26 Mar 2019	26 Feb 2024

Note 1. 3m¥L+10bp

2. Private placements with Pension Fund Association for Local Government Officials

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
A99	10	20	180	0.230	100	19 Apr 2018	19 Apr 2028
A100	10	20	180	0.245	100	22 May 2018	22 May 2028
A101	10	20	180	0.250	100	21 Jun 2018	21 Jun 2028
A102	10	10	90	0.225	100	20 Jul 2018	20 Jul 2028
A103	10	10	90	0.294	100	20 Aug 2018	18 Aug 2028
A104	10	10	90	0.299	100	21 Sep 2018	21 Sep 2028
A105	10	10	90	0.329	100	19 Oct 2018	19 Oct 2028
A106	10	10	90	0.309	100	19 Nov 2018	17 Nov 2028
A107	10	10	90	0.230	100	20 Dec 2018	20 Dec 2028
A108	10	10	90	0.185	100	25 Jan 2019	25 Jan 2029
A109	10	10	90	0.196	100	22 Feb 2019	22 Feb 2029
A110	10	10	90	0.175	100	26 Mar 2019	26 Mar 2029
B30	10	4	36	0.230	100	19 Apr 2018	19 Apr 2028
B31	10	5	45	0.245	100	22 May 2018	22 May 2028
B32	10	4.5	41	0.250	100	21 Jun 2018	21 Jun 2028
B33	10	5.5	50	0.225	100	20 Jul 2018	20 Jul 2028
B34	10	10.5	95	0.294	100	20 Aug 2018	18 Aug 2028
B35	10	4.5	41	0.299	100	21 Sep 2018	21 Sep 2028
B36	10	4	36	0.329	100	19 Oct 2018	19 Oct 2028
B37	10	5.5	50	0.309	100	19 Nov 2018	17 Nov 2028
B38	10	4	36	0.230	100	20 Dec 2018	20 Dec 2028
B39	10	9	81	0.185	100	25 Jan 2019	25 Jan 2029
B40	10	7	63	0.196	100	22 Feb 2019	22 Feb 2029
B41	10	7	63	0.175	100	26 Mar 2019	26 Mar 2029
C30	20	5.5	50	0.579	100	19 Apr 2018	19 Apr 2038
C31	20	7.5	68	0.579	100	22 May 2018	21 May 2038
C32	20	6.5	59	0.584	100	21 Jun 2018	21 Jun 2038
C33	20	8	72	0.550	100	20 Jul 2018	20 Jul 2038

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
C34	20	15	135	0.678	100	20 Aug 2018	20 Aug 2038
C35	20	7.5	68	0.674	100	21 Sep 2018	21 Sep 2038
C36	20	7	63	0.749	100	19 Oct 2018	19 Oct 2038
C37	20	9	81	0.722	100	19 Nov 2018	19 Nov 2038
C38	20	8	72	0.655	100	20 Dec 2018	20 Dec 2038
C39	20	17.5	158	0.554	100	25 Jan 2019	25 Jan 2039
C40	20	12.5	113	0.497	100	22 Feb 2019	22 Feb 2039
C41	20	13	117	0.488	100	26 Mar 2019	25 Mar 2039
D25	20	20	180	0.579	100	19 Apr 2018	19 Apr 2038
D26	20	20	180	0.579	100	22 May 2018	21 May 2038
D27	20	20	180	0.584	100	21 Jun 2018	21 Jun 2038
D28	20	10	90	0.550	100	20 Jul 2018	20 Jul 2038
D29	20	10	90	0.678	100	20 Aug 2018	20 Aug 2038
D30	20	10	90	0.674	100	21 Sep 2018	21 Sep 2038
D31	20	10	90	0.749	100	19 Oct 2018	19 Oct 2038
D32	20	10	90	0.722	100	19 Nov 2018	19 Nov 2038
D33	20	10	90	0.655	100	20 Dec 2018	20 Dec 2038
D34	20	10	90	0.554	100	25 Jan 2019	25 Jan 2039
D35	20	10	90	0.497	100	22 Feb 2019	22 Feb 2039
D36	20	10	90	0.488	100	26 Mar 2019	25 Mar 2039

3. Government-guaranteed domestic bonds

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
107	10	25	225	0.120	100	16 Apr 2018	14 Apr 2028
108	10	20	180	0.145	100	21 May 2018	19 May 2028
109	10	20	180	0.145	100	18 Jun 2018	16 Jun 2028
110	10	25	225	0.130	100	18 Jul 2018	18 Jul 2028
111	10	20	180	0.209	100	15 Aug 2018	15 Aug 2028
112	10	20	180	0.209	100	19 Sep 2018	19 Sep 2028
113	10	25	225	0.219	100	16 Oct 2018	16 Oct 2028
114	10	20	180	0.209	100	14 Nov 2018	14 Nov 2028
115	10	20	180	0.160	100	17 Dec 2018	15 Dec 2028
116	10	25	225	0.095	100	22 Jan 2019	22 Jan 2029
117	10	20	180	0.085	100	19 Feb 2019	19 Feb 2029
118	10	20	180	0.105	100	18 Mar 2019	16 Mar 2029

Appendix

Outstanding International Bonds

1. JFM bonds

(as of 31 March 2019)

Series Number	Tenor (yr)	Format	Currency	Issue Size (in millions)	Coupon	Issue Price (%)	Issue Date	Maturity Date
30	7	Euro	USD	130	3mL+70bp	100	6 Jun 2012	6 Jun 2019
39	7	Euro	USD	100	3mL+65bp	100	22 Jul 2013	22 Jul 2020
43	10	Euro	AUD	85	5.092%	100	1 May 2014	1 May 2024
44	10	Euro	USD	90	3.250%	99.055	1 May 2014	2 May 2024
45	7	Euro	EUR	1,000	0.875%	99.293	22 Sep 2014	22 Sep 2021
47	10	Global	USD	1,000	2.375%	99.611	13 Feb 2015	13 Feb 2025
48	10	Euro	AUD	70	3.600%	100	18 Mar 2015	18 Mar 2025
49	7	Global	USD	1,000	2.000%	99.391	21 Apr 2015	21 Apr 2022
50	5	Euro	USD	13	2.010%	99.99	21 Dec 2015	21 Dec 2020
51	5	Euro	AUD	95	3.060%	99.99	21 Dec 2015	21 Dec 2020
52	5	Global	USD	500	2.125%	99.774	12 Feb 2016	12 Feb 2021
53	5	Global	USD	1,500	2.125%	99.78	13 Apr 2016	13 Apr 2021
54	7	Global	USD	1,000	2.125%	99.297	25 Oct 2016	25 Oct 2023
55	5	Euro	USD	53	2.390%	99.99	30 Jan 2017	28 Jan 2022
56	5	Euro	AUD	106	3.040%	99.99	30 Jan 2017	28 Jan 2022
57	5	Global	USD	1,000	2.625%	99.823	20 Apr 2017	20 Apr 2022
58	10	Euro	AUD	22	3.418%	99.85	26 Jun 2017	21 Jun 2027
59	3	Global	USD	1,000	2.000%	99.74	8 Sep 2017	8 Sep 2020
60	3	Euro	NZD	58	2.270%	99.98	20 Nov 2017	19 Nov 2020
61	5	Euro	USD	44	2.570%	99.99	30 Jan 2018	30 Jan 2023
62	5	Euro	AUD	28	2.760%	99.99	30 Jan 2018	30 Jan 2023
63	5	Global	USD	1,000	3.250%	99.982	24 Apr 2018	24 Apr 2023
64	10	Euro	AUD	73	3.370%	100	26 Jun 2018	21 Jun 2028
65	4	Euro	AUD	125	2.400%	99.99	26 Sep 2018	26 Sep 2022
66	5	Global	USD	1,000	3.375%	99.499	27 Sep 2018	27 Sep 2023
67	11	Euro	EUR	80	1.106%	100	24 Jan 2019	24 Jan 2030
68	5	Global	USD	1,000	3.000%	99.682	12 Mar 2019	12 Mar 2024

Additional data regarding liquidity risk

JFM has been managing liquidity risk independently from March 2015 with reference to the Basel III regulation, by setting up an internal policy to secure liquid assets under the supervision of our ALM committee. JFM holds high quality liquid assets in order to prevent any disruptions regarding redemptions and interest payments for the following month's JFM bonds.

JFM's fund inflows and outflows are mainly consisted of lending and collecting loans from municipalities, bond issuance related payment such as notional or interest amount payment when funding from the capital markets. Therefore, inflow and outflow of funds in JFM are limited which makes it possible to predict next month's inflows and outflows. JFM finance management division hold high quality liquid assets based on the calculation at the end of the month to secure liquidity for the following month, which is also monitored by risk management division who is independent from finance management division.

JFM revised its holding assets and calculation method from April 2019 following the revision of Basel III policy and below table shows our calculation of liquid assets based on the revised policy for reference purposes.

(as of 31 March 2019)

(USD millions)

Total of liquid assets ¹	\$676	
	Before applying cash outflow/inflow rate	After applying cash outflow/inflow rate
Outflows related to unsecured funding (excluding debt securities)	0	0
Debt securities	2,362	2,362
Total cash outflows	-	2,362
Cash inflows from investment ²	1,686	1,686
Cash inflows from collection of loans	0	0
Other cash inflows ³	180	180
Total cash inflows⁴	-	1,772
High quality liquid assets	-	676
Net cash outflows	-	591
Liquidity coverage ratio	-	115%
Total of semi liquid assets⁵	-	5,937
Semi Liquidity coverage ratio⁶	-	1,120%

Notes: 1. Amount includes bank current deposits, short term Japanese government bonds held by JFM. Bank current deposits are protected under deposit insurance system in Japan.

2. Amount includes investment with par redemptions and certain maturities which is defined under JFM law, article 45 section 2 and 3.

3. Amount of bond guaranteed by government of Japan

4. Maximum amount for cash inflows are 75% of cash outflows

5. Amount of normal bank cash deposits

6. Calculated by dividing the total amount of semi liquid assets and liquid assets by net cash outflows

JFM Data

Organization History

History of JFM

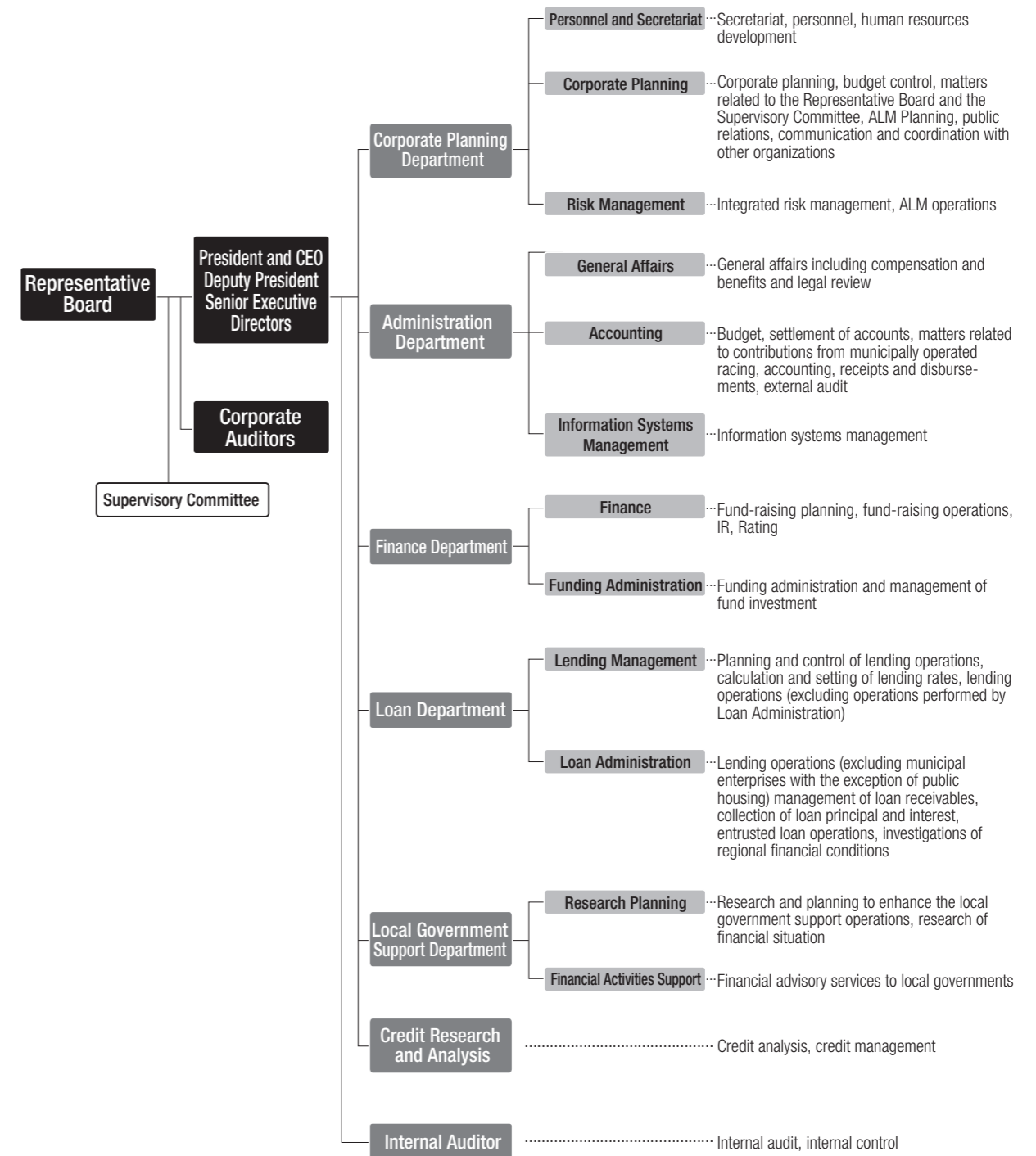
FY2008	The Japan Finance Organization for Municipal Enterprises (the Predecessor of JFM) was established pursuant to the Japan Finance Organization for Municipal Enterprises Law on 1 August 2008. Succeeded the assets and assumed the liabilities of the Predecessor and commenced operations on 1 October 2008.
2009	Reorganized as the Japan Finance Organization for Municipalities based on the partial amendment of the Japan Finance Organization for Municipal Enterprises Law (1 June 2009).
2011	Created a new special lending rate programme by integrating the existing special lending rate and the extra-special lending rate programmes.
2015	Introduced semi-annual principal and interest equal repayment method and semi-annual capital equal repayment on JFM loans.

History of the Predecessor

FY1957	Established pursuant to the Japan Finance Corporation for Municipal Enterprises Law (1 June 1957).
1960	Started making loans entrusted by Agriculture, Forestry and Fisheries Finance Corporation.
1966	Started a lending programme that applied special lending rates.
1967	Started receiving subsidies from the national treasury.
1970	Started a programme of contributions of the earnings from municipally operated racing and established the Fund for Lending Rate Reduction.
1972	Started lending to local government road corporations and local government land development corporations.
1978	Included the three types of special projects (in the general account-related business category) in the scope of lending.
1983	Started issuing foreign currency-denominated bonds.
1989	Established the Reserve for Losses on Refinancing of Bonds.
1990	Started a lending programme that applied extra-special lending rates.
1998	Based on the policy titled "Regarding Reorganization and Rationalization of Special Public Institutions," which was approved by the Cabinet on 24 September 1997, one part-time senior executive director was added; the Japan Finance Corporation for Municipal Enterprises Management Council was established; and JFM addressed the phased abolition of subsidies from the national treasury over a three-year period.
2001	Subsidies from the national treasury were abolished and the Reserve for Interest Rate Reduction was established. Started offering borrowers two interest rate options: fixed rates or adjustable rates. Established the prepayment with penalty system. Started issuing FILP agency bonds. The Special Public Institutions Reform Basic Law was passed, and the Reorganizations and Rationalization Plan for Special Public Institutions was approved by the Cabinet.
2002	The policy titled the "Reform of the Four Highway-Related Public Corporations, International Hub Airports and Policy-Based Finance Institutions" was approved by the Cabinet.
2005	The "Priority Policy for Administrative Reform," which included the proposal for abolition of the Predecessor in fiscal 2008, a new structure utilizing capital markets, and transitional measures to prepare for the abolition, was approved by the Cabinet.
2006	The Administrative Reform Promotion Law was passed. The Headquarters for the Promotion of the Reform of Policy-Based Finance and the Cabinet Headquarters for the Promotion of Administrative Reform (HQPARG) set forth the plan titled "System Design Regarding the Reform of Policy-Based Finance." The six associations of local governments submitted the "Local governments' draft proposal for designing a new system after the abolition of the Predecessor."
2007	The Japan Finance Organization for Municipal Enterprises Law was passed. The Act on Assurance of Sound Financial Status of Municipalities was passed. Implemented prepayment without penalty and other measures in accordance with the national government's policy on reducing local governments' debt service burden. The programme ended in fiscal 2008.
2008	Dissolved based on the Japan Finance Organization for Municipal Enterprises Law (1 October 2008).

Organization Chart

As of 1 April 2019



Review and Plan
Operations
Management Structure
JFM's Role in Local Government Finance
Financial Section
Appendix / JFM Data

JFM Data

Directors and Corporate Auditors

(As of 1 August 2019)

President and CEO	Kinya Takino
Deputy President	Yutaka Endo
Senior Executive Directors	Hiromi Yoshikawa, Yuji Tsukada, Toru Nojima
Corporate Auditors	Hidehiko Ouchi, Masaaki Omori (part-time)

Contact Information



(Photo provided by The Tokyo Institute for Municipal Research)

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