

# JFM

Japan Finance Organization  
for Municipalities

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## ANNUAL REPORT 2021



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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 2021, the final day of the fiscal year, which was JPY 110.70 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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## Wishes in Japanese traditional seasonal patterns

Traditional Japanese patterns were devised in ancient times and are still widely used in Japanese society today. Each pattern expresses a certain wish, such as happiness, healthy growth for children, or longevity. Various patterns continue to be used on daily items, in product designs, and in rituals, as a plea for good luck in all endeavors. JFM has incorporated several of these auspicious patterns in the design of its Annual Report 2021 as we wish for community growth, successful development, and valuable communications and connections toward the future.

Each of the seasons, beginning with spring, is represented in a traditional Japanese pattern, so as you read through this report you can feel the passing of the seasons.

# Profile of JFM

<b>Name</b>	Japan Finance Organization for Municipalities (JFM)
<b>Establishment</b>	1 August 2008 (Reorganized on 1 June 2009)
<b>Governing Law</b>	Japan Finance Organization for Municipalities Law (Law No. 64 of 2007, as amended)
<b>Address</b>	Shisei Kaikan, 1-3 Hibiya Koen, Chiyoda-ku, Tokyo
<b>President and CEO</b>	SATO Fumitoshi
<b>Capital</b>	USD 150.0 million
<b>Number of Employees</b>	91 (As of April 2021)
<b>Outstanding Loans as of 31 March 2021</b>	USD 209.1 billion
<b>Outstanding Bonds and Bank Loans as of 31 March 2021</b>	USD 187.1 billion
<b>Credit Ratings as of 31 March 2021</b>	S&P: A+ Moody's: A1 R&I: AA+



# Management Philosophy

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

2

## Strengthening Confidence from the Capital Markets

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.

# Japan Finance Organization

# Message 2021

Message from  
the President and CEO

SATO Fumitoshi  
President and CEO  
2021

*Sato Fumitoshi*



# for Municipalities

The JFM is a joint funding organization established under the law 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.

Fiscal 2020 was a year in which COVID-19 had a major impact on the global politics, economy and society. Even in Japan, to secure the people's lives and livelihood, the government decided "Emergency Economic Measures to Cope with COVID-19" and "Comprehensive Economic Measures to Secure People's Lives and Livelihoods towards Relief and Hope", thereby a succession of the supplementary budget and the initial budget of fiscal 2021 were formulated.

The JFM has also budgeted 2.51 trillion yen in its lending plan of fiscal 2021 in order to meet the local governments' expectations for public funding in case of emergency. The amount has increased by 0.85 trillion yen compared to that of fiscal 2020, which is mainly due to the response to loans covering decrease in local tax revenues of fiscal 2020 and loans for temporary financial countermeasures funding which is increasing drastically in fiscal 2021.

In addition, regarding the digital transformation, which has become an urgent issue in terms of the transition of the economic structure towards post COVID-19, the JFM is planning to provide its management account reserve for interest rate volatility with an amount of 200 billion yen for fiscal 2021 and 2022 respectively. Thus, the total amount of the local allocation tax will be secured while promoting digitalization of local communities intensively.

Also, the JFM will strive to improve the funding condition and support local governments' funding demands timely and appropriately, in line with the trends of ESG investment such as green bond issuances.

In our local government support operations, we newly conduct "Project to Strengthen Administration and Finance Management of Local Governments" from fiscal 2021, in which we send advisers to local governments. Additionally, we will enhance our existing business by utilizing online format more.

The JFM, under the management philosophy and motto "Supporting local economies through finance to create a future for regions", will continue to make more effort to fulfill its required role as a joint funding organization and contribute to the sound financial management of local governments, which directly relates to the credibility of the JFM itself, fully considering a wide range of opinions, issues and needs of local governments, while the environment surrounding the JFM and local governments is changing significantly. We appreciate cooperation and support from all related persons.

# JFM at a Glance

## 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 1,789<sup>1</sup> local governments<sup>2</sup>
- 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

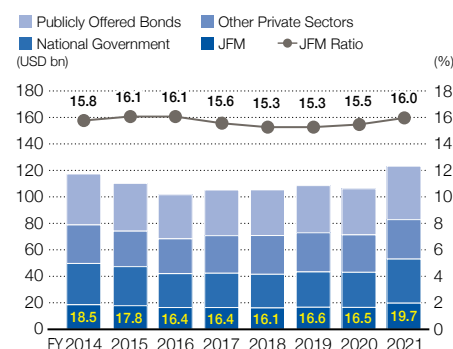
- Japanese local governments include 47 prefectures and a total of 1,741<sup>1</sup> cities and special wards of Tokyo, government-designated cities, as well as towns and villages.
- Revenue sources for the local governments are secured by the national government.
  - The national government allocates 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, consent or 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 governments<sup>3</sup>

## Lending

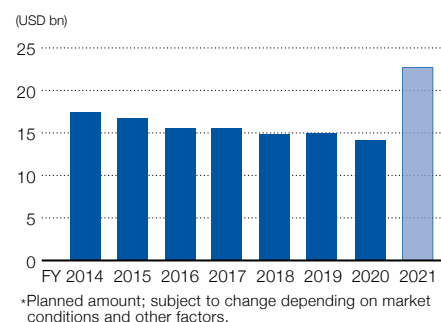
- JFM funds have accounted for around 15%-16% of the LGBP since fiscal 2014.
- JFM provides loans to almost all local governments.
- Loans planned to be made in fiscal 2021 ending 31 March 2022 are amounted to USD 22.7 bn.
- Maximum term to maturity of JFM loans is 40 years.

Note: Figures in USD are converted at USD 1 = JPY 110.70 as of 31 March 2021, unless otherwise noted.

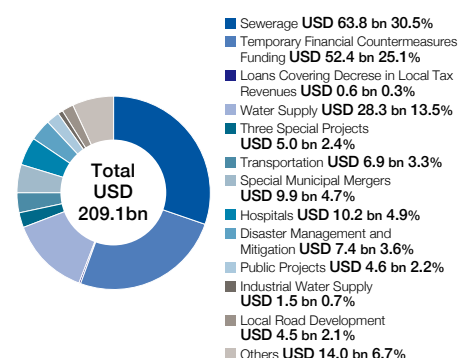
## LGBP—Funding Sources for Local Governments



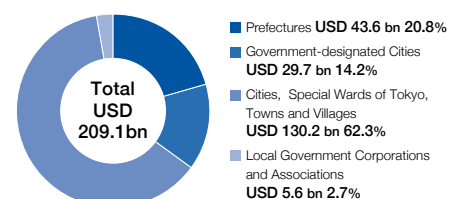
## Annual Lending Volume



## Outstanding Loans by Business<sup>1</sup>



## Outstanding Loans by Borrower<sup>1</sup>





## Funding

- Leading issuer in the Japanese bond market with an average annual funding volume of USD 17-20 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 Programme
- In the international market, only non-government guaranteed bonds will be issued.
- In fiscal 2020, JFM issued a total of USD 5.4 bn worth of international bonds through 4 benchmark transactions, private placements and Uridashi Bonds.

## 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 25.8 bn of reserves for interest rate volatility for the purpose of dealing with interest rate risk resulting from a duration gap between lending (7.94 years) and funding (7.54 years).
- The duration gap of 0.40 years<sup>\*1</sup> 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 weight<sup>\*3</sup>: 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 2021.

\*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 2021).

## Funding Plan

Type of Funding Instruments	FY2021 (plan) <sup>(1)</sup>	FY2020 (achieved)
<b>Non-Guaranteed Bonds</b>	USD 17.4 bn	USD 21.8 bn
Domestic Public Offerings	USD 7.0 bn	USD 11.4 bn
Domestic Private Placements	USD 4.8 bn	USD 5.0 bn
Overseas Offerings - GMTN	USD 3.2 bn	USD 5.4 bn <sup>(2)</sup>
Benchmark		USD 4.8 bn <sup>(2)</sup>
Uridashi Bonds		USD 60 mm <sup>(2)</sup>
Private Placements		USD 892 mm <sup>(2)</sup>
Open Issuance <sup>(3)</sup>	USD 2.5 bn	-
Guaranteed Bonds <sup>(4)</sup>	USD 2.2 bn	USD 0.5 bn
Long-Term Bank Loans	USD 0.7 bn	USD 0.8 bn

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

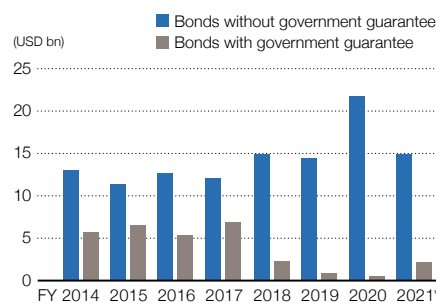
(2) Includes USD, EUR and AUD denominated bonds, each converted at the exchange rate at the time of pricing.

(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) Totals may not add up due to rounding.

## Bond Issuance

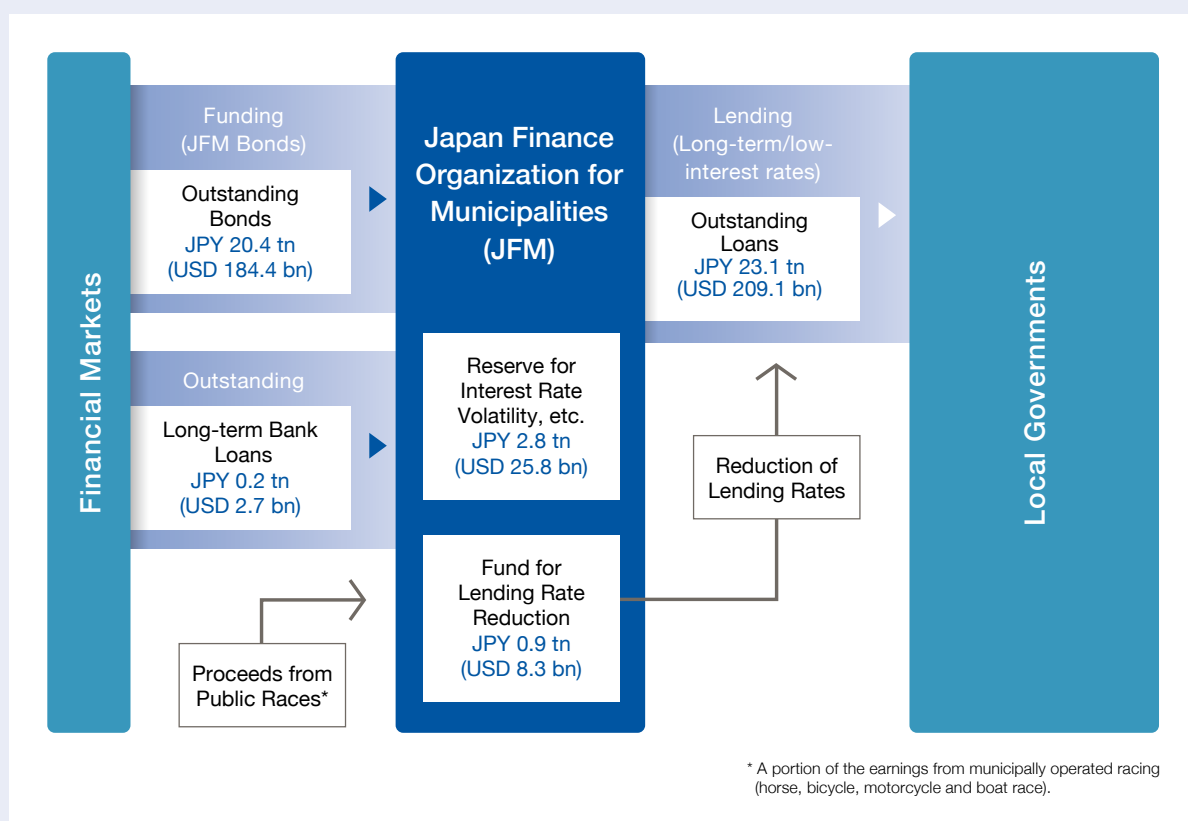


\*Planned amount; subject to change depending on lending status, market conditions and other factors.

## Outstanding Non-JPY Public Bonds<sup>\*1</sup> (non-guaranteed)

Issue Date	Currency	Issue Amount	Coupon(%)	Tenor
10-Feb-21	USD	1,250 mm	1.375	10y
2-Feb-21	EUR	500 mm	0.010	7y
2-Sep-20	USD	1,500 mm	0.625	5y
21-May-20	USD	1,500 mm	1.000	5y
12-Feb-20	EUR	500 mm	0.050	7y
5-Sep-19	USD	1,000 mm	1.750	5y
12-Mar-19	USD	1,000 mm	3.000	5y
27-Sep-18	USD	1,000 mm	3.375	5y
24-Apr-18	USD	1,000 mm	3.250	5y
20-Apr-17	USD	1,000 mm	2.625	5y
25-Oct-16	USD	1,000 mm	2.125	7y
13-Apr-16	USD	1,500 mm	2.125	5y
21-Apr-15	USD	1,000 mm	2.000	7y
13-Feb-15	USD	1,000 mm	2.375	10y
22-Sep-14	EUR	1,000 mm	0.875	7y

# Outline of JFM Operations



As of 31 March 2021

## 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

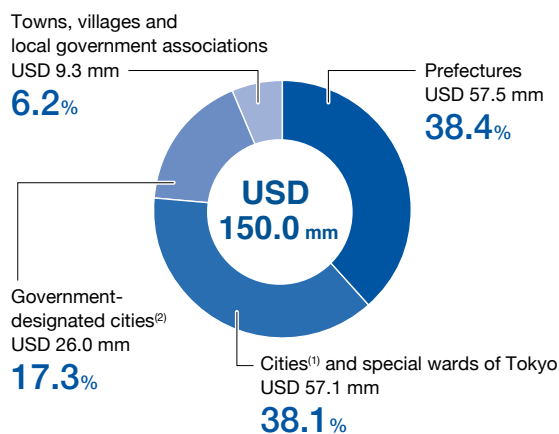
JFM receives a portion of the earnings from various racing events (horse, bicycle, motorcycle and boat races) operated by local governments, which is directed to the Fund for Lending Rate Reduction. The investment gains from the fund are used for lowering interest rates on JFM loans.

## Capital

As of 31 March 2021, JFM's capital was USD 150.0 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).

**Capital Contribution by Local Government Group**



(As of 31 March 2021)

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, urban planning and so on, for which prefectures are responsible in principle.

A vibrant, high-angle photograph of a forest stream. The water flows over large, smooth rocks covered in bright green moss. Sunlight filters through the dense canopy of green trees, creating a dappled light effect on the water and rocks. The overall scene is peaceful and natural.

# Review and Plan

Kikuchi Gorge , Kumamoto Prefecture



## Review of Operations for Fiscal 2020

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## Review of Operations for Fiscal 2020

# 1 Lending Operations

In fiscal 2020, JFM provided loans totaling USD 14.1 billion.

General account-related loans totaled USD 4.8 billion (34%) of the total lending volume, mainly represented by disaster management and mitigation and special municipal mergers. Loans for temporary financial countermeasures funding<sup>1</sup> were USD 2.4 billion (17%), loans covering decrease in local tax revenues<sup>2</sup> were 0.6bn (4%) and loans for municipal enterprise-related loans were USD 6.2 billion (44%), of which sewerage and water supply businesses were the main contributors.

Notes:

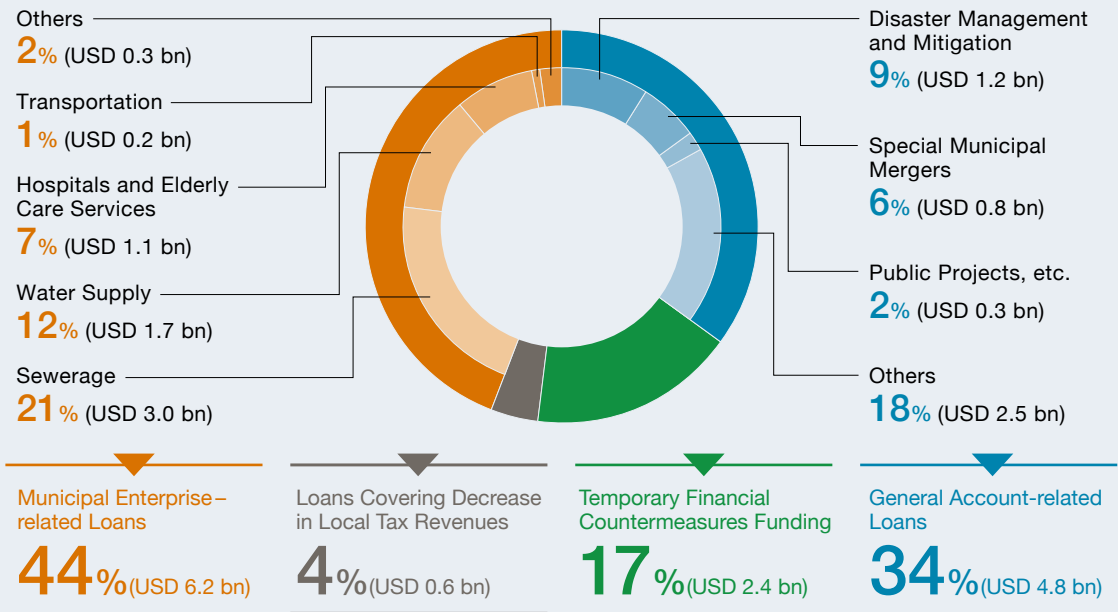
1. Represents local government funding to cover short-falls in local government revenue sources pursuant to the provisions of the Local Government Finance Law (Act No. 109 of 1948, as amended).
2. Represents local government funding to cover short-falls in local tax revenues pursuant to the provisions of the Local Government Finance Law (Act No. 109 of 1948, as amended).

## Lending Operations by Business Type in Fiscal 2020

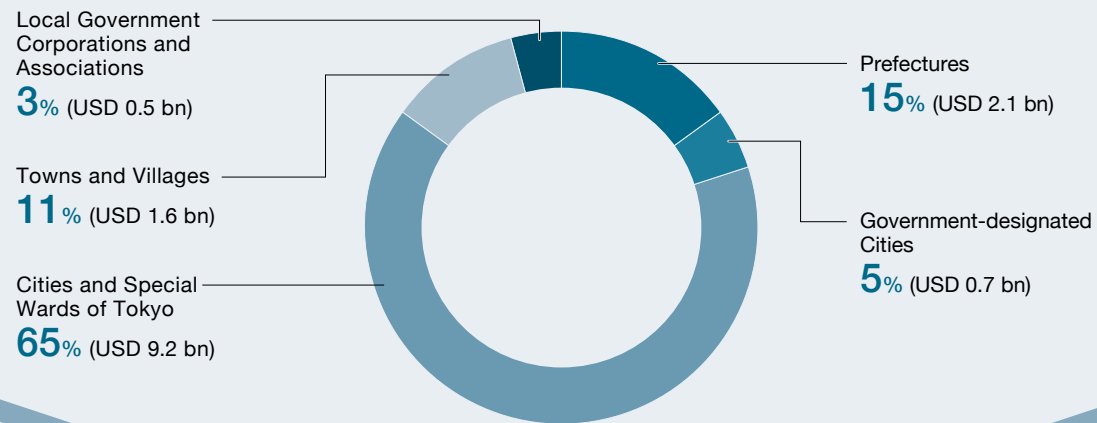
Business	Number of Loans Made	Loan Amount (USD Millions)	
			% of total
General Account-related Loans			
Public Projects, etc.	496	342	2.4%
Public Housing	117	137	1.0%
Educational Facilities Development	247	121	0.9%
Social Welfare Facilities Development	207	75	0.5%
General Waste Disposal	75	90	0.6%
General Service Facilities Development	9	13	0.1%
General Projects	69	54	0.4%
Regional Revitalization	214	103	0.7%
Disaster Prevention	404	101	0.7%
Local Road Development	353	239	1.7%
Special Municipal Mergers	455	818	5.8%
Disaster Management and Mitigation	1,600	1,215	8.6%
Proper Management of Public Facilities and Infrastructures	727	791	5.6%
National Disaster Prevention	728	550	3.9%
Anti-depopulation Measure Project	771	192	1.4%
Subtotal	6,472	4,842	34.4%
Municipal Enterprise-related Loans			
Water Supply	1,328	1,684	12.0%
Industrial Water Supply	87	65	0.5%
Transportation	33	203	1.4%
Electricity and Gas Supply	27	38	0.3%
Port Facilities	19	20	0.1%
Hospitals and Elderly Care Services	595	1,047	7.4%
Markets and Slaughterhouses	53	150	1.1%
Sewerage	2,461	3,021	21.5%
Tourism and Others	12	2	0.0%
Subtotal	4,615	6,230	44.2%
Refinancing Loans for Facilities Affected by Earthquake	-	-	0.0%
Temporary Financial Countermeasures Funding	587	2,385	16.9%
Loans Covering Decrease in Local Tax Revenues	5	628	4.5%
Total	11,679	14,085	100.0%

Note: Totals may not add up due to rounding.

### FY2020 Loans Extended by Business Type



### FY2020 Loans Extended by Borrower Type



Total  
**USD 14.1 bn**

Note: Totals may not add up due to rounding.

## 2 Funding Operations

### 1. Overview<sup>\*1</sup>

In fiscal 2020, JFM raised a total of USD 23.1 billion including USD 21.8 billion in JFM bonds (non-government guaranteed), and USD 0.5 billion in government-guaranteed bonds for the repayment of existing bonds issued by Japan Finance Corporation for Municipal Enterprises (the “Predecessor”). In addition, JFM raised USD 0.8 billion through long-term bank loans.

With regard to JFM bonds, a total of USD 16.8 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 11.4 billion was issued in the fiscal year. In order to cope with highly volatile market condition through the period, JFM increased 5-year, 10-year, 20-year and 30-year of the regular issuance and FLIP from the initial plan by utilizing the budget of Open Issuance scheme.

In overseas offerings, JFM issued USD denominated benchmark bonds in 5-year tenor (USD 1.5 billion) in May and September 2020 respectively. In February 2021, JFM also issued its second EUR denominated

green bond in 7-year tenor (EUR 0.5 billion) and USD denominated benchmark bonds in 10-year (USD 1.25 billion) respectively. In addition to these successful public offerings, JFM issued a total of USD 60 million<sup>\*2</sup> equivalent Uridashi Bonds and USD 892 million<sup>\*2</sup> equivalent private placements in three tranches. Through these activities, the total volume of international bonds issued for fiscal 2020 amounted to USD 5.4 billion<sup>\*2</sup>.

Private placements with pension funds for local government officials were totaled USD 5.0 billion.

As a result, JFM’s outstanding bonds were USD 184.4 billion, including the Predecessor’s bonds to which JFM succeeded. Outstanding long-term bank loans totaled USD 2.7 billion as of 31 March 2021.

Notes:

1. Issued amounts are calculated based on issue prices.
2. Includes an offering of USD, AUD and EUR denominated bonds, converted at the exchange rate at the time of pricing.
3. Totals may not add up due to rounding.

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 27.1 million) and JPY 20 billion (USD 180.7 million), respectively.

### Funding in Fiscal 2020

#### 1. JFM Bonds (Non-government Guaranteed)

##### (1) Domestic and Overseas Offerings

Type of Bonds	Plan (Initial)	Achieved
Domestic Public Offerings	USD 6.7 bn	USD 11.4 bn
10-year	USD 2.3 bn	USD 3.5 bn
20-year	USD 1.0 bn	USD 1.7 bn
5-year	USD 0.2 bn	USD 0.3 bn
30-year	USD 0.2 bn	USD 0.4 bn
Opportunistic Issuance	USD 3.0 bn	USD 5.5 bn
Overseas Offerings - MTN	USD 2.7 bn	USD 5.4 bn
Open Issuance <sup>*1</sup>	USD 1.8 bn	-
Total	USD 11.2 bn	USD 16.8 bn

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

Type of Bonds	Plan	Achieved
10-year	USD 2.3 bn	USD 2.4 bn
20-year	USD 2.5 bn	USD 2.5 bn
Total	USD 4.8 bn	USD 5.0 bn



## 2. Government-guaranteed Domestic Bonds

Type of Bonds	Plan	Achieved
4-year	USD 0.5 bn	USD 0.5 bn
Total	USD 0.5 bn	USD 0.5 bn

## 3. Long-term Bank Loans

	Plan	Achieved
Long-term Bank Loans	USD 0.7 bn	USD 0.8 bn

### Notes:

- 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.
- Totals may not add up due to rounding.

## Issue Spreads

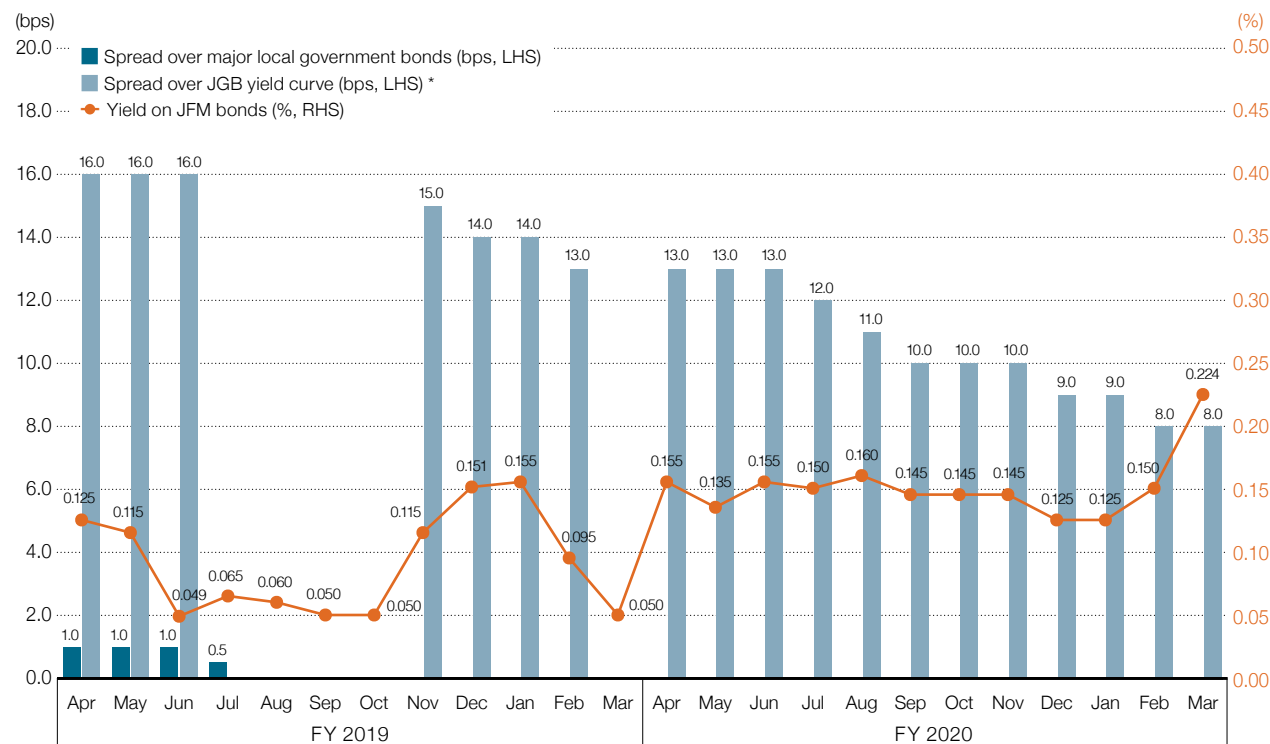
In the domestic market, JFM bonds had been priced under the low-interest-rate environment on the back of the introduction of BOJ's QQE with yield curve control. Due to the strong investors' demands in the relatively stable environment of Japanese government's bond ("JGB") yield, the premium of JFM 10-year domestic bonds over respective JGB yield curve tightened by 1.0 bp in July, August, September, December and February, resulting in 8.0 bps in February. During the period from

July 2020 to March 2021, the yield of JFM 10-year bonds had been hovering around 0.125% to 0.225%.

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.

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.

## Issue Conditions of JFM 10-Year Domestic Bonds



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

## 3 Financial Review

### 1. Income Statement

In fiscal 2020, JFM's income was USD 2.3 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 0.2 billion from the previous fiscal year resulting in USD 1.3 billion. As a result, ordinary income has decreased by USD 0.1 billion from previous year, resulting in USD 1.1 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 0.2 billion.

\*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 2021, JFM's total assets amounted to USD 224.5 billion, an increase of USD 4.6 billion from the previous year. This mainly resulted from an increase in cash and bank deposits by USD 5.0 billion.

Total liabilities increased by USD 4.5 billion resulting in USD 221.5 billion. This increase primarily reflected an increase of USD 3.6 billion in bonds.

Total net assets were USD 3.1 billion, up USD 0.2 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 2018 are on the next page.

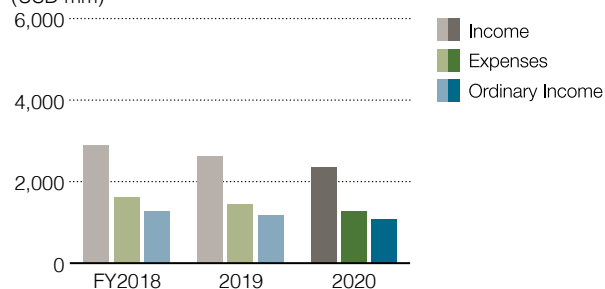
## Financial Highlights

### 1. Income Statement

(USD Millions)

	FY2018	2019	2020	YoY
Income	2,880	2,617	2,348	-269
Expenses	1,621	1,451	1,280	-172
Ordinary Income	1,260	1,166	1,068	-98
Net Income	209	233	247	15

(USD mm)



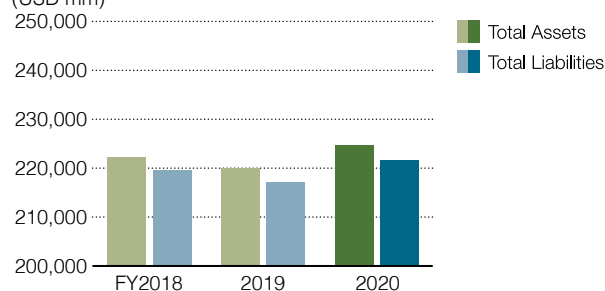
Note: Totals may not add up due to rounding.

### 2. Balance Sheet

(USD Millions)

	End of FY2018	End of FY2019	End of FY2020	YoY
Total Assets	222,125	219,934	224,549	4,615
Loans	212,313	211,379	209,073	-2,306
Others	9,811	8,555	15,476	6,921
Total Liabilities	219,458	217,008	221,472	4,464
Bonds	184,211	180,790	184,379	3,589
Cash collateral received for financial instruments	250	525	302	-222
Fund for lending rate reduction	8,313	8,313	8,313	-
Reserves under special laws	25,470	25,499	25,778	279
Reserve for interest rate volatility	19,874	19,874	19,874	-
Management account reserve for interest rate volatility	5,394	5,471	5,790	319
Reserve for interest rate reduction	203	155	115	-40
Others	1,214	1,881	2,699	819
Total Net assets	2,667	2,926	3,077	151

(USD mm)



Note: Totals may not add up due to rounding.

## Management Plan for Fiscal 2021

# 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 22.7 billion in fiscal 2021, USD 7.7 billion or 51.2% increase from fiscal 2020.

## Lending Plan

	FY2021	FY2020	YoY
Planned Amount	USD 22.7 bn	USD 15.0 bn	51.2%

## JFM Funds in Local Government Borrowing Programme

	FY2021	FY2020	YoY
JFM Funds	USD 19.7 bn	USD 16.5 bn	19.8%
General Account-related Loans	USD 5.9 bn	USD 5.7 bn	3.0%
Municipal Enterprise-related Loans	USD 6.8 bn	USD 7.0 bn	-2.5%
Temporary Financial Countermeasures Funding	USD 7.0 bn	USD 3.7 bn	86.9%

- 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 (booked amount in the LGBP) being different from JFM's plan for disbursements during the corresponding period.  
 2. JFM's lending plan for FY2021 includes USD 5.4 billion as Loans Covering Decrease in Local Tax Revenues.  
 3. See page 60 for more information on JFM funds in the LGBP.  
 4. Totals may not add up due to rounding.

# 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 2021, JFM plans to issue USD 12.6 billion of JFM bonds through these methods.

Moreover, private placements with pension funds for

local government officials are projected to amount to USD 4.8 billion in fiscal 2021. In addition to issuing JFM bonds, JFM plans to raise USD 0.7 billion through long-term bank loans.

As for government-guaranteed bonds, JFM plans to issue USD 2.2 billion during fiscal 2021.

## Funding Plan for Fiscal 2021

### 1. JFM Bonds (Non-government Guaranteed)

#### (1) Domestic and Overseas Offerings

Type of Bonds	FY2021 (Plan)	FY2020 (Achieved)
Domestic Public Offerings	USD 7.0 bn	USD 11.4 bn
10-year	USD 2.5 bn	USD 3.5 bn
20-year	USD 1.0 bn	USD 1.7 bn
5-year	USD 0.2 bn	USD 0.3 bn
30-year	USD 0.2 bn	USD 0.4 bn
Opportunistic Issuance	USD 3.1 bn	USD 5.5 bn
Overseas Offerings - MTN	USD 3.2 bn	USD 5.4 bn
Open Issuance	USD 2.5 bn	-
Total	USD 12.6 bn	USD 16.8 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.

3. Totals may not add up due to rounding.

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

Type of Bonds	FY2021 (Plan)	FY2020 (Achieved)
10-year	USD 2.3 bn	USD 2.4 bn
20-year	USD 2.4 bn	USD 2.5 bn
Total	USD 4.8 bn	USD 5.0 bn

### 2. Government-guaranteed Domestic Bonds

Type of Bonds	FY2021 (Plan)	FY2020 (Achieved)
4-year	USD 2.2 bn	USD 0.5 bn
Total	USD 2.2 bn	USD 0.5 bn

### 3. Long-term Bank Loans

	FY2021 (Plan)	FY2020 (Achieved)
Long-term Bank Loans	USD 0.7 bn	USD 0.8 bn

## 3 Scheduled Payment to the National Treasury

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 in fiscal 2021 and fiscal 2022, with the aim of transferring up to USD 3.6 billion in 2 years. In fiscal year 2021, USD 1.8 billion is scheduled to be transferred to the national treasury to secure financial resources of the local allocation tax. In addition, an amount of up to USD 2.1 billion is being attributed to the government over a period of 5 years from fiscal 2020

through 2024 for the purpose of forest environment transfer tax increase, and USD 0.4 billion shall be transferred in fiscal 2021.

Furthermore, an amount of up to USD 13.6 million from fiscal 2018 through fiscal 2023 shall be attributed to the government for exemptions of early redemption charges in relation to concessions of water supply and sewerage businesses, and the relevant amount shall be transferred to the government in fiscal 2021.



# Operations

Lake Kawaguchi, Yamanashi Prefecture

## Lending Operations

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## Funding Operations

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## 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 two 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.

- 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 FY 2021				
		Fixed Lending Rate		Adjustable Lending Rate <sup>1</sup>		
		Maturity	Grace Period for Principal Repayment	Maturity	Grace Period for Principal Repayment	
General Account-related Loans	Public Projects, etc. <sup>2</sup>	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	25	3	25	3
		Social Welfare Facilities Development	25	3	25	3
		General Waste Disposal	20	3	20	3
	Unsubsidized Projects	General Projects <sup>2</sup>	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 <sup>2</sup>	30	5	40	5	
Municipal Enterprise-related Loans	Water Supply	30	5	40	5	
	Industrial Water Supply	30	5	40	5	
	Transportation <sup>2</sup>	30	5	40	5	
	Electricity Supply <sup>2</sup>	30	5	30	5	
	Gas Supply	25	5	25	5	
	Port Facilities <sup>2</sup>	30	5	40	5	
	Hospitals <sup>2</sup>	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	
Loans Covering Decrease in Local Tax Revenues	Prefectures and Government-Designated Cities	30	3	30	3	
	Cities, Towns and Villages	20	3	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.

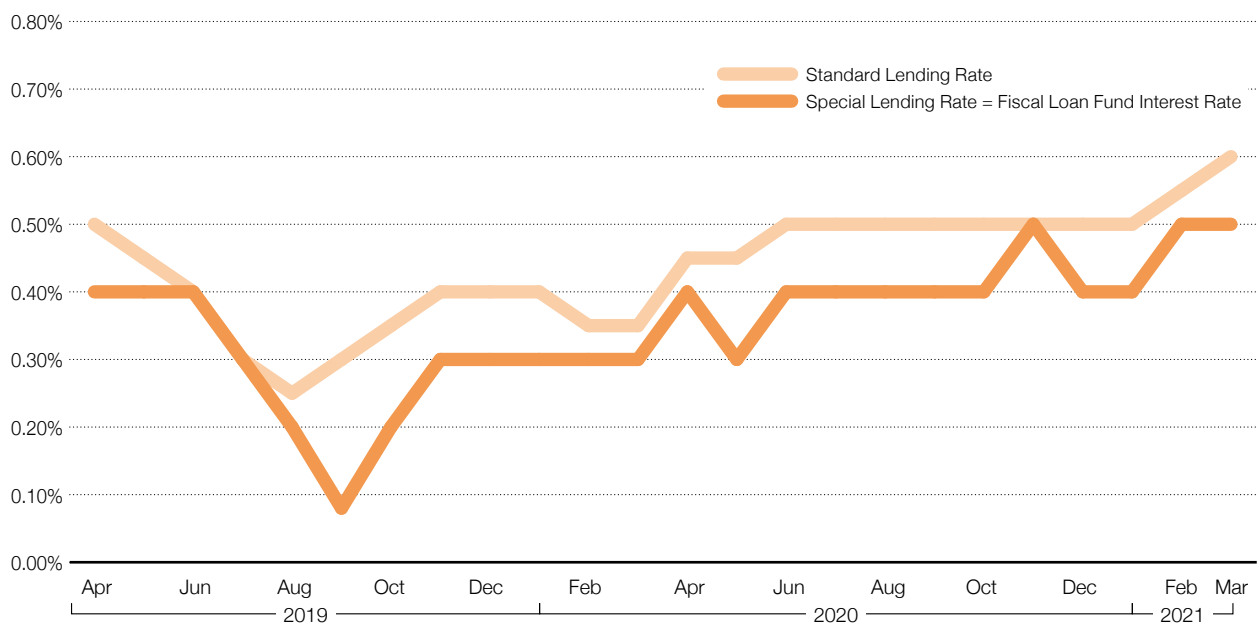
## 1. Loan Interest Rates

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.

The trends of JFM loan interest rates since April 2019 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

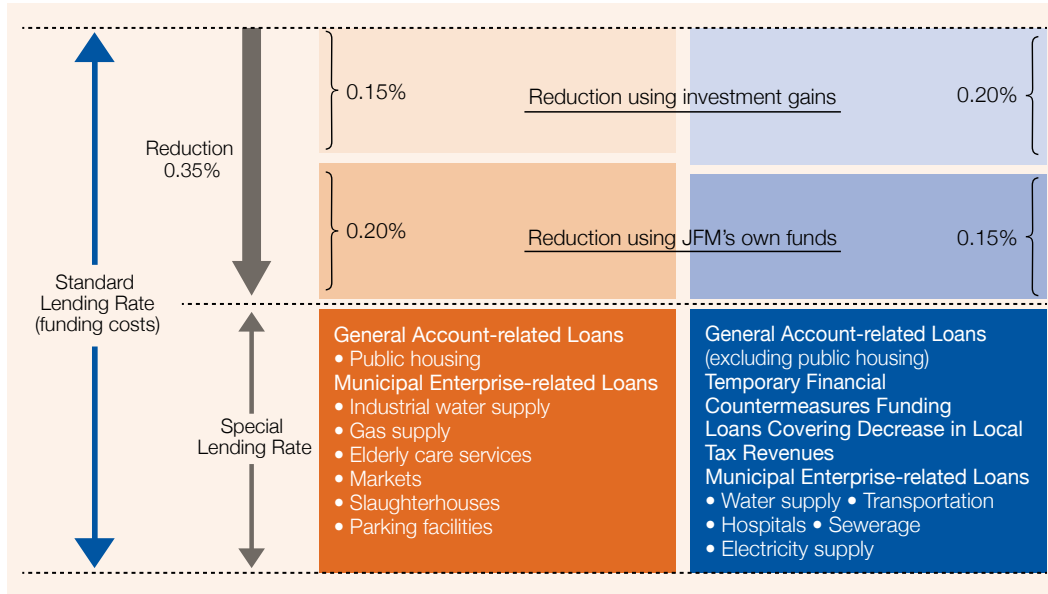


Note: The lending rates above represent a 30-year fixed rate loan with a 5-year grace period for semi-annually equal total payment.

## 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 a portion of proceeds that local governments 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 Japan Finance Organization for Municipalities (Ordinance No. 87 of the Ministry of Internal Affairs and Communications, 2008).

Lending Operations

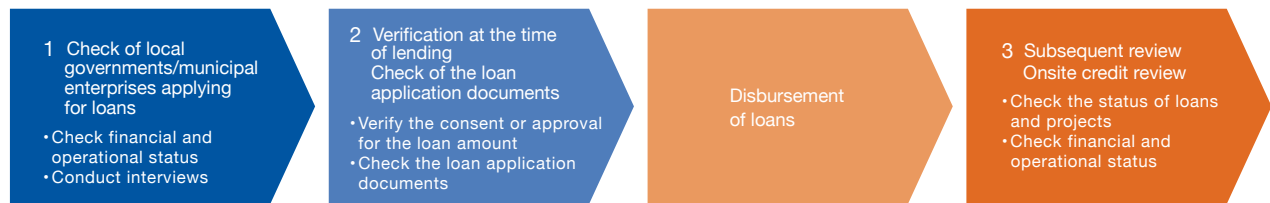
### 3 Credit Check System

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

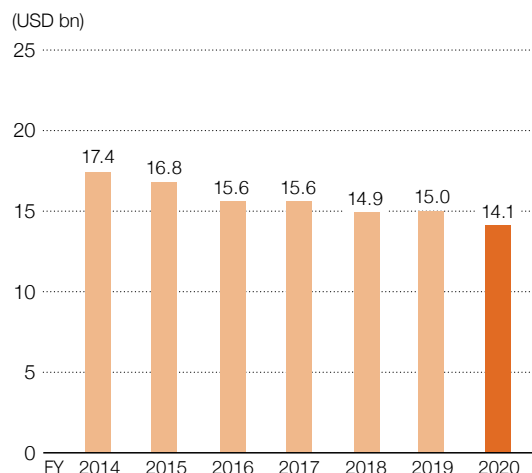
#### 1. Overview

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

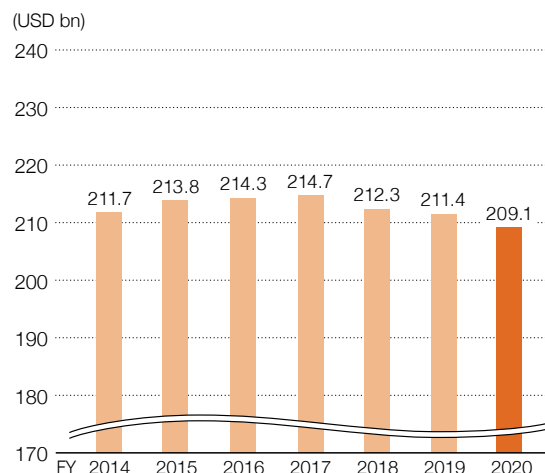
countermeasures funding.

In fiscal 2020, the lending volume amounted to USD 14.1 billion. At fiscal year-end, outstanding loans were USD 209.1 billion.

Annual Lending Volume



Outstanding Loans

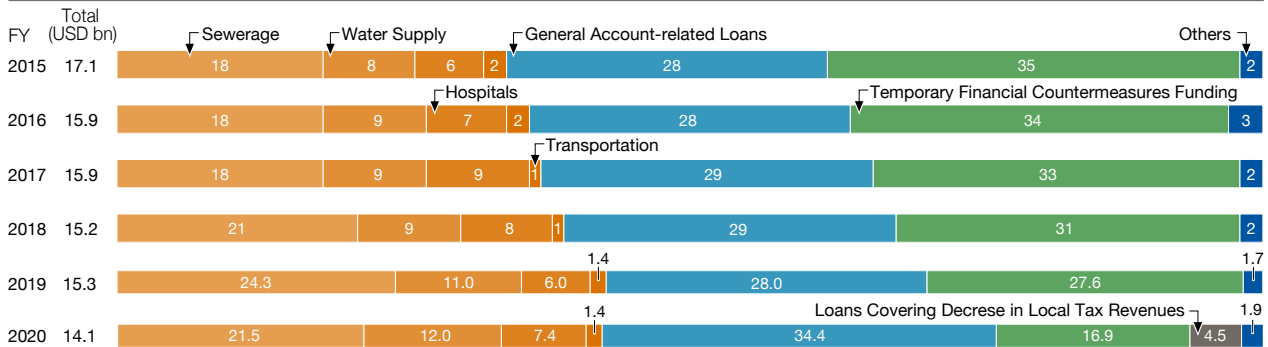


## 2. Annual Lending Volume by Business and Borrower

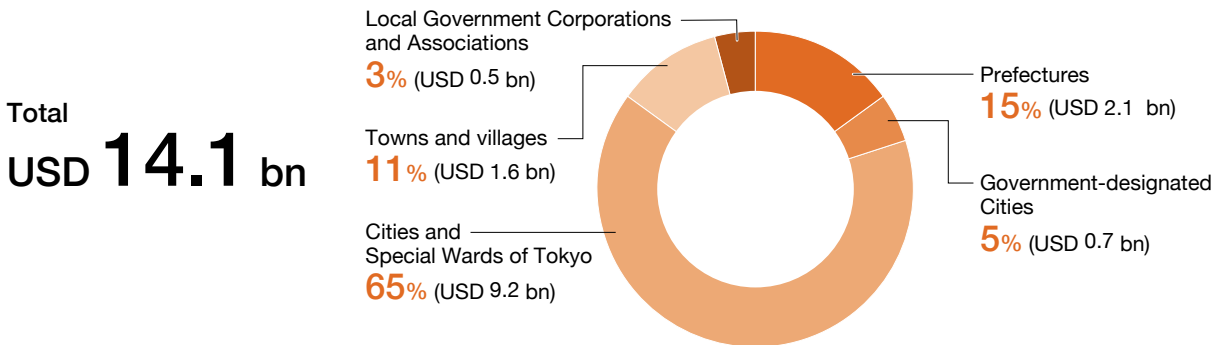
In fiscal 2020, sewerage business was USD 3.0 billion, accounting for the largest share of lending, at 21.5%

of the total. Ranked next were USD 2.4 billion in loans for temporary financial countermeasures funding, representing 16.9% of the total, and USD 1.7 billion in the water supply, for 12.0% of the total.

### Long-Term Loans Extended by Business



### FY2020 Loans Extended by Borrower



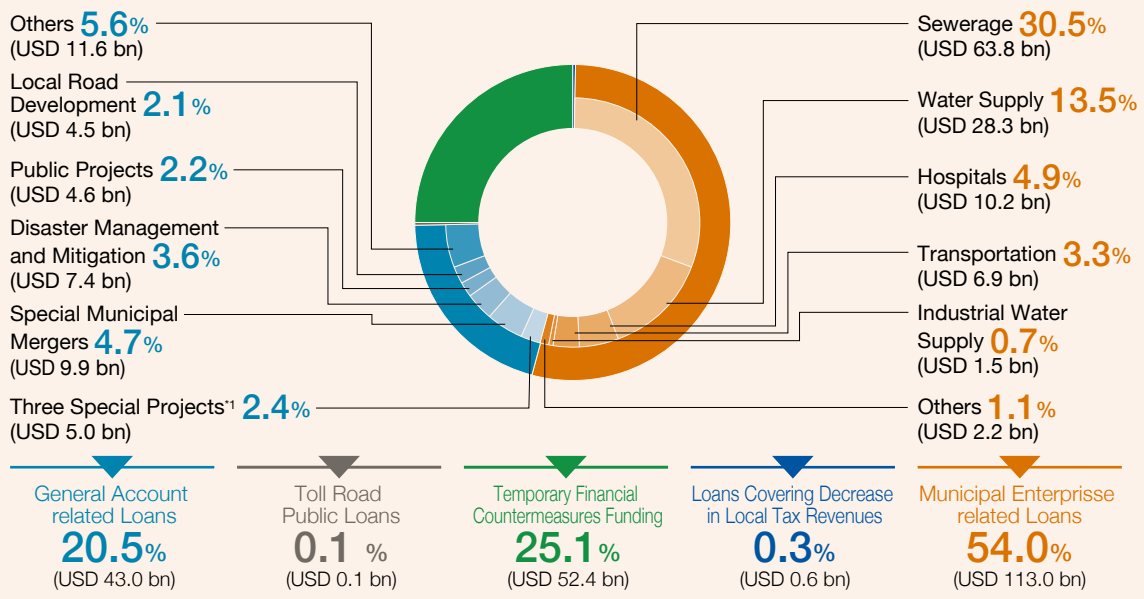
## Lending Operations

### 3. Outstanding Loans by Business and Borrower

At the end of fiscal 2020, the outstanding loans were USD 209.1 billion, of which the sewerage business accounted for the largest share at 30.5%, followed by temporary financial countermeasures funding at 25.1% and water supply at 13.5%.

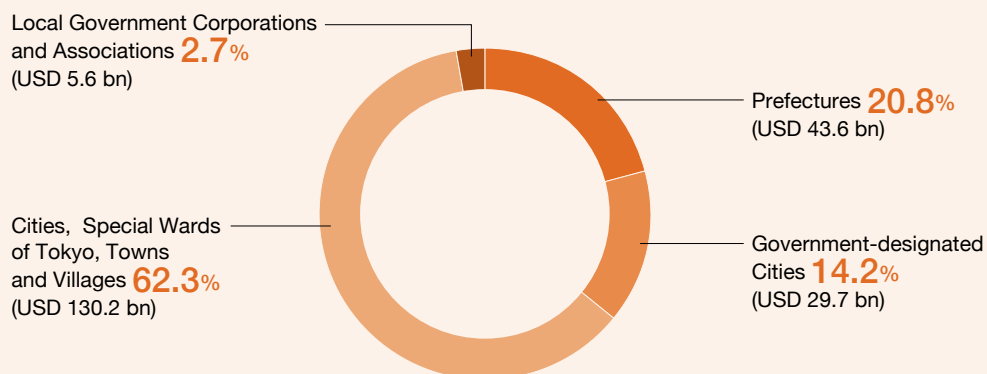
There was a total of 2,180 local governments, local government associations and corporations with outstanding JFM loans, including all prefectures. Cities, special wards of Tokyo, towns and villages accounted for the largest portion at 62.3% of the total, followed by prefectures at 20.8% and government-designated cities at 14.2%. Local government associations and corporations represented the remaining 2.7%

#### Outstanding Loans by Business (as of 31 March 2021)



\*1 Development projects for local roads, rivers and other waterways, and high school building.

#### Outstanding Loans by Borrower (as of 31 March 2021)



Total  
**USD 209.1 bn**

Note: Totals may not add up due to rounding.

# 5 Lending Operations by Business

JFM provides loans to local government businesses specified in the LGBP that the national government for-

mulates each fiscal year.

The major JFM-funded businesses are as follows.

## Water Supply Business

At the end of fiscal 2019, the water supply coverage was 97.4% of the population. The water supply business (including small-scale water supply) operated by local governments totaled 1,856 projects and provided about 13.4 billion cubic meters of water annually for approximately 123.84 million people.

In fiscal 2020, loans extended to the water supply business amounted to USD 1.7 billion.

## Transportation Business

At the end of fiscal 2019, the transportation projects managed by local governments totaled 85 projects and public transportation is used by approximately 3.5 billion people annually (9.48 million people on an average daily basis).

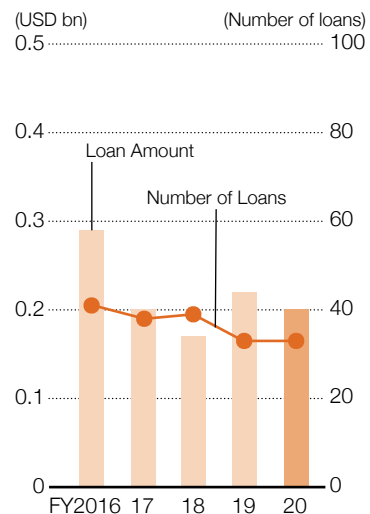
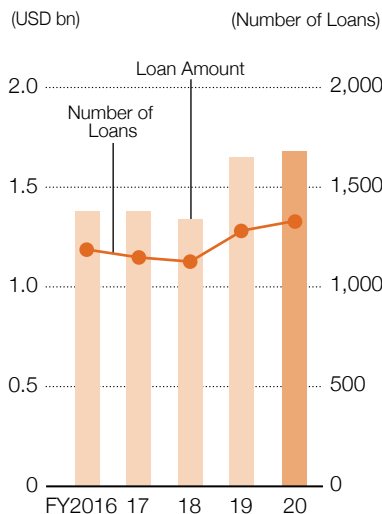
In fiscal 2020, loans extended to the transportation business amounted to USD 0.2 billion.



Kaneda Raw Water Reservoir (Kisarazu City, Chiba Prefecture)



Kumamoto City 0800 Series Low Floor Tram (Kumamoto City, Kumamoto Prefecture)



## Lending Operations

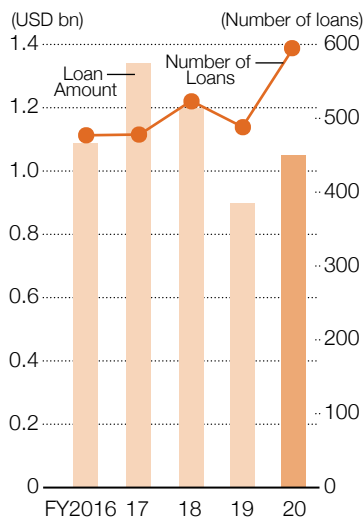
### Hospitals Business

At the end of fiscal 2019, hospital projects managed by local governments totaled 684 with 859 hospitals, which included 819 general hospitals and 40 mental hospitals.

In fiscal 2020, loans extended to the hospitals business (including those run by local independent administrative institutions) totaled USD 1.0 billion.



Atsugi City Hospital (Atsugi City, Kanagawa Prefecture)



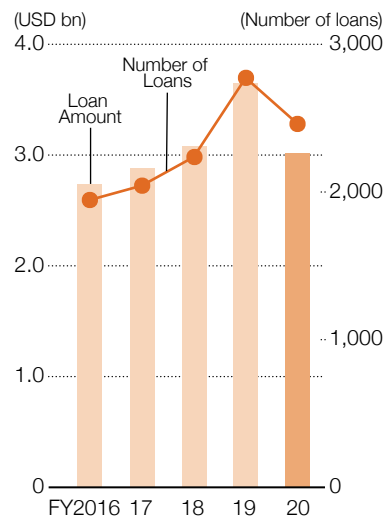
### Sewerage Business

At the end of fiscal 2019, the sewerage system covered 91.7% of the nation's total population. There were 3,617 projects involved, with a total annual sewerage processing capacity (combined storm water and sewerage treatment, excluding river basin sewerage) of around 15.2 billion cubic meters serving areas with a population of nearly 105.22 million people.

In fiscal 2020, loans extended to the sewerage business totaled USD 3.0 billion.



Sewage Purification Center (Shiojiri City, Nagano Prefecture)

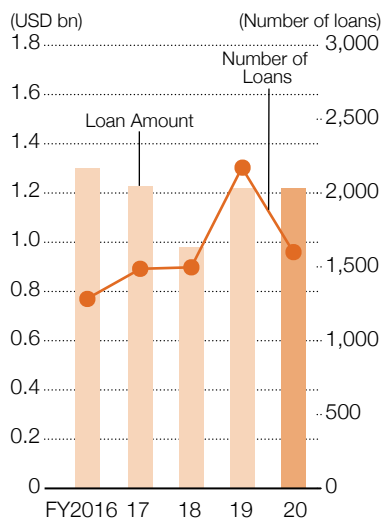




## Disaster Management and Mitigation

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 2020, loans extended for Disaster Management and Mitigation amounted to USD 1.2 billion.

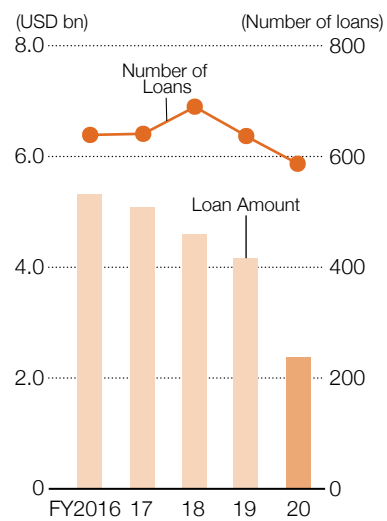


## Temporary Financial Countermeasures Funding

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 2020, loans extended for temporary financial countermeasures funding amounted to USD 2.4 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.

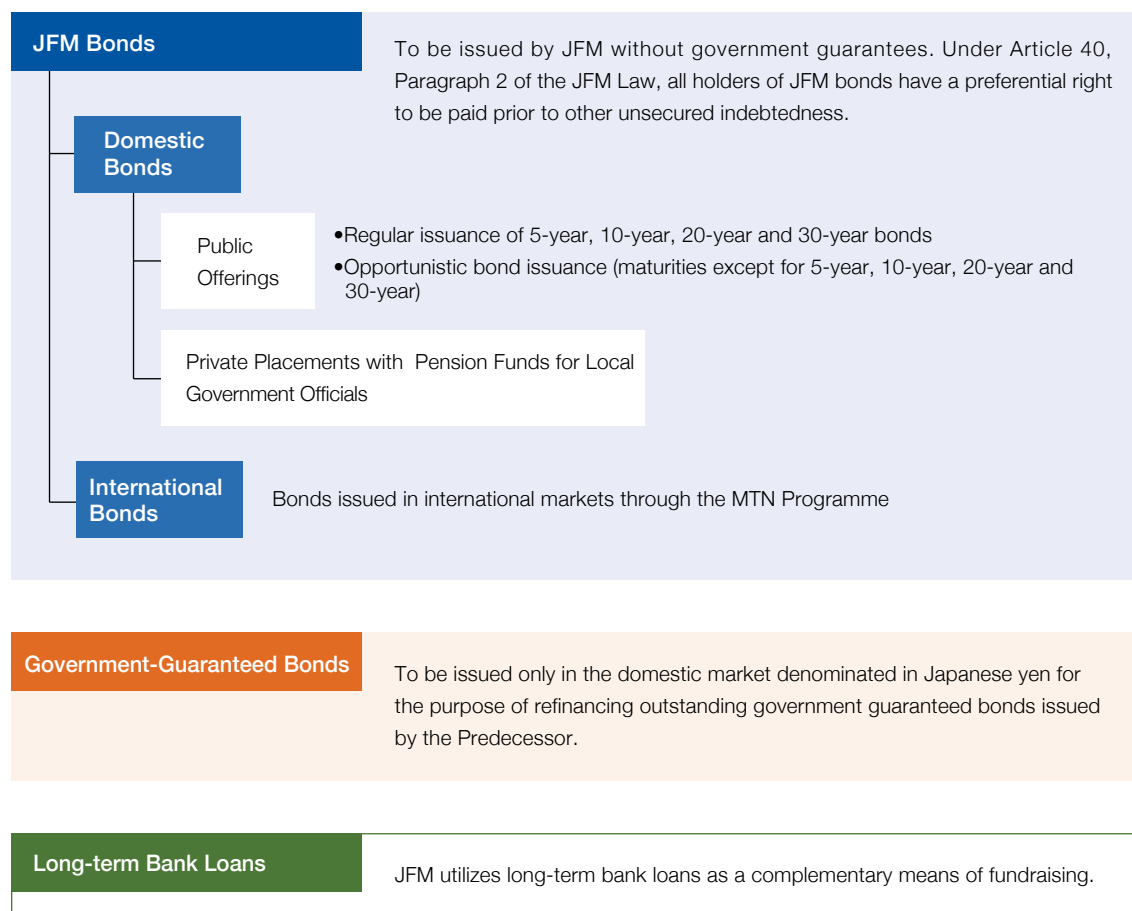
# 1 Issue Type

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 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.



## 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.

In fiscal 2019 and fiscal 2020, JFM issued green bonds financing sewerage projects managed by local governments.

### 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.

### 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.

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, in-

terest 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.

<b>Issuer Credit Rating</b>	S&P : A+ Moody's : A1 R&I : AA+	(As of 31 March 2021)
<b>BIS Risk Weighting (denominated in yen)</b>	JFM bonds : 10%	For reference : Japanese Government Bonds : 0% Japanese Government-Guaranteed Bonds : 0% Local Government Bonds : 0%
<b>Preferential Rights for JFM Bonds</b>	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 2021).

# 4 Trends in Funding Operations

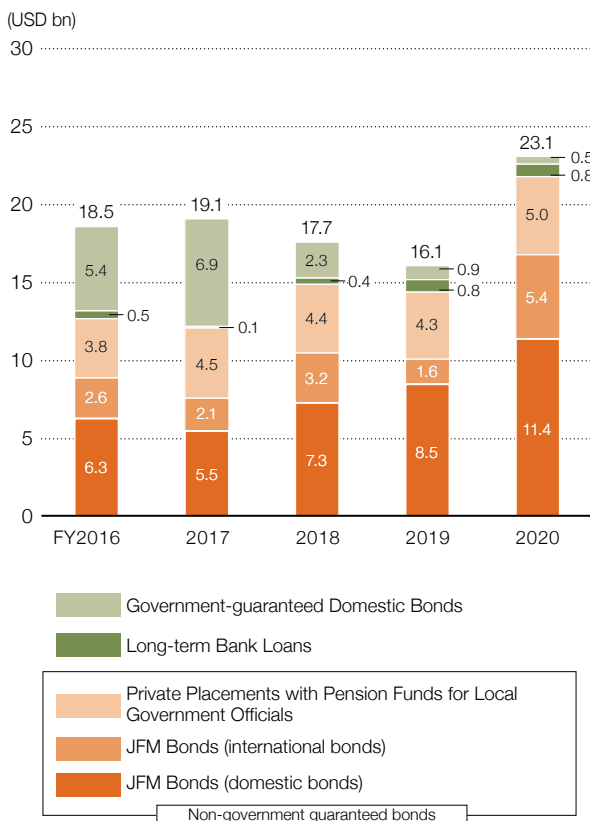
JFM issues JFM bonds (non-government guaranteed bonds to be issued through domestic public offerings or under the MTN Programme, or private placements with pension funds for local government officials) and government-guaranteed bonds for the purpose of refinancing existing government guaranteed bonds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

In fiscal 2020, JFM raised a total of USD 23.1 billion, increased from the previous year. This was mainly the result of an increase in the amount of long-term bank loans, non-government guaranteed JFM bonds and private placements with pension funds issued during fiscal

2020 while the issuance volume of government-guaranteed bonds decreased.

As of 31 March 2021, outstanding bonds were USD 184.4 billion. Outstanding long-term bank loans totaled USD 2.7 billion. The total amount of outstanding bonds and long-term bank loans was USD 187.1 billion, which was comprised of USD 135.5 billion in the general account and USD 51.5 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 that the management account has been decreasing while the general account has been increasing.

## Funding Volume



## Outstanding Bonds and Bank Loans



# Support for Local Governments

## 1 Research and Studies

Conduct research on financial management of local governments, local government finance in other countries, regional finance and financial analysis, and provide results and necessary support to local governments which can be used for human resource development, practical support and information dissemination.

### Initiatives



#### Collaboration project with GRIPS

Work on the project on education, research and studies in collaboration with the National Graduate Institute for Policy Studies (GRIPS) in the medium and long term, with the theme of local government finance under social structural transformation such as the era of depopulation.



#### Research and studies on regional financing

Conduct research on borrowing environment of local governments from local financial institutions.



#### Research and studies on local government finance in other countries

Conduct research by cooperating with specialized agencies on local government finance and its operation in other countries such as the latest funding methods of local governments-owned joint funding organizations.



#### Studies to understand the needs and issues of local governments

JFM offers support for issues related to the overall financial management of local governments, which includes ensuring financial health and fund-raising.



#### Gathering advanced cases

Collect and accumulate advanced cases of how to respond to policy issues which are of high interest to local governments.

## 2 Personnel Training Support

### Initiatives



#### Project to strengthen administration and finance management of local governments

Send advisors to cities and towns depending on individual situations and requests as a joint project with the Ministry of Internal Affairs and Communications, regarding topics such as municipal enterprise accounting applications and local public accounting development, in order to improve quality of local governments' financial management.



#### Hold JFM local government finance seminars, JFM municipal enterprise seminar and more

Hold seminars on timely issues related to local finance and local public enterprises that are of great interest to local governments such as joint seminars for chiefs and executives of local public organizations with local administrative and financial research committee.

## 3 Information Dissemination

### Initiatives



#### Operation of the "New Octagon" financial analysis chart

Operation of local governments' financial analysis chart "New Octagon" which is a tool to analyze the financial status and changes in local governments.



#### Operation of advanced case search system

Operation of database search system with keyword research which has more than 1,000 advanced cases to help in solving issues in local governments.

JFM, as a joint funding organization owned by local governments, offers support for sound financial management of local governments by utilizing the expertise and experience as a market participant. As a close advisor of local governments, JFM offers various support services such as research and studies, personnel training and information dissemination, as per local government needs.

Hold seminars, trainings and on-site lectures for local governments for the purpose of solving issues and questions regarding financial management and funding, as well as set up a new operation to send advisors to individual cities and towns in order to improve quality of local governments' financial management.



**Hold local government seminar**

Hold introductory seminar on funding and investment, and joint accommodation type training with Japan Academy of Municipal Personnel and Japan Intercultural Academy of Municipalities.



**Conduct e-learning**

Utilize e-learning to develop and provide training contents related to local government finance while delivering lectures held at JFM seminars.



**Hold on-site lectures**

Hold on-site and on-line lectures on topics which are of interest to local governments at their training workshops by local government financial advisors.



**Practical support for financial management and funding**

Provide individual practical support from local government finance advisors on financial management and funding for local governments such as helping local governments issue publicly offered local bonds by phone, email, web conference, etc.

Strengthen information dissemination by effectively using the website.



**Provide learning materials and relevant economic and financial data/knowledge**



# JFM and SDGs related operations

## Support sustainable community development through lending operations

Local governments are facing various administrative issues, such as promoting the revitalization of regions, measures against the declining birth rate and an aging population, deteriorating infrastructure, measures against large-scale and intensifying natural disasters.

To address these challenges, JFM provide loans to local governments who develop infrastructure and administrative services to their residents of the region and contribute to a sustainable development of the region's community and environment.

### ■ JFM lending operations and SDG mapping

#### Sewerage



Public sewerage, basin sewerage, agricultural settlement drainage facilities, wastewater treatment facilities.



Nagano Prefecture, Iida City, Matsuo Purification Center

#### Transportation



Rail track, automobile transportation, railway/ship operation maintenance business.



Kumamoto Prefecture, Kumamoto City, 0800 Series Low Floor Tram

#### Hospitals and Elderly Care Services



Maintaining hospitals, medical facilities, elderly care facilities managed by local governments.



Hyogo Prefecture, Kobe City, Kobe Proton Center



## Disaster Management and Mitigation



Building facilities and network for large scale disaster prevention.  
Updating public facilities with earthquake-resistant capacity.



Kochi Prefecture, Kuroshio Town, Tsunami Evacuation Tower

## Social Welfare and Educational Facilities Development



Maintaining educational facilities such as schools managed by local governments.



Aomori Prefecture, Hirosaki City, Susono Elementary School

### Supporting local governments through local government support operations

JFM offers various support for sound financial management of local governments by providing services such as research and studies, personnel training and information dissemination, as per local government needs.



### Issued second green bond in February 2021

JFM issued its second green bond in February 2021 with an amount of EUR 500 million for the purpose of allocating the net proceeds to sewerage business as well as the previous year. JFM is planning to publish its second impact report summarizing the description of projects and environment impacts and support the SDG activities managed by local governments in Japan continuously. JFM green bond framework obtained the highest level of assurance from Vigeo Eiris, a second party opinion provider.

(Link to JFM green bond homepage : <https://www.jfm.go.jp/en/investors/greenbond.html>)



# Management Structure

Zao's Snow Monsters, Yamagata Prefecture



## Corporate Governance

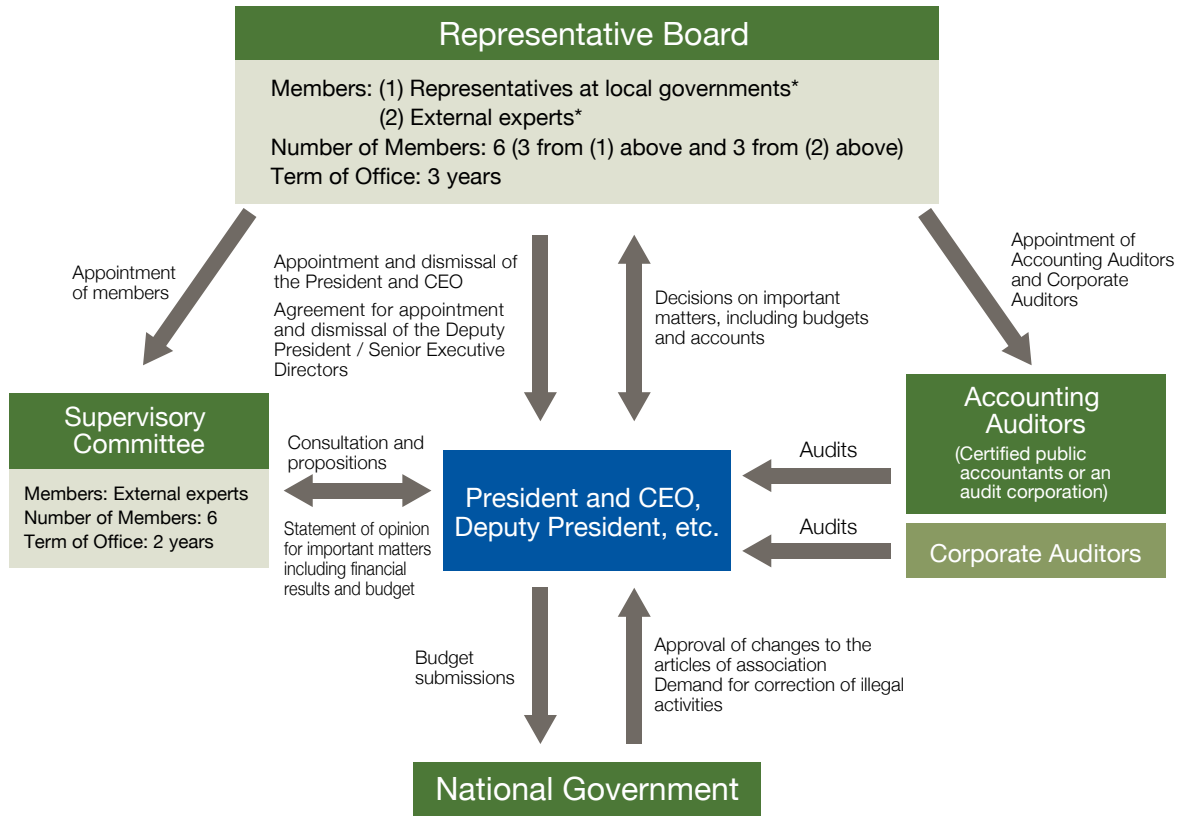
1. Corporate Governance	42
2. Internal Control over Financial Reporting	44
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Risk Management	47
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Corporate Governance

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 reports on those matters. The President and CEO must respect and reports 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.

## 2 Internal Control over Financial Reporting

Pursuant to the Ministerial Ordinance on Finance and Accounting of 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 accounting 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 2020, the accounting auditors gave their opinion (unqualified audit opinion pursuant to Ministerial Ordinance Article 32, Paragraph 2, 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.

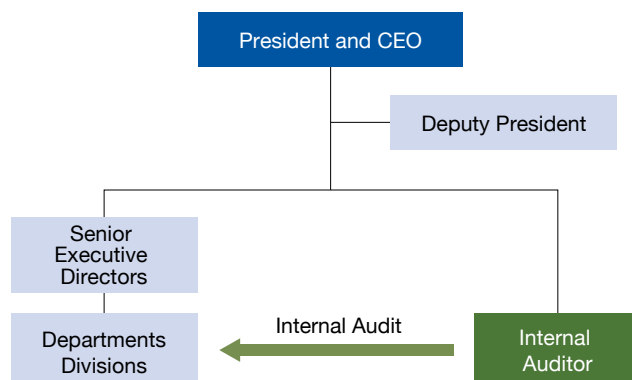
On completing this task, the internal auditor submits a report to the president and CEO.

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



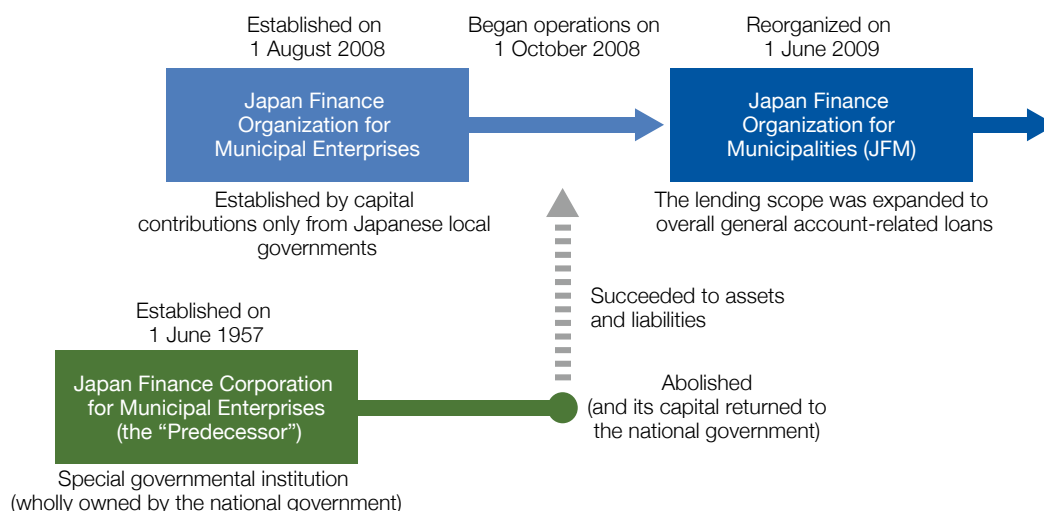
## General Account and Management Account

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.

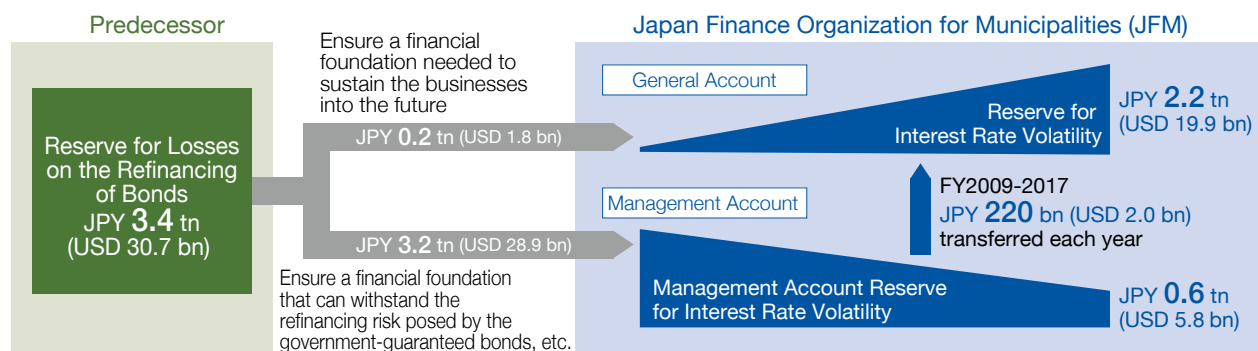
With regard to the management account, JFM issues government-guaranteed bonds solely for the purpose of refinancing government-guaranteed bonds of the Predecessor.



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 19.9 billion) needed to ensure the future continuity of JFM's operations was

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, mainly for the purpose of forest environment transfer tax increase.



# 1 Overall Risk Management

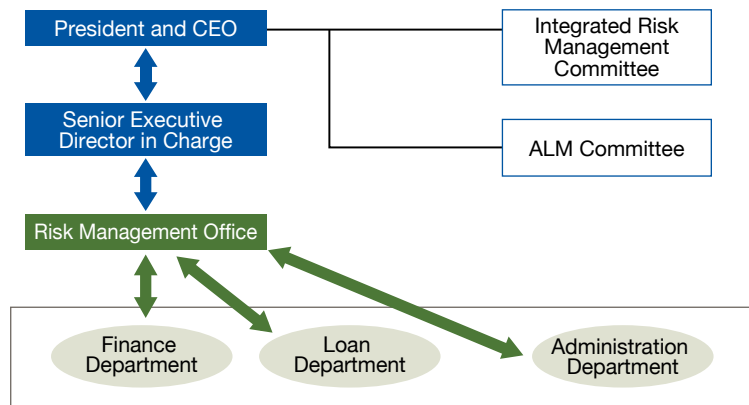
## 1. Risk Management System

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 analysis, VaR analysis, duration analysis, 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 regulations of the Bank for International Settlements (as of 31 March 2021). 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 2021, JFM's total outstanding loans stood at USD 209.1 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 2021.

## 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 (International Swaps and Derivatives Association) Master Agreement and the CSA (Credit Support Annex) 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, 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 51.

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

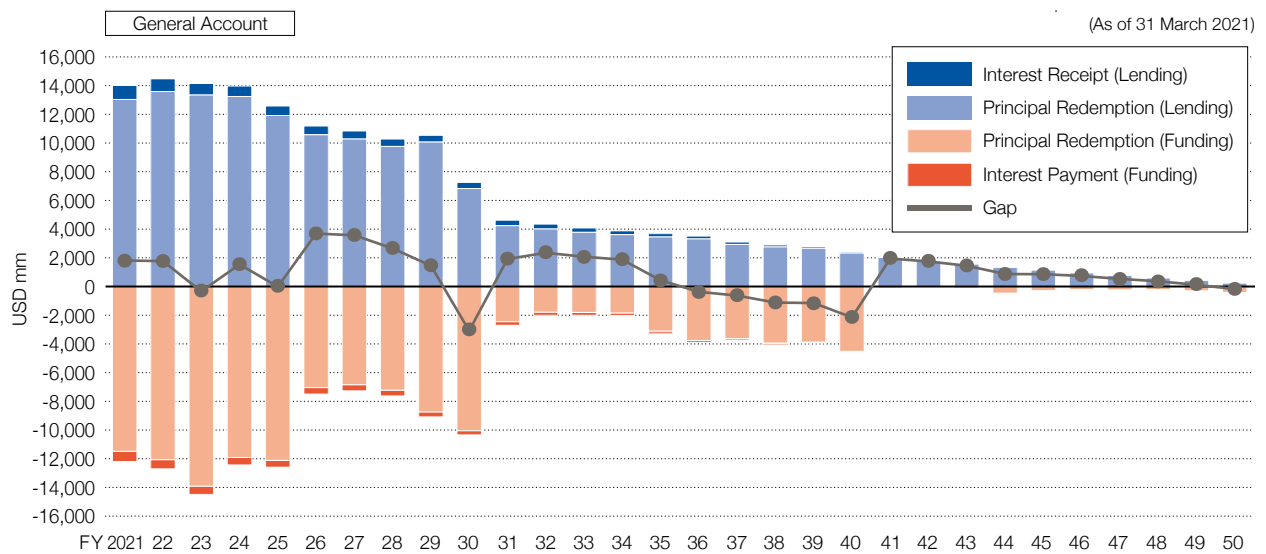
JFM generally raises funds required to finance a loan by issuing bonds prior to the loan disbursements. Proceeds from bond issuances may not be earmarked for a particular loan. Thus, fluctuations in interest rates in the period where lending and funding schedules differ affect the profitability of loans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

## Managing interest rate risk associated with bond refinancing

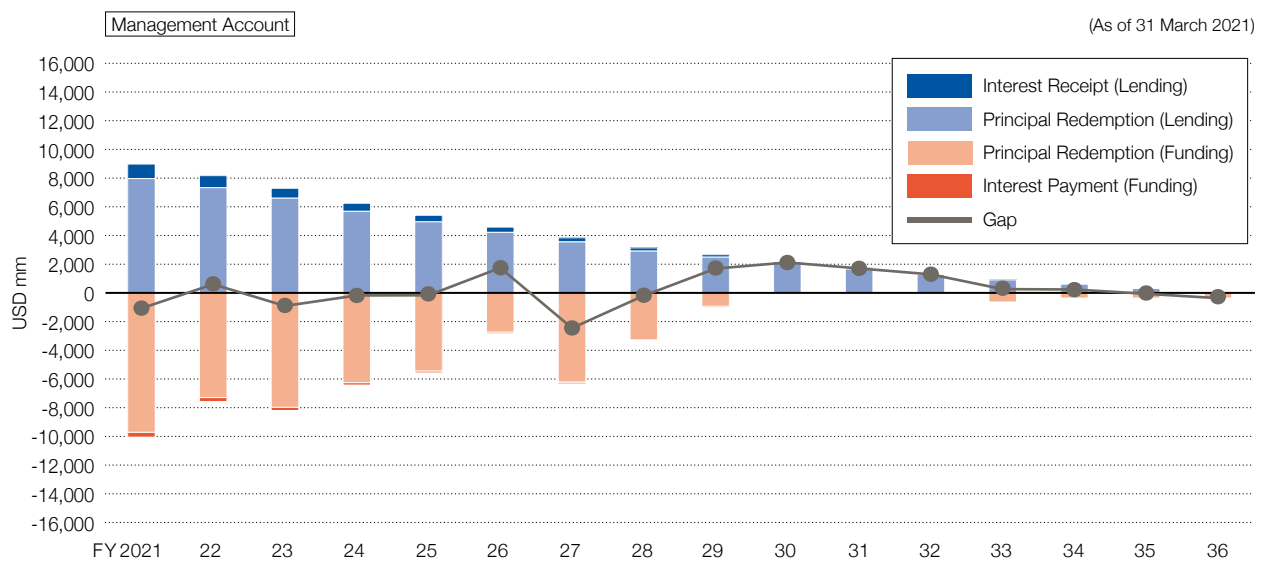
- JFM maintains reserves to prepare for interest rate risk associated with bond refinancing. At the end of fiscal 2020, the total amount of the reserves stood at USD 25.7 billion, which consisted of USD 19.9 billion in the general account and USD 5.8 billion in the management account.
- As assets and 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 5 years from fiscal 2018, in which the duration gap is maintained below 2 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 the 30th year at the latest for its loans with maturities longer than 30 years.
  - (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 2020, the duration gap in the general account was 0.40 years, staying within the management target.
- In the management account, which manages assets transferred from the Predecessor, JFM maintains USD 5.8 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 in fiscal 2021 and fiscal 2022, with the aim of transferring up to USD 3.6 billion in 2 years to secure financial resources of the local allocation tax. In addition, an amount of up to USD 2.1 billion is being attributed to the government over a period of 5 years from fiscal 2020 through 2024 for the purpose of forest environment transfer tax increase. Furthermore, it has been also determined that an additional amount of up to USD 13.6 million from fiscal 2018 through fiscal 2023 shall be attributed to the government 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 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)



• Lending duration 7.94 years • Funding duration 7.54 years • Duration gap 0.40 years (YoY change: -0.28 years)



• Lending duration 4.70 years • Funding duration 3.78 years • Duration gap 0.92 years (YoY change: 0.06 years)

JFM as a whole  
 • Lending duration 7.09 years • Funding duration 6.50 years • Duration gap 0.59 years (YoY change: -0.24 years)

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, or from 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. In addition, in order to prepare for a contingency, JFM has a backup server outside JFM so that its business operations can be continued. Furthermore, JFM has taken necessary countermeasures against COVID-19 e.g., deciding its business structure in terms of business continuity and the management and employees' health while considering the spread of COVID-19.

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

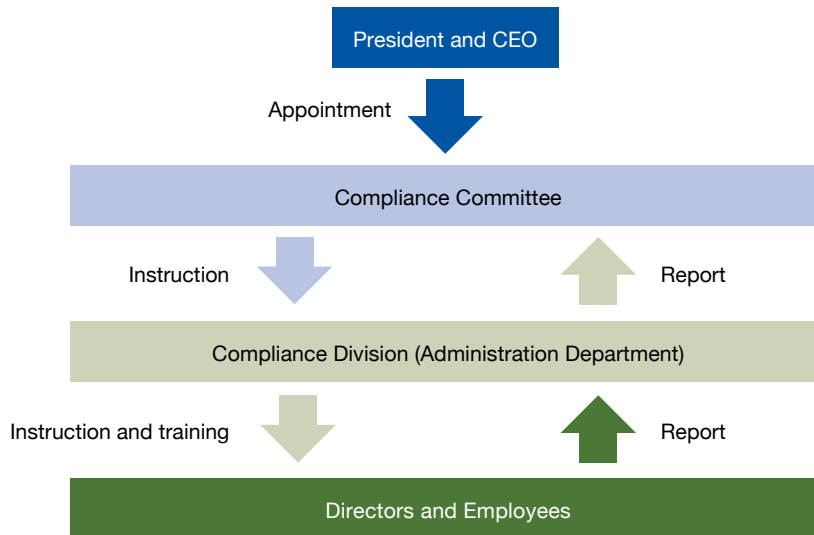
Based on the Compliance Rules, JFM has established the Compliance Committee.

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





# 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/](http://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
- JFM Green Bond



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



Annual Report

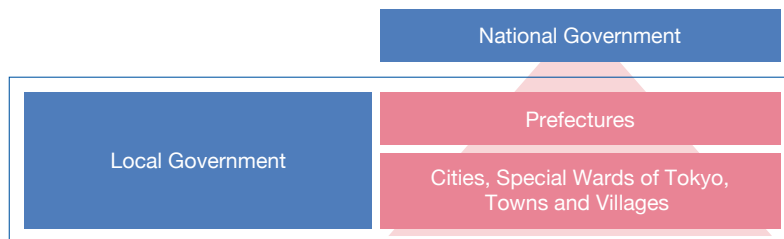
# 1 Japanese Local Government System

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.

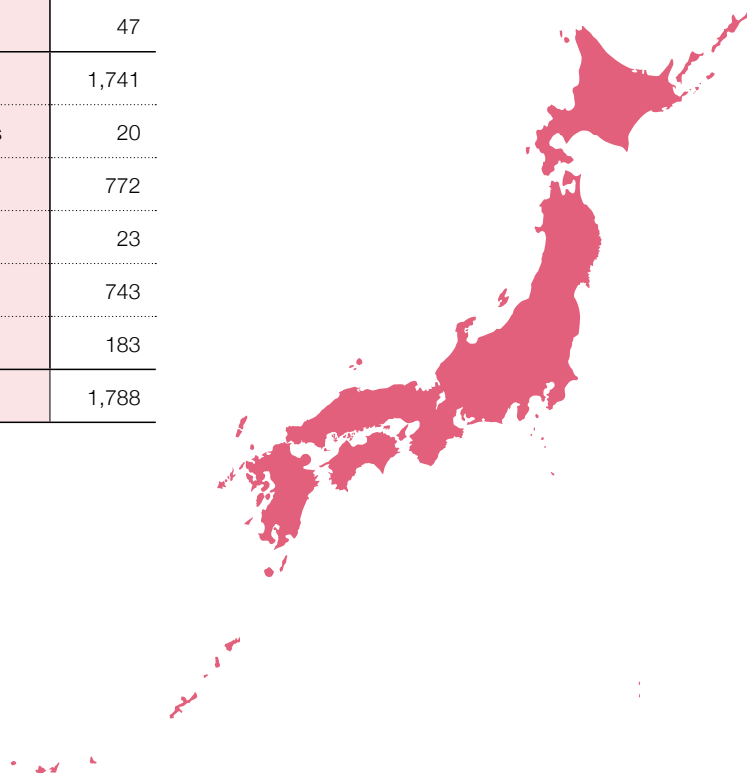
The Japanese local government system adopts a two-tier system with prefectures serving broader geographic areas, and cities, special wards of Tokyo, as well as government-designated cities, towns and villages providing local services.



## 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 2021)



## 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 2021, local government finance will total JPY 90.2 trillion (USD 815.2 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 Program (Initial Plan for FY2021)

Annual Expenditure (USD 815.2 bn)	Annual Revenue (USD 815.2 bn)
<ul style="list-style-type: none"> <li>- Social Welfare</li> <li>- Education</li> <li>- Fire Defense</li> <li>- Infrastructure, etc.</li> </ul>	Local Tax USD 363.1 bn
	Local Allocation Tax USD 158.7 bn
	Local Government Bonds and Loans USD 101.5 bn
	Others USD 191.9 bn

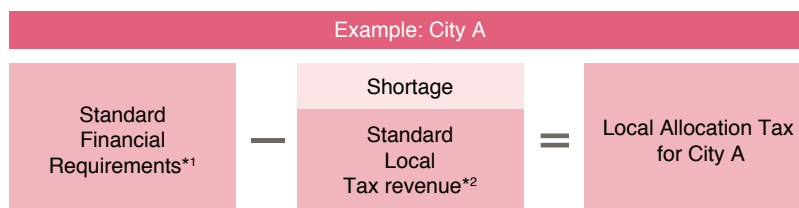
Note: The above programme includes Great East Japan Earthquake related budgets.

### 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 2021).

#### 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.

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

- (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.

## 2) Issuance restriction

Local governments with a real debt payment ratio 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 to fulfill 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.

## 3) Guideline for local government borrowings

The LGBP is published as well as local financial plan which specifies the guideline for each business on local government borrowings.

# 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

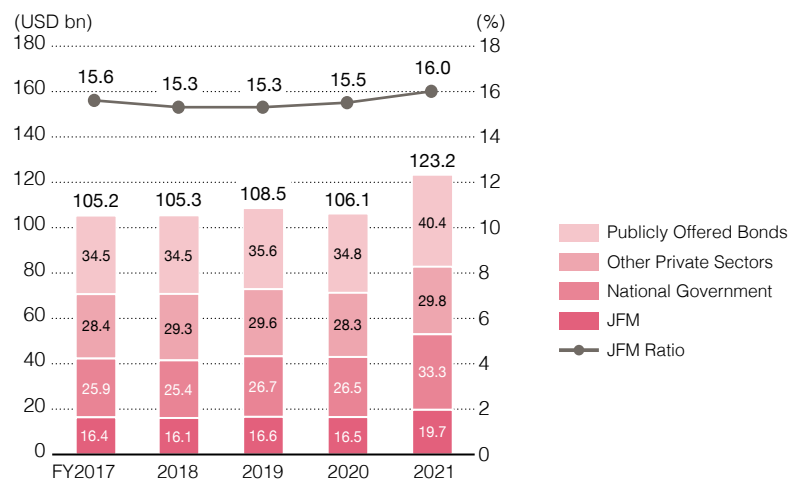
		FY2020	FY2021	Share
Private Funds	Publicly Offered Bonds	USD 35 bn	USD 40 bn	33%
	Other Private Sectors	USD 28 bn	USD 30 bn	24%
Public Funds	JFM	USD 16 bn	USD 20 bn	16%
	National Government	USD 27 bn	USD 33 bn	27%
Total		USD 106 bn	USD 123 bn	100%

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 2017, 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

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# Balance Sheets

(As of 31 March 2020 and 2021)

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

Item	Fiscal 2019 (31 March 2020)	Fiscal 2020 (31 March 2021)		Item	Fiscal 2019 (31 March 2020)	Fiscal 2020 (31 March 2021)	
	Amount				Amount		
Assets				Liabilities			
Loans (Note 4)	¥23,399,615	¥23,144,389	\$209,073,077	Bonds (Notes 8 and 9)	¥20,013,462	¥20,410,767	\$184,379,107
Securities (Note 18)	365,500	593,000	5,356,820	Borrowed money (Note 10)	203,000	294,000	2,655,827
Cash and bank deposits	557,437	1,106,432	9,994,870	Cash collateral received for financial instruments	58,073	33,480	302,439
Cash collateral paid for financial instruments	12,391	3,282	29,648	Other liabilities	5,040	4,670	42,194
Other assets	7,881	6,914	62,466	Reserve for bonuses (Note 11)	58	59	534
Tangible fixed assets (Note 7)	2,777	2,654	23,980	Reserve for bonuses for directors and corporate auditors (Note 11)	10	10	92
Intangible fixed assets (Note 7)	1,097	933	8,432	Reserve for retirement benefits (Notes 11 and 14)	62	52	475
				Reserve for retirement benefits for directors and corporate auditors (Note 11)	32	21	191
				Fund for lending rate reduction	920,287	920,287	8,313,347
				Basic fund for lending rate reduction (Note 13)	920,287	920,287	8,313,347
				Reserves under special laws	2,822,777	2,853,636	25,778,109
				Reserve for interest rate volatility (Note 12)	2,200,000	2,200,000	19,873,532
				Management account reserve for interest rate volatility (Note 12)	605,607	640,921	5,789,719
				Reserve for interest rate Reduction	17,169	12,714	114,858
				<b>Total liabilities</b>	<b>24,022,803</b>	<b>24,516,985</b>	<b>221,472,315</b>
				Net Assets			
				Capital	16,602	16,602	149,974
				Retained earnings	238,383	265,772	2,400,836
				General account surplus reserve	238,383	265,772	2,400,836
				Valuation, translation adjustments and others	11,101	437	3,955
				Management account surplus reserve	57,808	57,808	522,213
				<b>Total net assets</b>	<b>323,896</b>	<b>340,621</b>	<b>3,076,978</b>
<b>Total assets</b>	<b>¥24,346,700</b>	<b>¥24,857,606</b>	<b>\$224,549,293</b>	<b>Total liabilities and net assets</b>	<b>¥24,346,700</b>	<b>¥24,857,606</b>	<b>\$224,549,293</b>

See notes to financial statements.



# Statements of Income

(For the years ended 31 March 2020 and 2021)

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

Item	Fiscal 2019 (1 April 2019 to 31 March 2020)	Fiscal 2020 (1 April 2020 to 31 March 2021)	
	Amount	Amount	
Income	¥289,727	¥259,923	\$2,347,998
Interest income	282,623	250,780	2,265,407
Fees and commissions	87	83	750
Other operating income	8	7	68
Other income	7,008	9,052	81,773
Contributions from fund for lending rate reduction (Note 13)	6,996	9,041	81,672
Others	12	11	101
Expenses	160,663	141,675	1,279,814
Interest expenses	154,271	134,580	1,215,725
Fees and commissions	299	292	2,641
Other operating expenses	2,926	3,713	33,546
General and administrative expenses	3,166	3,088	27,901
Other expenses	-	0	0
Ordinary income	129,063	118,247	1,068,184
Special gains	105,259	64,454	582,247
Reversal of management account reserve for interest rate volatility (Note 12)	100,000	60,000	542,005
Reversal of reserve for interest rate reduction	5,259	4,454	40,242
Special losses	208,555	155,314	1,403,017
Loss on disposal of fixed assets	23	-	-
Provision for management account reserve for interest rate volatility (Note 12)	108,531	95,314	861,012
Payment to national treasury (Notes 5 and 12)	100,000	60,000	542,005
Net income	¥25,767	¥27,388	\$247,414

See notes to financial statements.

# Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2020)

(Millions of yen)

1 Profit available for appropriation		¥25,767	¥25,767
Net income		¥25,767	
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve		25,767	25,767

# Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2021)

(Millions of yen)

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

(Thousands of U.S. dollars)

1 Profit available for appropriation		\$247,414	\$247,414
Net income		\$247,414	
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve		247,414	247,414

Notes: 1. Profit was appropriated at the end of the fiscal year in accordance with the provisions of Article 39, Section 1 of the Japan Finance Organization for Municipalities Law (Law No. 64, 2007; hereinafter the "Law").

2. Surplus reserve appropriated was posted as general account surplus reserve on the balance sheets.

See notes to financial statements.

# Statements of Appropriation of Profit [Management account]

(For the year ended 31 March 2020)

(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 2021)

(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.

# Statements of Changes in Net Assets

(For the year ended 31 March 2020)

(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 2019	¥16,602	¥212,616	¥212,616	¥229,218	¥8,163	¥57,808	¥295,191
Changes during accounting period							
Net income	-	25,767	25,767	25,767	-	-	25,767
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	2,937	-	2,937
Net changes during accounting period	-	25,767	25,767	25,767	2,937	-	28,704
Balance as of 31 March 2020	¥16,602	¥238,383	¥238,383	¥254,985	¥11,101	¥57,808	¥323,896

(For the year ended 31 March 2021)

(Millions of yen)

	Stockholders' equity				Valuation, translation adjustments and others	Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized gain/(loss) from hedging instruments		
		General account surplus reserve	Total retained earnings				
Balance as of 1 April 2020	¥16,602	¥238,383	¥238,383	¥254,985	¥11,101	¥57,808	¥323,896
Changes during accounting period							
Net income	-	27,388	27,388	27,388	-	-	27,388
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(10,663)	-	(10,663)
Net changes during accounting period	-	27,388	27,388	27,388	(10,663)	-	16,725
Balance as of 31 March 2021	¥16,602	¥265,772	¥265,772	¥282,374	¥437	¥57,808	¥340,621

(For the year ended 31 March 2021)

(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 2020	\$149,974	\$2,153,422	\$2,153,422	\$2,303,396	\$100,283	\$522,213	\$2,925,892
Changes during accounting period							
Net income	-	247,414	247,414	247,414	-	-	247,414
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(96,328)	-	(96,328)
Net changes during accounting period	-	247,414	247,414	247,414	(96,328)	-	151,086
Balance as of 31 March 2021	\$149,974	\$2,400,836	\$2,400,836	\$2,550,810	\$3,955	\$522,213	\$3,076,978

See notes to financial statements.

# Statements of Cash Flows

(For the years ended 31 March 2020 and 2021)

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

Item	Fiscal 2019 (1 April 2019 to 31 March 2020)	Fiscal 2020 (1 April 2020 to 31 March 2021)	
	Amount	Amount	
I Cash flows from operating activities			
Net income	¥25,767	¥27,388	\$247,414
Depreciation and amortization	606	512	4,626
Interest income	(282,623)	(250,780)	(2,265,407)
Interest expenses	154,271	134,580	1,215,725
Increase in reserve for bonuses	0	0	8
Increase/(decrease) in reserve for bonuses for directors and corporate auditors	0	(0)	(1)
Increase/(decrease) in reserve for retirement benefits	9	(9)	(86)
Increase/(decrease) in reserve for retirement benefits for directors and corporate auditors	7	(10)	(99)
Decrease in fund for lending rate reduction	(6,996)	(9,041)	(81,672)
Increase in management account reserve for interest rate volatility	108,531	95,314	861,012
Decrease in reserve for interest rate reduction	(5,259)	(4,454)	(40,242)
Net (increase)/decrease in loans	103,477	255,225	2,305,562
Net increase/(decrease) in bonds	(380,219)	396,027	3,577,487
Net increase/(decrease) in borrowed money	75,000	91,000	822,042
Interest received	283,600	251,747	2,274,140
Interest paid	(153,475)	(133,682)	(1,207,609)
Others	43,807	(26,153)	(236,254)
Net cash provided by/(used in) operating activities	(33,493)	827,664	7,476,646
II Cash flows from investing activities			
Proceeds from redemption of securities	934,200	1,858,500	16,788,618
Purchases of securities	(1,119,700)	(2,086,000)	(18,843,722)
Purchases of tangible fixed assets	(411)	(6)	(63)
Purchases of intangible fixed assets	(634)	(203)	(1,841)
Net cash used in investing activities	(186,546)	(227,710)	(2,057,008)
III Cash flows from financing activities			
Payment to national treasury	(100,000)	(60,000)	(542,005)
Revenue from contributions made from municipally operated racing	6,996	9,041	81,671
Net cash used in financing activities	(93,003)	(50,958)	(460,334)
IV Effect of exchange rate changes on cash and cash equivalents	-	-	-
V Net increase/(decrease) in cash and cash equivalents	(313,043)	548,994	4,959,304
VI Cash and cash equivalents at beginning of year	870,480	557,437	5,035,566
VII Cash and cash equivalents at end of year	¥557,437	¥1,106,432	\$9,994,870

See notes to financial statements.

# Notes to Financial Statements

## 1. Basis of Presentation

Japan Finance Organization for Municipalities (hereinafter, the “JFM”) has prepared financial statements in accordance with the Japan Finance Organization for Municipalities Law (Law No. 64, 2007; hereinafter the “Law”), the ordinances based on the Law and other regulations applicable to the JFM and accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

Since the JFM does not have any subsidiaries or affiliates, it does not prepare consolidated financial statements.

Amounts less than 1 million yen have been omitted.

As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of 31 March 2021, the final day of the fiscal year, which was ¥110.70 to U.S. \$1. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

## 2. Summary of Significant Accounting Policies

### (1) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method).

### (2) Derivative transactions

Derivative transactions are carried at fair value with changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for hedge accounting.

### (3) Depreciation and amortization

#### (a) Tangible fixed assets

Depreciation of tangible fixed assets is calculated by the straight-line method based on the estimated useful lives and the residual value determined by management. The estimated useful lives of major items are as follows:

Buildings: 23 to 47 years

Others: 2 to 19 years

#### (b) Intangible fixed assets

Amortization of intangible fixed assets is calculated by the straight-line method based on the estimated useful lives and the residual value determined by management. Software for internal use owned by the JFM is amortized over 5 years.

### (4) Deferred assets

Bond issuance costs are expensed in full when

incurred.

### (5) Translation of assets and liabilities denominated in foreign currencies into Japanese yen

Monetary assets and liabilities denominated in foreign currencies, for which foreign currency swaps or foreign exchange forward contracts are used to hedge the risk of foreign currency fluctuation, are translated at the contracted rate as these swap contracts or the forward contracts qualify for deferral hedge accounting.

### (6) Reserves

#### (a) Reserve for possible loan losses

The JFM has never experienced any loan losses. Accordingly, no reserve for possible loan losses has been maintained.

#### (b) Reserve for bonuses

The reserve for bonuses is provided for payment of bonuses to employees, in the amount of estimated bonuses, which are attributable to the fiscal year.

#### (c) Reserve for bonuses for directors and corporate auditors

The reserve for bonuses for directors and corporate auditors is provided for payment of bonuses to directors and corporate auditors, in the amount of estimated bonuses, which are attributable to the fiscal year.

#### (d) Reserve for retirement benefits

The reserve for retirement benefits is provided for payment of retirement benefits to employees, in the amount deemed accrued at the fiscal year-end, based on the projected retirement benefit obligation and fair value of plan assets at the fiscal year-end. The reserve for retirement benefits and pension expenses are calculated using the simplified method, which assumes the JFM’s retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at the fiscal year-end.

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

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

### (7) 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

## Financial Statements

contracts or forward contracts used to hedge the risk of foreign currency fluctuation qualify for deferral hedge accounting, the foreign currency-denominated assets and liabilities are translated at the contracted rate.

- (b) Hedging instruments and hedged items
  - (i) Hedging instruments...Interest rate swaps  
Hedged items...Bonds and long-term borrowed money
  - (ii) Hedging instruments...Currency swaps  
Hedged items...Foreign currency-denominated bonds
  - (iii) Hedging instruments...Foreign exchange forward contracts  
Hedged items...Foreign currency-denominated bank deposits

(c) Hedging policy

The JFM uses hedging instruments as a means of hedging exposure to interest rate risk and foreign exchange risk.

Hedged items are identified by each individual contract.

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

(d) Assessment of hedge effectiveness

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

(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, the JFM has established the fund for lending rate reduction to reserve contributions as stipulated in Article 32-2 of the Local Government Finance Law (Law No. 109, 1948).

Also, pursuant to the provisions of Article 46, Section 5 of the Law, income arising from the investment of the fund (hereinafter, “investment income”) is used to reduce interest rates of the loans to municipalities, and if there is any surplus in the investment income after this interest rate reduction process, the surplus

amount is added to the fund. Further, pursuant to the provisions of Article 46, Section 6 of the Law, if there is any shortfall after the interest rate reduction process, the shortfall is covered by withdrawal of the fund within the limits of the total of the additional portion to the fund made up to the previous fiscal year and the contributions made in the most current fiscal year.

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

(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. Significant Accounting Estimates

(1) Reserve for possible loan losses

(a) Amount of reserve for possible loan losses recorded in fiscal 2020:N/A

(b) Information on significant accounting estimates for identified items

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

- Currently, there are no bankrupt loans and the JFM has never experienced any loan losses, as stated in Note 4 “Loans”.
- The JFM provides loans exclusively to local governments and there is a system to prevent local governments from default, as stated in Note 6 “Financial Instruments (c) (i) Credit risk on loans”. The above situation is expected to remain the same for the next fiscal year and will not materially impact the financial statements for the next fiscal year.

#### Changes presentation

(Application of “Accounting Standard for Disclosure of Accounting Estimates”)

“Accounting Standard for Disclosure of Accounting Estimates” (Accounting Standards Board of Japan Statement No. 31, 31 March 2020) is applied by the JFM from fiscal 2020 in preparing its financial statements. See Note 3 “Significant accounting estimates”.

### 4. Loans

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

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

Non-accrual loans represent loans on which accrued interest is not accounted in revenue, excluding loans

to bankrupt borrowers and loans with grace periods for interest payments to assist in corporate reorganization or to support business.

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

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

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

In accordance with the Supplementary Provisions of the Law, a portion of the JFM's management account reserve for interest rate volatility is being attributed to the Japanese national government over a period of two years from fiscal 2021 through fiscal 2022, with the aim of transferring up to 400 billion yen over this period for securing Local Allocation Tax.

In addition, for the purpose of securing the increase in the concession amount charged for Forest Environment Concession Tax, in accordance with the Supplementary Provisions of the Law, a portion of the JFM's management account reserve for interest rate volatility is being attributed to the Japanese national government over a period of five years from fiscal 2020 through fiscal 2024, with the aim of transferring up to 230 billion yen over this period.

Lastly, for the purpose of securing the Trust Fund Bureau Fund for exemptions of early redemption charges in relation to concessions of water supply and sewerage businesses in accordance with the Supplementary Provisions of the Law, a portion of the JFM's management account reserve for interest rate volatility is being attributed to the Japanese national government over a period of five years from fiscal 2018 through fiscal 2023, with the aim of transferring up to 1.5 billion yen over this period.

In fiscal 2019, 100 billion yen was reversed from the Management account reserve for interest rate volatility and the same amount was transferred to the national treasury by the JFM, pursuant to “Ministerial Ordinance Specifying the Amount to be Attributed to the National Government pursuant to the Provision of 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).” In fiscal 2020, 60 billion yen (542,005 thousand U.S.

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dollars) was reversed from the Management account reserve for interest rate volatility and the same amount was transferred to the national treasury by the JFM, pursuant to “Ministerial Ordinance Specifying the Amount to be Attributed to the National Government pursuant to the Provision of Article 14 of the Supplementary Provision of the Law for fiscal 2020 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2020; hereinafter the “Ministerial ordinance for attribution to the national government”).”

### Additional information

In accordance with the Supplementary Provisions of the Law, a portion of the JFM’s management account reserve for interest rate volatility is being attributed to the Japanese national government over a period of four years from fiscal 2021 through fiscal 2024, with the aim of transferring up to 570 billion yen over this period.

In fiscal 2021, the JFM will reverse 240 billion yen from the management account reserve for interest rate volatility and transfer the same amount to the national treasury, in accordance with the “Ministerial Ordinance Specifying the Amount to be Attributed to the National Government pursuant to the Provision of Article 14 of the Supplementary Provisions of the Law for the period from fiscal 2021 through fiscal 2024 (Ordinance No.1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2020).” The ministerial ordinance was amended by the “Ministerial Ordinance for Partial Revision of the Ministerial Ordinance for Specifying the Amount to be Attributed to the National Government pursuant to the Provision of Article 14 of the Supplementary Provisions of the Law for the period from fiscal 2020 through fiscal 2024 (Ordinance No.1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2021).”

## 6. Financial Instruments

### (1) Status of financial instruments

#### (a) Policy for financial instruments

In order to maintain a sound and good financial standing as well as the solid confidence of capital markets, which are experiencing increasing volatility and face various risks, such as geopolitical risk, the JFM needs to appropriately manage these risks including interest rate risk.

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

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

which monitors the risks in each department. The content of risk management can then be appropriately reflected in management decisions.

#### (b) Details and risks of financial instruments

The JFM makes loans to local governments. The maximum term to maturity is 40 years, but the majority of the funds for these loans are raised mainly through issuance of 10-year bonds. Therefore, a large duration gap is created between lending and funding, and the JFM is exposed to the interest rate risk associated with bond and long-term borrowed money refinancing.

The JFM has set aside reserves for interest rate fluctuations (the reserve for interest rate volatility), and has set up the ALM Committee separately from the Integrated Risk Management Committee to comprehensively analyze and manage the JFM’s assets and liabilities in a timely and appropriate manner. At the meeting, medium- and long-term management analysis as well as risk analysis and evaluation are conducted through scenario analysis, VaR analysis, and duration analysis, among other methods. In addition, the JFM reflects the findings in its bond issuance plans and other aspects of management and endeavors to reduce interest rate risk.

#### (c) Risk management for financial instruments

##### (i) Credit risk

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

##### A. Credit risk on loans

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

- The Japanese national government includes principal and interest payments of local government bonds and loans in the expenditure of the Local Government Finance Program, and secures the total amount of local allocation tax which balances local governments’ total expenditures including principal and interest payments, and total revenue. Thus, the national government effectively secures revenue sources for principal and interest payments by local governments. The national government also secures revenue sources for principal and interest payments by individual local governments by including a portion of such principal and

interest in the Standard Financial Needs when calculating local allocation tax.

- Under the consultation system for local government bonds and loans, credit reviews must include checks on the repayment status of local governments, and tax revenue and necessary revenue sources to be secured. Additionally, under the Early Warning System, the local governments whose principal and interest payments or financial deficits exceed a certain level must apply for approval to issue bonds or obtain loans, so that the credit standing of local government bonds and loans is maintained.
- Under the Law Relating to the Financial Soundness of Local Governments, which was promulgated in June 2007 (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.
- The JFM is not subject to the “Banking Law” (1981, No. 59) or the “Financial Reconstruction Law” (1998, No. 132) but performs self-assessment of loans in accordance with the JFM's internal rules in order to manage risks appropriately.

#### B. Credit risk on transactions

The JFM is exposed to the risk of loss arising from credit events, such as deterioration in the financial condition of a counterparty, which causes an asset to lose value or become worthless. However, the JFM appropriately manages credit risk of this type by constantly monitoring counterparties' financial standing, taking measures including suspension of new deals and cancellation of transactions in case of a deterioration of their credit standings.

Moreover, the JFM limits counterparties to financial institutions that achieve a certain credit rating and other criteria, and conducts transactions within the credit lines for each counterparty in order to diversify risks. In addition, the JFM enters into ISDA (International Swaps and Derivatives Association) Master Agreements and CSA (Credit Support Annex) with all derivatives counterparties to reduce credit risk.

#### (ii) Market risk

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

foreign exchange risk and price change risk.

#### A. Interest rate risk

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

- Interest rate risk associated with bond and borrowed money refinancing

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

- The JFM maintains necessary reserves to cope with the interest rate risk resulting from a duration gap between lending and funding.
- As assets and liabilities in the JFM's general account will expand as a result of lending to local governments and funding, the JFM carries out an ALM analysis of this account in a timely and appropriate manner to further enhance the effectiveness of its management of interest rate risk. In order to reduce exposure to interest rate risk, the JFM has established a medium-term management target for five years from fiscal 2018, in which the duration gap is to be maintained below approximately two years.
- To achieve its objective, from the viewpoint of controlling the duration on assets (lending), the interest rates for temporary financial countermeasures funding which accounts for approximately 1/3 of the overall outstanding loans in the general account, are revised every 5 or 10 years. In addition, the JFM will revise its lending rate by the 30th year at the latest for its loans with maturities longer than 30 years. And, in terms of funding, the JFM has taken measures to manage the duration on liabilities (bonds and loans) by issuing bonds with maturities longer than 10 years continuously under the ultra-low interest rate circumstances and carefully choosing maturities of bonds to be issued by utilizing its FLIP and Open Issuance scheme.
- The management account, which manages assets related to loans extended by the Predecessor, is exposed to interest rate risk. To address such risk, the JFM contributes to the required reserves for interest rate volatility as described above. In accordance with Article 14 of the Supplementary Provisions of the Law, a portion of the JFM's

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management account reserve for interest rate volatility is to be transferred to the Japanese national government. The following transfers are scheduled:

- Up to 400 billion yen for securing funds for local allocation tax over a period of two years from fiscal 2021 through 2022;
- Up to 230 billion yen due to the increase in concession amount charged for Forest Environment Concession Tax, which promotes forest maintenance over a period of five years from fiscal 2020 through fiscal 2024; and
- Up to 1.5 billion yen for securing funds of the Trust Fund Bureau for exemptions of early redemption charges in relation to concessions of water supply and sewerage business over a period of six years from fiscal 2018 through 2023.

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

- Pipeline risk

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

B. Foreign exchange and other risks

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

The JFM's investments of surplus funds are exposed to the risk of losses on the sale of securities resulting from price declines and the risk of realized losses on the cancellation of foreign currency-denominated deposits resulting from fluctuations in foreign exchange rates. Accordingly, in principle, the JFM minimizes the risk of price fluctuation by holding investments until maturity, and hedges foreign exchange risk by using foreign exchange contracts.

C. Quantitative information on market risk

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

With respect to loans, bonds and long-term borrowed money in the general account, the JFM establishes a management target for the duration gap in order to manage interest rate risk appropriately. With

regard to the quantitative analysis of interest rate risk, while the JFM does not have a management target for the quantitative figures, it reports the results of calculating the quantitative information to the ALM Committee and tracks the status of the interest rate risk.

With respect to these financial instruments in the general account, based on an assumption that the risk variables, except for interest rate risk, hold steady, for an indicative interest rate that is 10 basis points higher than the actual rate, it is assumed that the fair value of the net amount (assets side), after offsetting such financial instruments with the financial liabilities, would decline by 36,671 million yen and 26,577 million yen (240,087 thousand U.S. dollars) as of 31 March 2020 and 2021, 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 37,215 million yen and 26,936 million yen (243,329 thousand U.S. dollars) as of 31 March 2020 and 2021, respectively.

With respect to loans and bonds in the management account, the JFM raises funds by the issuance of bonds as necessary in order to manage existing loans until their redemption. For this reason, while the JFM reports the calculation results of the quantitative information regarding the interest rate risk to the ALM Committee and confirms the status of interest rate risk as is the case in the general account, the JFM does not establish a management target or use the quantitative analysis for the management account.

With respect to these financial instruments in the management account, based on an assumption that the risk variables, except for interest rate risk, hold steady, for an indicative interest rate that is 10 basis points higher than the actual rate, it is assumed that the fair value of the net amount (assets side), after offsetting such financial instruments with the financial liabilities, would decline by 8,642 million yen and 7,601 million yen (68,665 thousand U.S. dollars) as of 31 March 2020 and 2021, 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 8,742 million yen and 7,683 million yen (69,404 thousand U.S. dollars) as of 31 March 2020 and 2021, respectively.

(iii) Liquidity risk

Liquidity risk is the risk that the JFM would incur losses due to difficulties in securing the necessary

funds or the necessity of obtaining funds at far higher interest rates than under normal conditions as a result of a mismatch between the maturities of assets and liabilities or an unexpected outflow of funds (funding liquidity risk). It also includes the risk that the JFM would incur losses because it is unable to conduct market transactions or is forced to conduct transactions at far more unfavorable prices than under normal conditions due to market disruption or other difficult situations (market liquidity risk).

The JFM's exposure to liquidity risk is extremely low because loans are made to local governments according to a pre-set schedule, and the daily cash and liquidity management is carried out based on a monthly plan for fund management. Moreover, the JFM has entered into overdraft agreements with

several financial institutions to prepare for the unexpected events, and invests surplus funds only in short-term financial products.

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

(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 2020 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,399,615	¥24,901,200	¥1,501,584
(2) Securities			
Held-to-maturity securities	365,500	365,500	-
(3) Cash and bank deposits	557,437	557,437	-
(4) Cash collateral paid for financial instruments	12,391	12,391	-
Total assets	24,334,943	25,836,528	1,501,584
(1) Bonds	20,013,462	20,690,092	676,629
(2) Borrowed money	203,000	204,988	1,988
(3) Cash collateral received for financial instruments	58,073	58,073	-
Total liabilities	20,274,535	20,953,153	678,617
Derivative transactions			
Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

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

(Millions of yen)

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

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(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans	\$209,073,077	\$219,167,642	\$10,094,566
(2) Securities			
Held-to-maturity securities	5,356,820	5,356,820	-
(3) Cash and bank deposits	9,994,870	9,994,870	-
(4) Cash collateral paid for financial instruments	29,648	29,648	-
Total assets	224,454,415	234,548,980	10,094,566
(1) Bonds	184,379,107	188,994,887	4,615,780
(2) Borrowed money	2,655,827	2,669,899	14,072
(3) Cash collateral received for financial instruments	302,439	302,439	-
Total liabilities	187,337,373	191,967,225	4,629,852
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 2020 and 2021.

**(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.

**(3) Cash and bank deposits**

The book value is used as the fair value for deposits without maturities. Since all deposits with maturities are shortterm, 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 the JFM that have a market price is based on the market price. The fair value of bonds without a market price is calculated by discounting the future cash flows using the interest rate that would be applied when issuing similar bonds with the same total principal and interest and payment term.

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 2020 is as follows:

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Long-term borrowed money	-	-	-	Based on prices provided by the counterparty financial institution
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	¥20,000	¥20,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,612,376	1,335,110	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	-	-	(*2)	
Total			¥1,632,376	¥1,355,110		

For derivative transactions for which hedge accounting is applied, the contractual amount or the amount equivalent to the principal in the contract under each hedge accounting method as of 31 March 2021 is as follows:

(Millions of yen)

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



(Thousands of U.S. dollars)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Long-term borrowed money	-	-	-	Based on prices provided by the counterparty financial institution
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	\$180,668	\$180,668	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	17,507,190	14,629,662	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	36,134	-	(*2)	
Total			\$17,723,992	\$14,810,330		

(\*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 2020

(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	¥1,803,890	¥1,806,270	¥1,770,897	¥1,681,255	¥1,567,759	¥6,503,382	¥6,555,776	¥1,663,603	¥46,779
Securities Held-to-maturity securities	365,500	-	-	-	-	-	-	-	-
Deposits	557,437	-	-	-	-	-	-	-	-

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As of 31 March 2021

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Loans	¥1,827,111	¥1,807,446	¥1,738,903	¥1,639,048	¥1,550,567	¥6,474,349	¥6,434,507	¥1,618,862	¥53,593
Securities Held-to-maturity securities	593,000	-	-	-	-	-	-	-	-
Deposits	1,106,432	-	-	-	-	-	-	-	-

(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	\$16,505,070	\$16,327,433	\$15,708,250	\$14,806,219	\$14,006,935	\$58,485,538	\$58,125,630	\$14,623,870	\$484,132
Securities Held-to-maturity securities	5,356,820	-	-	-	-	-	-	-	-
Deposits	9,994,870	-	-	-	-	-	-	-	-

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

As of 31 March 2020

(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	¥2,072,865	¥2,345,072	¥2,124,677	¥2,332,910	¥1,827,159	¥5,897,181	¥3,117,760	¥206,000	¥94,000
Borrowed money	-	1,000	-	86,200	83,400	30,800	1,600	-	-

As of 31 March 2021

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Bonds	¥2,345,072	¥2,142,677	¥2,335,910	¥1,927,159	¥1,855,037	¥5,839,242	¥3,581,596	¥263,500	¥125,000
Borrowed money	1,000	-	86,200	83,400	88,000	31,800	3,600	-	-

(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	\$21,184,032	\$19,355,717	\$21,101,265	\$17,408,848	\$16,757,337	\$52,748,349	\$32,354,081	\$2,380,307	\$1,129,178
Borrowed money	9,033	-	778,681	753,389	794,941	287,263	32,520	-	-

## 7. Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets as of 31 March 2020 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2019 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2020 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2020	Depreciation and amortization during the year	Balance as of 31 March 2020 (Net book value)
Tangible fixed assets							
Buildings	¥1,185	¥2	¥-	¥1,187	¥508	¥32	¥679
Land	1,659	-	-	1,659	-	-	1,659
Other tangible fixed assets	893	45	332	606	168	123	438
Total tangible fixed assets	3,738	48	332	3,454	677	155	2,777
Intangible fixed assets							
Software	3,266	658	2,079	1,844	748	451	1,096
Other intangible fixed assets	123	1	123	1	-	-	1
Total intangible fixed assets	¥3,389	¥660	¥2,203	¥1,846	¥748	¥451	¥1,097

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

(Millions of yen)

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

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(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2020 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2021 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2021	Depreciation and amortization during the year	Balance as of 31 March 2021 (Net book value)
Tangible fixed assets							
Buildings	\$10,729	\$-	\$-	\$10,729	\$4,865	\$272	\$5,864
Land	14,993	-	-	14,993	-	-	14,993
Other tangible fixed assets	5,482	166	-	5,648	2,525	1,001	3,123
Total tangible fixed assets	31,204	166	-	31,370	7,390	1,273	23,980
Intangible fixed assets							
Software	16,664	1,858	3,246	15,276	6,871	3,353	8,405
Other intangible fixed assets	15	26	14	27	-	-	27
Total intangible fixed assets	\$16,679	\$1,884	\$3,260	\$15,303	\$6,871	\$3,353	\$8,432

**8. Assets Pledged as Collateral**

Pursuant to the provisions of Article 40, Section 2 of the Law, the JFM's total assets are pledged as general collateral for the JFM bonds in the amount of 20,013,462 million yen and 20,410,767 million yen (184,379,107 thousand U.S. dollars) as of 31 March 2020 and 2021, respectively.

## 9. Bonds

Bonds as of 31 March 2020 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2019	Balance as of 31 March 2020	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 1-123)	6/15/2009-1/21/2020	¥5,053,012	¥4,469,844 (652,530)	0.001 to 1.500	10Y
Government-guaranteed bonds issued by the JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013-2/24/2017	420,073	420,059	0.001 to 0.576	8Y
Government-guaranteed bonds issued by the JFM (domestic) 6-year bonds (Series 9-20)	4/25/2013-10/28/2016	810,455	520,315 (200,000)	0.001 to 0.385	6Y
Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 7-10)	6/30/2016-2/26/2018	200,223	200,111 (40,000)	0.001	4Y
Government-guaranteed bonds issued by the JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	83,170	83,170 [USD 1,000 million] (83,170)	4.0	10Y
Non-guaranteed bonds issued by the JFM (domestic) 5-year bonds (Series 15-26)	4/17/2014-11/22/2019	135,000	125,000 (20,000)	0.001 to 0.230	5Y
Non-guaranteed bonds issued by the JFM (domestic) 7-year bonds (Series 1)	8/20/2012	20,000	-	0.446	7Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 1-130)	6/18/2009-3/23/2020	3,250,000	3,360,000 (360,000)	0.049 to 1.648	10Y
Non-guaranteed bonds issued by the JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	50,000	50,000	1.161 to 1.334	15Y
Non-guaranteed bonds issued by the JFM (domestic) 20-year bonds (Series 1-81)	6/25/2009-3/23/2020	1,425,000	1,575,000	0.180 to 2.266	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-9)	6/26/2014-10/18/2019	75,000	105,000	0.446 to 1.864	30Y
Non-guaranteed bonds issued by the JFM (domestic) 40-year bonds (Series 1-2)	2/26/2019-1/28/2020	15,000	30,000	0.646 to 0.882	40Y
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Series F2-F6, F8-F14, F16-F17, F24-F25, F27-29, F31, F35-F37, F41-F43, F45-F52, F54-F69, F71-F73, F75-F85, F87-F90, F92-F93, F95-F98, F100-F112, F115-F139, F141-F153, F155-F164, F166-F169, F171-F210, F212-F243, F245-F276, F278-F513)	7/23/2009-2/28/2020	2,380,659	2,600,288 (81,000)	0.001 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011-7/25/2014	35,000	20,000	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by the JFM (international) (Series 43-45, 47-72)	5/1/2014-2/12/2020	1,340,300	1,517,247 [USD 11,260 million] [AUD 654 million] [NZD 58 million] [EUR 1,580 million] (184,232)	0.050 to 5.092	3Y to 11Y
Non-guaranteed bonds issued by the JFM (international) (Floater, Series 30, 39)	6/6/2012-7/22/2013	20,230	9,863 [USD 100 million] (9,863)	Floating rate	7Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series A1-A122)	7/31/2009-3/25/2020	2,630,000	2,510,000 (400,000)	0.069 to 1.530	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series B1-B53)	11/24/2015-3/25/2020	229,500	311,500	0.069 to 0.511	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series C1-C53)	11/24/2015-3/25/2020	365,500	462,500	0.190 to 1.154	20Y

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Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series D1-D48)	4/21/2016-3/25/2020	450,000	590,000	0.190 to 0.778	20Y
Bonds issued by the JFM - Sub-total	-	18,988,125	18,959,899 (2,030,795)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 7-8)	4/15/2009-5/25/2009	140,000	-	1.4 to 1.5	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 3-4)	4/28/2009-5/28/2009	60,000	-	1.593 to 1.65	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	84,970	84,973	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	-	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	404,970	84,973	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	184,838	184,860 (39,900)	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4)	8/9/1999	28,376	-	5.75	20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	569,834	569,858	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	189,903	189,909	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	26,130	23,960 (2,170)	1.39 to 2.01	28Y
Bonds issued by the Predecessor - Sub-total	-	999,082	968,589 (42,070)	-	-
Total	-	¥20,392,179	¥20,013,462 (2,072,865)	-	-

Notes: 1. Pursuant to the provisions of Article 40, Section 2 of the Law, the JFM's total assets are pledged as general collateral for the JFM bonds in the amount of 20,013,462 million yen as of 31 March 2020.

2. Amounts in square brackets under "Balance as of 31 March 2020" for "Government-guaranteed bonds issued by the JFM (international)—Global U.S. dollar bonds (Series 1)," "Non-guaranteed bonds issued by the JFM (international)— (Series 43-45, 47-72)," "Non-guaranteed bonds issued by the JFM (international)— (Floater, Series 30, 39)" are denominated in foreign currencies.

3. Amounts in parentheses under "Balance as of 31 March 2020" 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 2021 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2020	Balance as of 31 March 2021	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 11-123)	4/19/2010-1/21/2020	¥4,469,844	¥3,817,710 (512,860)	0.001 to 1.400	10Y
Government-guaranteed bonds issued by the JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013-2/24/2017	420,059	420,046 (200,000)	0.001 to 0.576	8Y
Government-guaranteed bonds issued by the JFM (domestic) 6-year bonds (Series 13-20)	4/24/2014-10/28/2016	520,315	320,175 (120,000)	0.001 to 0.202	6Y
Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 7-11)	6/30/2016-8/28/2020	200,111	220,112 (160,000)	0.001	4Y
Government-guaranteed bonds issued by the JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	83,170	-	4.0	10Y
Non-guaranteed bonds issued by the JFM (domestic) 5-year bonds (Series 17-28)	4/20/2015-11/20/2020	125,000	135,000 (35,000)	0.001 to 0.15	5Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 11-142)	4/22/2010-3/18/2021	3,360,000	3,385,000 (400,000)	0.049 to 1.465	10Y
Non-guaranteed bonds issued by the JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	50,000	50,000	1.161 to 1.334	15Y
Non-guaranteed bonds issued by the JFM (domestic) 20-year bonds (Series 1-89)	6/25/2009-3/18/2021	1,575,000	1,765,000	0.180 to 2.266	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-12)	6/26/2014-11/20/2020	105,000	150,000	0.446 to 1.864	30Y
Non-guaranteed bonds issued by the JFM (domestic) 40-year bonds (Series 1-3)	2/26/2019-9/24/2020	30,000	40,000	0.646 to 0.882	40Y
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Series F2-F6, F8-F14, F16-F17, F24, F28-F29, F37, F42-F43, F45-F47, F49, F51-F52, F54-F69, F71-F73, F75-F80, F82-F85, F87-F90, F92-F93, F95-F98, F100-F109, F111-F112, F115-F139, F141-F153, F155-F164, F166-F169, F171-F210, F212-F243, F245-F276, F278-F310, F312-F400, and F402-F607)	7/23/2009-3/24/2021	2,600,288	3,117,917 (216,500)	0.001 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Floater, Series F211, F244)	2/26/2014-7/25/2014	20,000	20,000	Floating rate	20Y to 30Y
Non-guaranteed bonds issued by the JFM (international) (Series 43-45, 47-87)	5/1/2014-2/10/2021	1,517,247	1,935,253 [USD 14,057 million] [AUD 1,662 million] [EUR 2,080 million] (318,542)	0.010 to 5.092	3Y to 15Y
Non-guaranteed bonds issued by the JFM (international) (Floater, Series 39)	7/22/2013	9,863	-	Floating rate	7Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series A7-A134)	4/27/2010-3/24/2021	2,510,000	2,260,000 (300,000)	0.069 to 1.480	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series B1-B65)	11/24/2015-3/24/2021	311,500	429,000	0.069 to 0.511	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series C1-C65)	11/24/2015-3/24/2021	462,500	594,000	0.190 to 1.154	20Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series D1-D60)	4/21/2016-3/24/2021	590,000	740,000	0.190 to 0.778	20Y
Bonds issued by the JFM - Sub-total	-	18,959,899	19,399,215 (2,262,902)	-	-

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Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1-2)	1/26/2009-4/30/2009	84,973	84,976	2.07 to 2.29	20Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	84,973	84,976	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	184,860	144,985 (80,000)	1.6 to 2.2	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	569,858	569,883	1.03 to 2.58	20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004-9/20/2006	189,909	189,915	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	23,960	21,790 (2,170)	1.39 to 2.01	28Y
Bonds issued by the Predecessor - Sub-total	-	968,589	926,574 (82,170)	-	-
Total	-	¥20,013,462	¥20,410,767 (2,345,072)	-	-



(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2020	Balance as of 31 March 2021	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 11-123)	4/19/2010-1/21/2020	\$40,377,996	\$34,486,996 (4,632,882)	0.001 to 1.400	10Y
Government-guaranteed bonds issued by the JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013-2/24/2017	3,794,577	3,794,455 (1,806,685)	0.001 to 0.576	8Y
Government-guaranteed bonds issued by the JFM (domestic) 6-year bonds (Series 13-20)	4/24/2014-10/28/2016	4,700,231	2,892,284 (1,084,011)	0.001 to 0.202	6Y
Government-guaranteed bonds issued by the JFM (domestic) 4-year bonds (Series 7-11)	6/30/2016-8/28/2020	1,807,690	1,988,366 (1,445,348)	0.001	4Y
Government-guaranteed bonds issued by the JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	751,309	-	4.0	10Y
Non-guaranteed bonds issued by the JFM (domestic) 5-year bonds (Series 17-28)	4/20/2015-11/20/2020	1,129,178	1,219,512 (316,170)	0.001 to 0.15	5Y
Non-guaranteed bonds issued by the JFM (domestic) 10-year bonds (Series 11-142)	4/22/2010-3/18/2021	30,352,304	30,578,139 (3,613,369)	0.049 to 1.465	10Y
Non-guaranteed bonds issued by the JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	451,671	451,671	1.161 to 1.334	15Y
Non-guaranteed bonds issued by the JFM (domestic) 20-year bonds (Series 1-89)	6/25/2009-3/18/2021	14,227,642	15,943,993	0.180 to 2.266	20Y
Non-guaranteed bonds issued by the JFM (domestic) 30-year bonds (Series 1-12)	6/26/2014-11/20/2020	948,509	1,355,014	0.446 to 1.864	30Y
Non-guaranteed bonds issued by the JFM (domestic) 40-year bonds (Series 1-3)	2/26/2019-9/24/2020	271,003	361,337	0.646 to 0.882	40Y
Non-guaranteed bonds issued by the JFM (domestic) FLIP bonds (Series F2-F6, F8-F14, F16-F17, F24, F28-F29, F37, F42-F43, F45-F47, F49, F51-F52, F54-69, F71-F73, F75-F80, F82-F85, F87-F90, F92-F93, F95-F98, F100-F109, F111-F112, F115-F139, F141- F153, F155-F164, F166-F169, F171-F210, F212-F243, F245-F276, F278-F310, F312-F400, and F402-F607)	7/23/2009-3/24/2021	23,489,509	28,165,470 (1,955,736)	0.001 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F211, F244)	2/26/2014-7/25/2014	180,668	180,668	Floating rate	20Y to 30Y
Non-guaranteed bonds issued by the JFM (international) (Series 43-45, 47-87)	5/1/2014-2/10/2021	13,705,944	17,481,964 [USD 14,057 million] [AUD 1,662 million] [EUR 2,080 million] (2,877,528)	0.010 to 5.092	3Y to 15Y
Non-guaranteed bonds issued by the JFM (international) (Floater, Series 39)	7/22/2013	89,097	-	Floating rate	7Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series A7-A134)	4/27/2010-3/24/2021	22,673,893	20,415,537 (2,710,027)	0.069 to 1.480	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series B1-B65)	11/24/2015-3/24/2021	2,813,911	3,875,339	0.069 to 0.511	10Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series C1-C65)	11/24/2015-3/24/2021	4,177,958	5,365,854	0.190 to 1.154	20Y
Non-guaranteed bonds issued by the JFM (domestic) Private placements with pension funds for local government officials (Series D1-D60)	4/21/2016-3/24/2021	5,329,720	6,684,734	0.190 to 0.778	20Y
Bonds issued by the JFM - Sub-total	-	171,272,810	175,241,333 (20,441,756)	-	-

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Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1-2)	1/26/2009-4/30/2009	767,604	767,631	2.07 to 2.29	20Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	767,604	767,631	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	1,669,924	1,309,716 (722,674)	1.6 to 2.2	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	5,147,777	5,148,001	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	1,715,534	1,715,589	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	216,441	196,838 (19,603)	1.39 to 2.01	28Y
Bonds issued by the Predecessor - Sub-total	-	8,749,676	8,370,144 (742,277)	-	-
Total	-	\$180,790,090	\$184,379,107 (21,184,033)	-	-

- Notes: 1. Pursuant to the provisions of Article 40, Section 2 of the Law, the JFM's total assets are pledged as general collateral for JFM bonds in the amount of 20,410,767 million yen (184,379,107 thousand U.S. dollars) as of 31 March 2021.
2. Amounts in square brackets under "Balance as of 31 March 2021" for "Non-guaranteed bonds issued by the JFM (international)— (Series 43-45, 47-87)" are denominated in foreign currencies.
3. Amounts in parentheses under "Balance as of 31 March 2021" are to be repaid within one year.
4. Annual schedule of redemption within five years after the fiscal year-end:

As of 31 March 2020

(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	¥2,072,865	¥2,345,072	¥2,124,677	¥2,332,910	¥1,827,159

As of 31 March 2021

(Millions of yen)

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

(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	\$21,184,032	\$19,355,717	\$21,101,265	\$17,408,848	\$16,757,337

## 10. Borrowed Money

Borrowed money as of 31 March 2020 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2019	Balance as of 31 March 2020	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	¥10,000	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	118,000	¥203,000	0.324	9/27/2021-3/16/2040
Total	¥128,000	¥203,000	-	-

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

(Millions of yen)

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

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2020	Balance as of 31 March 2021	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	-	\$9,033	0.080	9/27/2021
Long-term borrowed money (excluding repayment within 1 year)	\$1,833,785	2,646,793	0.259	5/29/2023-3/16/2040
Total	\$1,833,785	\$2,655,827	-	-

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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 2020

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
Borrowed money	¥-	¥ 1,000	¥-	¥ 86,200	¥83,400

As of 31 March 2021

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
Borrowed money	¥1,000	¥-	¥86,200	¥ 83,400	¥88,000

(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	\$9,033	\$-	\$778,681	\$753,388	\$794,941

## 11. Reserves

Reserves as of 31 March 2020 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2019	Increase during the year	Decrease during the year		Balance as of 31 March 2020
			Intended purpose	Other	
Reserve for bonuses	¥57	¥58	¥57	¥-	¥58
Reserve for bonuses for directors and corporate auditors	10	10	10	-	10
Reserve for retirement benefits	52	17	0	7	62
Reserve for retirement benefits for directors and corporate auditors	24	8	-	1	32

Reserves as of 31 March 2021 consisted of the following:

(Millions of yen)

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

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2020	Increase during the year	Decrease during the year		Balance as of 31 March 2021
			Intended purpose	Other	
Reserve for bonuses	\$526	\$534	\$526	\$-	\$534
Reserve for bonuses for directors and corporate auditors	94	92	94	-	92
Reserve for retirement benefits	561	57	24	119	475
Reserve for retirement benefits for directors and corporate auditors	290	57	140	16	191

## 12. Reserve for Interest Rate Volatility

Reserve for interest rate volatility as of 31 March 2020 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2019	Increase during the year	Decrease during the year		Balance as of 31 March 2020
			Amount provided	Amount withdrawn	
Reserve for interest rate volatility	¥2,200,000	¥-	¥-	¥-	¥2,200,000
Management account reserve for interest rate volatility	597,076	108,531		¥-	605,607
Total	¥2,797,076	¥108,531	¥-	¥100,000	¥2,805,607

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

(Millions of yen)

Classification of reserve	Balance as of 1 April 2020	Increase during the year	Decrease during the year		Balance as of 31 March 2021
			Amount provided	Amount withdrawn	
Reserve for interest rate volatility	¥2,200,000	¥-	¥-	¥-	¥2,200,000
Management account reserve for interest rate volatility	605,607	95,314		¥-	640,921
Total	¥2,805,607	¥95,314	¥-	¥60,000	¥2,840,921

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2020	Increase during the year	Decrease during the year		Balance as of 31 March 2021
			Amount provided	Amount withdrawn	
Reserve for interest rate volatility	\$19,873,532	\$-	\$-	\$-	\$19,873,532
Management account reserve for interest rate volatility	5,470,713	861,012		\$-	5,789,719
Total	\$25,344,245	\$861,012	\$-	\$542,005	\$25,663,251

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Note: The “decrease during the year” for the “Management account reserve for interest rate volatility” in the amount of 60,000 million yen (542,005 thousand U.S. dollars) consists of the payment to the national treasury in accordance with the ministerial ordinance for attribution to the national government.

## 13. Fund for Lending Rate Reduction

Fund for lending rate reduction as of 31 March 2020 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2019	Increase during the year		Decrease during the year		Balance as of 31 March 2020
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥920,287	¥6,996	¥-	¥6,996	¥-	¥920,287
Total	¥920,287	¥6,996	¥-	¥6,996	¥-	¥920,287

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

(Millions of yen)

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

(Thousands of U.S. dollars)

Classification of fund	Balance as of 1 April 2020	Increase during the year		Decrease during the year		Balance as of 31 March 2021
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	\$8,313,347	\$81,672	\$-	\$81,672	\$-	\$8,313,347
Total	\$8,313,347	\$81,672	\$-	\$81,672	\$-	\$8,313,347

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

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

#### 14. Reserve for Retirement Benefits

As of and for the year ended 31 March 2020

(1) Outline of retirement benefits system

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

(2) Defined benefit plan

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

Reserve for retirement benefits at the beginning of the fiscal year:	52 million yen
Pension expenses:	17 million yen
Employee retirement benefits paid:	0 million yen
Contributions to the defined benefit plan:	<u>7 million yen</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>62 million yen</u>

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

	184 million yen
Plan assets:	<u>(168) million yen</u>
Balance:	15 million yen
Unfunded retirement benefit obligation:	<u>46 million yen</u>

Net liability for retirement benefits in the balance sheet: 62 million yen

Reserve for retirement benefits at the end of the fiscal year: 62 million yen

Net liability for retirement benefits in the balance sheet: 62 million yen

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 17million yen

As of and for the year ended 31 March 2021

(1) Outline of retirement benefits system

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

(2) Defined benefit plan

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

Reserve for retirement benefits at the beginning of the fiscal year:

62 million yen (561 thousand U.S. dollars)

Pension expenses:

0 million yen (5 thousand U.S. dollars)

Employee retirement benefits paid:

2 million yen (24 thousand U.S. dollars)

Contributions to the defined benefit plan:

7 million yen (67 thousand U.S. dollars)

Reserve for retirement benefits at the end of the fiscal year:

52 million yen (475 thousand U.S. dollars)

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

184 million yen (1,663 thousand U.S. dollars)

Plan assets:

(181) million yen (1,638 thousand U.S. dollars)

Balance:

2 million yen (25 thousand U.S. dollars)

Unfunded retirement benefit obligation:

49 million yen (450 thousand U.S. dollars)

Net liability for retirement benefits in the balance sheet:

52 million yen (475 thousand U.S. dollars)

Reserve for retirement benefits at the end of the fiscal year:

52 million yen (475 thousand U.S. dollars)

Net liability for retirement benefits in the balance sheet:

52 million yen (475 thousand U.S. dollars)

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 0 million yen (5 thousand U.S. dollars)

#### 15. Net Income by Account

(For the year ended 31 March 2020)

Net income of the general account was 25,767 million yen, while there was no net income of management account.

(For the year ended 31 March 2021)

Net income of the general account was 27,388 million yen (247,414 thousand U.S. dollars), while there was no net income of management account.

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## 16. Information by Account (Balance sheets)

Balance sheets of general account and management account as of 31 March 2020 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
<b>(Assets)</b>				
Loans	¥16,640,828	¥6,758,787		¥23,399,615
Securities	365,500			365,500
Cash and bank deposits	557,437			557,437
Cash collateral paid for financial instruments	12,391			12,391
Other assets	3,682	4,199		7,881
Tangible fixed assets	2,777			2,777
Intangible fixed assets	1,097			1,097
Due from general account		582,840	¥(582,840)	
<b>Total assets</b>	<b>17,583,713</b>	<b>7,345,827</b>	<b>(582,840)</b>	<b>24,346,700</b>
<b>(Liabilities)</b>				
Bonds	13,351,373	6,662,089		20,013,462
Borrowed money	203,000			203,000
Cash collateral received for financial instruments	58,073			58,073
Other liabilities	1,889	3,150		5,040
Reserve for bonuses	58			58
Reserve for bonuses for directors and corporate auditors	10			10
Reserve for retirement benefits	62			62
Reserve for retirement benefits for directors and corporate auditors	32			32
Fund for lending rate reduction	920,287			920,287
Basic fund for lending rate reduction	920,287			920,287
Due to management account	582,840		(582,840)	
Reserves under special laws	2,200,000	622,777		2,822,777
Reserve for interest rate volatility	2,200,000			2,200,000
Management account reserve for interest rate volatility		605,607		605,607
Reserve for interest rate reduction		17,169		17,169
<b>Total liabilities</b>	<b>17,317,625</b>	<b>7,288,018</b>	<b>(582,840)</b>	<b>24,022,803</b>
<b>(Net Assets)</b>				
Capital	16,602			16,602
Retained earnings	238,383			238,383
General account surplus reserve	238,383			238,383
Valuation, translation adjustments and others	11,101			11,101
Management account surplus reserve		57,808		57,808
<b>Total net assets</b>	<b>266,087</b>	<b>57,808</b>		<b>323,896</b>
<b>Total liabilities and net assets</b>	<b>¥17,583,713</b>	<b>¥7,345,827</b>	<b>¥(582,840)</b>	<b>¥24,346,700</b>



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

(Millions of yen)

Item	General account	Management account	Offset	Total
<b>(Assets)</b>				
Loans	¥17,329,790	¥5,814,599		¥23,144,389
Securities	593,000			593,000
Cash and bank deposits	1,106,432			1,106,432
Cash collateral paid for financial instruments	3,282			3,282
Other assets	3,381	3,533		6,914
Tangible fixed assets	2,654			2,654
Intangible fixed assets	933			933
Due from general account		600,823	¥(600,823)	
<b>Total assets</b>	<b>19,039,474</b>	<b>6,418,956</b>	<b>(600,823)</b>	<b>24,857,606</b>
<b>(Liabilities)</b>				
Bonds	14,706,147	5,704,619		20,410,767
Borrowed money	294,000			294,000
Cash collateral received for financial instruments	33,480			33,480
Other liabilities	1,779	2,891		4,670
Reserve for bonuses	59			59
Reserve for bonuses for directors and corporate auditors	10			10
Reserve for retirement benefits	52			52
Reserve for retirement benefits for directors and corporate auditors	21			21
Fund for lending rate reduction	920,287			920,287
Basic fund for lending rate reduction	920,287			920,287
Due to management account	600,823		(600,823)	
Reserves under special laws	2,200,000	653,636		2,853,636
Reserve for interest rate volatility	2,200,000			2,200,000
Management account reserve for interest rate volatility		640,921		640,921
Reserve for interest rate reduction		12,714		12,714
<b>Total liabilities</b>	<b>18,756,661</b>	<b>6,361,147</b>	<b>(600,823)</b>	<b>24,516,985</b>
<b>(Net Assets)</b>				
Capital	16,602			16,602
Retained earnings	265,772			265,772
General account surplus reserve	265,772			265,772
Valuation, translation adjustments and others	437			437
Management account surplus reserve		57,808		57,808
<b>Total net assets</b>	<b>282,812</b>	<b>57,808</b>		<b>340,621</b>
<b>Total liabilities and net assets</b>	<b>¥19,039,474</b>	<b>¥6,418,956</b>	<b>¥(600,823)</b>	<b>¥24,857,606</b>

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(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
<b>(Assets)</b>				
Loans	\$156,547,337	\$52,525,740		\$209,073,077
Securities	5,356,820			5,356,820
Cash and bank deposits	9,994,870			9,994,870
Cash collateral paid for financial instruments	29,648			29,648
Other assets	30,549	31,917		62,466
Tangible fixed assets	23,980			23,980
Intangible fixed assets	8,432			8,432
Due from general account		5,427,495	\$(5,427,495)	
<b>Total assets</b>	<b>171,991,636</b>	<b>57,985,152</b>	<b>(5,427,495)</b>	<b>224,549,293</b>
<b>(Liabilities)</b>				
Bonds	132,846,863	51,532,244		184,379,107
Borrowed money	2,655,827			2,655,827
Cash collateral received for financial instruments	302,439			302,439
Other liabilities	16,076	26,118		42,194
Reserve for bonuses	534			534
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	191			191
Fund for lending rate reduction	8,313,347			8,313,347
Basic fund for lending rate reduction	8,313,347			8,313,347
Due to management account	5,427,495		(5,427,495)	
Reserves under special laws	19,873,532	5,904,577		25,778,109
Reserve for interest rate volatility	19,873,532			19,873,532
Management account reserve for interest rate volatility		5,789,719		5,789,719
Reserve for interest rate reduction		114,858		114,858
<b>Total liabilities</b>	<b>169,436,871</b>	<b>57,462,939</b>	<b>(5,427,495)</b>	<b>221,472,315</b>
<b>(Net Assets)</b>				
Capital	149,974			149,974
Retained earnings	2,400,836			2,400,836
General account surplus reserve	2,400,836			2,400,836
Valuation, translation adjustments and others	3,955			3,955
Management account surplus reserve		522,213		522,213
<b>Total net assets</b>	<b>2,554,765</b>	<b>522,213</b>		<b>3,076,978</b>
<b>Total liabilities and net assets</b>	<b>\$171,991,636</b>	<b>\$57,985,152</b>	<b>\$(5,427,495)</b>	<b>\$224,549,293</b>

## Notes: 1. General account and management account

In accordance with the provisions of Article 13, Section 1 of the Supplementary Provisions of the Law, management account is used to conduct administration, collection and other related operations of the assets that the JFM inherited from the Predecessor (management of the assets of the Predecessor).

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

## 2. General account surplus reserve and management account surplus reserve

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

## 3. Due from general account and due to management account

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

**17. Information by Account (Statements of income)**

Statements of income of general account and management account from 1 April 2019 through 31 March 2020 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥133,662	¥162,962	¥(6,897)	¥289,727
Interest income	126,123	156,499		282,623
Fees and commissions	87			87
Other operating income	8			8
Other income	7,008			7,008
Contributions from fund for lending rate reduction	6,996			6,996
Others	12			12
Administrative fee for management account	434		(434)	
Interest on due from general account		8	(8)	
Transfer from general account for fund for lending rate reduction		6,454	(6,454)	
Expenses	107,871	59,690	(6,897)	160,663
Interest expenses	95,472	58,798		154,271
Fees and commissions	179	119		299
Other operating expenses	2,627	299		2,926
General and administrative expenses	3,128	38		3,166
Interest on due to management account	8		(8)	
Transfer to management account for fund for lending rate reduction	6,454		(6,454)	
Administrative fee for management account		434	(434)	
Ordinary income	25,791	103,272	-	129,063
Special gains	-	105,259	-	105,259
Reversal of management account reserve for interest rate volatility		100,000		100,000
Reversal of reserve for interest rate reduction		5,259		5,259
Special losses	23	208,531	-	208,555
Loss on disposal of fixed assets	23			23
Provision for management account reserve for interest rate volatility		108,531		108,531
Payment to national treasury		100,000		100,000
Net income	¥25,767	¥-	¥-	¥25,767

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

(Millions of yen)

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

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
Income	\$1,147,483	\$1,254,817	\$(54,302)	\$2,347,998
Interest income	1,061,360	1,204,047		2,265,407
Fees and commissions	750			750
Other operating income	68			68
Other income	81,773			81,773
Contributions from fund for lending rate reduction	81,672			81,672
Others	101			101
Administrative fee for management account	3,532		(3,532)	
Interest on due from general account		45	(45)	
Transfer from general account for fund for lending rate reduction		50,725	(50,725)	
Expenses	900,069	434,047	(54,302)	1,279,814
Interest expenses	787,133	428,592		1,215,725
Fees and commissions	1,716	925		2,641
Other operating expenses	32,724	823		33,547
General and administrative expenses	27,726	175		27,901
Other expenses				
Interest on due to management account	45		(45)	
Transfer to management account for fund for lending rate reduction	50,725		(50,725)	
Administrative fee for general account		3,532	(3,532)	
Ordinary income	247,414	820,770	-	1,068,184
Special gains	-	582,247	-	582,247
Reversal of management account reserve for interest rate volatility		542,005		542,005
Reversal of reserve for interest rate reduction		40,242		40,242
Special losses	-	1,403,017	-	1,403,017
Loss on disposal of fixed assets				
Provision for management account reserve for interest rate volatility		861,012		861,012
Payment to national treasury		542,005		542,005
Net income	\$247,414	\$-	\$-	\$247,414

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## 18. Fair Value of Marketable Securities

Marketable held-to-maturity securities as of 31 March 2020 consisted of the following:

(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	¥365,500	¥365,500	-
	Sub total	365,500	365,500	-
Total		¥365,500	¥365,500	-

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

(Millions of yen)

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

(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	\$5,356,820	\$5,356,820	-
	Sub total	5,356,820	5,356,820	-
Total		\$5,356,820	\$5,356,820	-

## 19. Information on Derivative Transactions

### (1) Types of derivative transactions

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

### (2) Policies and purposes of derivative transactions

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

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

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

#### (a) Hedge accounting method

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

#### (b) Hedging instruments and hedged items

##### (i) Hedging instruments: Interest rate swaps

Hedged items: Bonds and long-term borrowed money

##### (ii) Hedging instruments: Currency swaps

Hedged items: Foreign currency-denominated bonds

##### (iii) Hedging instruments: Foreign exchange forward contracts

Hedged items: Foreign currency-denominated bank deposits

#### (c) Hedging policy

The JFM uses hedging instruments as a means of hedging exposure to interest rate risk and foreign exchange risk.

Hedged items are identified by each individual contract.

As a means of hedging foreign exchange fluctuation risks associated with the receipt of interest and principal of foreign currency-denominated bank

deposits, a foreign exchange forward contract is entered into at the time of each deposit to hedge the risks.

#### (d) Assessment of hedge effectiveness

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

Accordingly, The JFM deems these to be highly effective and thus does not assess effectiveness. Moreover, a periodic assessment of hedge effectiveness 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.

The JFM enters into ISDA Master Agreements and CSA with financial institutions, which are its derivative transactions counterparties, to reduce credit risk. Moreover, The JFM constantly monitors restructuring costs of the transactions and the counterparties' credit profiles, and deals with multiple counterparties.

#### (4) Risk management system for derivative transactions

Execution and management of derivative transactions are conducted by the Finance Department of The JFM with the approval of persons in charge in accordance with the operational guidelines which specify transaction authority and limits on the transaction amount.

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



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## Independent Auditor's Report

The President  
 Japan Finance Organization for Municipalities

### Opinion

Pursuant to Article 37, paragraph 1 of the Japan Finance Organization for Municipalities Law (the Law), we have audited the accompanying financial statements of Japan Finance Organization for Municipalities (the JFM), which comprise the balance sheets as at March 31, 2020 and 2021, and the statements of income, appropriation of profit, changes in net assets, and cash flows for the years then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the JFM as at March 31, 2020 and 2021, and its financial performance and its cash flows for the years then ended in accordance with the Law and regulations applicable to JFM and accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the JFM in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, the President is responsible for assessing the JFM's ability to continue as a going concern and disclosing, as required by the Law and regulations applicable to JFM and accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditors are responsible for overseeing the JFM's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the financial statements is not expressing an opinion on the effectiveness of the JFM's internal control.





- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the President.
- Conclude on the appropriateness of the President's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the JFM's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the JFM to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with the Law and regulations applicable to JFM and accounting principles generally accepted in Japan.

We communicate with the Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

#### **Convenience Translation**

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the financial statements.

Ernst & Young ShinNihon LLC  
Tokyo, Japan

May 31, 2021

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A member firm of Ernst & Young Global Limited

# Appendix / JFM Data

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# Members of the Representative Board and the Supervisory Committee

The Representative Board members of JFM as of 1 August 2021 are as follows:

Name	Title	Background
KOUNO Shunji	Chairman	Chairman, Committee for Local Taxes and Finance of National Governors' Association Governor, Miyazaki prefecture
USHIKOSHI Toru	Deputy Chairman	Chairman, Finance committee of Japan Association of City Mayors Mayor, Omachi City, Nagano prefecture
ARAKI Yasuomi	Deputy Chairman	Chairman, National Association of Towns & Villages Mayor, Kashima Town, Kumamoto prefecture
OBATA Junko	Member	Professor, Sophia University Law School
JINNO Naohiko	Member	Professor Emeritus, The University of Tokyo
SUMIHIRO Isao	Member	Special Advisor of The Hiroshima Bank, Ltd.

The Supervisory Committee members of JFM as of 1 August 2021 are as follows:

Name	Title	Background
MITANI Takahiro	Chairman	Chairman, Tanshi Association
SUZUKI Yutaka	Deputy Chairman	Professor Emeritus, Aoyama Gakuin University
SEIICHI Tomoko	Member	Professor, Seinan Gakuin University
YONEDA Yasuharu	Member	Professor Emeritus, Shinshu University
TAMAOKI Hitomi	Member	Chief Executive Officer of Tsumugi Co., Ltd.
KAMIZAKI Masanori	Member	Director, Jiji Press, Ltd.

## Redemption of Loans in Fiscal 2020

Classification		Principal		Interest	
		Number of loans	Amount (USD millions)	Number of loans	Amount (USD millions)
Regular redemption of long-term loans	General loans	460,394	16,204	518,901	2,263
	Loans to local government corporations	214	54	214	3
	Subtotal	460,608	16,258	519,115	2,266
Prepayment of long-term loans	General loans	256	132	241	0
	Loans to local government corporations	5	1	5	0
	Subtotal	261	133	246	0
Redemption of loans with pre-consent or pre-approval		-	-	-	-
Redemption of short-term loans		-	-	-	-
Total		460,869	16,391	519,361	2,266

Note: Totals may not add up due to rounding.

## Appendix

# Outstanding Loans by Business

(As of 31 March 2021)

	Business	Number of Loans Made	Loan Amount (USD millions)	
				% of Total
General Account-related Loans	Public Projects, etc.	4,877	4,630	2.2%
	Public Housing	3,500	2,106	1.0%
	National Disaster Prevention	1,268	1,125	0.5%
	Educational Facilities Development	1,630	767	0.4%
	Social Welfare Facilities Development	1,730	1,013	0.5%
	General Waste Disposal	490	479	0.2%
	General Projects	933	756	0.4%
	Regional Revitalization	1,770	754	0.4%
	Disaster Management and Mitigation	11,987	7,359	3.6%
	Local Road Development	6,088	4,480	2.1%
	Special Municipal Mergers	5,964	9,864	4.7%
	Disaster Prevention	2,823	1,547	0.7%
	Others	15,956	8,069	3.8%
	subtotal		59,016	42,950
Municipal Enterprise-related Loans	Water Supply	54,398	28,313	13.5%
	Transportation	850	6,889	3.3%
	Hospitals and Elderly Care Services	4,850	10,358	5.0%
	Sewerage	121,877	63,842	30.5%
	Industrial Water Supply	2,159	1,476	0.7%
	Electricity and Gas	736	658	0.3%
	Port Facilities	788	347	0.2%
	Markets and Slaughterhouses	720	951	0.4%
	Tourism and Others	184	117	0.1%
subtotal		186,562	112,951	54.0%
Temporary Financial Countermeasures Funding		8,648	52,403	25.1%
Loans Covering Decrease in Local Tax Revenues		5	628	0.3%
Total		254,231	208,931	99.9%
Local Government Road Corporation, Toll Roads <sup>1</sup>		83	142	0.1%
Grand Total		254,314	209,073	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.

# 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 the risk management division that is independent from the finance management division.

(As of 31 March 2021)

(USD millions)

Item	31 March 2020		31 March 2021	
	Before applying cash outflow/inflow rate	After applying cash outflow/inflow rate	Before applying cash outflow/inflow rate	After applying cash outflow/inflow rate
Total of liquid assets <sup>*1</sup>	678		903	
Outflows related to unsecured funding (excluding debt securities)	0	0	0	0
Debt securities	2,322	2,322	3,125	3,125
Total cash outflows	-	2,322	-	3,125
Cash inflows from investment <sup>*2</sup>	2,304	1,741	3,397	2,344
Cash inflows from collection of loans	0	0	0	0
Other cash inflows <sup>*3</sup>	0	0	0	0
Total cash inflows <sup>*4</sup>	2,304	1,741	3,397	2,344
High quality liquid assets	-	678	-	903
Net cash outflows	-	580	-	781
Liquidity coverage ratio	-	117%	-	116%
Total of semi liquid assets <sup>*5</sup>	-	2,353	-	8,559
Semi Liquidity coverage ratio <sup>*6</sup>	-	522%	-	1,211%

Note\*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 the 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.

## Appendix

# Outstanding Loans by Borrower

(As of 31 March 2021)

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	292	4,131	5,461	5,981	8,606	1,890
Aomori	187	309	2,127	2,450	1,441	415
Iwate	248	471	2,737	2,275	869	283
Miyagi	323	1,033	4,629	3,581	2,663	482
Akita	208	254	4,616	2,383	1,049	85
Yamagata	217	693	2,835	1,509	1,940	321
Fukushima	427	843	3,669	2,171	3,085	497
Ibaraki	479	1,217	7,041	4,264	1,434	366
Tochigi	268	705	3,233	2,075	883	256
Gunma	208	259	3,414	1,834	1,784	294
Saitama	245	2,513	6,739	6,313	1,878	530
Chiba	383	1,257	5,362	6,515	938	244
Tokyo	96	913	2,239	2,781	172	43
Kanagawa	202	1,851	3,340	7,329	1,300	448
Niigata	263	488	7,992	3,784	970	155
Toyama	251	248	3,612	2,568	564	194
Ishikawa	137	262	2,849	1,596	1,292	408
Fukui	204	271	2,205	1,436	780	94
Yamanashi	144	268	2,782	965	976	144
Nagano	269	338	4,192	2,274	3,186	500
Gifu	221	1,392	4,372	1,891	1,373	376
Shizuoka	297	408	5,121	3,308	826	246
Aichi	214	1,964	5,369	5,714	905	223
Mie	402	1,323	4,065	2,849	1,103	261
Shiga	192	687	4,087	2,135	606	124
Kyoto	192	403	3,713	4,251	1,163	275
Osaka	86	1,621	6,075	11,407	966	343
Hyogo	311	3,728	8,352	8,780	2,225	796
Nara	267	959	2,474	1,776	2,101	623
Wakayama	113	442	1,812	2,040	1,625	539
Tottori	355	889	1,293	997	1,899	391

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
295	230	-	-	14,654	12,232	5.9
106	143	-	-	3,861	3,317	1.6
215	170	-	-	4,069	3,198	1.5
128	71	-	-	7,743	5,167	2.5
12	14	-	-	5,885	2,735	1.3
174	86	-	-	5,166	2,609	1.2
180	156	-	-	7,361	3,666	1.8
269	246	1	0	9,224	6,094	2.9
19	26	-	-	4,403	3,061	1.5
252	248	-	-	5,658	2,635	1.3
325	169	1	0	9,188	9,524	4.6
589	409	3	6	7,275	8,431	4.0
31	136	-	-	2,538	3,872	1.9
57	320	-	-	4,899	9,949	4.8
244	153	-	-	9,469	4,580	2.2
149	120	-	-	4,576	3,131	1.5
36	27	-	-	4,314	2,292	1.1
66	26	-	-	3,255	1,828	0.9
147	41	-	-	4,049	1,417	0.7
186	114	2	0	7,835	3,225	1.5
12	9	-	-	5,978	3,668	1.8
77	82	7	1	6,328	4,045	1.9
76	23	27	82	6,591	8,005	3.8
31	41	-	-	5,601	4,474	2.1
157	68	-	-	5,042	3,014	1.4
32	59	3	1	5,103	4,989	2.4
440	647	-	-	7,567	14,018	6.7
413	414	8	3	11,309	13,722	6.6
53	44	-	-	4,895	3,402	1.6
98	70	-	-	3,648	3,091	1.5
34	18	-	-	3,581	2,296	1.1

## 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)
Shimane	288	848	2,706	1,763	319	71
Okayama	214	721	4,604	2,878	1,274	234
Hiroshima	471	1,705	4,253	3,899	950	264
Yamaguchi	414	496	4,205	2,381	621	100
Tokushima	191	363	1,516	1,123	880	264
Kagawa	164	245	1,775	991	734	196
Ehime	81	264	2,289	1,773	710	235
Kochi	166	850	1,792	1,225	905	245
Fukuoka	93	1,479	5,375	7,611	2,290	927
Saga	68	321	1,606	1,388	657	262
Nagasaki	138	503	2,763	2,357	739	167
Kumamoto	150	707	2,724	1,742	1,781	491
Oita	80	267	2,305	1,225	204	64
Miyazaki	140	613	2,038	1,331	737	182
Kagoshima	175	1,192	2,332	1,481	901	250
Okinawa	223	854	1,630	1,471	911	235
Total	10,757	43,570	171,720	143,871	65,215	16,033



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
78	38	-	-	3,391	2,721	1.3
99	104	-	-	6,191	3,937	1.9
18	23	13	25	5,705	5,916	2.8
106	48	-	-	5,346	3,026	1.4
3	1	-	-	2,590	1,752	0.8
597	213	-	-	3,270	1,645	0.8
19	7	-	-	3,099	2,278	1.1
10	68	-	-	2,873	2,388	1.1
384	225	17	23	8,159	10,265	4.9
159	92	-	-	2,490	2,063	1.0
15	24	-	-	3,655	3,052	1.5
66	195	1	0	4,722	3,135	1.5
0	0	-	-	2,589	1,556	0.7
16	6	-	-	2,931	2,132	1.0
17	14	-	-	3,425	2,937	1.4
49	19	-	-	2,813	2,579	1.2
6,539	5,458	83	142	254,314	209,073	100.0

Note: Totals may not add up due to rounding.

## Appendix

## Bond Issuance in Fiscal 2020

## 1. JFM bonds

## (1) International bonds

Series Number	Tenor (yr)	Format	Currency	Issue Size (in millions)	Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
73	5	Global	USD	1,500	1.000	99.888	21 May 2020	21 May 2025
74	10	Euro	AUD	210	1.866	100.000	11 Jun 2020	11 Jun 2030
75	10	Euro	AUD	120	1.831	100.000	12 Jun 2020	12 Jun 2030
76	10	Euro	USD	60	1.290	100.000	22 Jul 2020	22 Jul 2030
77	5	Global	USD	1,500	0.625	99.432	2 Sep 2020	2 Sep 2025
78	15	Euro	AUD	40	1.878	100.000	15 Oct 2020	15 Oct 2035
79	5	Euro	AUD	43	0.400	99.990	28 Oct 2020	28 Oct 2025
80	10	Euro	AUD	70	1.436	100.000	28 Oct 2020	28 Oct 2030
81	15	Euro	AUD	250	2.004	100.000	27 Nov 2020	27 Nov 2035
82	10	Euro	AUD	200	1.490	100.000	27 Nov 2020	27 Nov 2030
83	10	Euro	AUD	30	1.453	100.000	27 Nov 2020	27 Nov 2030
84	10	Euro	AUD	100	1.485	100.000	9 Dec 2020	9 Dec 2030
85	5	Euro	AUD	40	0.470	99.990	17 Dec 2020	17 Dec 2025
86	7	Euro	EUR	500	0.010	101.070	2 Feb 2021	2 Feb 2028
87	10	Global	USD	1,250	1.375	99.064	10 Feb 2021	10 Feb 2031

## (2) Domestic public offerings

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY in billions)	(USD in millions)				
131	10	30	271	0.155	100	20 Apr 2020	26 Apr 2030
132	10	30	271	0.135	100	26 May 2020	28 May 2030
133	10	30	271	0.155	100	26 Jun 2020	28 Jun 2030
134	10	30	271	0.150	100	20 Jul 2020	26 Jul 2030
135	10	35	316	0.160	100	21 Aug 2020	28 Aug 2030
136	10	35	316	0.145	100	17 Sep 2020	27 Sep 2030
137	10	30	271	0.145	100	19 Oct 2020	28 Oct 2030
138	10	35	316	0.145	100	20 Nov 2020	28 Nov 2030
139	10	30	271	0.125	100	17 Dec 2020	27 Dec 2030
140	10	30	271	0.125	100	22 Jan 2021	28 Jan 2031
141	10	35	316	0.150	100	19 Feb 2021	28 Feb 2031
142	10	35	316	0.224	100	18 Mar 2021	28 Mar 2031
82	20	20	181	0.369	100	20 Apr 2020	27 Apr 2040
83	20	25	226	0.440	100	26 Jun 2020	28 Jun 2040
84	20	25	226	0.450	100	20 Jul 2020	27 Jul 2040
85	20	25	226	0.459	100	17 Sep 2020	28 Sep 2040
86	20	25	226	0.454	100	19 Oct 2020	26 Oct 2040
87	20	25	226	0.430	100	17 Dec 2020	28 Dec 2040
88	20	20	181	0.454	100	22 Jan 2021	28 Jan 2041
89	20	25	226	0.554	100	18 Mar 2021	28 Mar 2041
27	5	10	90	0.020	100	26 May 2020	28 May 2025
28	5	20	181	0.020	100	20 Nov 2020	28 Nov 2025
10	30	20	181	0.517	100	20 Apr 2020	28 Apr 2050
11	30	10	90	0.633	100	19 Aug 2020	26 Aug 2050

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY in billions)	(USD in millions)				
12	30	15	136	0.716	100	20 Nov 2020	28 Nov 2050
3	40	10	90	0.754	100	24 Sep 2020	28 Sep 2060
F514	11	6	54	0.180	100	24 Apr 2020	28 Apr 2031
F515	12	3	27	0.233	100	24 Apr 2020	24 Mar 2032
F516	13	3	27	0.248	100	24 Apr 2020	26 Nov 2032
F517	24	6	54	0.457	100	24 Apr 2020	28 Apr 2044
F518	35	6	54	0.577	100	24 Apr 2020	26 Mar 2055
F519	40	3	27	0.630	100	24 Apr 2020	23 Apr 2060
F520	9	20	181	0.128	100	28 Apr 2020	27 Apr 2029
F521	15	6	54	0.335	100	28 Apr 2020	27 Apr 2035
F522	25	5	45	0.487	100	28 Apr 2020	28 Apr 2045
F523	28	4	36	0.536	100	28 Apr 2020	28 Apr 2048
F524	29	3	27	0.526	100	28 Apr 2020	28 Apr 2049
F525	40	3	27	0.626	100	28 Apr 2020	28 Apr 2060
F526	15	3	27	0.340	100	30 Apr 2020	28 Sep 2035
F527	21	3	27	0.401	100	30 Apr 2020	29 Mar 2041
F528	27	5	45	0.517	100	30 Apr 2020	30 Apr 2047
F529	40	3	27	0.631	100	30 Apr 2020	28 Apr 2060
F530	40	3	27	0.629	100	30 Apr 2020	30 Apr 2060
F531	2	3	27	0.005	100	7 May 2020	27 May 2022
F532	6	6	54	0.020	100	28 May 2020	26 Dec 2025
F533	6	4	36	0.020	100	28 May 2020	28 May 2026
F534	7	4	36	0.020	100	28 May 2020	28 May 2027
F535	13	3	27	0.222	100	28 May 2020	28 Dec 2032
F536	15	3	27	0.292	100	28 May 2020	28 May 2035
F537	18	3	27	0.369	100	28 May 2020	28 Sep 2038
F538	6	6	54	0.020	100	29 May 2020	25 Dec 2025
F539	6	20	181	0.020	100	29 May 2020	26 Dec 2025
F540	9	6	54	0.086	100	29 May 2020	29 May 2029
F541	12	3	27	0.196	100	29 May 2020	22 Mar 2032
F542	15	3	27	0.291	100	29 May 2020	29 May 2035
F543	31	3	27	0.503	100	29 May 2020	29 May 2051
F544	4	20	181	0.010	100	30 Jun 2020	27 Jun 2024
F545	4	20	181	0.010	100	30 Jun 2020	28 Jun 2024
F546	5	6	54	0.025	100	30 Jun 2020	29 Aug 2025
F547	6	12	108	0.020	100	30 Jun 2020	30 Jan 2026
F548	8	10	90	0.050	100	30 Jun 2020	30 Jun 2028
F549	12	20	181	0.205	100	30 Jun 2020	30 Mar 2032
F550	13	3	27	0.247	100	30 Jun 2020	30 Jun 2033
F551	15	10	90	0.331	100	30 Jun 2020	29 Jun 2035
F552	15	8	72	0.332	100	1 Jul 2020	27 Jun 2035
F553	15	5	45	0.331	100	1 Jul 2020	28 Jun 2035
F554	6	12	108	0.020	100	28 Jul 2020	26 Feb 2026
F555	6	3	27	0.020	100	28 Jul 2020	27 Feb 2026
F556	6	5	45	0.020	100	28 Jul 2020	28 Apr 2026
F557	6	5	45	0.020	100	28 Jul 2020	26 Jun 2026
F558	9	6	54	0.083	100	28 Jul 2020	27 Jul 2029
F559	15	6	54	0.320	100	28 Jul 2020	25 Jul 2035
F560	3	3	27	0.001	100	30 Jul 2020	31 Jul 2023
F561	9	20	181	0.101	100	30 Jul 2020	30 Jul 2029
F562	15	3	27	0.334	100	30 Jul 2020	26 Jul 2035
F563	15	4	36	0.336	100	30 Jul 2020	27 Jul 2035
F564	17	6	54	0.386	100	30 Jul 2020	27 Mar 2037

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## Appendix

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY in billions)	(USD in millions)				
F565	3	15	136	0.001	100	31 Jul 2020	28 Feb 2023
F566	6	9	81	0.020	100	31 Jul 2020	29 May 2026
F567	14	3.5	32	0.297	100	31 Jul 2020	31 Jan 2035
F568	15	3	27	0.326	100	31 Jul 2020	30 Jul 2035
F569	15	10	90	0.327	100	31 Jul 2020	31 Jul 2035
F570	5	6	54	0.024	100	25 Sep 2020	25 Nov 2025
F571	8	6	54	0.038	100	25 Sep 2020	28 Sep 2028
F572	8	10	90	0.059	100	25 Sep 2020	26 Mar 2029
F573	8	10	90	0.059	100	25 Sep 2020	27 Mar 2029
F574	11	3	27	0.180	100	25 Sep 2020	25 Dec 2031
F575	18	4	36	0.410	100	25 Sep 2020	28 Sep 2038
F576	21	6	54	0.457	100	25 Sep 2020	25 Mar 2042
F577	6	3	27	0.020	100	23 Oct 2020	23 Oct 2026
F578	8	20	181	0.061	100	23 Oct 2020	23 Oct 2028
F579	9	3	27	0.100	100	23 Oct 2020	22 Mar 2030
F580	11	7	63	0.182	100	23 Oct 2020	26 Mar 2032
F581	15	3	27	0.314	100	23 Oct 2020	23 Oct 2035
F582	18	6	54	0.421	100	23 Oct 2020	22 Apr 2039
F583	6	3	27	0.020	100	27 Oct 2020	27 Oct 2026
F584	9	3	27	0.099	100	27 Oct 2020	19 Apr 2030
F585	12	3	27	0.214	100	27 Oct 2020	28 Mar 2033
F586	13	3	27	0.231	100	27 Oct 2020	28 Oct 2033
F587	15	3	27	0.301	100	27 Oct 2020	26 Oct 2035
F588	6	4	36	0.020	100	28 Oct 2020	28 Oct 2026
F589	9	5	45	0.074	100	30 Oct 2020	30 Oct 2029
F590	9	3	27	0.106	100	28 Oct 2020	26 Apr 2030
F591	15	6	54	0.315	100	28 Oct 2020	26 Oct 2035
F592	18	3.5	32	0.406	100	28 Oct 2020	28 Mar 2039
F593	5	6	54	0.024	100	27 Nov 2020	27 Jan 2026
F594	9	5	45	0.065	100	30 Nov 2020	30 Nov 2029
F595	12	3	27	0.180	100	27 Nov 2020	26 Nov 2032
F596	14	6	54	0.262	100	27 Nov 2020	27 Nov 2034
F597	9	10	90	0.083	100	23 Dec 2020	21 Jun 2030
F598	13	6	54	0.209	100	23 Dec 2020	23 Dec 2033
F599	22	3	27	0.462	100	23 Dec 2020	23 Dec 2042
F600	23	3	27	0.483	100	23 Dec 2020	23 Dec 2043
F601	24	3	27	0.506	100	23 Dec 2020	23 Dec 2044
F602	9	20	181	0.096	100	28 Jan 2021	28 Jan 2030
F603	15	5	45	0.314	100	29 Jan 2021	29 Jan 2036
F604	5	7	63	0.015	100	26 Feb 2021	24 Apr 2026
F605	8	10	90	0.094	100	26 Feb 2021	26 Feb 2029
F606	15	5	45	0.370	100	26 Feb 2021	26 Feb 2036
F607	6	3.5	32	0.010	100	24 Mar 2021	28 Oct 2026

## 2. Private placements with pension funds and mutual aids for local government officials

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY in billions)	(USD in millions)				
A123	10	20	181	0.185	100	20 Apr 2020	19 Apr 2030
A124	10	10	90	0.165	100	26 May 2020	24 May 2030
A125	10	10	90	0.185	100	26 Jun 2020	26 Jun 2030
A126	10	10	90	0.180	100	20 Jul 2020	19 Jul 2030

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY in billions)	(USD in millions)				
A127	10	20	181	0.190	100	21 Aug 2020	21 Aug 2030
A128	10	10	90	0.175	100	17 Sep 2020	17 Sep 2030
A129	10	10	90	0.175	100	19 Oct 2020	18 Oct 2030
A130	10	10	90	0.175	100	20 Nov 2020	20 Nov 2030
A131	10	20	181	0.155	100	17 Dec 2020	17 Dec 2030
A132	10	10	90	0.155	100	22 Jan 2021	22 Jan 2031
A133	10	10	90	0.180	100	19 Feb 2021	19 Feb 2031
A134	10	10	90	0.254	100	24 Mar 2021	24 Mar 2031
B54	10	6.5	59	0.185	100	20 Apr 2020	19 Apr 2030
B55	10	6	54	0.165	100	26 May 2020	24 May 2030
B56	10	8.5	77	0.185	100	26 Jun 2020	26 Jun 2030
B57	10	17	154	0.180	100	20 Jul 2020	19 Jul 2030
B58	10	10	90	0.190	100	21 Aug 2020	21 Aug 2030
B59	10	7	63	0.175	100	17 Sep 2020	17 Sep 2030
B60	10	6.5	59	0.175	100	19 Oct 2020	18 Oct 2030
B61	10	8.5	77	0.175	100	20 Nov 2020	20 Nov 2030
B62	10	9.5	86	0.155	100	17 Dec 2020	17 Dec 2030
B63	10	17	154	0.155	100	22 Jan 2021	22 Jan 2031
B64	10	12	108	0.180	100	19 Feb 2021	19 Feb 2031
B65	10	9	81	0.254	100	24 Mar 2021	24 Mar 2031
C54	20	7.5	68	0.389	100	20 Apr 2020	20 Apr 2040
C55	20	7	63	0.397	100	26 May 2020	25 May 2040
C56	20	9.5	86	0.460	100	26 Jun 2020	26 Jun 2040
C57	20	17.5	158	0.470	100	20 Jul 2020	20 Jul 2040
C58	20	12	108	0.460	100	21 Aug 2020	21 Aug 2040
C59	20	8	72	0.479	100	17 Sep 2020	14 Sep 2040
C60	20	7.5	68	0.474	100	19 Oct 2020	19 Oct 2040
C61	20	9.5	86	0.469	100	20 Nov 2020	20 Nov 2040
C62	20	10	90	0.450	100	17 Dec 2020	17 Dec 2040
C63	20	20	181	0.474	100	22 Jan 2021	22 Jan 2041
C64	20	13	117	0.516	100	19 Feb 2021	19 Feb 2041
C65	20	10	90	0.574	100	24 Mar 2021	22 Mar 2041
D49	20	20	181	0.389	100	20 Apr 2020	20 Apr 2040
D50	20	10	90	0.397	100	26 May 2020	25 May 2040
D51	20	10	90	0.460	100	26 Jun 2020	26 Jun 2040
D52	20	10	90	0.470	100	20 Jul 2020	20 Jul 2040
D53	20	20	181	0.460	100	21 Aug 2020	21 Aug 2040
D54	20	10	90	0.479	100	17 Sep 2020	14 Sep 2040
D55	20	10	90	0.474	100	19 Oct 2020	19 Oct 2040
D56	20	10	90	0.469	100	20 Nov 2020	20 Nov 2040
D57	20	20	181	0.450	100	17 Dec 2020	17 Dec 2040
D58	20	10	90	0.474	100	22 Jan 2021	22 Jan 2041
D59	20	10	90	0.516	100	19 Feb 2021	19 Feb 2041
D60	20	10	90	0.574	100	24 Mar 2021	22 Mar 2041

### 3. Government-guaranteed domestic bonds

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY in billions)	(USD in millions)				
11	4	60	542	0.001	100.16	28 Aug 2020	28 Aug 2024

## Appendix

# Outstanding International Bonds

## 1. JFM bonds

(As of 31 March 2021)

Series Number	Tenor (yr)	Format	Currency	Issue Size (in millions)	Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
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
53	5	Global	USD	1,500	2.125	99.780	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	99.990	30 Jan 2017	28 Jan 2022
56	5	Euro	AUD	106	3.040	99.990	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	100	26 Jun 2017	21 Jun 2027
61	5	Euro	USD	44	2.570	99.990	30 Jan 2018	30 Jan 2023
62	5	Euro	AUD	28	2.760	99.990	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	99.990	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	24 Jan 2019	24 Jan 2030
68	5	Global	USD	1,000	3.000	99.682	12 Mar 2019	12 Mar 2024
69	5	Global	USD	1,000	1.750	99.890	5 Sep 2019	5 Sep 2024
70	5	Euro	USD	60	1.650	99.990	28 Jan 2020	28 Jan 2025
71	5	Euro	AUD	50	1.160	99.990	28 Jan 2020	28 Jan 2025
72	7	Euro	EUR	500	0.050	99.867	12 Feb 2020	12 Feb 2027
73	5	Global	USD	1,500	1.000	99.888	21 May 2020	21 May 2025
74	10	Euro	AUD	210	1.866	100	11 Jun 2020	11 Jun 2030
75	10	Euro	AUD	120	1.831	100	12 Jun 2020	12 Jun 2030
76	10	Euro	USD	60	1.290	100	22 Jul 2020	22 Jul 2030
77	5	Global	USD	1,500	0.625	99.432	2 Sep 2020	2 Sep 2025
78	15	Euro	AUD	40	1.878	100	15 Oct 2020	15 Oct 2035
79	5	Euro	AUD	43	0.400	99.990	28 Oct 2020	28 Oct 2025
80	10	Euro	AUD	70	1.436	100	28 Oct 2020	28 Oct 2030
81	15	Euro	AUD	250	2.004	100	27 Nov 2020	27 Nov 2035
82	10	Euro	AUD	200	1.490	100	27 Nov 2020	27 Nov 2030
83	10	Euro	AUD	30	1.453	100	27 Nov 2020	27 Nov 2030
84	10	Euro	AUD	100	1.485	100	9 Dec 2020	9 Dec 2030
85	5	Euro	AUD	40	0.470	99.990	17 Dec 2020	17 Dec 2025
86	7	Euro	EUR	500	0.010	101.07	2 Feb 2021	2 Feb 2028
87	10	Global	USD	1,250	1.375	99.064	10 Feb 2021	10 Feb 2031

# Organization History

## History of the JFM

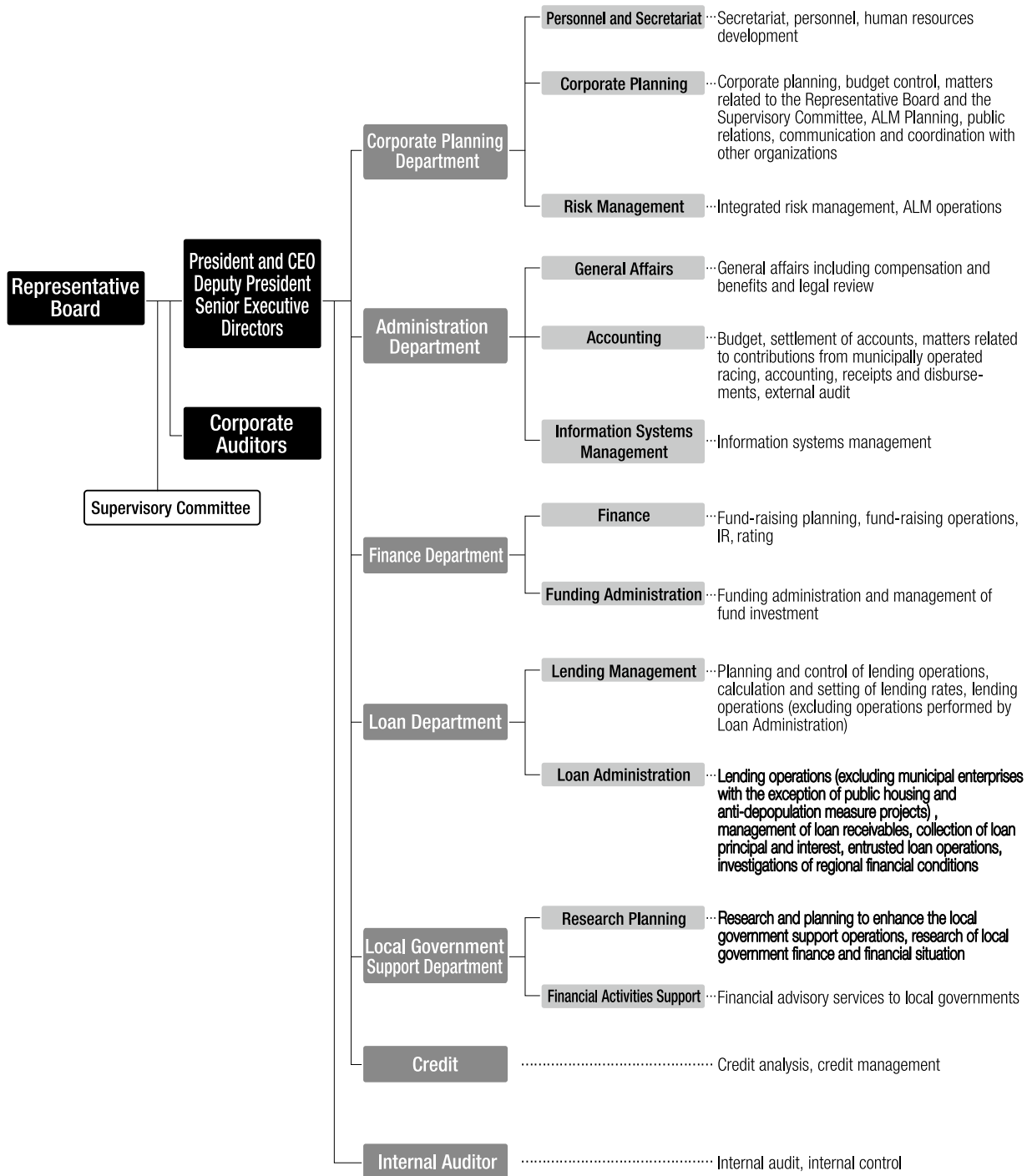
FY2008	The Japan Finance Organization for Municipal Enterprises (the Predecessor of the JFM) was established pursuant to the Japan Finance Organization for Municipal Enterprises Law on 1 August 2008. Succeeded the assets and assumed the liabilities of the Predecessor and commenced operations on 1 October 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.
2017	Organized study group report on ideal JFM operation and business. Set forth updated management principles “Supporting local economies through finance to create a future for regions.”

## 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 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 (HQPAP) 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 2021





# Directors and Corporate Auditors

As of 1 October 2021

President and CEO	SATO Fumitoshi
Deputy President	KATO Junichi
Senior Executive Directors	MATOI Hiroki, TSUKADA Yuji, OKAMOTO Noboru
Corporate Auditors	MURATA Yu, OMORI Masaaki(part-time)

## Contact Information



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