

**Fiscal 2013**

(1 April 2013 to 31 March 2014)

Japan Finance Organization for Municipalities

# **Financial Statements**

## Financial Statements

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# Financial Statements

## Balance Sheets

(As of 31 March 2013 and 2014)

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

Item	Fiscal 2012 (31 March 2013)	Fiscal 2013 (31 March 2014)		Item	Fiscal 2012 (31 March 2013)	Fiscal 2013 (31 March 2014)	
	Amount				Amount		
Assets				Liabilities			
Loans (Note 5)	¥22,668,634	¥23,082,976	\$224,084,812	Bonds (Notes 9 and 10)	¥18,676,401	¥19,423,743	\$188,561,726
Securities (Notes 9 and 19)	598,994	533,998	5,183,952	Borrowed money (Note 11)	30,000	95,500	927,094
Cash and bank deposits	419,267	467,175	4,535,241	Cash collateral received for financial instruments	-	43,530	422,580
Cash collateral paid for financial instruments	-	370	3,592	Other liabilities	15,121	14,397	139,763
Other assets	14,173	13,036	126,555	Reserve for bonuses (Note 12)	47	50	493
Tangible fixed assets (Note 8)	2,964	2,836	27,532	Reserve for bonuses for directors and corporate auditors (Note 12)	5	7	71
Intangible fixed assets (Note 8)	883	938	9,111	Reserve for retirement benefits (Notes 12 and 15)	141	116	1,129
				Reserve for retirement benefits for directors and corporate auditors (Note 12)	27	22	222
				Fund for lending rate reduction	922,568	922,561	8,956,040
				Basic fund for lending rate reduction (Note 14)	915,698	918,775	8,919,286
				Additional fund for lending rate reduction (Note 14)	6,869	3,785	36,754
				Reserves under special laws	3,947,086	3,458,627	33,575,644
				Reserve for interest rate volatility (Note 13)	1,100,000	1,320,000	12,814,290
				Management account reserve for interest rate volatility (Note 13)	2,771,200	2,072,945	20,123,726
				Reserve for interest rate reduction	75,885	65,681	637,628
				Total liabilities	23,591,399	23,958,556	232,584,762
				Net Assets			
				Capital	16,602	16,602	161,170
				Retained earnings	50,221	76,732	744,902
General account surplus reserve	50,221	76,732	744,902				
Valuation, translation adjustments and others	(6,970)	(4,225)	(41,019)				
Management account surplus reserve	53,666	53,666	520,980				
Total net assets	113,520	142,775	1,386,033				
Total assets	¥23,704,919	¥24,101,331	\$233,970,795	Total liabilities and net assets	¥23,704,919	¥24,101,331	\$233,970,795

See notes to financial statements.

## Statements of Income

(For the years ended 31 March 2013 and 2014)

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

Item	Fiscal 2012 (1 April 2012 to 31 March 2013)	Fiscal 2013 (1 April 2013 to 31 March 2014)	
	Amount	Amount	
Income	¥487,146	¥458,388	\$4,449,942
Interest income	485,675	455,158	4,418,587
Fees and commissions	123	117	1,142
Other operating income	-	0	0
Other income	1,348	3,112	30,213
Contributions from fund for lending rate reduction (Note 14)	1,066	3,084	29,939
Others	281	28	274
Expenses	274,076	270,337	2,624,379
Interest expenses	265,647	260,947	2,533,227
Fees and commissions	280	281	2,728
Other operating expenses	5,519	6,509	63,197
General and administrative expenses	2,629	2,598	25,223
Other expenses	-	0	4
Ordinary income	213,070	188,051	1,825,563
Special gains	581,402	880,203	8,544,836
Reversal of management account reserve for interest rate volatility (Note 13)	570,000	870,000	8,445,782
Reversal of reserve for interest rate reduction	11,402	10,203	99,054
Special losses	773,643	1,041,744	10,113,041
Provision for reserve for interest rate volatility (Note 13)	220,000	220,000	2,135,715
Provision for management account reserve for interest rate volatility (Note 13)	203,643	171,744	1,667,259
Payment to national treasury (Note 6)	350,000	650,000	6,310,067
Net income	¥20,828	¥26,510	\$257,358

See notes to financial statements.

## Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2013)

(Millions of yen)

1 Profit available for appropriation		¥20,828
Net income	¥20,828	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	20,828	20,828

## Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2014)

(Millions of yen)

1 Profit available for appropriation		¥26,510
Net income	¥26,510	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	26,510	26,510

(Thousands of U.S. dollars)

1 Profit available for appropriation		\$257,358
Net income	\$257,358	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	257,358	257,358

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 2013)

(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 2014)

(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 2013)

(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 2012	¥16,602	¥29,393	¥29,393	¥45,995	¥(5,964)	¥53,666	¥93,696
Changes during accounting period							
Net income	-	20,828	20,828	20,828	-	-	20,828
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(1,005)	-	(1,005)
Net changes during accounting period	-	20,828	20,828	20,828	(1,005)	-	19,823
Balance as of 31 March 2013	¥16,602	¥50,221	¥50,221	¥66,824	¥(6,970)	¥53,666	¥113,520

(For the year ended 31 March 2014)

(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 2013	¥16,602	¥50,221	¥50,221	¥66,824	¥(6,970)	¥53,666	¥113,520
Changes during accounting period							
Net income	-	26,510	26,510	26,510	-	-	26,510
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	2,744	-	2,744
Net changes during accounting period	-	26,510	26,510	26,510	2,744	-	29,255
Balance as of 31 March 2014	¥16,602	¥76,732	¥76,732	¥93,334	¥(4,225)	¥53,666	¥142,775

(For the year ended 31 March 2014)

(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 2013	\$161,170	\$487,544	\$487,544	\$648,714	\$(67,664)	\$520,980	\$1,102,030
Changes during accounting period							
Net income	-	257,358	257,358	257,358	-	-	257,358
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	26,645	-	26,645
Net changes during accounting period	-	257,358	257,358	257,358	26,645	-	284,003
Balance as of 31 March 2014	\$161,170	\$744,902	\$744,902	\$906,072	\$(41,019)	\$520,980	\$1,386,033

See notes to financial statements.



## Statements of Cash Flows

(For the years ended 31 March 2013 and 2014)

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

Item	Fiscal 2012 (1 April 2012 to 31 March 2013)	Fiscal 2013 (1 April 2013 to 31 March 2014)	
	Amount	Amount	
<b>I Cash flows from operating activities</b>			
Net income	¥20,828	¥26,510	\$257,358
Depreciation and amortization	345	294	2,855
Interest income	(485,675)	(455,158)	(4,418,587)
Interest expenses	265,647	260,947	2,533,227
Increase/(decrease) in reserve for bonuses	(0)	3	37
Increase/(decrease) in reserve for bonuses for directors and corporate auditors	(1)	1	19
Decrease in reserve for retirement benefits	(4)	(25)	(249)
Increase/(decrease) in reserve for retirement benefits for directors and corporate auditors	3	(4)	(44)
Decrease in fund for lending rate reduction	(1,066)	(3,084)	(29,939)
Increase in reserve for interest rate volatility	220,000	220,000	2,135,715
Decrease in management account reserve for interest rate volatility	(16,356)	(48,255)	(468,456)
Decrease in reserve for interest rate reduction	(11,402)	(10,203)	(99,055)
Net (increase)/decrease in loans	(281,223)	(414,341)	(4,022,347)
Net increase/(decrease) in bonds	495,783	743,787	7,220,535
Net increase/(decrease) in borrowed money	-	65,500	635,861
Interest received	486,149	455,628	4,423,151
Interest paid	(262,457)	(214,605)	(2,083,342)
Others	(981)	3,025	29,375
Net cash provided by/(used in) operating activities	429,597	630,020	6,116,114
<b>II Cash flows from investing activities</b>			
Proceeds from redemption of securities	5,027,000	4,189,000	40,665,955
Purchases of securities	(4,862,748)	(4,123,929)	(40,034,265)
Purchases of tangible fixed assets	(450)	(37)	(361)
Purchases of intangible fixed assets	(145)	(558)	(5,422)
Proceeds from sales of tangible fixed assets	-	335	3,253
Net cash provided by/(used in) investing activities	163,656	64,809	629,160
<b>III Cash flows from financing activities</b>			
Payment to national treasury	(350,000)	(650,000)	(6,310,067)
Revenue from contributions made from municipally operated racing	3,763	3,105	30,149
Refund of contributions made from municipally operated racing	-	(28)	(280)
Net cash provided by/(used in) financing activities	(346,236)	(646,923)	(6,280,198)
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	-	-	-
<b>V Net increase/(decrease) in cash and cash equivalents</b>	247,017	47,907	465,077
<b>VI Cash and cash equivalents at beginning of year</b>	172,250	419,267	4,070,164
<b>VII Cash and cash equivalents at end of year</b>	¥419,267	¥467,175	\$4,535,241

See notes to financial statements.

## Notes to Financial Statements

### 1. Basis of Presentation

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

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

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of 31 March 2014, the final day of the fiscal year, which was ¥103.01 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: 20 to 47 years

Others: 2 to 19 years

##### (b) Intangible fixed assets

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

#### (4) Deferred assets

Bond issuance costs are expensed in full when incurred.

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

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

#### (6) Reserves

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

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

##### (b) Reserve for bonuses

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

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

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

##### (d) Reserve for retirement benefits

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

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

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

(7) Hedge accounting

(a) Hedge accounting method

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

(b) Hedging instruments and hedged items

(i) Hedging instruments . . . Interest rate swaps

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

(ii) Hedging instruments . . . Currency swaps

Hedged items . . . Foreign currency-denominated bonds

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

Hedged items . . . Foreign currency-denominated bank deposits

(c) Hedging policy

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

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

(d) Assessment of hedge effectiveness

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

(8) Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows consist of “Cash and bank deposits” on the balance sheets.

(9) Fund for lending rate reduction

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

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

The reserve for interest rate volatility is set aside to prepare for interest rate risk associated with refinancing of JFM bonds (excluding the bonds issued by the former Japan Finance Corporation for Municipal Enterprises; hereinafter, the “Predecessor”) pursuant to the provisions of Article 38, Sections 1 and 3 of the Law, and Article 9, Sections 8 and 10 of the Supplementary Provisions of the Law, and is calculated and accounted for based on the provisions of Article 34 of the Ministerial Ordinance on Finance and Accounting of Japan Finance Organization for Municipalities (Ordinance No. 87 of the Ministry of Internal Affairs and Communications, 2008; hereinafter, “Ordinance on Finance and Accounting”) and Article 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. Change in Presentation

Effective fiscal 2013, JFM has adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, issued May 17, 2012, hereinafter "Retirement Benefits Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued May 17, 2012, hereinafter "Retirement Benefits Guidance"), excluding Clause 30 of the Retirement Benefits Standard and Clauses 52 to 60 of the Retirement Benefits Guidance. Due to this adoption, the presentation in the notes with regard to employee retirement benefits has been changed.

### 4. Additional Information

JFM obtained the approval of the Minister of Health, Labour and Welfare, dated 1 April 2013, for the transfer to the Japanese national government of the future payment obligation of the substitutional portion of the Employees' Pension Fund established under the Japanese Welfare Pension Insurance Law.

The total amount of the refund (minimum policy reserve) measured in the Employees' Pension Fund as of 31 March 2014 was 55,980 million yen (543,446 thousand U.S. dollars). Based on the assumption that the refund was paid at the fiscal year-end, JFM estimates that its profit and loss will not be affected in the event that Clause 46 of Retirement Benefits Guidance is applied.

### 5. Loans

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

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).

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

In accordance with the Supplementary Provisions of the Law, a portion of JFM's management account reserve for interest rate volatility is being attributed to the Japanese national government over a period of three years from fiscal 2012 through fiscal 2014, with the aim of transferring 1 trillion yen over this period.

In fiscal 2013, 650,000 million yen (6,310,067 thousand U.S. dollars) was transferred to the national treasury by JFM, pursuant to Article 14 of the Supplementary Provisions of the Law for fiscal 2013 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2013).

As a result, a total of 1 trillion yen has been transferred to the national treasury, which includes the 350,000 million yen transferred in fiscal 2012.

### 7. 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, JFM needs to appropriately manage various risks including interest rate risks.

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

Accordingly, JFM has developed a system for appropriate risk management, including the establishment of

the Integrated Risk Management Committee, which supervises JFM's overall risk management, and the Risk Management Office, which monitors the risks in each department. The content of risk management can then be appropriately reflected in management decisions.

(b) Details and risks of financial instruments

JFM raises funds by primarily issuing 10-year bonds, and makes loans with a maximum maturity of 30 years and with repayment of interest and principal in equal installments. Therefore, a large duration gap is created between lending and funding, and JFM is exposed to the interest rate risk associated with bond and long-term borrowed money refinancing.

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

(c) Risk Management for Financial Instruments

(i) Credit risk

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

A. Credit risk on loans

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

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

JFM is not subject to the "Banking Law" (1981, No. 59) or the "Financial Reconstruction Law" (1998, No. 132) but performs self-assessment of loans in accordance with the "Financial Inspection Manual" of the Financial Services Agency (FSA).

B. Credit risk on transactions

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

(ii) Market risk

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

from changes in earnings generated from assets and liabilities. Market risk includes interest rate risk, foreign exchange risk, inflation risk and price change risk.

#### A. Interest rate risk

Interest rate risk is the risk of losses incurred or a decrease in profits due to fluctuations in interest rates when there is an interest rate or duration gap between assets and liabilities. JFM makes loans to local governments. The maximum term to maturity is 30 years, but the majority of the funds for these loans are raised mainly through issuance of 10-year bonds, which creates interest rate risk associated with bond refinancing. JFM takes the following measures to address the interest rate risk resulting from a duration gap between lending and funding.

- JFM maintains necessary reserves to cope with the interest rate risk resulting from a duration gap between lending and funding.
- As assets and liabilities in JFM's general account will expand as a result of lending to local governments and funding, JFM carries out an ALM analysis of this account in a timely and appropriate manner to further enhance the effectiveness of its management of interest rate risk. In order to reduce exposure to interest rate risk, JFM has established a medium-term management target for five years from fiscal 2013, in which the duration gap is to be maintained below approximately two years, and also JFM will continue to regularly issue super-long bonds with maturities exceeding 10 years.
- The management account, which manages assets related to loans extended by the Predecessor, is currently exposed to greater interest rate risk than the general account. To address such risk, JFM contributes to the required reserves for interest rate volatility as described above. In accordance with Article 14 of the Supplementary Provisions of the Law, a portion of JFM's reserve for interest rate volatility within the management account was required to be transferred to the Japanese national government. The transfer was scheduled to occur over a period of three years from fiscal 2012 through fiscal 2014, with the aim of transferring 1 trillion yen.

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

#### B. Foreign exchange and other risks

Various risks associated with bond principal and interest payments are hedged by swap transactions. These risks include foreign exchange risk related to foreign currency-denominated bonds, interest rate risk related to floating rate bonds, and risk of fluctuations in the amount of principal and interest of inflation-indexed 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 minimizes the risk of price fluctuation by holding investments until maturity, and hedges foreign exchange risk by using foreign exchange contracts.

#### C. Quantitative information on market risk

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

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

The "outlier ratio" is calculated by dividing JFM's "decline in economic value" as a result of hypothetical interest rate shocks by JFM's net assets, including the reserve for interest rate volatility in the general account and the fund for lending rate reduction. The "decline in economic value" is the largest possible loss in net present market value of its loans and bonds and long-term borrowings that JFM would suffer following a hypothetical 200 basis point increase or decrease in market interest rates.

The outlier ratio is calculated based on the following conditions.

##### • Future Cash Flows

With respect to loans, future cash flows regarding such loans are calculated based on the type of interest rate of the loans. In addition, the advanced redemption in the future is not expected by JFM.

With respect to fixed-rate bonds, future cash flows regarding such fixed-rate bonds are calculated based on the redemption schedule. With respect to floating rate bonds hedged by interest rate swaps, that qualify for hedge accounting and meet specific matching criteria, future cash flows corresponding to such floating rate bonds are calculated in a manner similar to fixed-rate bonds.

##### • Indicative Interest Rate

For the assessment of loans, bonds and long-term borrowed money, the corresponding interest rate of Japanese government bonds as of 31 March 2014 is used.



- Calculation of Outlier Ratio

Based on an assumption that risk variables, except for interest rate risk, are fixed as of 31 March 2014, the outlier ratio is calculated by dividing the change in fair value in the case where the indicative interest rate (government bonds) rises across-the-board by 200 basis points (2.00%) or the change in fair value in the case such rate falls across-the-board by 200 basis points (2.00%), whichever is greater, by net assets including the reserve for interest rate volatility and the fund for lending rate reduction.

JFM calculates the outlier ratio reflecting a rise of 200 basis points of the indicative interest rate as JFM understands that the change in fair value in the case of rising interest rates would be greater than that in the case of falling interest rates.

Until fiscal 2012, the outlier ratio has been used as a management target, however, it will not be used from fiscal 2013 due to the unique situation of the JFM outlier ratio being at a high level. This unique situation exists for the following reasons:

- JFM maintains a sufficient reserve for interest rate volatility in order to secure its financial soundness, and uses the reserve for its lending operations. This means that bond issuances to match lending needs are not necessary.
- JFM provides long-term fixed rate loans, thus both of its assets and liabilities have a long duration. Due to such institutional design and operational nature of JFM, a large duration gap between lending and funding is created.

Information of the outlier ratio as of 31 March 2014 is as follows:

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

	Outlier ratio (a)=- (b)/(e)	Change in fair value in the case of 200 basis points rise in interest rates						Net assets including reserve for interest rate volatility and the fund for lending rate reduction (e)	
		Total (b)=(c)+(d)		Loans (c)		Bonds and long-term borrowed money (d)			
General account	20.7% [+0.4%]	¥(482,037) [(59,251)]	\$(4,679,517) [(575,197)]	¥(1,569,733) [(243,780)]	\$(15,238,647) [(2,366,566)]	¥+1,087,695 [+184,529]	\$+10,559,120 [+1,791,370]	¥2,331,670 [+249,247]	\$22,635,433 [+2,419,697]

Note: Amounts posted in square brackets indicate the change from 31 March 2013.

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

With respect to these financial instruments in the management account, based on an assumption that the risk variables, except for interest rate risk, hold steady, for an indicative interest rate as of 31 March 2014 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 42,286 million yen (410,513 thousand U.S. dollars). On the contrary, for an indicative interest rate as of 31 March 2014 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 42,993 million yen (417,373 thousand U.S. dollars).

(iii) Liquidity risk

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

JFM's exposure to liquidity risk is extremely low because loans are made to local governments according to a pre-set schedule, and the daily cash and liquidity management is carried out based on a quarterly plan for fund management. Moreover, JFM has entered into overdraft agreements with several financial institutions to prepare for the unexpected events, and invests surplus funds only in short-term financial products.

(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 2013 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥22,668,634	¥24,537,510	¥1,868,876
(2) Securities held-to-maturity securities	598,994	598,995	0
(3) Cash and bank deposits	419,267	419,267	-
Total assets	23,686,896	25,555,773	1,868,877
(1) Bonds	18,676,401	19,632,909	956,508
(2) Borrowed money	30,000	30,860	860
Total liabilities	18,706,401	19,663,770	957,369
Derivative transactions(*1) Hedge accounting applied	240	240	-
Total of derivative transactions	240	240	-

The book value, fair value and difference between them as of 31 March 2014 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,082,976	¥24,608,923	¥1,525,946
(2) Securities held-to-maturity securities	533,998	533,998	(0)
(3) Cash and bank deposits	467,175	467,175	-
Total assets	24,084,150	25,610,096	1,525,945
(1) Bonds	19,423,743	20,180,752	757,009
(2) Borrowed money	95,500	96,096	596
(3) Cash collateral received for financial instruments	43,530	43,530	-
Total liabilities	19,562,773	20,320,379	757,606
Derivative transactions(*1) Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans	\$224,084,812	\$238,898,390	\$14,813,578
(2) Securities held-to-maturity securities	5,183,952	5,183,943	(9)
(3) Cash and bank deposits	4,535,241	4,535,241	-
Total assets	233,804,005	248,617,574	14,813,569
(1) Bonds	188,561,726	195,910,619	7,348,893
(2) Borrowed money	927,094	932,888	5,794
(3) Cash collateral received for financial instruments	422,580	422,580	-
Total liabilities	189,911,400	197,266,087	7,354,687
Derivative transactions(*1) Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

(\*1) Assets and liabilities resulting from derivative transactions are presented on a net basis with liabilities in parentheses.



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 2013 and 2014.

##### (2) Securities

All bonds are held until maturity, and the fair value of treasury discount bills is the market price.

Since all negotiable certificates of deposit are short-term, the fair value approximates the book value. As a result, the book value is deemed to be the fair value.

As of 31 March 2013

(Millions of yen)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	Treasury discount bills	¥44,994	¥44,995	¥0
	Sub total	44,994	44,995	0
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	554,000	554,000	-
	Sub total	554,000	554,000	-
Total		¥598,994	¥598,995	¥0

As of 31 March 2014

(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	Treasury discount bills	¥19,998	¥19,998	¥(0)
	Negotiable certificates of deposit	514,000	514,000	-
	Sub total	533,998	533,998	(0)
Total		¥533,998	¥533,998	¥(0)

(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	Treasury discount bills	\$194,145	\$194,136	\$(9)
	Negotiable certificates of deposit	4,989,807	4,989,807	-
	Sub total	5,183,952	5,183,943	(9)
Total		\$5,183,952	\$5,183,943	\$(9)

##### (3) Cash and bank deposits

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

## **Liabilities**

### **(1) Bonds**

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

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

Hedge accounting is used for interest rate swaps, and the fair value of floating rate bonds is thus calculated by determining the current 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.

## **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 2013 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 Borrowed money	¥40,000	¥40,000	¥240	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	95,000	95,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	774,751	774,751	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	120,000	-	(*2)	
Total			¥1,029,751	¥909,751	¥240	

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 2014 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	¥105,000	¥105,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,097,523	1,097,523	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	103,000	-	(*2)	
Total			¥1,305,523	¥1,202,523	-	

(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	\$1,019,319	\$1,019,319	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	10,654,532	10,654,532	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	999,903	-	(*2)	
Total			\$12,673,754	\$11,673,851	-	

(\*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 2013

(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
Loans	¥1,584,836	¥1,567,116	¥1,589,729	¥1,547,561	¥1,477,282	¥6,486,636	¥6,953,013	¥1,462,458
Securities held-to- maturity securities	599,000	-	-	-	-	-	-	-
Deposits	419,267	-	-	-	-	-	-	-

As of 31 March 2014

(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
Loans	¥1,572,391	¥1,626,590	¥1,619,955	¥1,571,660	¥1,532,455	¥6,673,031	¥6,970,977	¥1,515,913
Securities held-to- maturity securities	534,000	-	-	-	-	-	-	-
Deposits	467,175	-	-	-	-	-	-	-

(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
Loans	\$15,264,455	\$15,790,605	\$15,726,199	\$15,257,358	\$14,876,768	\$64,780,424	\$67,672,827	\$14,716,177
Securities held-to- maturity securities	5,183,963	-	-	-	-	-	-	-
Deposits	4,535,241	-	-	-	-	-	-	-

Note 3. The repayment schedule is as follows:

As of 31 March 2013

(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
Bonds	¥2,164,070	¥1,931,670	¥1,680,970	¥1,780,228	¥1,626,489	¥7,572,183	¥1,718,450	¥217,000
Borrowed money	-	-	-	-	-	30,000	-	-

As of 31 March 2014

(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
Bonds	¥1,952,196	¥1,730,970	¥1,822,228	¥1,736,489	¥1,804,268	¥8,238,330	¥1,959,780	¥193,500
Borrowed money	20,000	-	-	-	30,000	45,500	-	-

(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
Bonds	\$18,951,519	\$16,803,903	\$17,689,826	\$16,857,483	\$17,515,471	\$79,976,027	\$19,025,143	\$1,878,458
Borrowed money	194,156	-	-	-	291,234	441,705	-	-

## 8. Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets as of 31 March 2013 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2012 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2013 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2013	Depreciation and amortization during the year	Balance as of 31 March 2013 (Net book value)
Tangible fixed assets							
Buildings	¥652	¥451	¥-	¥1,104	¥195	¥46	¥908
Land	1,994	-	-	1,994	-	-	1,994
Other tangible fixed assets	102	24	12	114	53	20	61
Total tangible fixed assets	2,750	475	12	3,213	249	66	2,964
Intangible fixed assets							
Software	1,376	86	111	1,351	950	285	400
Other intangible fixed assets	0	482	-	482	-	-	482
Total intangible fixed assets	¥1,376	¥568	¥111	¥1,834	¥950	¥285	¥883

Tangible and intangible fixed assets as of 31 March 2014 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2013 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2014 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2014	Depreciation and amortization during the year	Balance as of 31 March 2014 (Net book value)
Tangible fixed assets							
Buildings	¥1,104	¥20	¥29	¥1,094	¥244	¥54	¥850
Land	1,994	-	335	1,659	-	-	1,659
Other tangible fixed assets	114	282	19	377	52	18	325
Total tangible fixed assets	3,213	302	384	3,132	296	73	2,836
Intangible fixed assets							
Software	1,351	11	725	637	444	218	193
Other intangible fixed assets	482	262	-	744	-	-	744
Total intangible fixed assets	¥1,834	¥273	¥725	¥1,382	¥444	¥218	¥938

(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2013 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2014 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2014	Depreciation and amortization during the year	Balance as of 31 March 2014 (Net book value)
Tangible fixed assets							
Buildings	\$10,722	\$196	\$289	\$10,629	\$2,369	\$531	\$8,260
Land	19,365	-	3,252	16,113	-	-	16,113
Other tangible fixed assets	1,112	2,745	188	3,668	509	178	3,160
Total tangible fixed assets	31,199	2,941	3,729	30,410	2,878	710	27,532
Intangible fixed assets							
Software	13,121	111	7,040	6,191	4,313	2,124	1,879
Other intangible fixed assets	4,687	2,545	-	7,232	-	-	7,232
Total intangible fixed assets	\$17,808	\$2,656	\$7,040	\$13,423	\$4,313	\$2,124	\$9,111

Note: Accumulated depreciation of tangible fixed assets amounted to 249 million yen and 296 million yen (2,878 thousand U.S. dollars) as of 31 March 2013 and 2014, respectively.

## 9. Assets Pledged as Collateral

- (1) Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds in the amount of 18,676,401 million yen and 19,423,743 million yen (188,561,726 thousand U.S. dollars) as of 31 March 2013 and 2014, respectively.
- (2) Securities in the amount of 9,238 million yen and 409 million yen (3,979 thousand U.S. dollars) are pledged as collateral for derivative transactions as of 31 March 2013 and 2014, respectively.

## 10. Bonds

Bonds as of 31 March 2013 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2012	Balance as of 31 March 2013	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-46)	6/15/2009-3/18/2013	¥1,841,660	¥2,332,567	0.668 to 1.5	10Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-8)	9/27/2011-1/29/2013	199,964	519,971	0.199 to 0.4	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-4)	5/28/2012-2/26/2013	-	220,000	0.093 to 0.151	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	83,170	83,170 [USD 1,000 million]	4.0	10Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-11)	5/25/2010-10/22/2012	170,000	230,000	0.230 to 0.639	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	-	20,000	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-46)	6/18/2009-3/25/2013	1,005,000	1,490,000	0.678 to 1.648	10Y
Non-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1)	1/31/2013	-	15,000	1.334	15Y
Non-guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-27)	6/25/2009-1/28/2013	525,000	670,000	1.680 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F153)	7/22/2009-1/31/2013	754,500	1,003,000 (4,000)	0.185 to 2.334	3Y to 30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53)	2/1/2011	15,000	15,000	Floating rate	9Y
Non-guaranteed bonds issued by JFM (international) Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33, 34)	1/12/2012-3/25/2013	17,795	196,197 [USD 2,227 million] [AUD 100 million]	1.375 to 3.65	5Y to 7Y
Non-guaranteed bonds issued by JFM (international) Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32)	1/17/2012-11/7/2012	50,608	95,064 [USD 1,148 million] [NZD 40 million] [AUD 20 million]	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1-A38)	7/31/2009-3/25/2013	980,000	1,280,000	0.69 to 1.53	10Y
Bonds issued by JFM - Sub-total	-	5,642,699	8,169,971 (4,000)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 4-year bonds (Series 1)	2/27/2009	299,962	-	0.7	4Y
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	560,636	560,911	1.3 to 1.6	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 5-year bonds (Series 1)	2/24/2009	29,996	29,998 (30,000)	1.01	5Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	139,967	139,972	1.59 to 1.77	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009-4/30/2009	84,949	84,952	2.07 to 2.29	20Y

Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1, A2)	4/30/2009-5/26/2009	120,000	120,000	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	1,235,513	935,835 (30,000)	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 814-886)	4/26/2002-6/19/2008	6,018,749	4,912,647 (1,395,900)	0.5 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	184,682	184,704	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc.	8/9/1999-6/25/2008	723,848	724,131 (130,000) [USD 2,200 million] [EUR 900 million] [GBP 150 million]	1.35 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 5-year bonds (Series 1)	2/29/2008	129,989	-	1.14	5Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 2-30)	6/27/2002-6/16/2008	1,179,870	929,908 (120,000)	0.64 to 2.07	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	569,661	569,686	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	189,861	189,867	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	20,000	20,000	Floating rate	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) Inflation-indexed bonds (Series 1, 2)	3/2/2005-7/19/2005	40,000	40,000	0.45 to 0.47	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	41,320	39,150 (2,170)	1.39 to 2.01	28Y
Non-guaranteed bonds issued by the Predecessor (domestic) CMS-linked floating rate bonds (Series 1)	9/13/2006	20,000	20,000	Floating rate	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with Pension Fund Association for Local Government Officials (Series Special No.1-1-No.1-31)	7/31/2002-7/31/2008	2,180,500	1,940,500 (482,000)	0.67 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	11,298,483	9,570,594 (2,130,070)	-	-
Total	-	¥18,176,696	¥18,676,401 (2,164,070)	-	-

Notes: 1. Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds in the amount of 18,676,401 million yen as of 31 March 2013.

2. Amounts in square brackets under "Balance as of 31 March 2013" for "Government-guaranteed bonds issued by JFM (international)—Global U.S. dollar bonds (Series 1)," "Non-guaranteed bonds issued by JFM (international)—Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33, 34)," "Non-guaranteed bonds issued by JFM (international)—Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32)" and "Government-guaranteed bonds issued by the Predecessor (international)—Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc." are denominated in foreign currencies.

3. Amounts in parentheses under "Balance as of 31 March 2013" are to be repaid within one year.



Bonds as of 31 March 2014 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2013	Balance as of 31 March 2014	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-58)	6/15/2009-3/17/2014	¥2,332,567	¥3,013,475	0.541 to 1.5	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-3)	9/26/2013-2/27/2014	-	200,000	0.460 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-12)	9/27/2011-3/10/2014	519,971	809,978	0.186 to 0.4	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-6)	5/28/2012-8/29/2013	220,000	330,000	0.093 to 0.249	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	83,170	83,170 [USD 1,000 million]	4.0	10Y
Non-guaranteed bonds issued by JFM (domestic) 2-year bonds (Series 1)	2/19/2014	-	50,000	0.135	2Y
Non-guaranteed bonds issued by JFM (domestic) 3-year bonds (Series 1)	8/19/2013	-	20,000	0.170	3Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-14)	5/25/2010-10/21/2013	230,000	275,000	0.230 to 0.639	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	20,000	20,000	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-58)	6/18/2009-3/24/2014	1,490,000	1,905,000	0.576 to 1.648	10Y
Non-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	15,000	50,000	1.161 to 1.334	15Y
Non-guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-35)	6/25/2009-3/24/2014	670,000	795,000	1.396 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F210)	7/22/2009-2/4/2014	1,003,000	1,304,514 (23,000)	0.185 to 2.334	3Y to 30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211)	2/1/2011-2/26/2014	15,000	25,000	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-42)	1/12/2012-3/6/2014	196,197	468,212 [USD 4,832 million] [AUD 210 million]	1.375 to 4.2	5Y to 7Y
Non-guaranteed bonds issued by JFM (international) Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32, 36-39)	1/17/2012-7/22/2013	95,064	145,599 [USD 1,548 million] [NZD 40 million] [AUD 120 million] (20,526)	Floating rate	1.5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1-A50)	7/31/2009-3/24/2014	1,280,000	1,580,000	0.64 to 1.53	10Y
Bonds issued by JFM - Sub-total	-	8,169,971	11,074,950 (43,526)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	560,911	561,186	1.3 to 1.6	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 5-year bonds (Series 1)	2/24/2009	29,998	-	1.01	5Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	139,972	139,977	1.59 to 1.77	10Y

Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009-4/30/2009	84,952	84,955	2.07 to 2.29	20Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1, A2)	4/30/2009-5/26/2009	120,000	120,000	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	935,835	906,119	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 826-886)	4/23/2003-6/19/2008	4,912,647	3,518,536 (1,136,460)	0.5 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	184,704	184,726	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc.	8/9/1999-6/25/2008	724,131	594,406 [GBP 150 million] [USD 2,200 million] [EUR 900 million] (122,040)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 7-30)	9/19/2003-6/16/2008	929,908	809,940 (220,000)	1.31 to 2.07	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	569,686	569,710	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	189,867	189,873	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	20,000	20,000	Floating rate	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) Inflation-indexed bonds (Series 1, 2)	3/2/2005-7/19/2005	40,000	40,000 (20,000)	0.45 to 0.47	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	39,150	36,980 (2,170)	1.39 to 2.01	28Y
Non-guaranteed bonds issued by the Predecessor (domestic) CMS-linked floating rate bonds (Series 1)	9/13/2006	20,000	20,000	Floating rate	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with Pension Fund Association for Local Government Officials (Series Special No.1-5–No.1-31)	5/28/2003-7/31/2008	1,940,500	1,458,500 (408,000)	0.67 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	9,570,594	7,442,673 (1,908,670)	-	-
Total	-	¥18,676,401	¥19,423,743 (1,952,196)	-	-

(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2013	Balance as of 31 March 2014	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-58)	6/15/2009-3/17/2014	\$22,644,089	\$29,254,200	0.541 to 1.5	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-3)	9/26/2013-2/27/2014	-	1,941,559	0.460 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-12)	9/27/2011-3/10/2014	5,047,779	7,863,104	0.186 to 0.4	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-6)	5/28/2012-8/29/2013	2,135,715	3,203,572	0.093 to 0.249	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	807,397	807,397 [USD 1,000 million]	4.0	10Y
Non-guaranteed bonds issued by JFM (domestic) 2-year bonds (Series 1)	2/19/2014	-	485,390	0.135	2Y
Non-guaranteed bonds issued by JFM (domestic) 3-year bonds (Series 1)	8/19/2013	-	194,156	0.170	3Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-14)	5/25/2010-10/21/2013	2,232,793	2,669,644	0.230 to 0.639	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	194,156	194,156	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-58)	6/18/2009-3/24/2014	14,464,615	18,493,350	0.576 to 1.648	10Y
Non-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	145,617	485,390	1.161 to 1.334	15Y
Non-guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-35)	6/25/2009-3/24/2014	6,504,223	7,717,697	1.396 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F210)	7/22/2009-2/4/2014	9,736,919	12,663,958 (223,279)	0.185 to 2.334	3Y to 30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211)	2/1/2011-2/26/2014	145,617	242,695	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-42)	1/12/2012-3/6/2014	1,904,645	4,545,314 [USD 4,832 million] [AUD 210 million]	1.375 to 4.2	5Y to 7Y
Non-guaranteed bonds issued by JFM (international) Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32, 36-39)	1/17/2012-7/22/2013	922,869	1,413,454 [USD 1,548 million] [NZD 40 million] [AUD 120 million] (199,262)	Floating rate	1.5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1-A50)	7/31/2009-3/24/2014	12,425,977	15,338,316	0.64 to 1.53	10Y
Bonds issued by JFM - Sub-total	-	79,312,411	107,513,352 (422,541)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	5,445,216	5,447,883	1.3 to 1.6	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 5-year bonds (Series 1)	2/24/2009	291,220	-	1.01	5Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	1,358,821	1,358,869	1.59 to 1.77	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009-4/30/2009	824,704	824,733	2.07 to 2.29	20Y

Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1, A2)	4/30/2009-5/26/2009	1,164,935	1,164,935	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	9,084,896	8,796,420	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 826-886)	4/23/2003-6/19/2008	47,690,972	34,157,230 (11,032,521)	0.5 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	1,793,073	1,793,289	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc.	8/9/1999-6/25/2008	7,029,718	5,770,373 [GBP 150 million] [USD 2,200 million] [EUR 900 million] (1,184,739)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 7-30)	9/19/2003-6/16/2008	9,027,361	7,862,738 (2,135,715)	1.31 to 2.07	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	5,530,396	5,530,636	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	1,843,192	1,843,251	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	194,156	194,156	Floating rate	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) Inflation-indexed bonds (Series 1, 2)	3/2/2005-7/19/2005	388,312	388,312 (194,156)	0.45 to 0.47	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	380,060	358,994 (21,066)	1.39 to 2.01	28Y
Non-guaranteed bonds issued by the Predecessor (domestic) CMS-linked floating rate bonds (Series 1)	9/13/2006	194,156	194,156	Floating rate	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with Pension Fund Association for Local Government Officials (Series Special No.1-5–No.1-31)	5/28/2003-7/31/2008	18,837,976	14,158,819 (3,960,781)	0.67 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	92,909,372	72,251,954 (18,528,978)	-	-
Total	-	\$181,306,679	\$188,561,726 (18,951,519)	-	-

Notes: 1. Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds in the amount of 19,423,743 million yen (188,561,726 thousand U.S. dollars) as of 31 March 2014.

2. Amounts in square brackets under "Balance as of 31 March 2014" for "Government-guaranteed bonds issued by JFM (international)—Global U.S. dollar bonds (Series 1)," "Non-guaranteed bonds issued by JFM (international)—Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-42)," "Non-guaranteed bonds issued by JFM (international)—Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32, 36-39)" and "Government-guaranteed bonds issued by the Predecessor (international)—Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc." are denominated in foreign currencies.

3. Amounts in parentheses under "Balance as of 31 March 2014" are to be repaid within one year.

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

As of 31 March 2013

(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	¥2,164,070	¥1,931,670	¥1,680,970	¥1,780,228	¥1,626,489

As of 31 March 2014

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
Bonds	¥1,952,196	¥1,730,970	¥1,822,228	¥1,736,489	¥1,804,268

(Thousands of U.S. dollars)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
Bonds	\$18,951,519	\$16,803,903	\$17,689,826	\$16,857,483	\$17,515,471

## 11. Borrowed Money

Borrowed money as of 31 March 2013 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2012	Balance as of 31 March 2013	Average interest rate (%)	Repayment date
Short-term borrowed money	¥-	¥-	-	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	30,000	30,000	0.69	3/26/2019
Total	¥30,000	¥30,000	-	-

Borrowed money as of 31 March 2014 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2013	Balance as of 31 March 2014	Average interest rate (%)	Repayment date
Short-term borrowed money	¥-	¥20,000	0.150	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	30,000	75,500	0.709	3/26/2019~ 3/13/2024
Total	¥30,000	¥95,500	-	-

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2013	Balance as of 31 March 2014	Average interest rate (%)	Repayment date
Short-term borrowed money	\$-	\$194,155	0.150	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	291,234	732,939	0.709	3/26/2019~ 3/13/2024
Total	\$291,234	\$927,094	-	-

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 2013

(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	¥-	¥-	¥-	¥-	¥-

As of 31 March 2014

(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	¥20,000	¥-	¥-	¥-	¥30,000

(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	\$194,156	\$-	\$-	\$-	\$291,234

## 12. Reserves

Reserves as of 31 March 2013 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2012	Increase during the year	Decrease during the year		Balance as of 31 March 2013
			Intended purpose	Other	
Reserve for bonuses	¥47	¥47	¥47	¥-	¥47
Reserve for bonuses for directors and corporate auditors	6	5	6	-	5
Reserve for retirement benefits	146	5	10	-	141
Reserve for retirement benefits for directors and corporate auditors	23	5	1	-	27

Reserves as of 31 March 2014 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2013	Increase during the year	Decrease during the year		Balance as of 31 March 2014
			Intended purpose	Other	
Reserve for bonuses	¥47	¥50	¥47	¥-	¥50
Reserve for bonuses for directors and corporate auditors	5	7	5	-	7
Reserve for retirement benefits	141	12	28	9	116
Reserve for retirement benefits for directors and corporate auditors	27	6	3	7	22

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2013	Increase during the year	Decrease during the year		Balance as of 31 March 2014
			Intended purpose	Other	
Reserve for bonuses	\$456	\$493	\$456	\$-	\$493
Reserve for bonuses for directors and corporate auditors	52	71	52	-	71
Reserve for retirement benefits	1,378	122	279	92	1,129
Reserve for retirement benefits for directors and corporate auditors	266	59	34	69	222

### 13. Reserve for Interest Rate Volatility

Reserve for interest rate volatility as of 31 March 2013 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2012	Increase during the year	Amount provided	Decrease during the year		Balance as of 31 March 2013
					Amount withdrawn	
Reserve for interest rate volatility	¥880,000	¥220,000	¥220,000	¥-		¥1,100,000
Management account reserve for interest rate volatility	3,137,557	203,643	203,643	570,000	220,000	2,771,200
Total	¥4,017,557	¥423,643	¥423,643	¥570,000	¥220,000	¥3,871,200

Reserve for interest rate volatility as of 31 March 2014 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2013	Increase during the year	Amount provided	Decrease during the year		Balance as of 31 March 2014
					Amount withdrawn	
Reserve for interest rate volatility	¥1,100,000	¥220,000	¥220,000	¥-		¥1,320,000
Management account reserve for interest rate volatility	2,771,200	171,744	171,744	870,000	220,000	2,072,945
Total	¥3,871,200	¥391,744	¥391,744	¥870,000	¥220,000	¥3,392,945

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2013	Increase during the year	Amount provided	Decrease during the year		Balance as of 31 March 2014
					Amount withdrawn	
Reserve for interest rate volatility	\$10,678,575	\$2,135,715	\$2,135,715	\$-		\$12,814,290
Management account reserve for interest rate volatility	26,902,249	1,667,259	1,667,259	8,445,782	2,135,715	20,123,726
Total	\$37,580,824	\$3,802,974	\$3,802,974	\$8,445,782	\$2,135,715	\$32,938,016

Note: The "decrease during the year" for the "management account reserve for interest rate volatility" in the amount of 870,000 million yen (8,445,782 thousand U.S. dollars) partly consists of 650,000 million yen (6,310,067 thousand U.S. dollars) of the payment to the national treasury in accordance with an ordinance pursuant to Article 14 of the Supplementary Provisions of the Law for fiscal 2013 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2013).

#### 14. Fund for Lending Rate Reduction

Fund for lending rate reduction as of 31 March 2013 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2012	Increase during the year		Decrease during the year		Balance as of 31 March 2013
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥911,935	¥3,763	¥-	¥-	¥-	¥915,698
Additional fund for lending rate reduction	7,936	-	-	1,066	-	6,869
Total	¥919,871	¥3,763	¥-	¥1,066	¥-	¥922,568

Fund for lending rate reduction as of 31 March 2014 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2013	Increase during the year		Decrease during the year		Balance as of 31 March 2014
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥915,698	¥3,105	¥-	¥-	¥28	¥918,775
Additional fund for lending rate reduction	6,869	-	-	3,084	-	3,785
Total	¥922,568	¥3,105	¥-	¥3,084	¥28	¥922,561

(Thousands of U.S. dollars)

Classification of fund	Balance as of 1 April 2013	Increase during the year		Decrease during the year		Balance as of 31 March 2014
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	\$8,889,417	\$30,149	\$-	\$-	\$280	\$8,919,286
Additional fund for lending rate reduction	66,692	-	-	29,939	-	36,753
Total	\$8,956,110	\$30,149	\$-	\$29,939	\$280	\$8,956,040

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 "additional fund for lending rate reduction" represents the amount reduced in the fund for interest rate reduction pursuant to the provisions of Article 46, Section 6 of the Law.



## 15. Reserve for Employee Retirement Benefits

As of and for the year ended 31 March 2013

(1) Outline of retirement benefits system

JFM has a defined benefit plan that contributes to the Employees' Pension Fund and offers lump-sum payments upon retirement of employees.

(2) Projected benefit obligation

Projected benefit obligation : 318 million yen

Plan assets : 176 million yen

Reserve for employee retirement benefits : 141 million yen

(3) Pension expenses

Pension expenses : 5 million yen

Pension expenses related to lump-sum payments upon retirement : 4 million yen

Pension expenses related to the Employees' Pension Fund : 0 million yen

(4) Basis of calculation of projected benefit obligation

Projected benefit obligation is calculated by the simplified method.

As of and for the year ended 31 March 2014

(1) Outline of retirement benefits system

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

(2) Defined benefit plan

Reconciliation of outstanding amounts of reserve for retirement benefits:

Reserve for employee retirement benefits at the beginning of the fiscal year : 141 million yen (1,377 thousand U.S. dollars)

Pension expenses : 12 million yen (121 thousand U.S. dollars)

Employee retirement benefits paid : (28) million yen ((278) thousand U.S. dollars)

Contributions to the defined benefit plan : (9) million yen ((91) thousand U.S. dollars)

Reserve for retirement benefits at the end of the fiscal year : 116 million yen (1,129 thousand U.S. dollars)

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

Funded retirement benefit obligation : 305 million yen (2,968 thousand U.S. dollars)

Plan assets : (218) million yen ((2,122) thousand U.S. dollars)

Balance : 87 million yen (846 thousand U.S. dollars)

Unfunded retirement benefit obligation : 29 million yen (283 thousand U.S. dollars)

Net liability for retirement benefits in the balance sheet : 116 million yen (1,129 thousand U.S. dollars)

Reserve for employee retirement benefits : 116 million yen (1,129 thousand U.S. dollars)

Net liability for retirement benefits in the balance sheet : 116 million yen (1,129 thousand U.S. dollars)

(4) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method : 12 million yen (121 thousand U.S. dollars)

## 16. Net Income by Account

(For the year ended 31 March 2013)

Net income of the general account was 20,828 million yen, while there was no net income of management account.

(For the year ended 31 March 2014)

Net income of the general account was 26,510 million yen (257,358 thousand U.S. dollars), while there was no net income of management account.

## 17. Information by Account (Balance sheets)

Balance sheets of general account and management account as of 31 March 2013 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥7,175,673	¥15,492,961		¥22,668,634
Securities	598,994			598,994
Cash and bank deposits	419,267			419,267
Other assets	3,251	10,922		14,173
Tangible fixed assets	2,964			2,964
Intangible fixed assets	883			883
Due from general account		939,648	¥(939,648)	
Due to management account for fund for lending rate reduction	242,831		(242,831)	
Total assets	8,443,866	16,443,532	(1,182,479)	23,704,919
(Liabilities)				
Bonds	5,389,185	13,287,215		18,676,401
Borrowed money	30,000			30,000
Other liabilities	2,388	12,732		15,121
Reserve for bonuses	47			47
Reserve for bonuses for directors and corporate auditors	5			5
Reserve for retirement benefits	141			141
Reserve for retirement benefits for directors and corporate auditors	27			27
Fund for lending rate reduction	922,568			922,568
Basic fund for lending rate reduction	915,698			915,698
Additional fund for lending rate reduction	6,869			6,869
Due to management account	939,648		(939,648)	
Due from general account for fund for lending rate reduction		242,831	(242,831)	
Reserves under special laws	1,100,000	2,847,086		3,947,086
Reserve for interest rate volatility	1,100,000			1,100,000
Management account reserve for interest rate volatility		2,771,200		2,771,200
Reserve for interest rate reduction		75,885		75,885
Total liabilities	8,384,012	16,389,866	(1,182,479)	23,591,399
(Net Assets)				
Capital	16,602			16,602
Retained earnings	50,221			50,221
General account surplus reserve	50,221			50,221
Valuation, translation adjustments and others	(6,970)			(6,970)
Management account surplus reserve		53,666		53,666
Total net assets	59,853	53,666		113,520
Total liabilities and net assets	¥8,443,866	¥16,443,532	¥(1,182,479)	¥23,704,919

Balance sheets of general account and management account as of 31 March 2014 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥9,178,637	¥13,904,339		¥23,082,976
Securities	533,998			533,998
Cash and bank deposits	467,175			467,175
Cash collateral paid for financial instruments	370			370
Other assets	3,524	9,512		13,036
Tangible fixed assets	2,836			2,836
Intangible fixed assets	938			938
Due from general account		923,486	¥(923,486)	
Due to management account for fund for lending rate reduction	192,831		(192,831)	
Total assets	10,380,311	14,837,337	(1,116,317)	24,101,331
(Liabilities)				
Bonds	6,983,259	12,440,483		19,423,743
Borrowed money	95,500			95,500
Cash collateral received for financial instruments	43,530			43,530
Other liabilities	2,667	11,729		14,397
Reserve for bonuses	50			50
Reserve for bonuses for directors and corporate auditors	7			7
Reserve for retirement benefits	116			116
Reserve for retirement benefits for directors and corporate auditors	22			22
Fund for lending rate reduction	922,561			922,561
Basic fund for lending rate reduction	918,775			918,775
Additional fund for lending rate reduction	3,785			3,785
Due to management account	923,486		(923,486)	
Due from general account for fund for lending rate reduction		192,831	(192,831)	
Reserves under special laws	1,320,000	2,138,627		3,458,627
Reserve for interest rate volatility	1,320,000			1,320,000
Management account reserve for interest rate volatility		2,072,945		2,072,945
Reserve for interest rate reduction		65,681		65,681
Total liabilities	10,291,202	14,783,671	(1,116,317)	23,958,556
(Net Assets)				
Capital	16,602			16,602
Retained earnings	76,732			76,732
General account surplus reserve	76,732			76,732
Valuation, translation adjustments and others	(4,225)			(4,225)
Management account surplus reserve		53,666		53,666
Total net assets	89,109	53,666		142,775
Total liabilities and net assets	¥10,380,311	¥14,837,337	¥(1,116,317)	¥24,101,331

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	\$89,104,332	\$134,980,480		\$224,084,812
Securities	5,183,952			5,183,952
Cash and bank deposits	4,535,241			4,535,241
Cash collateral paid for financial instruments	3,592			3,592
Other assets	34,212	92,343		126,555
Tangible fixed assets	27,532			27,532
Intangible fixed assets	9,111			9,111
Due from general account		8,965,018	\$(8,965,018)	
Due to management account for fund for lending rate reduction	1,871,968		(1,871,968)	
Total assets	100,769,940	144,037,841	(10,836,986)	233,970,795
(Liabilities)				
Bonds	67,792,057	120,769,669		188,561,726
Borrowed money	927,094			927,094
Cash collateral received for financial instruments	422,580			422,580
Other liabilities	25,893	113,870		139,763
Reserve for bonuses	493			493
Reserve for bonuses for directors and corporate auditors	71			71
Reserve for retirement benefits	1,129			1,129
Reserve for retirement benefits for directors and corporate auditors	222			222
Fund for lending rate reduction	8,956,040			8,956,040
Basic fund for lending rate reduction	8,919,286			8,919,286
Additional fund for lending rate reduction	36,754			36,754
Due to management account	8,965,018		(8,965,018)	
Due from general account for fund for lending rate reduction		1,871,968	(1,871,968)	
Reserves under special laws	12,814,290	20,761,354		33,575,644
Reserve for interest rate volatility	12,814,290			12,814,290
Management account reserve for interest rate volatility		20,123,726		20,123,726
Reserve for interest rate reduction		637,628		637,628
Total liabilities	99,904,887	143,516,861	(10,836,986)	232,584,762
(Net Assets)				
Capital	161,170			161,170
Retained earnings	744,902			744,902
General account surplus reserve	744,902			744,902
Valuation, translation adjustments and others	(41,019)			(41,019)
Management account surplus reserve		520,980		520,980
Total net assets	865,053	520,980		1,386,033
Total liabilities and net assets	\$100,769,940	\$144,037,841	\$(10,836,986)	\$233,970,795

Notes: 1. General account and management account

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

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

2. General account surplus reserve and management account surplus reserve  
 "Net income" of the general account is posted as "General account surplus reserve" in accordance with the provisions of Article 39, Section 1 of the Law, while "Net income" of management account is posted as "Management account surplus reserve" in accordance with the provisions of Article 13, Section 8 of the Supplementary Provisions of the Law.
3. Due from general account and due to management account  
 These amounts represent funds lent between the general account and management account pursuant to the provisions of Article 13, Section 4 of the Supplementary Provisions of the Law.
4. Due from general account for fund for lending rate reduction and due to management account for fund for lending rate reduction  
 These amounts represent cash received for "Fund for lending rate reduction," which was lent to management account from the general account pursuant to the provisions of Article 9, Section 12 of the Supplementary Provisions of the Law.

## 18. Information by Account (Statements of income)

Statements of income of general account and management account from 1 April 2012 through 31 March 2013 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥101,284	¥408,131	¥(22,268)	¥487,146
Interest income	91,436	394,238		485,675
Fees and commissions	123			123
Other income	1,348	0		1,348
Contributions from fund for lending rate reduction	1,066			1,066
Others	281	0		281
Administrative fee for management account	965		(965)	
Interest on fund for lending rate reduction	7,410		(7,410)	
Interest on due from general account		622	(622)	
Transfer from general account for fund for lending rate reduction		13,270	(13,270)	
Expenses	80,455	215,998	(22,268)	274,076
Interest expenses	61,098	204,548		265,647
Fees and commissions	61	219		280
Other operating expenses	2,914	2,604		5,519
General and administrative expenses	2,488	141		2,629
Interest on due to management account	622		(622)	
Transfer to management account for fund for lending rate reduction	13,270		(13,270)	
Administrative fee for management account		965	(965)	
Interest on fund for lending rate reduction		7,410	(7,410)	
Ordinary income	20,828	192,241	-	213,070
Special gains	220,000	581,402	(220,000)	581,402
Transfer from management account	220,000		(220,000)	
Reversal of management account reserve for interest rate volatility		570,000		570,000
Reversal of reserve for interest rate reduction		11,402		11,402
Special losses	220,000	773,643	(220,000)	773,643
Provision for reserve for interest rate volatility	220,000			220,000
Provision for management account reserve for interest rate volatility		203,643		203,643
Transfer to general account		220,000	(220,000)	
Payment to national treasury		350,000		350,000
Net income	¥20,828	¥-	¥-	¥20,828

Statements of income of general account and management account from 1 April 2013 through 31 March 2014 were as follows:

(Millions of yen)				
Item	General account	Management account	Offset	Total
Income	¥117,626	¥360,076	¥(19,313)	¥458,388
Interest income	107,355	347,803		455,158
Fees and commissions	117			117
Other operating income	0			0
Other income	3,112			3,112
Contributions from fund for lending rate reduction	3,084			3,084
Others	28			28
Administrative fee for management account	1,035		(1,035)	
Interest on fund for lending rate reduction	6,004		(6,004)	
Interest on due from general account		314	(314)	
Transfer from general account for fund for lending rate reduction		11,958	(11,958)	
Expenses	91,115	198,535	(19,313)	270,337
Interest expenses	73,289	187,658		260,947
Fees and commissions	78	202		281
Other operating expenses	3,058	3,451		6,509
General and administrative expenses	2,415	182		2,598
Other expenses	0			0
Interest on due to management account	314		(314)	
Transfer to management account for fund for lending rate reduction	11,958		(11,958)	
Administrative fee for management account		1,035	(1,035)	
Interest on fund for lending rate reduction		6,004	(6,004)	
Ordinary income	26,510	161,540	-	188,051
Special gains	220,000	880,203	(220,000)	880,203
Transfer from management account	220,000		(220,000)	
Reversal of management account reserve for interest rate volatility		870,000		870,000
Reversal of reserve for interest rate reduction		10,203		10,203
Special losses	220,000	1,041,744	(220,000)	1,041,744
Provision for reserve for interest rate volatility	220,000			220,000
Provision for management account reserve for interest rate volatility		171,744		171,744
Transfer to general account		220,000	(220,000)	
Payment to national treasury		650,000		650,000
Net income	¥26,510	¥-	¥-	¥26,510

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
Income	\$1,141,889	\$3,495,546	\$(187,493)	\$4,449,942
Interest income	1,042,186	3,376,401		4,418,587
Fees and commissions	1,142			1,142
Other operating income	0			0
Other income	30,213			30,213
Contributions from fund for lending rate reduction	29,939			29,939
Others	274			274
Administrative fee for management account	10,057		(10,057)	
Interest on fund for lending rate reduction	58,291		(58,291)	
Interest on due from general account		3,050	(3,050)	
Transfer from general account for fund for lending rate reduction		116,095	(116,095)	
Expenses	884,531	1,927,341	(187,493)	2,624,379
Interest expenses	711,475	1,821,752		2,533,227
Fees and commissions	765	1,963		2,728
Other operating expenses	29,692	33,505		63,197
General and administrative expenses	23,450	1,773		25,223
Other expenses	4			4
Interest on due to management account	3,050		(3,050)	
Transfer to management account for fund for lending rate reduction	116,095		(116,095)	
Administrative fee for management account		10,057	(10,057)	
Interest on fund for lending rate reduction		58,291	(58,291)	
Ordinary income	257,358	1,568,205	-	1,825,563
Special gains	2,135,715	8,544,836	(2,135,715)	8,544,836
Transfer from management account	2,135,715		(2,135,715)	
Reversal of management account reserve for interest rate volatility		8,445,782		8,445,782
Reversal of reserve for interest rate reduction		99,054		99,054
Special losses	2,135,715	10,113,041	(2,135,715)	10,113,041
Provision for reserve for interest rate volatility	2,135,715			2,135,715
Provision for management account reserve for interest rate volatility		1,667,259		1,667,259
Transfer to general account		2,135,715	(2,135,715)	
Payment to national treasury		6,310,067		6,310,067
Net income	\$257,358	\$-	\$-	\$257,358

## 19. Fair Value of Marketable Securities

Marketable held-to-maturity securities as of 31 March 2013 consisted of the following:

(Millions of yen)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	¥44,994	44,995	¥0	¥0	¥-
Negotiable certificates of deposit	554,000	554,000	-	-	-
Total	¥598,994	¥598,995	¥0	¥0	¥-

Marketable held-to-maturity securities as of 31 March 2014 consisted of the following:

(Millions of yen)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	¥19,998	¥19,998	¥(0)	¥-	¥(0)
Negotiable certificates of deposit	514,000	514,000	-	-	-
Total	¥533,998	¥533,998	¥(0)	¥-	¥(0)

(Thousands of U.S. dollars)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	\$194,145	\$194,136	\$(9)	\$-	\$(9)
Negotiable certificates of deposit	4,989,807	4,989,807	-	-	-
Total	\$5,183,952	\$5,183,943	\$(9)	\$-	\$(9)

- Notes: 1. The fair value of treasury discount bills is based on market price at the end of the fiscal year.  
2. The balance sheet amount for negotiable certificates of deposit is the fair value.  
3. Difference is the net amount of "unrealized gains" and "unrealized losses."



## 20. Information on Derivative Transactions

### (1) Types of derivative transactions

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

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

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

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

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

#### (a) Hedge accounting method

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

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

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

Hedged items: Bonds and long-term borrowed money

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

Hedged items: Foreign currency-denominated bonds

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

Hedged items: Foreign currency-denominated bank deposits

#### (c) Hedging policy

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

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

#### (d) Assessment of hedge effectiveness

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

Accordingly, JFM deems these to be highly effective and thus does not assess their 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 into underlying hedged items.

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

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

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

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

# Independent Auditor's Report



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## Independent Auditor's Report

The President of Japan Finance Organization for Municipalities

Pursuant to Article 37, paragraph 1 of the Japan Finance Organization for Municipalities Law (the "Law"), we have audited the accompanying financial statements of Japan Finance Organization for Municipalities ("JFM"), which comprise the balance sheets as at March 31, 2014 and 2013, and the statements of income, appropriation of profit, changes in net assets, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *President's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JFM as at March 31, 2014 and 2013, and its financial performance and cash flows for the years then ended in conformity with the Law and regulations applicable to JFM and accounting principles generally accepted in Japan (refer to Note 1 of the accompanying notes to the financial statements).

### *Convenience Translation*

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

### *Conflicts of Interest*

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

May 21, 2014

*Ernst & Young ShinNihon LLC*

A member firm of Ernst & Young Global Limited