Fiscal 2014

(1 April 2014 to 31 March 2015)

Japan Finance Organization for Municipalities

Financial Statements

Japan Finance Organization for Municipalities

Contents

Financial Statements

Balance Sheets

(As of 31 March 2014 and 2015)

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

Item	Fiscal 2013 (31 March 2014)	Fiscal 2014 (31 March 2015)		Item	Fiscal 2013 (31 March 2014)	Fiscal 2014 (31 March 2015)	
	Amount				Amount		
Assets				**Liabilities**			
Loans (Note 5)	¥23,082,976	¥23,437,630	$194,713,218	Bonds (Notes 9 and 10)	¥19,423,743	¥19,542,864	$162,356,608
Securities (Notes 19)	533,998	670,000	5,566,171	Borrowed money (Note 11)	95,500	85,500	710,310
Cash and bank deposits	467,175	399,211	3,316,533	Cash collateral received for financial instruments	43,530	182,246	1,514,056
Cash collateral paid for financial instruments	370	437	3,630	Other liabilities	14,397	11,700	97,204
Other assets	13,036	12,384	102,890	Reserve for bonuses (Note 12)	50	50	421
Tangible fixed assets (Note 8)	2,836	2,840	23,598	Reserve for bonuses for directors and corporate auditors (Note 12)	7	7	63
Intangible fixed assets (Note 8)	938	1,776	14,757	Reserve for retirement benefits (Notes 12 and 15)	116	41	348
				Reserve for retirement benefits for directors and corporate auditors (Note 12)	22	22	190
				Fund for lending rate reduction	922,561	920,287	7,645,489
				Basic fund for lending rate reduction (Note 14)	918,775	920,287	7,645,489
				Additional fund for lending rate reduction (Note 14)	3,785	-	-
				Reserves under special laws	3,458,627	3,608,067	29,974,805
				Reserve for interest rate volatility (Note 13)	1,320,000	1,540,000	12,793,885
				Management account reserve for interest rate volatility (Note 13)	2,072,945	2,011,515	16,711,102
				Reserve for interest rate reduction	65,681	56,552	469,818
				Total liabilities	23,958,556	24,350,790	202,299,494
				Net Assets			
				Capital	16,602	16,602	137,926
				Retained earnings	76,732	107,703	894,770
				General account surplus reserve	76,732	107,703	894,770
				Valuation, translation adjustments and others	(4,225)	(4,482)	(37,236)
				Management account surplus reserve	53,666	53,666	445,843
				Total net assets	142,775	173,489	1,441,303
Total assets	**¥24,101,331**	**¥24,524,279**	**$203,740,797**	**Total liabilities and net assets**	**¥24,101,331**	**¥24,524,279**	**$203,740,797**

See notes to financial statements.

Statements of Income

(For the years ended 31 March 2014 and 2015) (Millions of yen) (Thousands of U.S. dollars)

Item	Fiscal 2013 (1 April 2013 to 31 March 2014)	Fiscal 2014 (1 April 2014 to 31 March 2015)	
	Amount	Amount	
Income	¥458,388	¥434,569	$3,610,284
Interest income	455,158	428,977	3,563,822
Fees and commissions	117	112	936
Other operating income	0	0	3
Other income	3,112	5,479	45,523
Contributions from fund for lending rate reduction (Note 14)	3,084	5,467	45,426
Others	28	11	97
Expenses	270,337	254,070	2,110,745
Interest expenses	260,947	246,060	2,044,199
Fees and commissions	281	294	2,446
Other operating expenses	6,509	4,632	38,483
General and administrative expenses	2,598	3,083	25,617
Other expenses	0	-	-
Ordinary income	188,051	180,499	1,499,539
Special gains	880,203	229,129	1,903,547
Reversal of management account reserve for interest rate volatility (Notes 6 and 13)	870,000	220,000	1,827,698
Reversal of reserve for interest rate reduction	10,203	9,129	75,849
Special losses	1,041,744	378,658	3,145,787
Loss on disposal of fixed assets	-	88	732
Provision for reserve for interest rate volatility (Note 13)	220,000	220,000	1,827,698
Provision for management account reserve for interest rate volatility (Note 13)	171,744	158,570	1,317,357
Payment to national treasury (Note 6)	650,000	-	-
Net income	¥26,510	¥30,971	$257,299

See notes to financial statements.

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

Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2015)

(Millions of yen)

1 Profit available for appropriation			¥30,971
Net income		¥30,971	
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve		30,971	30,971

(Thousands of U.S. dollars)

1 Profit available for appropriation			$257,299
Net income		$257,299	
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve		257,299	257,299

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 2014)

(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 2015)

(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 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 2015)

(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 2014	¥16,602	¥76,732	¥76,732	¥93,334	¥(4,225)	¥53,666	¥142,775
Changes during accounting period							
Net income	-	30,971	30,971	30,971	-	-	30,971
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(256)	-	(256)
Net changes during accounting period	-	30,971	30,971	30,971	(256)	-	30,714
Balance as of 31 March 2015	¥16,602	¥107,703	¥107,703	¥124,305	¥(4,482)	¥53,666	¥173,489

(For the year ended 31 March 2015)

(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 2014	$137,926	$637,471	$637,471	$775,397	$(35,103)	$445,843	$1,186,137
Changes during accounting period							
Net income	-	257,299	257,299	257,299	-	-	257,299
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(2,133)	-	(2,133)
Net changes during accounting period	-	257,299	257,299	257,299	(2,133)	-	255,166
Balance as of 31 March 2015	$137,926	$894,770	$894,770	$1,032,696	$(37,236)	$445,843	$1,441,303

See notes to financial statements.

Statements of Cash Flows

(For the years ended 31 March 2014 and 2015) (Millions of yen) (Thousands of U.S. dollars)

Item	Fiscal 2013 (1 April 2013 to 31 March 2014)	Fiscal 2014 (1 April 2014 to 31 March 2015)	
	Amount	Amount	
Ⅰ Cash flows from operating activities			
Net income	¥26,510	¥30,971	$257,299
Depreciation and amortization	294	480	3,993
Interest income	(455,158)	(428,977)	(3,563,822)
Interest expenses	260,947	246,060	2,044,199
Increase/(decrease) in reserve for bonuses	3	(0)	(1)
Increase in reserve for bonuses for directors and corporate auditors	1	0	2
Decrease in reserve for retirement benefits	(25)	(74)	(618)
Decrease in reserve for retirement benefits for directors and corporate auditors	(4)	(0)	(0)
Decrease in fund for lending rate reduction	(3,084)	(5,467)	(45,426)
Increase in reserve for interest rate volatility	220,000	220,000	1,827,698
Decrease in management account reserve for interest rate volatility	(48,255)	(61,429)	(510,341)
Decrease in reserve for interest rate reduction	(10,203)	(9,129)	(75,849)
Net (increase)/decrease in loans	(414,341)	(354,653)	(2,946,362)
Net increase/(decrease) in bonds	743,787	116,129	964,774
Net increase/(decrease) in borrowed money	65,500	(10,000)	(83,077)
Interest received	455,628	429,619	3,569,162
Interest paid	(214,605)	(245,338)	(2,038,200)
Others	3,025	138,435	1,150,084
Net cash provided by operating activities	630,020	66,626	553,515
Ⅱ Cash flows from investing activities			
Proceeds from redemption of securities	4,189,000	3,300,000	27,415,469
Purchases of securities	(4,123,929)	(3,435,994)	(28,545,274)
Purchases of tangible fixed assets	(37)	(396)	(3,297)
Purchases of intangible fixed assets	(558)	(1,393)	(11,573)
Proceeds from sales of tangible fixed assets	335	-	-
Net cash provided by/(used in) investing activities	64,809	(137,784)	(1,144,675)
Ⅲ Cash flows from financing activities			
Payment to national treasury	(650,000)	-	-
Revenue from contributions made from municipally operated racing	3,105	3,193	26,534
Refund of contributions made from municipally operated racing	(28)	-	-
Net cash provided by/(used in) financing activities	(646,923)	3,193	26,534
Ⅳ Effect of exchange rate changes on cash and cash equivalents	-	-	-
Ⅴ Net increase/(decrease) in cash and cash equivalents	47,907	(67,964)	(564,626)
Ⅵ Cash and cash equivalents at beginning of year	419,267	467,175	3,881,159
Ⅶ Cash and cash equivalents at end of year	¥467,175	¥399,211	$3,316,533

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 2015, the final day of the fiscal year, which was ¥120.37 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 reserve for retirement benefits and pension expenses are calculated using the simplified method, which assumes JFM’s retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at the fiscal year-end.

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

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

(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 from fiscal 2013.

4. Additional Information

JFM obtained the approval of the Minister of Health, Labour and Welfare, dated 1 October 2014, for the transfer to the Japanese national government of the payment obligation of the substitutional portion of the Employees’ Pension Fund established under the Japanese Welfare Pension Insurance Law. 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. 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 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).

For the three years from fiscal 2015 through fiscal 2017, a portion of JFM’s reserve for interest rate volatility within the management account is to be attributed to the Japanese national government, with the aim of transferring up to 600 billion yen over this period. In fiscal 2015, 300 billion yen is scheduled to be transferred to the national treasury by JFM, pursuant to Article 14 of the Supplementary Provisions of the Law for fiscal 2015 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2015).

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 makes loans to local governments. The maximum term to maturity is 30 years (extended to 40 years from April 2015), but the majority of the funds for these loans are raised mainly through issuance of 10-year bonds. Therefore, a large duration gap is created between lending and funding, and JFM is exposed to the interest rate risk associated with bond and long-term borrowed money refinancing.

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

(c) Risk Management for Financial Instruments

(i) Credit risk

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

A. Credit risk on loans

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

- The Japanese national government includes principal and interest payments of local government bonds and loans in the expenditure of the Local Government Finance Program, and secures the total amount of local allocation tax which balances local governments' total expenditures including principal and interest payments, and total revenue. Thus, the national government effectively secures revenue sources for principal and interest payments by local governments. The national government also secures revenue sources for principal and interest payments by individual local governments by including a portion of such principal and interest in the Standard Financial Needs when calculating local allocation tax.
- Under the consultation system for local government bonds and loans, credit reviews must include checks on the repayment status of local governments, and tax revenue and necessary revenue sources to be secured. Additionally, under the Early Warning System, the local governments whose principal and interest payments or financial deficits exceed a certain level must apply for approval to issue bonds or obtain loans, so that the credit standing of local government bonds and loans is maintained.
- Under the Law Relating to the Financial Soundness of Local Governments, which was promulgated in June 2007 (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. The interest rate risk at JFM includes the interest rate risk associated with bond and borrowed money refinancing and pipeline risk.

- Interest rate risk associated with bond and borrowed money refinancing

JFM makes loans to local governments. The maximum term to maturity is 30 years (extended to 40 years from April 2015), 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.
• To achieve its objective, JFM has taken measures to decrease the duration gap by issuing longer than 10-year bonds to extend the duration on liabilities while pursuing the best bond conditions with flexible funding operations.
• JFM's lending for temporary financial countermeasures funding accounts for approximately 40% of the overall outstanding loans in the general account with the same maturities as loans to other businesses with a maximum maturity of 30 years. However, the interest rates for temporary financial countermeasures funding are revised every 10 years, which also contributes to moderate the duration on assets (lending).
• As mentioned above, JFM resolves to extend its maximum loan maturity from 30 years to 40 years, which will increase the duration gap, but JFM's stable operations are secured by a sufficient amount of reserves. In addition, JFM will revise its lending rate by the 30th year at the latest for its loans with maturities longer than 30 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 is to be transferred to the Japanese national government. The transfer is scheduled to occur over a period of three years from fiscal 2015 through fiscal 2017, with the aim of transferring up to 600 billion yen.

- Pipeline risk

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

B. Foreign exchange and other risks

Various risks associated with bond principal and interest payments are hedged by swap transactions. These risks include foreign exchange risk related to foreign currency-denominated bonds, 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 borrowed money 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 and long-term borrowed money, future cash flows regarding such fixed-rate bonds and long-term borrowed money 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 2015 is used.

- Calculation of Outlier Ratio

  Based on an assumption that risk variables, except for interest rate risk, are fixed as of 31 March 2015, 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.

  JFM monitors the movement of the outlier ratio on a regular basis, and the calculation as of 31 March 2015 is as follows.

  Information on the outlier ratio as of 31 March 2015 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	22.4% [+1.8%]	¥(578,975) [(96,937)]	$(4,809,970) [(805,333)]	¥(1,855,809) [(286,075)]	$(15,417,538) [(2,376,630)]	¥+1,276,833 [+189,137]	$+10,607,568 [+1,571,297]	¥2,580,111 [+248,440]	$21,434,834 [+2,063,969]

Note: Amounts posted in square brackets indicate the change from 31 March 2014.

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

With respect to these financial instruments in the management account, based on an assumption that the risk variables, except for interest rate risk, hold steady, for an indicative interest rate as of 31 March 2015 that is 10 basis points higher than the actual rate, it is assumed that the fair value of the net amount (assets side), after offsetting such financial instruments with the financial liabilities, would decline by 36,604 million yen (304,104 thousand U.S. dollars). On the contrary, for an indicative interest rate as of 31 March 2015 that is 10 basis points lower than the actual rate, it is assumed that the fair value of the net amount (assets side), after offsetting such financial instruments with the financial liabilities, would increase by 37,102 million yen (308,237 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.

In addition, as new Basel III liquidity standards are being applied to Japanese financial institutions, JFM has voluntarily implemented a plan to secure liquidity support assets in advance in order to prepare for potential market disruption which may prevent JFM from securing the necessary funds for scheduled bond principal and interest payments.

(iv) Supplemental remarks on fair value of financial instruments

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

(2) Items related to fair value of financial instruments

The book value, fair value and difference between them as of 31 March 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 Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

The book value, fair value and difference between them as of 31 March 2015 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,437,630	¥25,359,637	¥1,922,007
(2) Securities held-to-maturity securities	670,000	670,000	-
(3) Cash and bank deposits	399,211	399,211	-
(4) Cash collateral paid for financial instruments	437	437	-
Total assets	24,507,278	26,429,285	1,922,007
(1) Bonds	19,542,864	20,453,505	910,640
(2) Borrowed money	85,500	87,373	1,873
(3) Cash collateral received for financial instruments	182,246	182,246	-
Total liabilities	19,810,611	20,723,125	912,513
Derivative transactions Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans	$194,713,218	$210,680,712	$15,967,494
(2) Securities held-to-maturity securities	5,566,171	5,566,171	-
(3) Cash and bank deposits	3,316,533	3,316,533	-
(4) Cash collateral paid for financial instruments	3,630	3,630	-
Total assets	203,599,552	219,567,046	15,967,494
(1) Bonds	162,356,608	170,135,591	7,778,983
(2) Borrowed money	710,310	725,873	15,563
(3) Cash collateral received for financial instruments	1,514,056	1,514,056	-
Total liabilities	164,580,974	172,375,520	7,794,546
Derivative transactions Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

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

Assets

(1) Loans

The fair value of loans is calculated by discounting future cash flows assuming prepayment at the discount rate calculated using the Japanese government bond rates as of 31 March 2014 and 2015.

(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 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)

As of 31 March 2015

(Millions of yen)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	-	-	-	-
	Sub total	-	-	-
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	¥670,000	¥670,000	-
	Sub total	670,000	670,000	-
Total		¥670,000	¥670,000	-

(Thousands of U.S. dollars)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	-	-	-	-
	Sub total	-	-	-
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	$5,566,171	$5,566,171	-
	Sub total	5,566,171	5,566,171	-
Total		$5,566,171	$5,566,171	-

(3) Cash and bank deposits

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

(4) Cash collateral paid for financial instruments

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

Liabilities

(1) Bonds

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

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

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

(2) Borrowed money

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

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

(3) Cash collateral received for financial instruments

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

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 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	-	

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 2015 is as follows:

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions	Bonds Long-term borrowed money	-	-	-	Based on prices provided by the counterparty financial institution
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	¥95,000	¥95,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,243,804	1,243,804	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	135,000	-	(*2)	
Total			¥1,473,804	¥1,338,804	-	

(Thousands of U.S. dollars)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions	Bonds Long-term borrowed money	-	-	-	Based on prices provided by the counterparty financial institution
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	$789,233	$789,233	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	10,333,177	10,333,177	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	1,121,542	-	(*2)	
Total			$12,243,952	$11,122,410	-	

(*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 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	-	-	-	-	-	-	-

As of 31 March 2015

(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	¥1,636,841	¥1,653,076	¥1,633,833	¥1,614,776	¥1,582,109	¥6,722,939	¥6,990,554	¥1,603,497
Securities held-to-maturity securities	670,000	-	-	-	-	-	-	-
Deposits	399,210	-	-	-	-	-	-	-

(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	$13,598,420	$13,733,296	$13,573,431	$13,415,108	$13,143,718	$55,852,281	$58,075,558	$13,321,407
Securities held-to-maturity securities	5,566,171	-	-	-	-	-	-	-
Deposits	3,316,533	-	-	-	-	-	-	-

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

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	-	-

As of 31 March 2015

(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	¥1,730,970	¥1,847,228	¥1,745,824	¥1,804,268	¥2,055,327	¥8,025,684	¥2,159,110	¥187,000
Borrowed money	-	-	-	30,000	10,000	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	$14,380,410	$15,346,257	$14,503,821	$14,989,355	$17,075,081	$66,675,122	$17,937,277	$1,553,543
Borrowed money	-	-	-	249,232	83,077	378,001	-	-

8. Tangible and Intangible Fixed Assets

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

Tangible and intangible fixed assets as of 31 March 2015 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2014 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2015 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2015	Depreciation and amortization during the year	Balance as of 31 March 2015 (Net book value)
Tangible fixed assets							
Buildings	¥1,094	¥81	-	¥1,176	¥300	¥56	¥875
Land	1,659	-	-	1,659	-	-	1,659
Other tangible fixed assets	377	36	¥26	388	83	57	305
Total tangible fixed assets	3,132	118	26	3,224	384	114	2,840
Intangible fixed assets							
Software	637	2,035	551	2,121	345	364	1,776
Other intangible fixed assets	744	279	1,024	0	-	-	0
Total intangible fixed assets	¥1,382	¥2,314	¥1,576	¥2,121	¥345	¥364	¥1,776

(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2014 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2015 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2015	Depreciation and amortization during the year	Balance as of 31 March 2015 (Net book value)
Tangible fixed assets							
Buildings	$9,095	$679	-	$9,775	$2,500	$473	$7,275
Land	13,789	-	-	13,789	-	-	13,789
Other tangible fixed assets	3,140	307	$218	3,228	694	474	2,534
Total tangible fixed assets	26,024	986	218	26,792	3,194	947	23,598
Intangible fixed assets							
Software	5,298	16,909	4,584	17,623	2,867	3,028	14,756
Other intangible fixed assets	6,189	2,322	8,510	1	-	-	1
Total intangible fixed assets	$11,487	$19,231	$13,094	$17,624	$2,867	$3,028	$14,757

9. Assets Pledged as Collateral

Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds in the amount of 19,423,743 million yen and 19,542,864 million yen (162,356,608 thousand U.S. dollars) as of 31 March 2014 and 2015, respectively.

10. Bonds

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)	-	-

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 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:

Bonds as of 31 March 2015 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2014	Balance as of 31 March 2015	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-70)	6/15/2009-3/16/2015	¥3,013,475	¥3,444,382	0.32 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	200,000	0.460 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-15)	9/27/2011-3/19/2015	809,978	1,009,984	0.167 to 0.4	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-6)	5/28/2012-8/29/2013	330,000	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)	2/19/2014-3/20/2015	50,000	75,000 (50,000)	0.1 to 0.135	2Y
Non-guaranteed bonds issued by JFM (domestic) 3-year bonds (Series 1)	8/19/2013	20,000	20,000	0.170	3Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-16)	5/25/2010-10/21/2014	275,000	305,000 (90,000)	0.175 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 1-70)	6/18/2009-3/20/2015	1,905,000	2,260,000	0.355 to 1.648	10Y
Non-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	50,000	50,000	1.161 to 1.334	15Y
Non-guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-42)	6/25/2009-1/23/2015	795,000	930,000	0.999 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1)	6/26/2014	-	15,000	1.864	30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F210, F212-F243, F245-F264)	7/22/2009-1/28/2015	1,304,514	1,562,643	0.199 to 2.334	3Y to 30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011-7/25/2014	25,000	35,000	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, 40-48)	1/12/2012-3/18/2015	468,212	755,784 [USD 5,922 million] [AUD 365 million] [NZD 105 million] [EUR 1,000 million]	0.875 to 5.092	3Y to 10Y
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	145,599	125,073 [USD 1,348 million] [NZD 40 million] [AUD 120 million]	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-A62)	7/31/2009-3/19/2015	1,580,000	1,880,000	0.37 to 1.53	10Y
Bonds issued by JFM - Sub-total	-	11,074,950	13,101,039 (140,000)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	561,186	561,461	1.3 to 1.6	10Y

Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	139,977	139,981	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	84,955	84,958	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	-	906,119	906,401	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 838-886)	4/26/2004-6/19/2008	3,518,536	2,383,168 (914,080)	1.2 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	184,726	184,749	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	594,406	472,614 [GBP 150 million] [USD 2,200 million] (129,720)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 10-30)	6/18/2004-6/16/2008	809,940	589,966 (190,000)	1.33 to 2.07	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	569,710	569,735	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	189,873	189,879	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	20,000 (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	36,980	34,810 (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.1-10–No.1-31)	6/24/2004-7/31/2008	1,458,500	1,050,500 (335,000)	1.32 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	7,442,673	5,535,423 (1,590,970)	-	-
Total	-	¥19,423,743	¥19,542,864 (1,730,970)	-	-

(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2014	Balance as of 31 March 2015	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-70)	6/15/2009-3/16/2015	$25,035,101	$28,614,959	0.32 to 1.5	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-3)	9/26/2013-2/27/2014	1,661,544	1,661,544	0.460 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-15)	9/27/2011-3/19/2015	6,729,071	8,390,670	0.167 to 0.4	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-6)	5/28/2012-8/29/2013	2,741,547	2,741,547	0.093 to 0.249	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	690,953	690,953 [USD 1,000 million]	4.0	10Y
Non-guaranteed bonds issued by JFM (domestic) 2-year bonds (Series 1-2)	2/19/2014-3/20/2015	415,386	623,079 (415,386)	0.1 to 0.135	2Y
Non-guaranteed bonds issued by JFM (domestic) 3-year bonds (Series 1)	8/19/2013	166,154	166,154	0.170	3Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-16)	5/25/2010-10/21/2014	2,284,622	2,533,854 (747,695)	0.175 to 0.639	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	166,154	166,154	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-70)	6/18/2009-3/20/2015	15,826,203	18,775,442	0.355 to 1.648	10Y
Non-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	415,386	415,386	1.161 to 1.334	15Y
Non-guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-42)	6/25/2009-1/23/2015	6,604,636	7,726,178	0.999 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1)	6/26/2014	-	124,616	1.864	30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F210, F212-F243, F245-F264)	7/22/2009-1/28/2015	10,837,536	12,982,000	0.199 to 2.334	3Y to 30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011-7/25/2014	207,693	290,770	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, 40-48)	1/12/2012-3/18/2015	3,889,780	6,278,846 [USD 5,922 million] [AUD 365 million] [NZD 105 million] [EUR 1,000 million]	0.875 to 5.092	3Y to 10Y
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	1,209,603	1,039,079 [USD 1,348 million] [NZD 40 million] [AUD 120 million]	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-A62)	7/31/2009-3/19/2015	13,126,194	15,618,510	0.37 to 1.53	10Y
Bonds issued by JFM - Sub-total	-	92,007,563	108,839,741 (1,163,081)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	4,662,179	4,664,461	1.3 to 1.6	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	1,162,890	1,162,931	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	705,788	705,813	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	996,926	996,926	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	7,527,783	7,530,131	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 838-886)	4/26/2004-6/19/2008	29,231,007	19,798,693 (7,593,919)	1.2 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	1,534,657	1,534,843	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	4,938,158	3,926,346 [GBP 150 million] [USD 2,200 million] (1,077,677)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 10-30)	6/18/2004-6/16/2008	6,728,758	4,901,276 (1,578,466)	1.33 to 2.07	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	4,732,996	4,733,202	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	1,577,413	1,577,464	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	166,154	166,154	Floating rate	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) Inflation-indexed bonds (Series 1, 2)	3/2/2005-7/19/2005	332,309	166,154 (166,154)	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	307,219	289,192 (18,028)	1.39 to 2.01	28Y
Non-guaranteed bonds issued by the Predecessor (domestic) CMS-linked floating rate bonds (Series 1)	9/13/2006	166,154	166,154	Floating rate	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with Pension Fund Association for Local Government Officials (Series Special No.1-10–No.1-31)	6/24/2004-7/31/2008	12,116,807	8,727,258 (2,783,085)	1.32 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	61,831,632	45,986,736 (13,217,329)	-	-
Total	-	$161,366,978	$162,356,608 (14,380,410)	-	-

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 19,542,864 million yen (162,356,608 thousand U.S. dollars) as of 31 March 2015.

2. Amounts in square brackets under "Balance as of 31 March 2015" 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, 40-48)," "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 2015" are to be repaid within one year.

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

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

As of 31 March 2015

(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	¥1,730,970	¥1,847,228	¥1,745,824	¥1,804,268	¥2,055,327

(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	$14,380,410	$15,346,257	$14,503,821	$14,989,355	$17,075,081

11. Borrowed Money

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	-	-

Borrowed money as of 31 March 2015 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2014	Balance as of 31 March 2015	Average interest rate (%)	Repayment date
Short-term borrowed money	¥20,000	-	-	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	75,500	85,500	0.675	3/26/2019~ 3/13/2024
Total	¥95,500	¥85,500	-	-

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2014	Balance as of 31 March 2015	Average interest rate (%)	Repayment date
Short-term borrowed money	$166,154	-	-	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	627,233	$710,310	0.675	3/26/2019~ 3/13/2024
Total	$793,387	$710,310	-	-

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 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

As of 31 March 2015

(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	¥-	¥-	¥-	¥30,000	¥10,000

(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	$-	$-	$-	$249,232	$83,077

12. Reserves

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

Reserves as of 31 March 2015 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2014	Increase during the year	Decrease during the year		Balance as of 31 March 2015
			Intended purpose	Other	
Reserve for bonuses	¥50	¥50	¥50	¥-	¥50
Reserve for bonuses for directors and corporate auditors	7	7	7	-	7
Reserve for retirement benefits	116	1	0	75	41
Reserve for retirement benefits for directors and corporate auditors	22	6	1	4	22

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2014	Increase during the year	Decrease during the year		Balance as of 31 March 2015
			Intended purpose	Other	
Reserve for bonuses	$422	$421	$422	$-	$421
Reserve for bonuses for directors and corporate auditors	61	63	61	-	63
Reserve for retirement benefits	966	11	2	627	348
Reserve for retirement benefits for directors and corporate auditors	190	53	14	39	190

13. Reserve for Interest Rate Volatility

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		Decrease during the year		Balance as of 31 March 2014
			Amount provided		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

Reserve for interest rate volatility as of 31 March 2015 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2014	Increase during the year		Decrease during the year		Balance as of 31 March 2015
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	¥1,320,000	¥220,000	¥220,000	¥-		¥1,540,000
Management account reserve for interest rate volatility	2,072,945	158,570	158,570	220,000	220,000	2,011,515
Total	¥3,392,945	¥378,570	¥378,570	¥220,000	¥220,000	¥3,551,515

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2014	Increase during the year		Decrease during the year		Balance as of 31 March 2015
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	$10,966,187	$1,827,698	$1,827,698	$-		$12,793,885
Management account reserve for interest rate volatility	17,221,443	1,317,357	1,317,357	1,827,698	1,827,698	16,711,102
Total	$28,187,630	$3,145,055	$3,145,055	$1,827,698	$1,827,698	$29,504,987

14. Fund for Lending Rate Reduction

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

Fund for lending rate reduction as of 31 March 2015 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2014	Increase during the year		Decrease during the year		Balance as of 31 March 2015
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥918,775	¥3,193	¥-	¥1,681	¥-	¥920,287
Additional fund for lending rate reduction	3,785	-	-	3,785	-	-
Total	¥922,561	¥3,193	¥-	¥5,467	¥-	¥920,287

(Thousands of U.S. dollars)

Classification of fund	Balance as of 1 April 2014	Increase during the year		Decrease during the year		Balance as of 31 March 2015
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	$7,632,928	$26,534	$-	$13,973	$-	$7,645,489
Additional fund for lending rate reduction	31,453	-	-	31,453	-	-
Total	$7,664,381	$26,534	$-	$45,426	$-	$7,645,489

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

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

3. 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 Retirement Benefits

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 retirement benefits and pension expenses are calculated using the simplified method.

(2) Defined benefit plan

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

Reserve for retirement benefits at the beginning of the fiscal year:	141 million yen
Pension expenses:	12 million yen
Employee retirement benefits paid:	(28) million yen
Contributions to the defined benefit plan:	(9) million yen
Reserve for retirement benefits at the end of the fiscal year:	116 million yen

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

Funded retirement benefit obligation:	305 million yen
Plan assets:	(218) million yen
Balance:	87 million yen
Unfunded retirement benefit obligation:	29 million yen
Net liability for retirement benefits in the balance sheet:	116 million yen
Reserve for retirement benefits at the end of the fiscal year:	116 million yen
Net liability for retirement benefits in the balance sheet:	116 million yen

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 12 million yen

As of and for the year ended 31 March 2015

(1) Outline of retirement benefits system

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

(2) Defined benefit plan

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

Reserve for retirement benefits at the beginning of the fiscal year:	116 million yen	(966 thousand U.S. dollars)
Pension expenses:	(5) million yen	((48) thousand U.S. dollars)
Employee retirement benefits paid:	(0) million yen	((2) thousand U.S. dollars)
Contributions to the defined benefit plan:	(68) million yen	((568) thousand U.S. dollars)
Reserve for retirement benefits at the end of the fiscal year:	41 million yen	(348 thousand U.S. dollars)

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

Funded retirement benefit obligation:	278 million yen	(2,317 thousand U.S. dollars)
Plan assets:	(267) million yen	((2,220) thousand U.S. dollars)
Balance:	11 million yen	(96 thousand U.S. dollars)
Unfunded retirement benefit obligation:	30 million yen	(252 thousand U.S. dollars)
Net liability for retirement benefits in the balance sheet:	41 million yen	(348 thousand U.S. dollars)
Reserve for retirement benefits at the end of the fiscal year:	41 million yen	(348 thousand U.S. dollars)
Net liability for retirement benefits in the balance sheet:	41 million yen	(348 thousand U.S. dollars)

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: (5) million yen ((48) thousand U.S. dollars)

16. Net Income by Account

(For the year ended 31 March 2014)

Net income of the general account was 26,510 million yen, while there was no net income of management account.

(For the year ended 31 March 2015)

Net income of the general account was 30,971 million yen (257,299 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 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

Balance sheets of general account and management account as of 31 March 2015 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥10,868,072	¥12,569,557		¥23,437,630
Securities	670,000			670,000
Cash and bank deposits	399,211			399,211
Cash collateral paid for financial instruments	437			437
Other assets	3,935	8,449		12,384
Tangible fixed assets	2,840			2,840
Intangible fixed assets	1,776			1,776
Due from general account		810,328	¥(810,328)	
Due to management account for fund for lending rate reduction	92,831		(92,831)	
Total assets	12,039,104	13,388,335	(903,160)	24,524,279
(Liabilities)				
Bonds	8,378,442	11,164,422		19,542,864
Borrowed money	85,500			85,500
Cash collateral received for financial instruments	182,246			182,246
Other liabilities	2,352	9,348		11,700
Reserve for bonuses	50			50
Reserve for bonuses for directors and corporate auditors	7			7
Reserve for retirement benefits	41			41
Reserve for retirement benefits for directors and corporate auditors	22			22
Fund for lending rate reduction	920,287			920,287
Basic fund for lending rate reduction	920,287			920,287
Due to management account	810,328		(810,328)	
Due from general account for fund for lending rate reduction		92,831	(92,831)	
Reserves under special laws	1,540,000	2,068,067		3,608,067
Reserve for interest rate volatility	1,540,000			1,540,000
Management account reserve for interest rate volatility		2,011,515		2,011,515
Reserve for interest rate reduction		56,552		56,552
Total liabilities	11,919,280	13,334,669	(903,160)	24,350,790
(Net Assets)				
Capital	16,602			16,602
Retained earnings	107,703			107,703
General account surplus reserve	107,703			107,703
Valuation, translation adjustments and others	(4,482)			(4,482)
Management account surplus reserve		53,666		53,666
Total net assets	119,823	53,666		173,489
Total liabilities and net assets	¥12,039,104	¥13,388,335	¥(903,160)	¥24,524,279

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	$90,288,879	$104,424,339		$194,713,218
Securities	5,566,171			5,566,171
Cash and bank deposits	3,316,533			3,316,533
Cash collateral paid for financial instruments	3,630			3,630
Other assets	32,697	70,193		102,890
Tangible fixed assets	23,598			23,598
Intangible fixed assets	14,757			14,757
Due from general account		6,731,983	$(6,731,983)	
Due to management account for fund for lending rate reduction	771,218		(771,218)	
Total assets	100,017,483	111,226,515	(7,503,201)	203,740,797
(Liabilities)				
Bonds	69,605,738	92,750,870		162,356,608
Borrowed money	710,310			710,310
Cash collateral received for financial instruments	1,514,056			1,514,056
Other liabilities	19,540	77,664		97,204
Reserve for bonuses	421			421
Reserve for bonuses for directors and corporate auditors	63			63
Reserve for retirement benefits	348			348
Reserve for retirement benefits for directors and corporate auditors	190			190
Fund for lending rate reduction	7,645,489			7,645,489
Basic fund for lending rate reduction	7,645,489			7,645,489
Due to management account	6,731,983		(6,731,983)	
Due from general account for fund for lending rate reduction		771,218	(771,218)	
Reserves under special laws	12,793,885	17,180,920		29,974,805
Reserve for interest rate volatility	12,793,885			12,793,885
Management account reserve for interest rate volatility		16,711,102		16,711,102
Reserve for interest rate reduction		469,818		469,818
Total liabilities	99,022,023	110,780,672	(7,503,201)	202,299,494
(Net Assets)				
Capital	137,926			137,926
Retained earnings	894,770			894,770
General account surplus reserve	894,770			894,770
Valuation, translation adjustments and others	(37,236)			(37,236)
Management account surplus reserve		445,843		445,843
Total net assets	995,460	445,843		1,441,303
Total liabilities and net assets	$100,017,483	$111,226,515	$(7,503,201)	$203,740,797

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 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

Statements of income of general account and management account from 1 April 2014 through 31 March 2015 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥133,507	¥317,463	¥(16,401)	¥434,569
Interest income	122,477	306,500		428,977
Fees and commissions	112			112
Other operating income	0			0
Other income	5,479			5,479
Contributions from fund for lending rate reduction	5,467			5,467
Others	11			11
Administrative fee for management account	774		(774)	
Interest on fund for lending rate reduction	4,663		(4,663)	
Interest on due from general account		94	(94)	
Transfer from general account for fund for lending rate reduction		10,869	(10,869)	
Expenses	102,448	168,023	(16,401)	254,070
Interest expenses	85,610	160,449		246,060
Fees and commissions	104	189		294
Other operating expenses	2,844	1,787		4,632
General and administrative expenses	2,925	158		3,083
Interest on due to management account	94		(94)	
Transfer to management account for fund for lending rate reduction	10,869		(10,869)	
Administrative fee for management account		774	(774)	
Interest on fund for lending rate reduction		4,663	(4,663)	
Ordinary income	31,059	149,440	-	180,499
Special gains	220,000	229,129	(220,000)	229,129
Transfer from management account	220,000		(220,000)	
Reversal of management account reserve for interest rate volatility		220,000		220,000
Reversal of reserve for interest rate reduction		9,129		9,129
Special losses	220,088	378,570	(220,000)	378,658
Loss on disposal of fixed assets	88			88
Provision for reserve for interest rate volatility	220,000			220,000
Provision for management account reserve for interest rate volatility		158,570		158,570
Transfer to general account		220,000	(220,000)	
Net income	¥30,971	¥-	¥-	¥30,971

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
Income	$1,109,145	$2,637,400	$(136,261)	$3,610,284
Interest income	1,017,505	2,546,317		3,563,822
Fees and commissions	936			936
Other operating income	3			3
Other income	45,523			45,523
Contributions from fund for lending rate reduction	45,426			45,426
Others	97			97
Administrative fee for management account	6,437		(6,437)	
Interest on fund for lending rate reduction	38,741		(38,741)	
Interest on due from general account		782	(782)	
Transfer from general account for fund for lending rate reduction		90,301	(90,301)	
Expenses	851,115	1,395,891	(136,261)	2,110,745
Interest expenses	711,228	1,332,971		2,044,199
Fees and commissions	871	1,575		2,446
Other operating expenses	23,630	14,853		38,483
General and administrative expenses	24,303	1,314		25,617
Interest on due to management account	782		(782)	
Transfer to management account for fund for lending rate reduction	90,301		(90,301)	
Administrative fee for management account		6,437	(6,437)	
Interest on fund for lending rate reduction		38,741	(38,741)	
Ordinary income	258,031	1,241,508	-	1,499,539
Special gains	1,827,698	1,903,547	(1,827,698)	1,903,547
Transfer from management account	1,827,698		(1,827,698)	
Reversal of management account reserve for interest rate volatility		1,827,698		1,827,698
Reversal of reserve for interest rate reduction		75,849		75,849
Special losses	1,828,430	3,145,055	(1,827,698)	3,145,787
Loss on disposal of fixed assets	732			732
Provision for reserve for interest rate volatility	1,827,698			1,827,698
Provision for management account reserve for interest rate volatility		1,317,357		1,317,357
Transfer to general account		1,827,698	(1,827,698)	
Net income	$257,299	$-	$-	$257,299

19. Fair Value of Marketable Securities

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)

Marketable held-to-maturity securities as of 31 March 2015 consisted of the following:

(Millions of yen)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Negotiable certificates of deposit	¥670,000	¥670,000	-	-	-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Negotiable certificates of deposit	$5,566,171	$5,566,171	-	-	-

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 in the underlying hedged items.

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

(4) Risk management system for derivative transactions

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

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

Independent Auditor's Report

EY
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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, 2015 and 2014, 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, 2015 and 2014, 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.

Ernst & Young ShinNihon LLC

May 21, 2015