

**Fiscal 2016**

(1 April 2016 to 31 March 2017)

Japan Finance Organization for Municipalities

# **Financial Statements**

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# Financial Statements

## Balance Sheets

(As of 31 March 2016 and 2017)

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

Item	Fiscal 2015 (31 March 2016)	Fiscal 2016 (31 March 2017)		Item	Fiscal 2015 (31 March 2016)	Fiscal 2016 (31 March 2017)	
	Amount		Amount				
Assets				Liabilities			
Loans (Note 3)	¥23,664,512	¥23,720,021	\$211,691,404	Bonds (Notes 7 and 8)	¥19,799,634	¥19,955,593	\$178,095,438
Securities (Note 17)	235,000	166,000	1,481,481	Borrowed money (Note 9)	120,500	170,500	1,521,642
Cash and bank deposits	711,611	861,226	7,686,092	Cash collateral received for financial instruments	129,509	111,159	992,049
Cash collateral paid for financial instruments	16,277	24,327	217,108	Other liabilities	10,345	8,379	74,786
Other assets	11,550	10,616	94,745	Reserve for bonuses (Note 10)	52	55	492
Tangible fixed assets (Note 6)	2,720	2,602	23,231	Reserve for bonuses for directors and corporate auditors (Note 10)	7	8	72
Intangible fixed assets (Note 6)	1,700	1,473	13,146	Reserve for retirement benefits (Notes 10 and 13)	33	45	404
				Reserve for retirement benefits for directors and corporate auditors (Note 10)	9	17	160
				Fund for lending rate reduction	920,287	920,287	8,213,187
				Basic fund for lending rate reduction (Note 12)	920,287	920,287	8,213,187
				Reserves under special laws	3,446,803	3,379,138	30,157,416
				Reserve for interest rate volatility (Note 11)	1,760,000	1,980,000	17,670,683
				Management account reserve for interest rate volatility (Note 11)	1,638,462	1,358,120	12,120,669
				Reserve for interest rate reduction	48,341	41,017	366,064
				Total liabilities	24,427,184	24,545,185	219,055,646
				Net Assets			
				Capital	16,602	16,602	148,167
				Retained earnings	137,900	165,779	1,479,511
General account surplus reserve	137,900	165,779	1,479,511				
Valuation, translation adjustments and others	8,018	5,035	44,935				
Management account surplus reserve	53,666	53,666	478,948				
Total net assets	216,187	241,082	2,151,561				
Total assets	¥24,643,371	¥24,786,267	\$221,207,207	Total liabilities and net assets	¥24,643,371	¥24,786,267	\$221,207,207

See notes to financial statements.

## Statements of Income

(For the years ended 31 March 2016 and 2017)

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

Item	Fiscal 2015 (1 April 2015 to 31 March 2016)	Fiscal 2016 (1 April 2016 to 31 March 2017)	
	Amount	Amount	
Income	¥407,972	¥376,497	\$3,360,087
Interest income	404,858	372,787	3,326,978
Fees and commissions	108	103	927
Other operating income	0	36	327
Other income	3,005	3,569	31,855
Contributions from fund for lending rate reduction (Note 12)	2,993	3,557	31,747
Others	12	12	108
Expenses	239,039	216,284	1,930,248
Interest expenses	230,505	208,872	1,864,100
Fees and commissions	324	313	2,795
Other operating expenses	4,405	3,874	34,582
General and administrative expenses	3,803	3,223	28,771
Ordinary income	168,933	160,213	1,429,839
Special gains	528,211	427,323	3,813,686
Reversal of management account reserve for interest rate volatility (Note 11)	520,000	420,000	3,748,327
Reversal of reserve for interest rate reduction	8,211	7,323	65,359
Special losses	666,947	559,658	4,994,721
Provision for reserve for interest rate volatility (Note 11)	220,000	220,000	1,963,409
Provision for management account reserve for interest rate volatility (Note 11)	146,947	139,658	1,246,394
Payment to national treasury (Notes 4 and 11)	300,000	200,000	1,784,918
Net income	¥30,197	¥27,878	\$248,804

See notes to financial statements.

## Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2016)

(Millions of yen)

1 Profit available for appropriation		¥30,197
Net income	¥30,197	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	30,197	30,197

## Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2017)

(Millions of yen)

1 Profit available for appropriation		¥27,878
Net income	¥27,878	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	27,878	27,878

(Thousands of U.S. dollars)

1 Profit available for appropriation		\$248,804
Net income	\$248,804	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	248,804	248,804

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

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

See notes to financial statements.

## Statements of Appropriation of Profit [Management account]

(For the year ended 31 March 2016)

(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 2017)

(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 2016)

(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 2015	¥16,602	¥107,703	¥107,703	¥124,305	¥(4,482)	¥53,666	¥173,489
Changes during accounting period							
Net income	-	30,197	30,197	30,197	-	-	30,197
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	12,500	-	12,500
Net changes during accounting period	-	30,197	30,197	30,197	12,500	-	42,697
Balance as of 31 March 2016	¥16,602	¥137,900	¥137,900	¥154,502	¥8,018	¥53,666	¥216,187

(For the year ended 31 March 2017)

(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 2016	¥16,602	¥137,900	¥137,900	¥154,502	¥8,018	¥53,666	¥216,187
Changes during accounting period							
Net income	-	27,878	27,878	27,878	-	-	27,878
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(2,983)	-	(2,983)
Net changes during accounting period	-	27,878	27,878	27,878	(2,983)	-	24,894
Balance as of 31 March 2017	¥16,602	¥165,779	¥165,779	¥182,381	¥5,035	¥53,666	¥241,082

(For the year ended 31 March 2017)

(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 2016	\$148,167	\$1,230,707	\$1,230,707	\$1,378,874	\$71,561	\$478,948	\$1,929,383
Changes during accounting period							
Net income	-	248,804	248,804	248,804	-	-	248,804
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(26,626)	-	(26,626)
Net changes during accounting period	-	248,804	248,804	248,804	(26,626)	-	222,178
Balance as of 31 March 2017	\$148,167	\$1,479,511	\$1,479,511	\$1,627,678	\$44,935	\$478,948	\$2,151,561

See notes to financial statements.



## Statements of Cash Flows

(For the years ended 31 March 2016 and 2017)

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

Item	Fiscal 2015 (1 April 2015 to 31 March 2016)	Fiscal 2016 (1 April 2016 to 31 March 2017)	
	Amount	Amount	
<b>I Cash flows from operating activities</b>			
Net income	¥30,197	¥27,878	\$248,804
Depreciation and amortization	564	619	5,528
Interest income	(404,858)	(372,787)	(3,326,978)
Interest expenses	230,505	208,872	1,864,100
Increase in reserve for bonuses	2	2	21
Increase in reserve for bonuses for directors and corporate auditors	0	0	2
Increase/(decrease) in reserve for retirement benefits	(8)	11	102
Increase/(decrease) in reserve for retirement benefits for directors and corporate auditors	(13)	8	78
Decrease in fund for lending rate reduction	(2,993)	(3,557)	(31,747)
Increase in reserve for interest rate volatility	220,000	220,000	1,963,409
Decrease in management account reserve for interest rate volatility	(73,052)	(80,341)	(717,015)
Decrease in reserve for interest rate reduction	(8,211)	(7,323)	(65,359)
Net (increase)/decrease in loans	(226,882)	(55,509)	(495,397)
Net increase/(decrease) in bonds	254,060	153,549	1,370,366
Net increase/(decrease) in borrowed money	35,000	50,000	446,229
Interest received	405,693	373,725	3,335,346
Interest paid	(229,067)	(208,543)	(1,861,169)
Others	(56,171)	(29,336)	(261,814)
Net cash provided by operating activities	174,764	277,268	2,474,506
<b>II Cash flows from investing activities</b>			
Proceeds from redemption of securities	2,756,000	585,400	5,224,453
Purchases of securities	(2,321,000)	(516,400)	(4,608,657)
Purchases of tangible fixed assets	(10)	(2)	(19)
Purchases of intangible fixed assets	(347)	(208)	(1,858)
Net cash provided by investing activities	434,642	68,789	613,919
<b>III Cash flows from financing activities</b>			
Payment to national treasury	(300,000)	(200,000)	(1,784,917)
Revenue from contributions made from municipally operated racing	2,993	3,557	31,747
Net cash used in financing activities	(297,006)	(196,442)	(1,753,170)
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	-	-	-
<b>V Net increase/(decrease) in cash and cash equivalents</b>	312,400	149,615	1,335,255
<b>VI Cash and cash equivalents at beginning of year</b>	399,211	711,611	6,350,837
<b>VII Cash and cash equivalents at end of year</b>	¥711,611	¥861,226	\$7,686,092

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 of 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 2017, the final day of the fiscal year, which was ¥112.05 to U.S. \$1. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

### 2. Summary of Significant Accounting Policies

#### (1) Securities

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

#### (2) Derivative transactions

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

#### (3) Depreciation and amortization

##### (a) Tangible fixed assets

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

Buildings: 23 to 47 years

Others: 2 to 19 years

##### (b) Intangible fixed assets

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

#### (4) Deferred assets

Bond issuance costs are expensed in full when incurred.

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

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

#### (6) Reserves

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

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

##### (b) Reserve for bonuses

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

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

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

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

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

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

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

(7) Hedge accounting

(a) Hedge accounting method

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

(b) Hedging instruments and hedged items

(i) Hedging instruments . . . Interest rate swaps

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

(ii) Hedging instruments . . . Currency swaps

Hedged items . . . Foreign currency-denominated bonds

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

Hedged items . . . Foreign currency-denominated bank deposits

(c) Hedging policy

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

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

(d) Assessment of hedge effectiveness

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

(8) Cash and cash equivalents

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

(9) Fund for lending rate reduction

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

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

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

The management account reserve for interest rate volatility is set aside to manage interest rate risk associated with refinancing of bonds issued by the Predecessor pursuant to the provisions of Article 9, Sections 9 and 10, and Article 13, Sections 5 and 7 of the Supplementary Provisions of the Law, and is calculated and accounted for based on the provisions of Articles 1 through 3 of the Ministerial Ordinance on the operations of the Management Account at Japan Finance Organization for Municipal Enterprises (Ordinance No. 2 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2008; hereinafter, “Management Account Operations Ordinance”) and Articles 3 and 5 of the Supplementary Provisions of the above ordinance.

(11) Reserve for interest rate reduction

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

(12) Management account surplus reserve

Profits generated in the management account are accounted for as the management account surplus reserve separately from retained earnings in accordance with the provisions of Article 13, Section 8 of the Supplementary Provisions of the Law and Article 26, Section 2 of the Preparation Ordinance.

(13) Consumption taxes

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

### 3. Loans

There are no bankrupt loans, non-accrual loans, past due loans (three months or more), or restructured loans. Since JFM has never experienced loan losses in the past, it does not record a reserve for possible loan 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 of 1965), and on which accrued interest is not accounted in revenue as there is no expectation of collection of either principal or interest because they are past due for a considerable period of time or for other reasons (excluding loans on which bad debts are written off; hereinafter, "Non-accrual loans").

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

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

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

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

In accordance with the Supplementary Provisions of the Law, a portion of JFM's management account reserve for interest rate volatility is being attributed to the Japanese national government over a period of three years from fiscal 2015 through fiscal 2017, with the aim of transferring up to 600 billion yen over this period. Furthermore, it has been also determined that an additional amount of up to 800 billion yen from fiscal 2017 through fiscal 2019 shall be attributed to the government.

In fiscal 2016, 200,000 million yen (1,784,918 thousand U.S. dollars) was transferred to the national treasury by JFM, pursuant to Article 14 of the Supplementary Provisions of the Law for fiscal 2016 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2016).

In fiscal 2017, 400 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 2017 (Ordinance No. 2 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2017).

### 5. Financial Instruments

(1) Status of financial instruments

(a) Policy for financial instruments

In order to maintain a sound and good financial standing as well as the solid confidence of capital markets, JFM needs to appropriately manage various risks including interest rate risk.

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

Accordingly, JFM has developed a system for appropriate risk management, including the establishment of the Integrated Risk Management Committee, which supervises JFM's overall risk management, and the Risk Management Office, which monitors the risks in each department. The content of risk management can then be appropriately reflected in management decisions.

(b) Details and risks of financial instruments

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

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

(c) Risk management for financial instruments

(i) Credit risk

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

A. Credit risk on loans

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

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

B. Credit risk on transactions

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

(ii) Market risk

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

A. Interest rate risk

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

- Interest rate risk associated with bond and borrowed money refinancing

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

- JFM maintains necessary reserves to cope with the interest rate risk resulting from a duration gap between lending and funding.
- As assets and liabilities in JFM's general account will expand as a result of lending to local governments and funding, JFM carries out an ALM analysis of this account in a timely and appropriate manner to further enhance the effectiveness of its management of interest rate risk. In order to reduce exposure to interest rate risk, JFM has established a medium-term management target for five years from fiscal 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 5 or 10 years. In addition, JFM will revise its lending rate by the 30th year at the latest for its loans with maturities longer than 30 years, which also contributes to moderate the duration on assets (lending).
- 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, and over a period of three years from fiscal 2017 through fiscal 2019, with the aim of transferring up to 800 billion yen as well.

- Pipeline risk

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

B. Foreign exchange and other risks

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

JFM's investments of surplus funds are exposed to the risk of losses on the sale of securities resulting from price declines and the risk of realized losses on 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 2017 is used.

• Calculation of outlier ratio

Based on an assumption that risk variables, except for interest rate risk, are fixed as of 31 March 2017, 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 2017 is as follows.

Information on the outlier ratio as of 31 March 2017 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	22.5% [-2.6%]	¥(694,839) [+18,531]	\$(6,201,152) [+165,381]	¥(2,222,001) [(57,156)]	\$(19,380,442) [(510,094)]	¥+1,527,162 [+75,687]	\$+13,629,290 [+675,475]	¥3,087,703 [+244,894]	\$27,556,475 [+2,185,578]

Note: Amounts posted in square brackets indicate the change from 31 March 2016.

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 2017 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 23,175 million yen (206,827 thousand U.S. dollars). On the contrary, for an indicative interest rate as of 31 March 2017 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 23,473 million yen (209,487 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, JFM has implemented a plan to secure liquidity support assets in advance in order to prepare for potential market disruption which may prevent JFM from securing the necessary funds for scheduled bond principal and interest payments.

### (iv) Supplemental remarks on fair value of financial instruments

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

(2) Items related to fair value of financial instruments

The book value, fair value and difference between them as of 31 March 2016 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,664,512	¥26,360,218	¥2,695,705
(2) Securities held-to-maturity securities	235,000	235,000	-
(3) Cash and bank deposits	711,611	711,611	-
(4) Cash collateral paid for financial instruments	16,277	16,277	-
Total assets	24,627,400	27,323,106	2,695,705
(1) Bonds	19,799,634	20,984,649	1,185,014
(2) Borrowed money	120,500	124,017	3,517
(3) Cash collateral received for financial instruments	129,509	129,509	-
Total liabilities	20,049,644	21,238,176	1,188,532
Derivative transactions Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

The book value, fair value and difference between them as of 31 March 2017 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,720,021	¥25,765,279	¥2,045,257
(2) Securities held-to-maturity securities	166,000	166,000	-
(3) Cash and bank deposits	861,226	861,226	-
(4) Cash collateral paid for financial instruments	24,327	24,327	-
Total assets	24,771,575	26,816,832	2,045,257
(1) Bonds	19,955,593	20,859,021	903,427
(2) Borrowed money	170,500	173,095	2,595
(3) Cash collateral received for financial instruments	111,159	111,159	-
Total liabilities	20,237,252	21,143,276	906,023
Derivative transactions Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-



(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans	\$211,691,404	\$229,944,482	\$18,253,078
(2) Securities held-to-maturity securities	1,481,481	1,481,481	-
(3) Cash and bank deposits	7,686,092	7,686,092	-
(4) Cash collateral paid for financial instruments	217,108	217,108	-
Total assets	221,076,085	239,329,163	18,253,078
(1) Bonds	178,095,438	186,158,157	8,062,719
(2) Borrowed money	1,521,642	1,544,807	23,165
(3) Cash collateral received for financial instruments	992,049	992,049	-
Total liabilities	180,609,129	188,695,013	8,085,884
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 2016 and 2017.

##### (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 2016

(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	¥235,000	¥235,000	-
	Sub total	235,000	235,000	-
Total		¥235,000	¥235,000	-

As of 31 March 2017

(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	¥166,000	¥166,000	-
	Sub total	166,000	166,000	-
Total		¥166,000	¥166,000	-

(Thousands of U.S. dollars)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	-	-	-	-
	Sub total	-	-	-
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	\$1,481,481	\$1,481,481	-
	Sub total	1,481,481	1,481,481	-
Total		\$1,481,481	\$1,481,481	-

(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 2016 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	¥75,000	¥75,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,302,474	1,302,474	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	173,000	-	(*2)	
Total			¥1,550,474	¥1,377,474	-	

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 2017 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	¥55,000	¥55,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,519,932	1,519,932	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	210,000	-	(*2)	
Total			¥1,784,932	¥1,574,932	-	

(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	\$490,852	\$490,852	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	13,564,768	13,564,768	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	1,874,163	-	(*2)	
Total			\$15,929,783	\$14,055,620	-	

(\*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 2016

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Loans	¥1,667,182	¥1,669,864	¥1,679,686	¥1,665,312	¥1,623,644	¥6,749,347	¥6,987,580	¥1,615,733	¥6,159
Securities held-to-maturity securities	235,000	-	-	-	-	-	-	-	-
Deposits	711,611	-	-	-	-	-	-	-	-

As of 31 March 2017

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Loans	¥1,685,559	¥1,713,372	¥1,726,862	¥1,701,612	¥1,643,242	¥6,694,321	¥6,892,616	¥1,646,741	¥15,694
Securities held-to- maturity securities	166,000	-	-	-	-	-	-	-	-
Deposits	861,226	-	-	-	-	-	-	-	-

(Thousands of U.S. dollars)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Loans	\$15,042,919	\$15,291,139	\$15,411,532	\$15,186,187	\$14,665,264	\$59,744,060	\$61,513,754	\$14,696,486	\$140,063
Securities held-to- maturity securities	1,481,481	-	-	-	-	-	-	-	-
Deposits	7,686,089	-	-	-	-	-	-	-	-

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

As of 31 March 2016

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Bonds	¥1,847,228	¥1,773,824	¥1,804,268	¥2,055,327	¥1,896,753	¥7,955,991	¥2,292,940	¥174,000	¥10,000
Borrowed money	-	25,000	30,000	10,000	-	55,500	-	-	-

As of 31 March 2017

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Bonds	¥1,773,824	¥1,804,268	¥2,058,327	¥1,951,753	¥2,185,072	¥7,459,855	¥2,556,270	¥148,500	¥26,000
Borrowed money	25,000	80,000	10,000	-	-	55,500	-	-	-

(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	After 30 years through 40 years
Bonds	\$15,830,656	\$16,102,353	\$18,369,723	\$17,418,594	\$19,500,869	\$66,576,131	\$22,813,655	\$1,325,301	\$232,039
Borrowed money	223,115	713,967	89,246	-	-	495,314	-	-	-

## 6. Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets as of 31 March 2016 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2015 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2016 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2016	Depreciation and amortization during the year	Balance as of 31 March 2016 (Net book value)
Tangible fixed assets							
Buildings	¥1,176	¥5	-	¥1,181	¥361	¥60	¥819
Land	1,659	-	-	1,659	-	-	1,659
Other tangible fixed assets	388	6	-	395	154	70	240
Total tangible fixed assets	3,224	11	-	3,236	516	131	2,720
Intangible fixed assets							
Software	2,121	356	¥37	2,440	740	432	1,700
Other intangible fixed assets	0	58	58	0	-	-	0
Total intangible fixed assets	¥2,121	¥414	¥95	¥2,440	¥740	¥432	¥1,700

Tangible and intangible fixed assets as of 31 March 2017 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2016 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2017 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2017	Depreciation and amortization during the year	Balance as of 31 March 2017 (Net book value)
Tangible fixed assets							
Buildings	¥1,181	¥0	-	¥1,182	¥409	¥47	¥773
Land	1,659	-	-	1,659	-	-	1,659
Other tangible fixed assets	395	-	-	395	225	70	169
Total tangible fixed assets	3,236	0	-	3,237	634	118	2,602
Intangible fixed assets							
Software	2,440	273	¥21	2,692	1,219	501	1,472
Other intangible fixed assets	0	4	4	0	-	-	0
Total intangible fixed assets	¥2,440	¥277	¥25	¥2,692	¥1,219	¥501	¥1,473

(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2016 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2017 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2017	Depreciation and amortization during the year	Balance as of 31 March 2017 (Net book value)
Tangible fixed assets							
Buildings	\$10,546	\$6	-	\$10,552	\$3,652	\$422	\$6,900
Land	14,814	-	-	14,813	-	-	14,813
Other tangible fixed assets	3,528	-	-	3,528	2,010	632	1,518
Total tangible fixed assets	28,888	6	-	28,893	5,662	1,054	23,231
Intangible fixed assets							
Software	21,782	2,442	\$191	24,033	10,887	4,472	13,146
Other intangible fixed assets	0	36	36	0	-	-	0
Total intangible fixed assets	\$21,782	\$2,478	\$227	\$24,033	\$10,887	\$4,472	\$13,146

## 7. Assets Pledged as Collateral

Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds in the amount of 19,799,634 million yen and 19,955,593 million yen (178,095,438 thousand U.S. dollars) as of 31 March 2016 and 2017, respectively.

## 8. Bonds

Bonds as of 31 March 2016 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2015	Balance as of 31 March 2016	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-82)	6/15/2009-3/14/2016	¥3,444,382	¥3,945,290	0.020 to 1.500	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-5)	9/26/2013-1/29/2016	200,000	300,000	0.173 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-17)	9/27/2011-10/30/2015	1,009,984	1,129,991	0.122 to 0.400	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-6)	5/28/2012-8/29/2013	330,000	330,000 (220,000)	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 1-3)	2/19/2014-2/19/2016	75,000	50,000 (25,000)	0.030 to 0.135	2Y
Non-guaranteed bonds issued by JFM (domestic) 3-year bonds (Series 1)	8/19/2013	20,000	20,000 (20,000)	0.170	3Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-18)	5/25/2010-10/19/2015	305,000	235,000 (80,000)	0.110 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 1-82)	6/18/2009-3/17/2016	2,260,000	2,515,000	0.120 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 1-50)	6/25/2009-3/17/2016	930,000	1,065,000	0.530 to 2.266	20Y

Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1)	6/26/2014	15,000	15,000	1.864	30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F20, F22-F31, F33-F39, F41-F52, F54-F210, F212-F243, F245-F310)	7/22/2009-1/28/2016	1,562,643	1,819,772 (58,000)	0.045 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011-7/25/2014	35,000	35,000	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-52)	1/12/2012-2/12/2016	755,784	943,766 [USD 7,435 million] [AUD 460 million] [NZD 105 million] [EUR 1,000 million] (16,200)	0.875 to 5.092	3Y to 10Y
Non-guaranteed bonds issued by JFM (international) (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32, 36, 38, 39)	1/17/2012-7/22/2013	125,073	125,073 [USD 1,348 million] [NZD 40 million] [AUD 120 million] (50,608)	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series A1-A74)	7/31/2009-3/24/2016	1,880,000	2,180,000	0.080 to 1.53	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series B1-B5)	11/24/2015-3/24/2016	-	34,000	0.080 to 0.511	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series C1-C5)	11/24/2015-3/24/2016	-	51,500	0.412 to 1.154	20Y
Bonds issued by JFM - Sub-total	-	13,101,039	14,947,564 (469,808)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	561,461	561,735	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	139,981	139,986	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	84,958	84,961	2.07 to 2.29	20Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with pension funds for local government officials (Series A1, A2)	4/30/2009-5/26/2009	120,000	120,000	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	906,401	906,684	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 850-886)	4/21/2005-6/19/2008	2,383,168	1,469,826 (661,750)	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	184,749	184,771	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	472,614	343,017 [GBP 150 million] [USD 1,000 million] (120,000)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 15-30)	6/20/2005-6/16/2008	589,966	399,985 (240,000)	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	569,735	569,760	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	189,879	189,885	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 2)	7/19/2005	20,000	-	0.45	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003- 6/9/2004	34,810	32,640 (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 (20,000)	Floating rate	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with pension fund associations for local government officials (Series Special No.1-15–No.1-31)	5/25/2005- 7/31/2008	1,050,500	715,500 (333,500)	1.32 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	5,535,423	3,945,385 (1,377,420)	-	-
Total	-	¥19,542,864	¥19,799,634 (1,847,228)	-	-

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 19,799,634 million yen as of 31 March 2016.

2. Amounts in square brackets under "Balance as of 31 March 2016" for "Government-guaranteed bonds issued by JFM (international)—Global U.S. dollar bonds (Series 1)," "Non-guaranteed bonds issued by JFM (international)— (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-52)," "Non-guaranteed bonds issued by JFM (international)— (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32, 36, 38, 39)" and "Government-guaranteed bonds issued by the Predecessor (international)—Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc." are denominated in foreign currencies.

3. Amounts in parentheses under "Balance as of 31 March 2016" are to be repaid within one year.

Bonds as of 31 March 2017 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2016	Balance as of 31 March 2017	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-94)	6/15/2009- 3/15/2017	¥3,945,290	¥4,186,197	0.005 to 1.500	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013- 2/24/2017	300,000	420,100	0.001 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-20)	9/27/2011- 10/28/2016	1,129,991	1,330,732 (200,000)	0.001 to 0.400	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-7)	5/28/2012- 6/30/2016	330,000	150,126 (110,000)	0.001 to 0.249	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	83,170	83,170 [USD 1,000 million]	4.0	10Y
Non-guaranteed bonds issued by JFM (domestic) 2-year bonds (Series 2-3)	3/20/2015- 2/19/2016	50,000	25,000 (25,000)	0.030 to 0.100	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 5-20)	5/26/2011- 10/21/2016	235,000	190,000 (60,000)	0.001 to 0.510	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 1-94)	6/18/2009-3/21/2017	2,515,000	2,755,000	0.060 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 1-58)	6/25/2009-3/21/2017	1,065,000	1,195,000	0.180 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1-3)	6/26/2014-10/21/2016	15,000	35,000	0.569 to 1.864	30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F20, F22-F31, F33-F39, F41-F52, F54-F210, F212-F243, F245-F354)	7/22/2009-1/27/2017	1,819,772	2,029,401 (62,000)	0.001 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011-7/25/2014	35,000	35,000	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-56)	1/12/2012-1/30/2017	943,766	1,211,337 [USD 9,781 million] [AUD 566 million] [NZD 105 million] [EUR 1,000 million] (188,136)	0.875 to 5.092	3Y to 10Y
Non-guaranteed bonds issued by JFM (international) (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32, 36, 38, 39)	1/17/2012-7/22/2013	125,073	74,465 [USD 757 million] [AUD 100 million] (34,088)	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series A1-A86)	7/31/2009-3/28/2017	2,180,000	2,330,000	0.069 to 1.53	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series B1-B17)	11/24/2015-3/28/2017	34,000	75,500	0.069 to 0.511	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series C1-C17)	11/24/2015-3/28/2017	51,500	134,000	0.190 to 1.154	20Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series D1-D12)	4/21/2016-3/28/2017	-	150,000	0.190 to 0.778	20Y
Bonds issued by JFM - Sub-total	-	14,947,564	16,480,031 (679,224)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	561,735	562,010	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	139,986	139,991	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	84,961	84,964	2.07 to 2.29	20Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with pension funds for local government officials (Series A1, A2)	4/30/2009-5/26/2009	120,000	120,000	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	906,684	906,967	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 862-886)	4/20/2006-6/19/2008	1,469,826	808,536 (587,650)	1.4 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	184,771	184,793	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	343,017	223,122 [GBP 150 million] [USD 1,000 million] (119,780)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 20-30)	7/4/2006-6/16/2008	399,985	159,997 (110,000)	1.77 to 2.07	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	569,760	569,784	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	189,885	189,891	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 (20,000)	Floating rate	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	32,640	30,470 (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	-	Floating rate	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with pension funds for local government officials (Series Special No.1-20–No.1-31)	7/26/2006-7/31/2008	715,500	382,000 (255,000)	1.59 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	3,945,385	2,568,595 (1,094,600)	-	-
Total	-	¥19,799,634	¥19,955,593 (1,773,824)	-	-

(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2016	Balance as of 31 March 2017	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-94)	6/15/2009-3/15/2017	\$35,210,086	\$37,360,086	0.005 to 1.500	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013-2/24/2017	2,677,376	3,749,220	0.001 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-20)	9/27/2011-10/28/2016	10,084,709	11,876,241 (1,784,917)	0.001 to 0.400	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-7)	5/28/2012-6/30/2016	2,945,114	1,339,819 (981,705)	0.001 to 0.249	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	742,258	742,258 [USD 1,000 million]	4.0	10Y
Non-guaranteed bonds issued by JFM (domestic) 2-year bonds (Series 2-3)	3/20/2015-2/19/2016	446,229	223,115 (223,115)	0.030 to 0.100	2Y
Non-guaranteed bonds issued by JFM (domestic) 3-year bonds (Series 1)	8/19/2013	178,492	-	0.170	3Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 5-20)	5/26/2011-10/21/2016	2,097,278	1,695,672 (535,475)	0.001 to 0.510	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	178,492	178,492	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-94)	6/18/2009-3/17/2017	22,445,337	24,587,238	0.060 to 1.648	10Y

Non-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	446,229	446,229	1.161 to 1.334	15Y
Non-guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-58)	6/25/2009-3/21/2017	9,504,685	10,664,882	0.180 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1-3)	6/26/2014-10/21/2016	133,869	312,361	0.569 to 1.864	30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F20, F22-F31, F33-F39, F41-F52, F54-F210, F212-F243, F245-F354)	7/22/2009-1/27/2017	16,240,717	18,111,570 (553,324)	0.001 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011-7/25/2014	312,361	312,361	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-56)	1/12/2012-1/30/2017	8,422,727	10,810,686 [USD 9,781 million] [AUD 566 million] [NZD 105 million] [EUR 1,000 million] (1,679,042)	0.875 to 5.092	3Y to 10Y
Non-guaranteed bonds issued by JFM (international) (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32, 36, 38, 39)	1/17/2012-7/22/2013	1,116,233	664,569 [USD 757 million] [AUD 100 million] (304,224)	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series A1-A86)	7/31/2009-3/28/2017	19,455,600	20,794,288	0.069 to 1.53	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series B1-B17)	11/24/2015-3/28/2017	303,436	673,806	0.069 to 0.511	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series C1-C17)	11/24/2015-3/28/2017	459,616	1,195,895	0.190 to 1.154	20Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series D1-D12)	4/21/2016-3/28/2017	-	1,338,688	0.190 to 0.778	20Y
Bonds issued by JFM - Sub-total	-	133,400,844	147,077,476 (6,061,802)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	5,013,261	5,015,712	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	1,249,325	1,249,369	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	758,249	758,275	2.07 to 2.29	20Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with pension funds for local government officials (Series A1, A2)	4/30/2009-5/26/2009	1,070,950	1,070,950	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	8,091,785	8,094,306	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 862-886)	4/20/2006-6/19/2008	13,117,593	7,215,853 (5,244,534)	1.4 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	1,649,008	1,649,207	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	3,061,286	1,991,273 [GBP 150 million] [USD 1,000 million] (1,068,987)	1.9 to 5.75	10Y to 20Y

Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 20-30)	7/4/2006- 6/16/2008	3,569,705	1,427,909 (981,705)	1.77 to 2.07	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002- 6/16/2008	5,084,874	5,085,095	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	1,694,649	1,694,703	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	178,492	178,492 (178,492)	Floating rate	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003- 6/9/2004	291,299	271,932 (19,366)	1.39 to 2.01	28Y
Non-guaranteed bonds issued by the Predecessor (domestic) CMS-linked floating rate bonds (Series 1)	9/13/2006	178,492	-	Floating rate	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with pension funds for local government officials (Series Special No.1-20–No.1-31)	7/26/2006- 7/31/2008	6,385,542	3,409,192 (2,275,770)	1.59 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	35,210,940	22,923,656 (9,768,854)	-	-
Total	-	\$176,703,569	\$178,095,438 (15,830,656)	-	-

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 19,955,593 million yen (178,095,438 thousand U.S. dollars) as of 31 March 2017.

2. Amounts in square brackets under "Balance as of 31 March 2017" for "Government-guaranteed bonds issued by JFM (international)—Global U.S. dollar bonds (Series 1)," "Non-guaranteed bonds issued by JFM (international)— (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-56)," "Non-guaranteed bonds issued by JFM (international)— (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32, 36, 38, 39)" and "Government-guaranteed bonds issued by the Predecessor (international)—Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc." are denominated in foreign currencies.

3. Amounts in parentheses under "Balance as of 31 March 2017" are to be repaid within one year.

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

As of 31 March 2016

(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	¥1,847,228	¥1,773,824	¥1,804,268	¥2,055,327	¥1,896,753

As of 31 March 2017

(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	¥1,773,824	¥1,804,268	¥2,058,327	¥1,951,753	¥2,185,072

(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	\$15,830,656	\$16,102,353	\$18,369,723	\$17,418,594	\$19,500,869

## 9. Borrowed Money

Borrowed money as of 31 March 2016 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2015	Balance as of 31 March 2016	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	¥85,500	¥120,500	0.593	9/19/2017-2/27/2026
Total	¥85,500	¥120,500	-	-

Borrowed money as of 31 March 2017 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2016	Balance as of 31 March 2017	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	-	¥25,000	0.114	9/19/2017
Long-term borrowed money (excluding repayment within 1 year)	¥120,500	¥145,500	0.550	9/26/2018-2/27/2026
Total	¥120,500	¥170,500	-	-

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2016	Balance as of 31 March 2017	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	-	223,115	0.114	9/19/2017
Long-term borrowed money (excluding repayment within 1 year)	\$1,075,413	\$1,298,527	0.550	9/26/2018-2/27/2026
Total	\$1,075,413	\$1,521,642	-	-

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 2016

(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	¥-	¥25,000	¥30,000	¥10,000	¥-

As of 31 March 2017

(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	¥25,000	¥80,000	¥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	\$223,115	\$713,967	\$89,246	\$-	\$-

## 10. Reserves

Reserves as of 31 March 2016 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2015	Increase during the year	Decrease during the year		Balance as of 31 March 2016
			Intended purpose	Other	
Reserve for bonuses	¥50	¥52	¥50	¥-	¥52
Reserve for bonuses for directors and corporate auditors	7	7	7	-	7
Reserve for retirement benefits	41	3	3	8	33
Reserve for retirement benefits for directors and corporate auditors	22	6	18	1	9

Reserves as of 31 March 2017 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2016	Increase during the year	Decrease during the year		Balance as of 31 March 2017
			Intended purpose	Other	
Reserve for bonuses	¥52	¥55	¥52	¥-	¥55
Reserve for bonuses for directors and corporate auditors	7	8	7	-	8
Reserve for retirement benefits	33	19	0	8	45
Reserve for retirement benefits for directors and corporate auditors	9	10	-	1	17



(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2016	Increase during the year	Decrease during the year		Balance as of 31 March 2017
			Intended purpose	Other	
Reserve for bonuses	\$471	\$492	\$471	\$-	\$492
Reserve for bonuses for directors and corporate auditors	70	72	70	-	72
Reserve for retirement benefits	301	178	2	73	404
Reserve for retirement benefits for directors and corporate auditors	82	94	-	16	160

### 11. Reserve for Interest Rate Volatility

Reserve for interest rate volatility as of 31 March 2016 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2015	Increase during the year	Amount provided	Decrease during the year		Balance as of 31 March 2016
				Amount withdrawn		
Reserve for interest rate volatility	¥1,540,000	¥220,000	¥220,000	¥-		¥1,760,000
Management account reserve for interest rate volatility	2,011,515	146,947	146,947	520,000	220,000	1,638,462
Total	¥3,551,515	¥366,947	¥366,947	¥520,000	¥220,000	¥3,398,462

Reserve for interest rate volatility as of 31 March 2017 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2016	Increase during the year	Amount provided	Decrease during the year		Balance as of 31 March 2017
				Amount withdrawn		
Reserve for interest rate volatility	¥1,760,000	¥220,000	¥220,000	¥-		¥1,980,000
Management account reserve for interest rate volatility	1,638,462	139,658		420,000	¥220,000	1,358,120
Total	¥3,398,462	¥359,658	¥220,000	¥420,000	¥220,000	¥3,338,120

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2016	Increase during the year	Amount provided	Decrease during the year		Balance as of 31 March 2017
				Amount withdrawn		
Reserve for interest rate volatility	\$15,707,274	\$1,963,409	\$1,963,409	\$-		\$17,670,683
Management account reserve for interest rate volatility	14,622,602	1,246,394		3,748,327	\$1,963,409	12,120,669
Total	\$30,329,876	\$3,209,803	\$1,963,409	\$3,748,327	\$1,963,409	\$29,791,352

Notes: The “decrease during the year” for the “management account reserve for interest rate volatility” in the amount of 420,000 million yen (3,748,327 thousand U.S. dollars) partly consists of 200,000 million yen (1,784,918 thousand U.S. dollars) of the payment to the national treasury in accordance with an ordinance pursuant to Article 14 of the Supplementary Provisions of the Law for fiscal 2016 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2016).



## 12. Fund for Lending Rate Reduction

Fund for lending rate reduction as of 31 March 2016 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2015	Increase during the year		Decrease during the year		Balance as of 31 March 2016
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥920,287	¥2,993	¥-	¥2,993	¥-	¥920,287
Total	¥920,287	¥2,993	¥-	¥2,993	¥-	¥920,287

Fund for lending rate reduction as of 31 March 2017 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2016	Increase during the year		Decrease during the year		Balance as of 31 March 2017
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥920,287	¥3,557	¥-	¥3,557	¥-	¥920,287
Total	¥920,287	¥3,557	¥-	¥3,557	¥-	¥920,287

(Thousands of U.S. dollars)

Classification of fund	Balance as of 1 April 2016	Increase during the year		Decrease during the year		Balance as of 31 March 2017
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	\$8,213,187	\$31,747	\$-	\$31,747	\$-	\$8,213,187
Total	\$8,213,187	\$31,747	\$-	\$31,747	\$-	\$8,213,187

- Notes: 1. The "amount of reserve" in the "increase during the year" for the "basic fund for lending rate reduction" represents the payment of the amount stipulated in Article 46, Section 1 of the Law and received in accordance with Article 46, Section 2 of the Law.
2. The "amount withdrawn" in the "decrease during the year" for the "basic fund for lending rate reduction" represents the payment of the amount reduced in the fund for interest rate reduction pursuant to the provisions of Article 46, Section 6 of the Law.

### 13. Reserve for Retirement Benefits

As of and for the year ended 31 March 2016

(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:	41 million yen
Pension expenses:	3 million yen
Employee retirement benefits paid:	3 million yen
Contributions to the defined benefit plan:	7 million yen
Reserve for retirement benefits at the end of the fiscal year:	<u>33 million yen</u>

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

Funded retirement benefit obligation:	291 million yen
Plan assets:	<u>(287) million yen</u>
Balance:	3 million yen
Unfunded retirement benefit obligation:	<u>30 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u>33 million yen</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>33 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u>33 million yen</u>

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 3 million yen

As of and for the year ended 31 March 2017

(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:	33 million yen	(301 thousand U.S. dollars)
Pension expenses:	19 million yen	(178 thousand U.S. dollars)
Employee retirement benefits paid:	0 million yen	(2 thousand U.S. dollars)
Contributions to the defined benefit plan:	8 million yen	(73 thousand U.S. dollars)
Reserve for retirement benefits at the end of the fiscal year:	<u>45 million yen</u>	<u>(404 thousand U.S. dollars)</u>

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

Funded retirement benefit obligation:	298 million yen	(2,662 thousand U.S. dollars)
Plan assets:	<u>(288) million yen</u>	<u>((2,571) thousand U.S. dollars)</u>
Balance:	10 million yen	(91 thousand U.S. dollars)
Unfunded retirement benefit obligation:	<u>35 million yen</u>	<u>(313 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u>45 million yen</u>	<u>(404 thousand U.S. dollars)</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>45 million yen</u>	<u>(404 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u>45 million yen</u>	<u>(404 thousand U.S. dollars)</u>

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 19 million yen (177 thousand U.S. dollars)

### 14. Net Income by Account

(For the year ended 31 March 2016)

Net income of the general account was 30,197 million yen, while there was no net income of management account.

(For the year ended 31 March 2017)

Net income of the general account was 27,878 million yen (248,804 thousand U.S. dollars), while there was no net income of management account.

## 15. Information by Account (Balance sheets)

Balance sheets of general account and management account as of 31 March 2016 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥12,374,835	¥11,289,676		¥23,664,512
Securities	235,000			235,000
Cash and bank deposits	711,611			711,611
Cash collateral paid for financial instruments	16,277			16,277
Other assets	4,096	7,453		11,550
Tangible fixed assets	2,720			2,720
Intangible fixed assets	1,700			1,700
Due from general account		746,916	¥(746,916)	
Total assets	13,346,241	12,044,046	(746,916)	24,643,371
(Liabilities)				
Bonds	9,504,061	10,295,573		19,799,634
Borrowed money	120,500			120,500
Cash collateral received for financial instruments	129,509			129,509
Other liabilities	2,342	8,003		10,345
Reserve for bonuses	52			
Reserve for bonuses for directors and corporate auditors	7			7
Reserve for retirement benefits	33			33
Reserve for retirement benefits for directors and corporate auditors	9			9
Fund for lending rate reduction	920,287			920,287
Basic fund for lending rate reduction	920,287			920,287
Due to management account	746,916		(746,916)	
Reserves under special laws	1,760,000	1,686,803		3,446,803
Reserve for interest rate volatility	1,760,000			1,760,000
Management account reserve for interest rate volatility		1,638,462		1,638,462
Reserve for interest rate reduction		48,341		48,341
Total liabilities	13,183,720	11,990,380	(746,916)	24,427,184
(Net Assets)				
Capital	16,602			16,602
Retained earnings	137,900			137,900
General account surplus reserve	137,900			137,900
Valuation, translation adjustments and others	8,018			8,018
Management account surplus reserve		53,666		53,666
Total net assets	162,521	53,666		216,187
Total liabilities and net assets	¥13,346,241	¥12,044,046	¥(746,916)	¥24,643,371

Balance sheets of general account and management account as of 31 March 2017 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥13,638,714	¥10,081,307		¥23,720,021
Securities	166,000			166,000
Cash and bank deposits	861,226			861,226
Cash collateral paid for financial instruments	24,327			24,327
Other assets	4,064	6,551		10,616
Tangible fixed assets	2,602			2,602
Intangible fixed assets	1,473			1,473
Due from general account		671,876	¥(671,876)	
Total assets	14,698,408	10,759,735	(671,876)	24,786,267
(Liabilities)				
Bonds	10,654,660	9,300,933		19,955,593
Borrowed money	170,500			170,500
Cash collateral received for financial instruments	111,159			111,159
Other liabilities	2,382	5,997		8,379
Reserve for bonuses	55			55
Reserve for bonuses for directors and corporate auditors	8			8
Reserve for retirement benefits	45			45
Reserve for retirement benefits for directors and corporate auditors	17			17
Fund for lending rate reduction	920,287			920,287
Basic fund for lending rate reduction	920,287			920,287
Due to management account	671,876		(671,876)	
Reserves under special laws	1,980,000	1,399,138		3,379,138
Reserve for interest rate volatility	1,980,000			1,980,000
Management account reserve for interest rate volatility		1,358,120		1,358,120
Reserve for interest rate reduction		41,017		41,017
Total liabilities	14,510,991	10,706,069	(671,876)	24,545,185
(Net Assets)				
Capital	16,602			16,602
Retained earnings	165,779			165,779
General account surplus reserve	165,779			165,779
Valuation, translation adjustments and others	5,035			5,035
Management account surplus reserve		53,666		53,666
Total net assets	187,416	53,666		241,082
Total liabilities and net assets	¥14,698,408	¥10,759,735	¥(671,876)	¥24,786,267

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	\$121,719,898	\$89,971,506		\$211,691,404
Securities	1,481,481			1,481,481
Cash and bank deposits	7,686,092			7,686,092
Cash collateral paid for financial instruments	217,108			217,108
Other assets	36,272	58,473		94,745
Tangible fixed assets	23,231			23,231
Intangible fixed assets	13,146			13,146
Due from general account		5,996,220	\$(5,996,220)	
Total assets	131,177,228	96,026,199	(5,996,220)	221,207,207
(Liabilities)				
Bonds	95,088,445	83,006,993		178,095,438
Borrowed money	1,521,642			1,521,642
Cash collateral received for financial instruments	992,049			992,049
Other liabilities	21,261	53,525		74,786
Reserve for bonuses	492			492
Reserve for bonuses for directors and corporate auditors	72			72
Reserve for retirement benefits	404			404
Reserve for retirement benefits for directors and corporate auditors	160			160
Fund for lending rate reduction	8,213,187			8,213,187
Basic fund for lending rate reduction	8,213,187			8,213,187
Due to management account	5,996,220		(5,996,220)	
Reserves under special laws	17,670,683	12,486,733		30,157,416
Reserve for interest rate volatility	17,670,683			17,670,683
Management account reserve for interest rate volatility		12,120,669		12,120,669
Reserve for interest rate reduction		366,064		366,064
Total liabilities	129,504,615	95,547,251	(5,996,220)	219,055,646
(Net Assets)				
Capital	148,167			148,167
Retained earnings	1,479,511			1,479,511
General account surplus reserve	1,479,511			1,479,511
Valuation, translation adjustments and others	44,935			44,935
Management account surplus reserve		478,948		478,948
Total net assets	1,672,613	478,948		2,151,561
Total liabilities and net assets	\$131,177,228	\$96,026,199	\$(5,996,220)	\$221,207,207

Notes: 1. General account and management account

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

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

2. General account surplus reserve and management account surplus reserve

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

3. Due from general account and due to management account

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

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

Statements of income of general account and management account from 1 April 2015 through 31 March 2016 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥139,456	¥281,436	¥(12,920)	¥407,972
Interest income	133,391	271,466		404,858
Fees and commissions	108			108
Other operating income	0			0
Other income	3,005			3,005
Contributions from fund for lending rate reduction	2,993			2,993
Others	12			12
Administrative fee for management account	740		(740)	
Interest on due from management account	0		(0)	
Interest on fund for lending rate reduction	2,209		(2,209)	
Interest on due from general account		28	(28)	
Transfer from general account for fund for lending rate reduction		9,941	(9,941)	
Expenses	109,259	142,699	(12,920)	239,039
Interest expenses	93,171	137,334		230,505
Fees and commissions	145	179		324
Other operating expenses	2,347	2,057		4,405
General and administrative expenses	3,624	178		3,803
Interest on due to management account	28		(28)	
Transfer to management account for fund for lending rate reduction	9,941		(9,941)	
Interest on due to general account		0	(0)	
Administrative fee for management account		740	(740)	
Interest on fund for lending rate reduction		2,209	(2,209)	
Ordinary income	30,197	138,736	-	168,933
Special gains	220,000	528,211	(220,000)	528,211
Transfer from management account	220,000		(220,000)	
Reversal of management account reserve for interest rate volatility		520,000		520,000
Reversal of reserve for interest rate reduction		8,211		8,211
Special losses	220,000	666,947	(220,000)	666,947
Provision for reserve for interest rate volatility	220,000			220,000
Provision for management account reserve for interest rate volatility		146,947		146,947
Transfer to general account		220,000	(220,000)	
Payment to national treasury		300,000		300,000
Net income	¥30,197	-	-	¥30,197

Statements of income of general account and management account from 1 April 2016 through 31 March 2017 were as follows:

(Millions of yen)				
Item	General account	Management account	Offset	Total
Income	¥137,984	¥248,271	¥(9,758)	¥376,497
Interest income	133,591	239,196		372,787
Fees and commissions	103			103
Other operating income	36			36
Other income	3,569			3,569
Contributions from fund for lending rate reduction	3,557			3,557
Others	12			12
Interest on due from management account	683		(683)	
Interest on due from general account		30	(30)	
Transfer from general account for fund for lending rate reduction		9,044	(9,044)	
Expenses	110,106	115,936	(9,758)	216,284
Interest expenses	95,523	113,349		208,872
Fees and commissions	147	165		313
Other operating expenses	2,277	1,597		3,874
General and administrative expenses	3,082	141		3,223
Interest on due to management account	30		(30)	
Transfer to management account for fund for lending rate reduction	9,044		(9,044)	
Administrative fee for management account		683	(683)	
Ordinary income	27,878	132,334	-	160,213
Special gains	220,000	427,323	(220,000)	427,323
Transfer from management account	220,000		(220,000)	
Reversal of management account reserve for interest rate volatility		420,000		420,000
Reversal of reserve for interest rate reduction		7,323		7,323
Special losses	220,000	559,658	(220,000)	559,658
Provision for reserve for interest rate volatility	220,000			220,000
Provision for management account reserve for interest rate volatility		139,658		139,658
Transfer to general account		220,000	(220,000)	
Payment to national treasury		200,000		200,000
Net income	¥27,878	-	-	¥27,878

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
Income	\$1,231,457	\$2,215,719	\$(87,089)	\$3,360,087
Interest income	1,192,251	2,134,727		3,326,978
Fees and commissions	927			927
Other operating income	327			327
Other income	31,855			31,855
Contributions from fund for lending rate reduction	31,747			31,747
Others	108			108
Interest on due from management account	6,097		(6,097)	
Interest on due from general account		276	(276)	
Transfer from general account for fund for lending rate reduction		80,716	(80,716)	
Expenses	982,653	1,034,684	(87,089)	1,930,248
Interest expenses	852,504	1,011,596		1,864,100
Fees and commissions	1,318	1,477		2,795
Other operating expenses	20,327	14,255		34,582
General and administrative expenses	27,512	1,259		28,771
Interest on due to management account	276		(276)	
Transfer to management account for fund for lending rate reduction	80,716		(80,716)	
Administrative fee for management account		6,097	(6,097)	
Ordinary income	248,804	1,181,035	-	1,429,839
Special gains	1,963,409	3,813,686	(1,963,409)	3,813,686
Transfer from management account	1,963,409		(1,963,409)	
Reversal of management account reserve for interest rate volatility		3,748,327		3,748,327
Reversal of reserve for interest rate reduction		65,359		65,359
Special losses	1,963,409	4,994,721	(1,963,409)	4,994,721
Provision for reserve for interest rate volatility	1,963,409			1,963,409
Provision for management account reserve for interest rate volatility		1,246,394		1,246,394
Transfer to general account		1,963,409	(1,963,409)	
Payment to national treasury		1,784,918		1,784,918
Net income	\$248,804	\$-	\$-	\$248,804



## 17. Fair Value of Marketable Securities

Marketable held-to-maturity securities as of 31 March 2016 consisted of the following:

(Millions of yen)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Negotiable certificates of deposit	¥235,000	¥235,000	-	-	-

Marketable held-to-maturity securities as of 31 March 2017 consisted of the following:

(Millions of yen)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Negotiable certificates of deposit	¥166,000	¥166,000	-	-	-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Negotiable certificates of deposit	\$1,481,481	\$1,481,481	-	-	-

Notes: 1. The balance sheet amount for negotiable certificates of deposit is the fair value.

2. Difference is the net amount of “unrealized gains” and “unrealized losses.”

## 18. Information on Derivative Transactions

### (1) Types of derivative transactions

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

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

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

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

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

#### (a) Hedge accounting method

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

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

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

Hedged items: Bonds and long-term borrowed money

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

Hedged items: Foreign currency-denominated bonds

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

Hedged items: Foreign currency-denominated bank deposits

#### (c) Hedging policy

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

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

### (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



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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, 2017 and 2016, 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, 2017 and 2016, and its financial performance and cash flows for the years then ended in conformity with the Law and regulations applicable to JFM and accounting principles generally accepted in Japan (refer to Note 1 of the accompanying notes to the financial statements).

### *Convenience Translation*

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

### *Conflicts of Interest*

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

May 18, 2017

*Ernst & Young ShinNihon LLC*

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