

Fiscal 2018

(1 April 2018 to 31 March 2019)

Japan Finance Organization for Municipalities

Financial Statements

Japan Finance Organization for Municipalities

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■ Balance Sheets (As of 31 March 2018 and 2019)

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

See notes to financial statements.

■ Statements of Income (For the years ended 31 March 2018 and 2019)

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

See notes to financial statements.

■ Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2018)

(Millions of yen)

1 Profit available for appropriation			¥26,111
Net income			¥26,111
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve		26,111	26,111

■ Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2019)

(Millions of yen)

1 Profit available for appropriation			¥23,179
Net income			¥23,179
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve		23,179	23,179

(Thousands of U.S. dollars)

1 Profit available for appropriation			\$208,975
Net income			\$208,975
Accumulated deficit brought forward	-		
2 Profit appropriated			
Surplus reserve		208,975	208,975

Notes: 1. Profit was appropriated at the end of the fiscal year in accordance with the provisions of Article 39, Section 1 of the Japan Finance Organization for Municipalities Law (Law No. 64, 2007; hereinafter the “Law”).
2. Surplus reserve appropriated was posted as general account surplus reserve on the balance sheets.

See notes to financial statements.

■ Statements of Appropriation of Profit [Management account]

(For the year ended 31 March 2018)

(Millions of yen)

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

■ Statements of Appropriation of Profit [Management account]

(For the year ended 31 March 2019)

(Millions of yen)

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

(Thousands of U.S. dollars)

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

See notes to financial statements.

■ Statements of Changes in Net Assets

(For the year ended 31 March 2018)

(Millions of yen)

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

(For the year ended 31 March 2019)

(Millions of yen)

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

(For the year ended 31 March 2019)

(Thousands of U.S. dollars)

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

See notes to financial statements.

■ Statements of Cash Flows (For the years ended 31 March 2018 and 2019)

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

See notes to financial statements.

■ Notes to Financial Statements

1. Basis of Presentation

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

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

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of 31 March 2019, the final day of the fiscal year, which was ¥110.92 to U.S. \$1. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

2. Summary of Significant Accounting Policies

(1) Securities

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

(2) Derivative transactions

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

(3) Depreciation and amortization

(a) Tangible fixed assets

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

Buildings: 23 to 47 years

Others: 2 to 19 years

(b) Intangible fixed assets

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

(4) Deferred assets

Bond issuance costs are expensed in full when incurred.

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

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

(6) Reserves

(a) Reserve for possible loan losses

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

(b) Reserve for bonuses

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

(c) Reserve for bonuses for directors and corporate auditors

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

(d) Reserve for retirement benefits

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

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

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

(7) Hedge accounting

(a) Hedge accounting method

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

(b) Hedging instruments and hedged items

(i) Hedging instruments • • • Interest rate swaps

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

(ii) Hedging instruments • • • Currency swaps

- Hedged items.....Foreign currency-denominated bonds
- (iii) Hedging instruments...Foreign exchange forward contracts
- Hedged items.....Foreign currency-denominated bank deposits
- (c) Hedging policy
- JFM uses hedging instruments as a means of hedging exposure to interest rate risk and foreign exchange risk. Hedged items are identified by each individual contract.
- As a means of hedging foreign exchange fluctuation risks associated with the receipt of interest and principal of foreign currency-denominated bank deposits, a foreign exchange forward contract is entered into at the time of each deposit by JFM.
- (d) Assessment of hedge effectiveness
- JFM ensures hedging instruments and hedged items have the same major terms when entering into hedge transactions to offset market fluctuation risks associated with bonds and long-term borrowed money. Accordingly, JFM deems these to be highly effective and thus does not assess effectiveness. Moreover, a periodic assessment of hedge effectiveness for interest rate swaps and currency swaps and forward contracts that qualify for deferral hedge accounting is omitted when the exceptional accrual method is applied.
- (8) Cash and cash equivalents
- Cash and cash equivalents in the statements of cash flows consist of “Cash and bank deposits” on the balance sheets.
- (9) Fund for lending rate reduction
- In accordance with the provisions of Article 46, Section 1 of the Law, JFM has established the fund for lending rate reduction to reserve contributions as stipulated in Article 32-2 of the Local Government Finance Law (Law No. 109, 1948). Also, pursuant to the provisions of Article 46, Section 5 of the Law, income arising from the investment of the fund (hereinafter, “investment income”) is used to reduce interest rates of the loans to municipalities, and if there is any surplus in the investment income after this interest rate reduction process, the surplus amount is added to the fund. Further, pursuant to the provisions of Article 46, Section 6 of the Law, if there is any shortfall after the interest rate reduction process, the shortfall is covered by withdrawal of the fund within the limits of the total of the additional portion to the fund made up to the previous fiscal year and the contributions made in the most current fiscal year.
- (10) Reserve for interest rate volatility and management account reserve for interest rate volatility
- The reserve for interest rate volatility is set aside to prepare for interest rate risk associated with refinancing of JFM bonds (excluding the bonds issued by the former Japan Finance Corporation for Municipal Enterprises; hereinafter, the “Predecessor”) pursuant to the provisions of Article 38, Sections 1 and 3 of the Law, and Article 9, Sections 8 and 10 of the Supplementary Provisions of the Law, and is calculated and accounted for based on the provisions of Article 34 of the Ministerial Ordinance on Finance and Accounting of Japan Finance Organization for Municipalities (Ordinance No. 87 of the Ministry of Internal Affairs and Communications, 2008; hereinafter, “Ordinance on Finance and Accounting”) and Articles 22 and 23 of the Government Ordinance on preparation of relevant government ordinances and provisional measures for the abolishment of the Japan Finance Corporation for Municipal Enterprises Law (Government Ordinance No. 226, 2008; hereinafter, “Preparation Ordinance”).
- The management account reserve for interest rate volatility is set aside to manage interest rate risk associated with refinancing of bonds issued by the Predecessor pursuant to the provisions of Article 9, Sections 9 and 10, and Article 13, Sections 5 and 7 of the Supplementary Provisions of the Law, and is calculated and accounted for based on the provisions of Articles 1 through 3 of the Ministerial Ordinance on the operations of the Management Account at Japan Finance Organization for Municipal Enterprises (Ordinance No. 2 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2008; hereinafter, “Management Account Operations Ordinance”) and Articles 3 and 5 of the Supplementary Provisions of the above ordinance.
- (11) Reserve for interest rate reduction
- Reserve for interest rate reduction is set aside to reduce interest rates on the loans made by the Predecessor to local governments pursuant to the provisions of Article 9, Section 13, and Article 13, Section 8 of the Supplementary Provisions of the Law, and Article 26, Sections 1, 3 and 4 of the Preparation Ordinance, and is calculated and accounted for based on the provisions of Article 5 of the Management Account Operations Ordinance.
- (12) Management account surplus reserve
- Profits generated in the management account are accounted for as the management account surplus reserve separately from retained earnings in accordance with the provisions of Article 13, Section 8 of the Supplementary Provisions of the Law and Article 26, Section 2 of the Preparation Ordinance.
- (13) Consumption taxes
- National and local consumption taxes are accounted for using the tax exclusion method.

3. Loans

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

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

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

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

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

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

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

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

Additional information

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

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

5. Financial Instruments

(1) Status of financial instruments

(a) Policy for financial instruments

In order to maintain a sound and good financial standing as well as the solid confidence of capital markets, 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 (No. 94), local governments whose fiscal indicators exceed the early warning limits must make their own efforts toward achieving fiscal soundness, and local governments whose fiscal indicators exceed the reconstruction limits must take necessary actions to restore their finances under the supervision of the national government or the respective prefectural governments with regard to redemption of local government bonds and loans, and other operations.
- JFM is not subject to the "Banking Law" (1981, No. 59) or the "Financial Reconstruction Law" (1998, No. 132) but performs self-assessment of loans in accordance with the "Financial Inspection Manual" of the Financial Services Agency (FSA).

B. Credit risk on transactions

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

(ii) Market risk

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

A. Interest rate risk

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

- Interest rate risk associated with bond and borrowed money refinancing

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

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

described above. In accordance with Article 14 of the Supplementary Provisions of the Law, a portion of JFM's management account reserve for interest rate volatility is to be transferred to the Japanese national government. The transfer is scheduled to occur over a period of three years from fiscal 2017 through fiscal 2019, with the aim of transferring up to 900 billion yen of which the transfer of 100 billion yen is pursuant to the January 2015 determination, and over a period of six years from fiscal 2018 through fiscal 2023, with the aim of transferring up to 1.5 billion yen for securing funds of the Trust Fund Bureau Fund for exemptions of early redemption charges in relation to concessions of water supply and sewerage businesses. The amount of transfer is to be within the amount which the Japanese national government deems as an amount exceeding the requisite amount of reserve necessary for the smooth operation of JFM's management account at the time of transfer and in the future, in light of JFM's financial condition.

- Pipeline risk

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

B. Foreign exchange and other risks

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

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

C. Quantitative information on market risk

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

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

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

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

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

(iii) Liquidity risk

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

JFM's exposure to liquidity risk is extremely low because loans are made to local governments according to a pre-set schedule, and the daily cash and liquidity management is carried out based on a quarterly plan for fund

management. Moreover, JFM has entered into overdraft agreements with several financial institutions to prepare for the unexpected events, and invests surplus funds only in short-term financial products.

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

(iv) Supplemental remarks on fair value of financial instruments

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

(2) Items related to fair value of financial instruments

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

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

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

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

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

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

Assets

(1) Loans

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

(2) Securities

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

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

As of 31 March 2018

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

As of 31 March 2019

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

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

(3) Cash and bank deposits

The book value is used as the fair value for deposits without maturities. Since all deposits with maturities are short-

term, the fair value approximates the book value. As a result, the book value is deemed to be the fair value.

(4) Cash collateral paid for financial instruments

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

Liabilities

(1) Bonds

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

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

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

(2) Borrowed money

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

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

(3) Cash collateral received for financial instruments

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

Derivative transactions

Transactions for which hedge accounting is applied

For derivative transactions for which hedge accounting is applied, the contractual amount or the amount equivalent to the principal in the contract under each hedge accounting method as of 31 March 2018 is as follows:

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

(Millions of yen)

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

(Millions of yen)

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

(Thousands of U.S. dollars)

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

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

(*2) Since currency swaps and foreign exchange contracts for which deferral hedge accounting is applied are accounted for

together with the foreign currency-denominated bond or foreign currency-denominated deposit being hedged, the fair value is presented together with the fair value of the relevant hedged item.

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

As of 31 March 2018

(Millions of yen)									
	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Loans	¥1,728,937	¥1,758,517	¥1,760,017	¥1,719,241	¥1,642,751	¥6,624,170	¥6,814,112	¥1,694,676	¥25,815
Securities	170,000	-	-	-	-	-	-	-	-
Held-to-maturity securities	747,767	-	-	-	-	-	-	-	-
Deposits									

As of 31 March 2019

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

(Thousands of U.S. dollars)									
	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Loans	\$15,902,575	\$16,084,033	\$15,950,421	\$15,412,160	\$14,477,830	\$58,788,257	\$59,940,306	\$15,011,387	\$325,319
Securities	1,622,791	-	-	-	-	-	-	-	-
Held-to-maturity securities	7,847,824	-	-	-	-	-	-	-	-
Deposits									

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

As of 31 March 2018

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years	After 30 years through 40 years
Bonds Borrowed money	¥1,804,268 80,000	¥2,078,327 10,000	¥2,069,865 -	¥2,345,072 1,000	¥2,094,780 -	¥6,960,448 68,500	¥2,736,600 -	¥175,500 -	¥26,000 -

As of 31 March 2019

(Millions of yen)

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

(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	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 Borrowed money	\$18,737,175 90,155	\$18,687,929 -	\$21,142,015 9,016	\$19,155,048 -	\$21,032,366 777,137	\$56,553,666 277,678	\$26,306,019 -	\$1,649,838 -	\$631,085 -

6. Tangible and Intangible Fixed Assets

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

(Millions of yen)

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

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

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

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

7. Assets Pledged as Collateral

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

8. Bonds

Bonds as of 31 March 2018 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2017	Balance as of 31 March 2018	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-106)	6/15/2009-3/14/2018	¥4,186,197	¥4,792,105	0.005 to 1.500	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013-2/24/2017	420,100	420,086	0.001 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-20)	9/27/2011-10/28/2016	1,330,732	1,130,594 (320,000)	0.001 to 0.400	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 5-10)	6/24/2013-2/26/2018	150,126	200,336	0.001 to 0.249	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	83,170	83,170 [USD 1,000 million]	4.0	10Y
Non-guaranteed bonds issued by JFM (domestic) 2-year bonds (Series 3)	2/19/2016	25,000	-	0.030	2Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 9-22)	4/19/2012-10/20/2017	190,000	160,000 (45,000)	0.001 to 0.360	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	20,000	20,000	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-106)	6/18/2009-3/19/2018	2,755,000	2,970,000	0.060 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 1-65)	6/25/2009-1/26/2018	1,195,000	1,295,000	0.180 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1-5)	6/26/2014-10/20/2017	35,000	55,000	0.569 to 1.864	30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F6, F8-F20, F22-F29, F31,	7/22/2009-2/27/2018	2,029,401	2,206,530 (167,500)	0.001 to 2.334	2Y to 40Y

F33-F37, F39, F41-F52, F54-F153, F155-F164, F166-F169, F171-F210, F212-F243, F245-F401)					
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011- 7/25/2014	35,000	35,000	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) (Series 15, 31, 33-35, 40-62)	3/1/2012- 1/30/2018	1,211,337	1,257,266 [USD 9,825 million] [AUD 516 million] [NZD 58 million] [EUR 1,000 million] (273,832)	0.875 to 5.092	3Y to 10Y
Non-guaranteed bonds issued by JFM (international) (Floater, Series 29, 30, 32, 36, 38, 39)	5/22/2012- 7/22/2013	74,465	40,376 [USD 330 million] [AUD 100 million] (20,146)	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series A1-A98)	7/31/2009- 3/26/2018	2,330,000	2,480,000	0.069 to 1.53	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series B1-B29)	11/24/2015- 3/26/2018	75,500	159,000	0.069 to 0.511	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series C1-C29)	11/24/2015- 3/26/2018	134,000	248,500	0.190 to 1.154	20Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series D1-D24)	4/21/2016- 3/26/2018	150,000	300,000	0.190 to 0.778	20Y
Bonds issued by JFM - Sub-total	-	16,480,031	17,902,966 (826,478)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008- 5/25/2009	562,010	562,285 (422,500)	1.3 to 1.6	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008- 5/28/2009	139,991	139,996 (80,000)	1.59 to 1.77	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009- 4/30/2009	84,964	84,967	2.07 to 2.29	20Y

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

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

2. Amounts in square brackets under "Balance as of 31 March 2018" for "Government-guaranteed bonds issued by JFM

(international)—Global U.S. dollar bonds (Series 1),” “Non-guaranteed bonds issued by JFM (international)— (Series 15, 31, 33-35, 40-62),” “Non-guaranteed bonds issued by JFM (international)— (Floater, Series 29, 30, 32, 36, 38, 39)” and “Government-guaranteed bonds issued by the Predecessor (international)—Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc.” are denominated in foreign currencies.

3. Amounts in parentheses under “Balance as of 31 March 2018” are to be repaid within one year.

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

Bonds as of 31 March 2019 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2018	Balance as of 31 March 2019	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-118)	6/15/2009-3/18/2019	¥4,792,105	¥5,053,012 (683,910)	0.005 to 1.500	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013-2/24/2017	420,086	420,073	0.001 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 5-20)	4/26/2012-10/28/2016	1,130,594	810,455 (290,000)	0.001 to 0.385	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 7-10)	6/30/2016-2/26/2018	200,336	200,223	0.001	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	83,170	83,170 [USD 1,000 million]	4.0	10Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 12-24)	4/22/2013-11/19/2018	160,000	135,000 (30,000)	0.001 to 0.360	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	20,000	20,000 (20,000)	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-118)	6/18/2009-3/22/2019	2,970,000	3,250,000 (245,000)	0.060 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 1-73)	6/25/2009-3/22/2019	1,295,000	1,425,000	0.180 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1-7)	6/26/2014-10/19/2018	55,000	75,000	0.569 to 1.864	30Y
Non-guaranteed bonds issued by JFM (domestic)	2/26/2019	-	15,000	0.882	40Y

40-year bonds (Series 1)					
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F2-F6, F8-F17, F19, F20, F22-25, F31, F34-F37, F39, F41-F52, F54-F153, F155-F164, F166-F169, F171-F210, F212-F243, F245-F276, F278-F456)	7/23/2009- 3/26/2019	2,206,530	2,380,659 (153,500)	0.001 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011- 7/25/2014	35,000	35,000 (15,000)	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) (Series 15, 35, 40-45, 47-68)	3/1/2012- 3/12/2019	1,257,266	1,340,300 [USD 10,200 million] [AUD 604 million] [NZD 58 million] [EUR 1,080 million]	0.875 to 5.092	3Y to 10Y
Non-guaranteed bonds issued by JFM (international) (Floater, Series 30, 36, 38, 39)	6/6/2012- 7/22/2013	40,376	20,230 [USD 230 million] (10,367)	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series A1-A110)	7/31/2009- 3/26/2019	2,480,000	2,630,000 (280,000)	0.069 to 1.53	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series B1-B41)	11/24/2015- 3/26/2019	159,000	229,500	0.069 to 0.511	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series C1-C41)	11/24/2015- 3/26/2019	248,500	365,500	0.190 to 1.154	20Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series D1-D36)	4/21/2016- 3/26/2019	300,000	450,000	0.190 to 0.778	20Y
Bonds issued by JFM - Sub-total	-	17,902,966	18,988,125 (1,727,777)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008- 5/25/2009	562,285	140,000 (140,000)	1.3 to 1.6	10Y

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

Total	-	¥20,284,520	¥20,392,179 (2,078,327)	-	-
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(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2018	Balance as of 31 March 2019	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-118)	6/15/2009- 3/18/2019	\$43,203,257	\$45,555,470 (6,165,796)	0.005 to 1.500	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013- 2/24/2017	3,787,294	3,787,172	0.001 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 5-20)	4/26/2012- 10/28/2016	10,192,886	7,306,664 (2,614,497)	0.001 to 0.385	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 7-10)	6/30/2016- 2/26/2018	1,806,133	1,805,119	0.001	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	749,819	749,819 [USD 1,000 million]	4.0	10Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 12-24)	4/22/2013- 11/19/2018	1,442,481	1,217,093 (270,465)	0.001 to 0.360	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	180,310	180,310 (180,310)	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-118)	6/18/2009- 3/22/2019	26,776,055	29,300,397 (2,208,799)	0.060 to 1.648	10Y
Non-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013- 1/22/2014	450,775	450,775	1.161 to 1.334	15Y
Non-guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-73)	6/25/2009- 3/22/2019	11,675,081	12,847,097	0.180 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1-7)	6/26/2014- 10/19/2018	495,853	676,163	0.569 to 1.864	30Y
Non-guaranteed bonds issued by JFM (domestic) 40-year bonds (Series 1)	2/26/2019	-	135,233	0.882	40Y

Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F2-F6, F8-F17, F19, F20, F22-25, F31, F34-F37, F39, F41-F52, F54-F153, F155-F164, F166-F169, F171-F210, F212-F243, F245-F276, F278-F456)	7/23/2009- 3/26/2019	19,892,993	21,462,853 (1,383,880)	0.001 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011- 7/25/2014	315,543	315,543 (135,233)	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) (Series 15, 35, 40-45, 47-68)	3/1/2012- 3/12/2019	11,334,891	12,083,489 [USD 10,200 million] [AUD 604 million] [NZD 58 million] [EUR 1,080 million]	0.875 to 5.092	3Y to 10Y
Non-guaranteed bonds issued by JFM (international) (Floater, Series 30, 36, 38, 39)	6/6/2012- 7/22/2013	364,016	182,388 [USD 230 million] (93,468)	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series A1-A110)	7/31/2009- 3/26/2019	22,358,457	23,710,783 (2,524,342)	0.069 to 1.53	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series B1-B41)	11/24/2015- 3/26/2019	1,433,466	2,069,059	0.069 to 0.511	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series C1-C41)	11/24/2015- 3/26/2019	2,240,353	3,295,168	0.190 to 1.154	20Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series D1-D36)	4/21/2016- 3/26/2019	2,704,652	4,056,978	0.190 to 0.778	20Y
Bonds issued by JFM - Sub-total	-	161,404,315	171,187,573 (15,576,790)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008- 5/25/2009	5,069,288	1,262,171 (1,262,171)	1.3 to 1.6	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008- 5/28/2009	1,262,141	540,930 (540,930)	1.59 to 1.77	10Y

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

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

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

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

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

As of 31 March 2018

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
Bonds	¥1,804,268	¥2,078,327	¥2,069,865	¥2,345,072	¥2,094,780

As of 31 March 2019

(Millions of yen)

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

(Thousands of U.S. dollars)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
Bonds	\$18,737,175	\$18,687,929	\$21,142,015	\$19,155,048	\$21,032,366

9. Borrowed Money

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

(Millions of yen)

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

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

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2018	Balance as of 31 March 2019	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	¥80,000	¥10,000	0.210	3/9/2020
Long-term borrowed money (excluding repayment within 1 year)	79,500	118,000	0.445	9/27/2021-3/15/2029
Total	¥159,500	¥128,000	-	-

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2018	Balance as of 31 March 2019	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	\$721,241	\$90,155	0.210	3/9/2020
Long-term borrowed money (excluding repayment within 1 year)	716,733	1,063,830	0.445	9/27/2021- 3/15/2029
Total	\$1,437,974	\$1,153,985	-	-

Notes: 1. Average interest rates are calculated by dividing the total amount of interest paid by the total amount of principal multiplied by repayment years.

2. Annual schedule of repayments within five years after the fiscal year-end:

As of 31 March 2018

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
Borrowed money	¥ 80,000	¥ 10,000	¥-	¥ 1,000	¥-

As of 31 March 2019

(Millions of yen)

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

(Thousands of U.S. dollars)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
Borrowed money	\$90,155	\$-	\$9,016	\$-	\$777,137

10. Reserves

Reserves as of 31 March 2018 consisted of the following:

(Millions of yen)

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

Reserves as of 31 March 2019 consisted of the following:

(Millions of yen)

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

(Thousands of U.S. dollars)

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

11. Reserve for Interest Rate Volatility

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

(Millions of yen)

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

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

(Millions of yen)

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

(Thousands of U.S. dollars)

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

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

12. Fund for Lending Rate Reduction

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

(Millions of yen)

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

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

(Millions of yen)

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

(Thousands of U.S. dollars)

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

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

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

13. Reserve for Retirement Benefits

As of and for the year ended 31 March 2018

(1) Outline of retirement benefits system

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

(2) Defined benefit plan

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

Reserve for retirement benefits at the beginning of the fiscal year:	45 million yen
Pension expenses:	12 million yen
Employee retirement benefits paid:	2 million yen
Contributions to the defined benefit plan:	8 million yen
Reserve for retirement benefits at the end of the fiscal year:	<u>47 million yen</u>

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

Funded retirement benefit obligation:	190 million yen
Plan assets:	<u>(181) million yen</u>
Balance:	8 million yen
Unfunded retirement benefit obligation:	<u>39 million yen</u>

Net liability for retirement benefits in the balance sheet:	<u>47 million yen</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>47 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u>47 million yen</u>

(c) Profit and loss associated with employee retirement benefits

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

As of and for the year ended 31 March 2019

(1) Outline of retirement benefits system

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

(2) Defined benefit plan

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

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

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

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

(c) Profit and loss associated with employee retirement benefits

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

Additional information

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

14. Net Income by Account

(For the year ended 31 March 2018)

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

(For the year ended 31 March 2019)

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

15. Information by Account (Balance sheets)

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

(Millions of yen)

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

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

(Millions of yen)

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

(Thousands of U.S. dollars)

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

Notes: 1. General account and management account

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

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

2. General account surplus reserve and management account surplus reserve

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

3. Due from general account and due to management account

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

16. Information by Account (Statements of income)

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

(Millions of yen)

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

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

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

(Thousands of U.S. dollars)

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

17. Fair Value of Marketable Securities

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

(Millions of yen)

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

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

(Millions of yen)

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

(Thousands of U.S. dollars)

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

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

18. Information on Derivative Transactions

(1) Types of derivative transactions

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

(2) Policies and purposes of derivative transactions

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

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

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

(a) Hedge accounting method

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

(b) Hedging instruments and hedged items

(i) Hedging instruments: Interest rate swaps

Hedged items: Bonds and long-term borrowed money

(ii) Hedging instruments: Currency swaps

Hedged items: Foreign currency-denominated bonds

(iii) Hedging instruments: Foreign exchange forward contracts

Hedged items: Foreign currency-denominated bank deposits

(c) Hedging policy

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

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

(d) Assessment of hedge effectiveness

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

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

(3) Risks on derivative transactions

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

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

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

(4) Risk management system for derivative transactions

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

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

19. Notes on error correction

(1) Contents of errors

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

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

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

Independent Auditor's Report

The President of Japan Finance Organization for Municipalities

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

President's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Convenience Translation

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

Conflicts of Interest

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



May 29, 2019