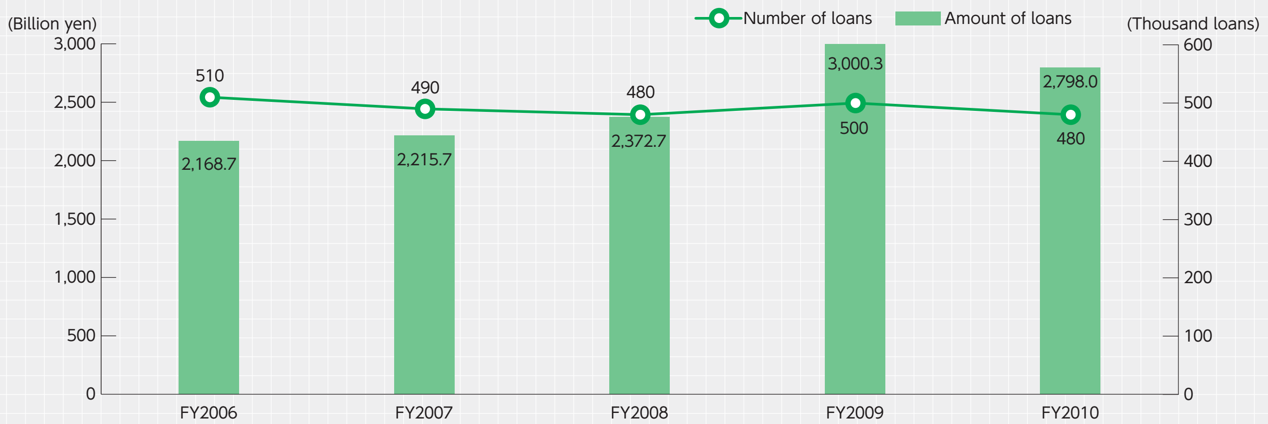
Data

JFC2011

Micro Business and Individual Unit

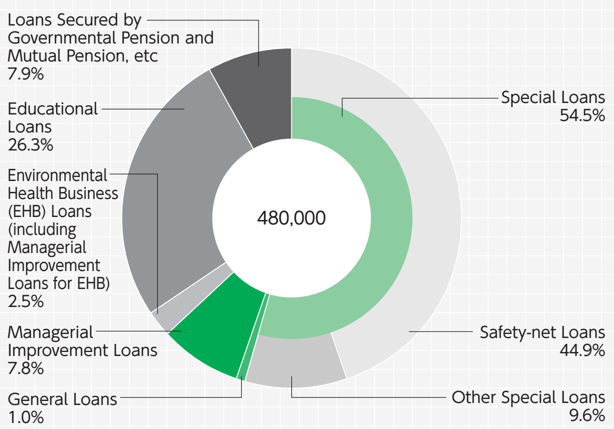
1 Changes in Loan Operations



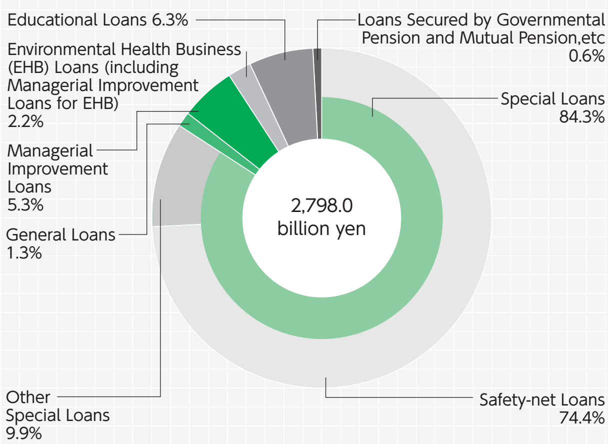
Note: Figures before FY2008 October are based on data from the former National Life Finance Corporation.

2 Breakdown of Loans

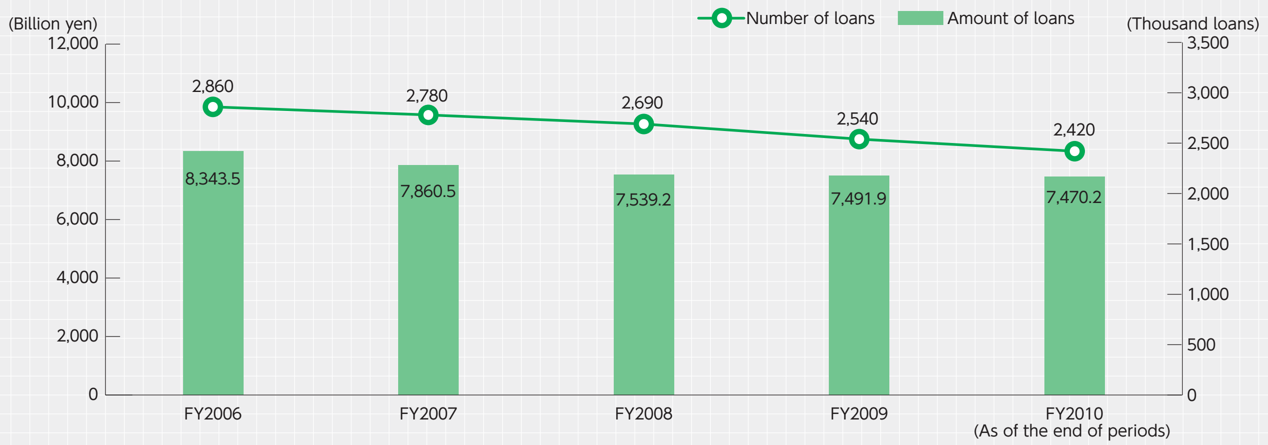
Number of Loans
(FY2010)



Total Amount of Loans
(FY2010)



3 Changes in Outstanding Loans



Note: Figures for FY2006-2007 are based on data from the former National Life Finance Corporation.

4 Breakdown of Business Loans Outstanding by Industry

(Unit: billion yen, %)

	FY2006	FY2007	FY2008	FY2009	FY2010
Manufacturing	858.0 (11.9)	788.7 (11.6)	764.1 (11.7)	799.6 (12.2)	795.6 (12.2)
Wholesale & retail	1,735.4 (24.0)	1,626.7 (24.0)	1,560.4 (23.9)	1,572.2 (24.1)	1,591.6 (24.3)
Restaurants & hotels	672.3 (9.3)	626.5 (9.2)	597.4 (9.1)	579.0 (8.9)	569.6 (8.7)
Services	1,450.9 (20.1)	1,388.1 (20.4)	1,358.5 (20.8)	1,370.4 (21.0)	1,413.9 (21.6)
Construction	1,054.2 (14.6)	1,016.0 (15.0)	992.1 (15.2)	1,019.5 (15.6)	1,025.2 (15.7)
Others	1,459.9 (20.2)	1,344.8 (19.8)	1,260.3 (19.3)	1,189.8 (18.2)	1,145.6 (17.5)
Total	7,231.0 (100.0)	6,791.1 (100.0)	6,533.1 (100.0)	6,530.8 (100.0)	6,541.7 (100.0)

Notes: 1. Figures for FY2006-2007 are based on data from the former National Life Finance Corporation.
2. Loans comprise General Loans and Environmental Health Business Loans.
3. Industries are in accordance with the Japan Standard Industrial Classification as revised in March 2002.
4. Figures in parentheses denote percentage shares.

5 Breakdown of Environmental Health Business Loans Outstanding by Industry

(Unit: billion yen, %)

	FY2006	FY2007	FY2008	FY2009	FY2010
Restaurant-related services	331.6 (48.8)	295.1 (48.6)	264.1 (48.2)	233.8 (47.6)	207.9 (47.0)
Hotels	143.0 (21.0)	127.4 (21.0)	115.7 (21.1)	104.9 (21.4)	95.2 (21.5)
Beauty parlors	89.4 (13.2)	82.1 (13.5)	76.0 (13.9)	69.9 (14.2)	65.5 (14.8)
Barbershops	54.4 (8.0)	48.3 (8.0)	42.9 (7.8)	37.7 (7.7)	33.3 (7.5)
Public bath	33.2 (4.9)	30.3 (5.0)	28.0 (5.1)	25.6 (5.2)	23.1 (5.2)
Laundries	17.6 (2.6)	15.2 (2.5)	13.5 (2.5)	12.0 (2.5)	10.8 (2.4)
Meat shops	5.4 (0.8)	4.3 (0.7)	3.7 (0.7)	3.3 (0.7)	3.0 (0.7)
Entertainment facilities	2.8 (0.4)	2.7 (0.5)	2.4 (0.4)	2.4 (0.5)	2.3 (0.5)
Others	2.0 (0.3)	1.5 (0.3)	1.2 (0.2)	1.2 (0.3)	1.2 (0.3)
Total	679.8 (100.0)	607.3 (100.0)	548.1 (100.0)	491.2 (100.0)	442.7 (100.0)

Notes: 1. Figures for FY2006-2007 are based on data from the former National Life Finance Corporation.
2. Figures in parentheses denote percentage shares.

6 Breakdown of Outstanding Loans by Use

(Unit: billion yen, %)

	FY2006	FY2007	FY2008	FY2009	FY2010
Working fund	3,661.8 (50.6)	3,523.7 (51.9)	3,570.9 (54.7)	3,999.8 (61.2)	4,292.9 (65.6)
Equipment fund	3,569.1 (49.4)	3,267.4 (48.1)	2,962.1 (45.3)	2,531.0 (38.8)	2,248.7 (34.4)
Total	7,231.0 (100.0)	6,791.1 (100.0)	6,533.1 (100.0)	6,530.8 (100.0)	6,541.7 (100.0)

Notes: 1. Figures for FY2006-2007 are based on data from the former National Life Finance Corporation.
2. Breakdown is for total of General Loans and Environmental Health Business Loans.
3. Figures in parentheses denote percentage shares.

7 Number of Business Loan Borrowers

(Unit: number of companies)

	FY2006	FY2007	FY2008	FY2009	FY2010
Borrowers	1,256,150	1,194,111	1,135,110	1,084,043	1,030,910

Notes: 1. Figures for FY2006-2007 are based on data from the former National Life Finance Corporation.
2. Loans comprise General Loans and Environmental Health Business Loans.

8 Average Loans Outstanding per Borrower

(Unit: thousand yen)

	FY2006	FY2007	FY2008	FY2009	FY2010
Average loans outstanding per borrower	5,756	5,687	5,755	6,024	6,345

Notes: 1. Figures for FY2006-2007 are based on data from the former National Life Finance Corporation.
2. Loans comprise General Loans and Environmental Health Business Loans.

9 Educational Loans Outstanding, etc.

(Unit: billion yen)

	FY2006	FY2007	FY2008	FY2009	FY2010
Educational Loans	1,075.3	1,035.8	974.9	932.6	903.5
Loans Secured by Government Pensions and Mutual Pensions, etc.	35.7	32.3	30.1	27.5	24.3

Note: Figures for FY2006-2007 are based on data from the former National Life Finance Corporation.

10 Breakdown of Loans by Credit Amount

(Unit: number of loans, %)

	FY2006	FY2007	FY2008	FY2009	FY2010
Up to 3 million yen	115,452 (37.9)	112,664 (36.9)	115,962 (36.4)	106,525 (31.2)	105,367 (33.1)
Over 3 million yen and up to 5 million yen	70,621 (23.2)	69,577 (22.8)	69,891 (21.9)	66,327 (19.4)	61,391 (19.3)
Over 5 million yen and up to 8 million yen	47,858 (15.7)	46,982 (15.4)	47,169 (14.8)	51,267 (15.0)	44,721 (14.0)
Over 8 million yen	70,499 (23.2)	76,292 (25.0)	85,615 (26.9)	117,463 (34.4)	106,862 (33.6)
Total	304,430 (100.0)	305,515 (100.0)	318,637 (100.0)	341,582 (100.0)	318,341 (100.0)

Notes: 1. Figures up to September 2008 are based on data from the former National Life Finance Corporation.
2. Loans comprise General Loans and Environmental Health Business Loans.
3. Figures in parentheses denote percentage shares.

11 Breakdown of Loans by Number of Employees of Borrowers

(Unit: number of loans, %)

	FY2006	FY2007	FY2008	FY2009	FY2010
4 or less	204,858 (67.3)	200,413 (65.6)	207,975 (65.3)	221,528 (64.8)	209,917 (65.9)
5–9	62,036 (20.4)	64,354 (21.1)	67,061 (21.0)	73,039 (21.4)	67,046 (21.1)
10–19	25,093 (8.2)	26,857 (8.8)	28,029 (8.8)	30,985 (9.1)	27,353 (8.6)
20 or more	12,397 (4.1)	13,862 (4.5)	15,546 (4.9)	16,008 (4.7)	14,010 (4.4)
Total	304,384 (100.0)	305,486 (100.0)	318,611 (100.0)	341,560 (100.0)	318,326 (100.0)

Notes: 1. Figures up to September 2008 are based on data from the former National Life Finance Corporation.
2. Loans comprise General Loans and Environmental Health Business Loans.
3. Figures in parentheses denote percentage shares.

12 Breakdown of Loans by Type of Collateral

(Unit: number of loans, %)

		FY2006	FY2007	FY2008	FY2009	FY2010
No-collateral		238,467 (78.6)	245,086 (80.4)	256,390 (80.6)	267,088 (78.3)	245,023 (77.0)
Collateral	Real estate (including partial collateral)	64,501 (21.2)	59,425 (19.5)	61,659 (19.4)	74,105 (21.7)	73,038 (23.0)
	Securities	110 (0.0)	61 (0.0)	44 (0.0)	37 (0.0)	32 (0.0)
	Credit Guarantee Corporations	476 (0.2)	201 (0.1)	16 (0.0)	0 (0.0)	0 (0.0)
	Others	5 (0.0)	5 (0.0)	3 (0.0)	1 (0.0)	1 (0.0)
Total		303,559 (100.0)	304,778 (100.0)	318,112 (100.0)	341,231 (100.0)	318,094 (100.0)

Notes: 1. Figures up to September 2008 are based on data from the former National Life Finance Corporation.
2. Loans comprise General Loans and Environmental Health Business Loans.
3. Figures in parentheses denote percentage of shares.
4. Partial collateral refers to real estate or other collateral whose estimated values do not reach amounts borrowed. Partial collateral of "Securities," "Credit Guarantee Corporations" and "Others" are included in "Real estate."

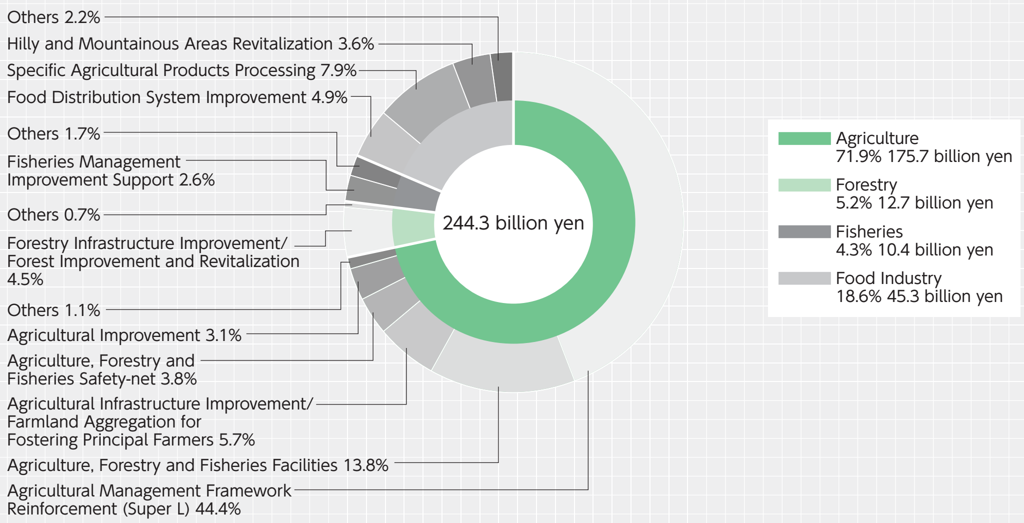
Agriculture, Forestry, Fisheries and Food Business Unit

1 Changes in Annual Loan Operations

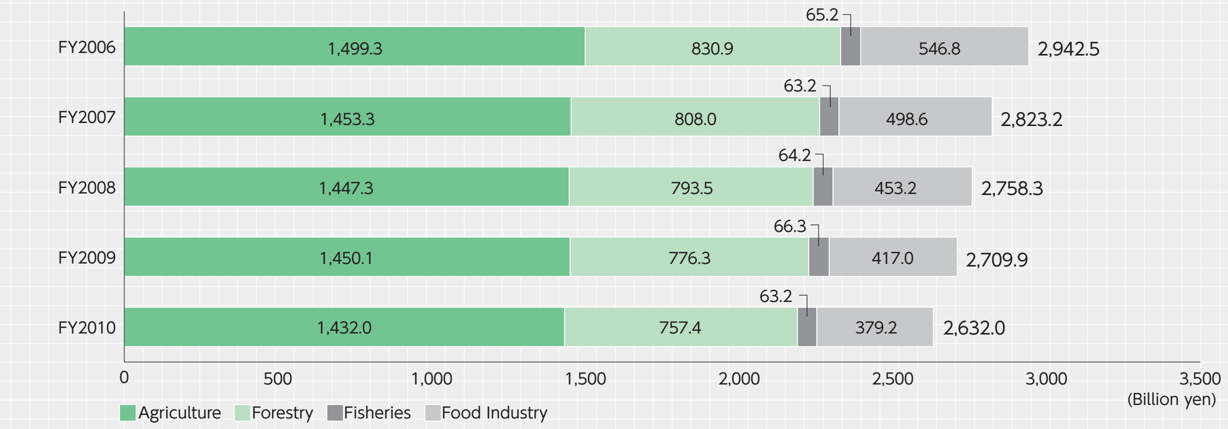
Note: Figures before October 2008 are based on data from the former Agriculture, Forestry and Fisheries Finance Corporation.

2 Breakdown of Loans

Amount
(FY2010)



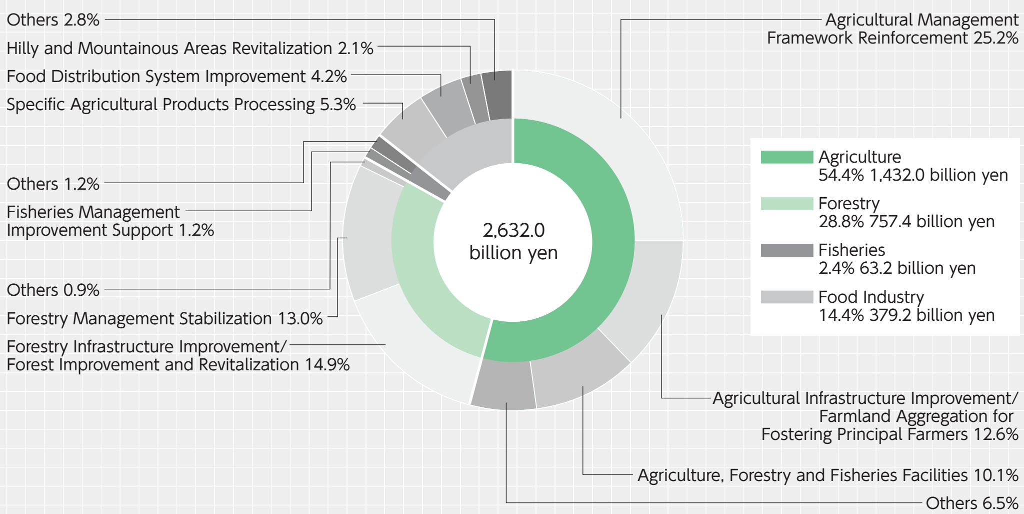
3 Changes in Outstanding Loans



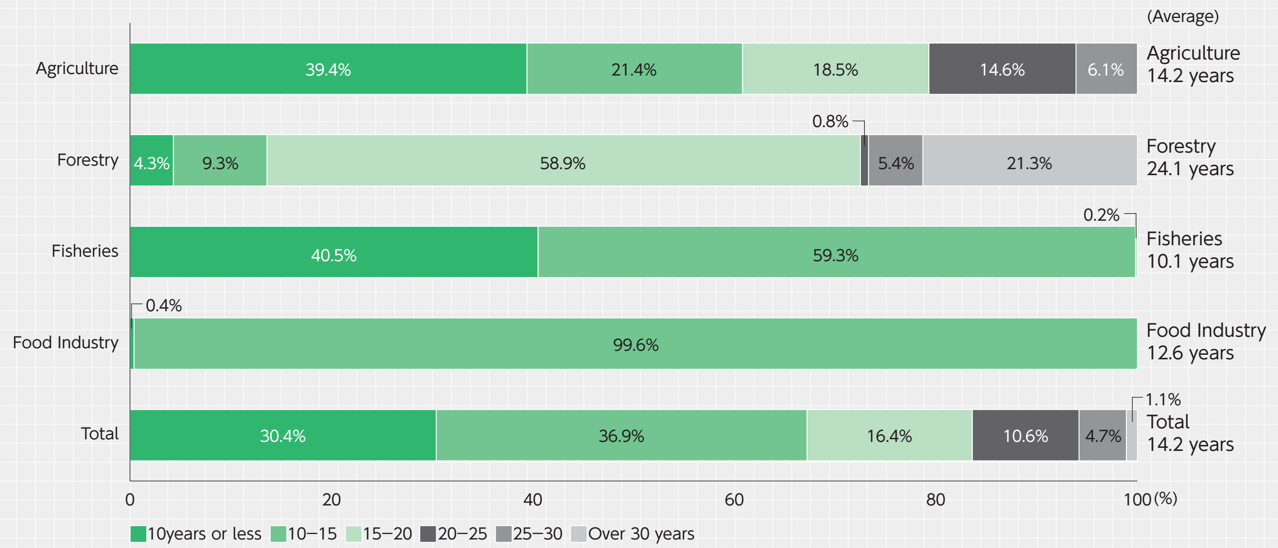
Note: Figures in and before FY2007 are based on data from the former Agriculture, Forestry and Fisheries Finance Corporation.

4 Breakdown of Outstanding Loans by Sector and Use

Amount
(FY2010)



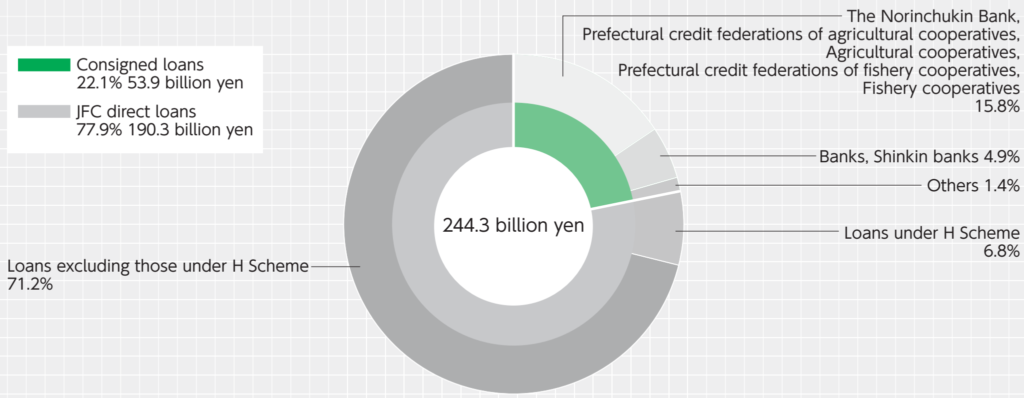
5 Loans by Repayment Period (FY2010)



Note: Figures are calculated by amount of loans contracted.

6 Loans by Commissioned Financial Institutions

Amount
(FY2010)

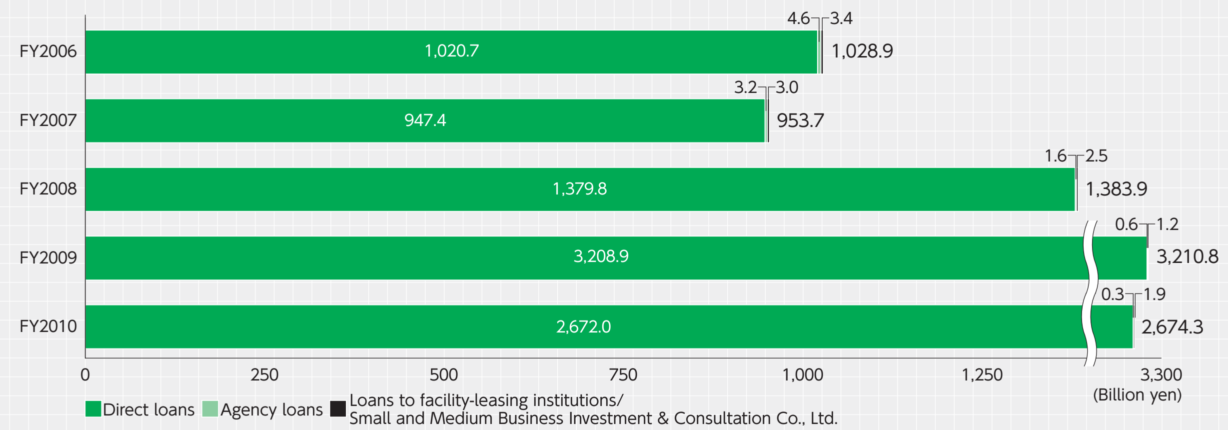


Note: H Scheme refers to a loan system through consignment of part of administration works for JFC's direct loans to agricultural cooperatives, banks, Shinkin banks, etc.

Small and Medium Enterprise (SME) Unit

I. Loan Programs

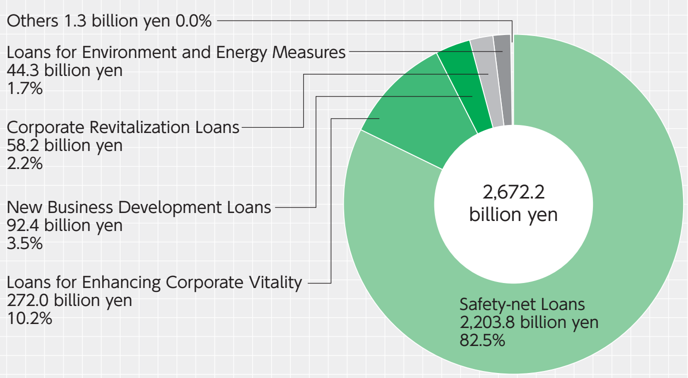
1 Changes in Loan Operations



Note: Figures before FY2008 October are based on data from the former Japan Finance Corporation for Small and Medium Enterprise.

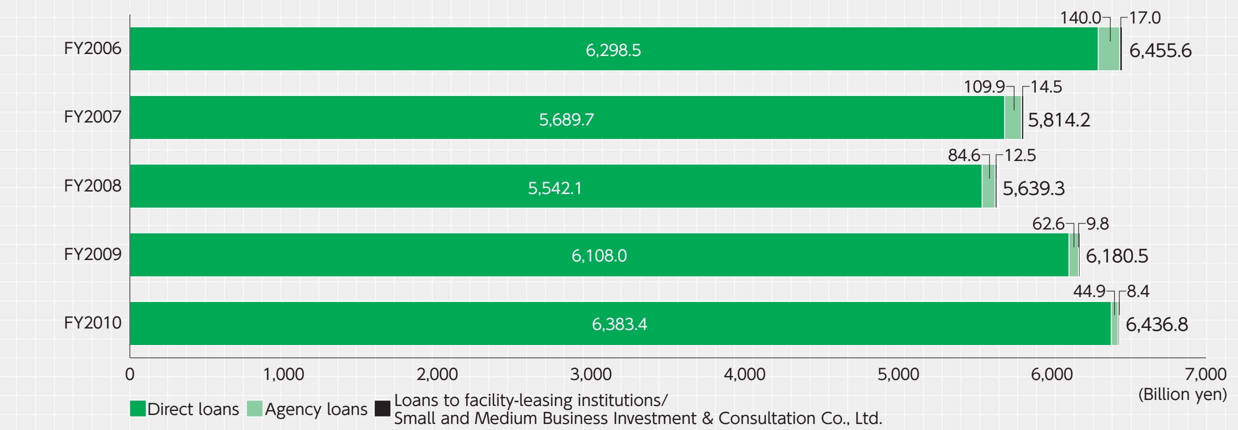
2 Breakdown of Loans by Scheme

Amount
(FY2010)



Note: Loans include corporate bonds and are calculated by deducting the amounts of loans to facility-leasing institutions/Small and Medium Business Investment & Consultation Co., Ltd. from the total amount.

3 Changes in Outstanding Loans



Note: Figures for FY2006-2007 are based on data from the former Japan Finance Corporation for Small and Medium Enterprise.

4 Breakdown of Outstanding Loans by Industry

(Unit: billion yen)

	FY2006	FY2007	FY2008	FY2009	FY2010
Manufacturing	3,162.9 (49.1)	2,814.3 (48.5)	2,748.9 (48.9)	3,007.3 (48.7)	3,137.1 (48.8)
Construction	372.8 (5.8)	322.4 (5.6)	296.1 (5.3)	328.1 (5.3)	329.9 (5.1)
Wholesale & retail	1,014.1 (15.8)	914.2 (15.8)	896.3 (15.9)	1,025.4 (16.6)	1,089.0 (16.9)
Transport & telecommunications	539.8 (8.4)	499.9 (8.6)	481.7 (8.6)	540.0 (8.8)	568.9 (8.8)
Services	698.6 (10.9)	659.1 (11.4)	649.7 (11.5)	654.7 (10.6)	686.8 (10.7)
Others	650.4 (10.1)	589.8 (10.2)	554.1 (9.8)	615.1 (10.0)	616.4 (9.6)
Total	6,438.6 (100.0)	5,799.7 (100.0)	5,626.8 (100.0)	6,170.6 (100.0)	6,428.3 (100.0)

Notes: 1. Figures for FY2006-2007 are based on data from the former Japan Finance Corporation for Small and Medium Enterprise.
2. Loans include corporate bonds. Outstanding balances are calculated by deducting the amounts of loans to facility-leasing institutions/Small and Medium Business Investment & Consultation Co., Ltd. from the total balance.
3. Figures in parentheses denote percentage shares.

5 Breakdown of Outstanding Loans by Use

(Unit: billion yen)

	FY2006	FY2007	FY2008	FY2009	FY2010
Operating funds	2,981.9 (46.3)	2,581.9 (44.5)	2,618.7 (46.5)	3,600.9 (58.4)	4,043.3 (62.9)
Facility funds	3,456.6 (53.7)	3,217.7 (55.5)	3,008.0 (53.5)	2,569.7 (41.6)	2,385.0 (37.1)
Total	6,438.6 (100.0)	5,799.7 (100.0)	5,626.8 (100.0)	6,170.6 (100.0)	6,428.3 (100.0)

Notes: 1. Figures for FY2006-2007 are based on data from the former Japan Finance Corporation for Small and Medium Enterprise.
2. Loans include corporate bonds. Outstanding balances are calculated by deducting the amounts of loans to facility-leasing institutions/Small and Medium Business Investment & Consultation Co., Ltd. from the total balance.
3. Figures in parentheses denote percentage shares.

6 Number of Client Companies

(Unit: number of companies)

	FY2006	FY2007	FY2008	FY2009	FY2010
Client companies	46,717	45,438	44,519	46,139	46,330

Notes: 1. Figures for FY2006-2007 are based on data from the former Japan Finance Corporation for Small and Medium Enterprise.
2. Figures cover only companies with direct loans.

7 Average Outstanding Loans per Company

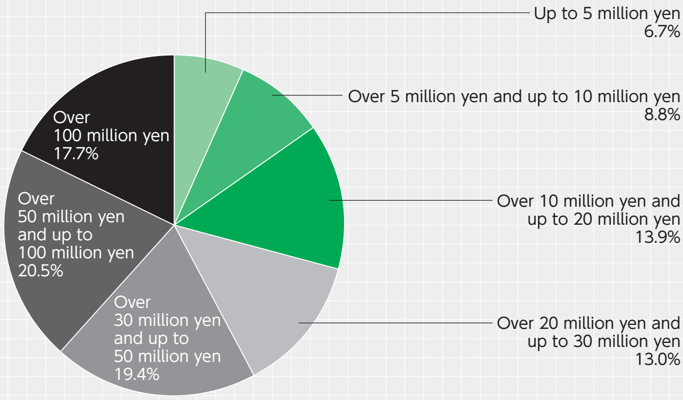
(Unit: million yen)

	FY2006	FY2007	FY2008	FY2009	FY2010
Average outstanding loans per company	134	125	124	132	137

Notes: 1. Figures for FY2006-2007 are based on data from the former Japan Finance Corporation for Small and Medium Enterprise.
2. Figures cover only companies with direct loans.

8 Loans by Credit Amount

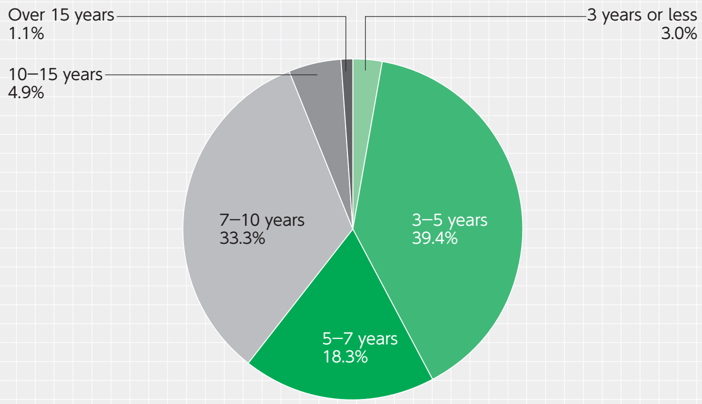
Loan Percentage Breakdown
(FY2010)



Note: Percentage distribution of the number of loans. Loans include corporate bonds.

9 Loans by Repayment Period

Loan Percentage Breakdown
(FY2010)



Note: Percentage distribution of the number of loans. Loans include corporate bonds.

II. Credit Insurance Programs

(Unit: billion yen)

Items	FY2008	FY2009	FY2010
Acceptance of insurance and loans			
Small Business Credit Insurance	18,662.9	16,116.4	13,439.9
Loans to CGCs	—	—	—
Special Insurance for Midsize Enterprises	—	—	—
Outstanding amounts of insurance and loans			
Small Business Credit Insurance	34,578.7	36,368.0	35,657.7
Loans to CGCs	—	—	—
Special Insurance for Midsize Enterprises	0.1	0.1	0.1
Machinery Credit Insurance (Note)	321.9	111.3	43.0

Note: With respect to the Machinery Credit Insurance, JFC pays insurance money and collects recoveries based on insurance contacts already in force, other than those accepted by the end of March 2003, as transitional Operation of the Machinery Credit Insurance Programs.

III. Securitization Support Programs

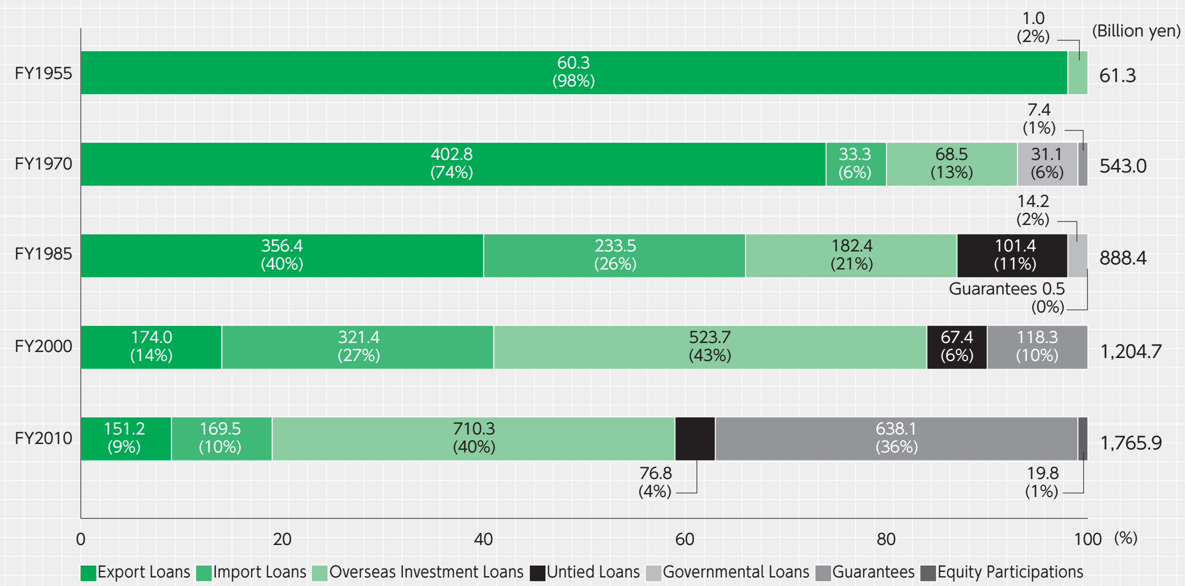
(Unit: billion yen)

Items	FY2008	FY2009	FY2010
Total loan principal amount			
Purchase-type (Note 1)	—	—	3.3
Guarantee-type (Note 2)	—	—	—
Outstanding amounts of trust beneficiary rights (Note 3) and guaranteed liabilities			
Purchase-type (outstanding amount of trust beneficiary rights)	4.0	2.8	1.4
Guarantee-type (outstanding amount of guaranteed liabilities)	41.6	16.5	0.2

Notes: 1. Purchase-type refers to operations prescribed in Article 11-1-2 of the Japan Finance Corporation Act as well as Items 3, 5, 7 and 8 on the Schedule II thereof.
2. Guarantee-type refers to operations prescribed in Article 11-1-2 of the Japan Finance Corporation Act as well as Items 4 and 6 on the Schedule II thereof.
3. Outstanding amounts of trust beneficiary rights refer to subordinated amounts acquired by JFC out of trust beneficiary rights and asset-backed securities regarding the purchase-type securitization support programs.

Japan Bank for International Cooperation (JBIC)

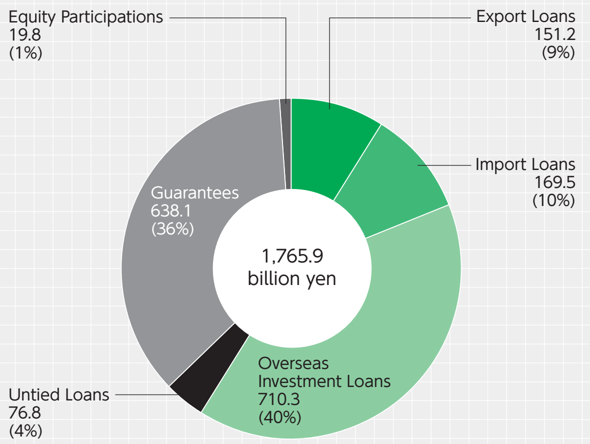
1 Changing Composition of Loans, Equity Participations and Guarantees



2 Breakdown of Composition of Loans, Equity Participations and Guarantees

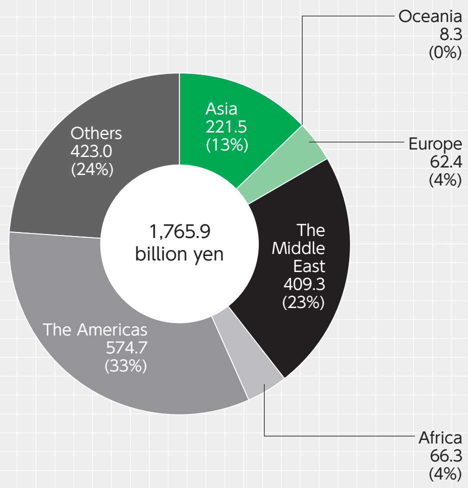
A. Commitments by Purpose of Financing

(FY2010)

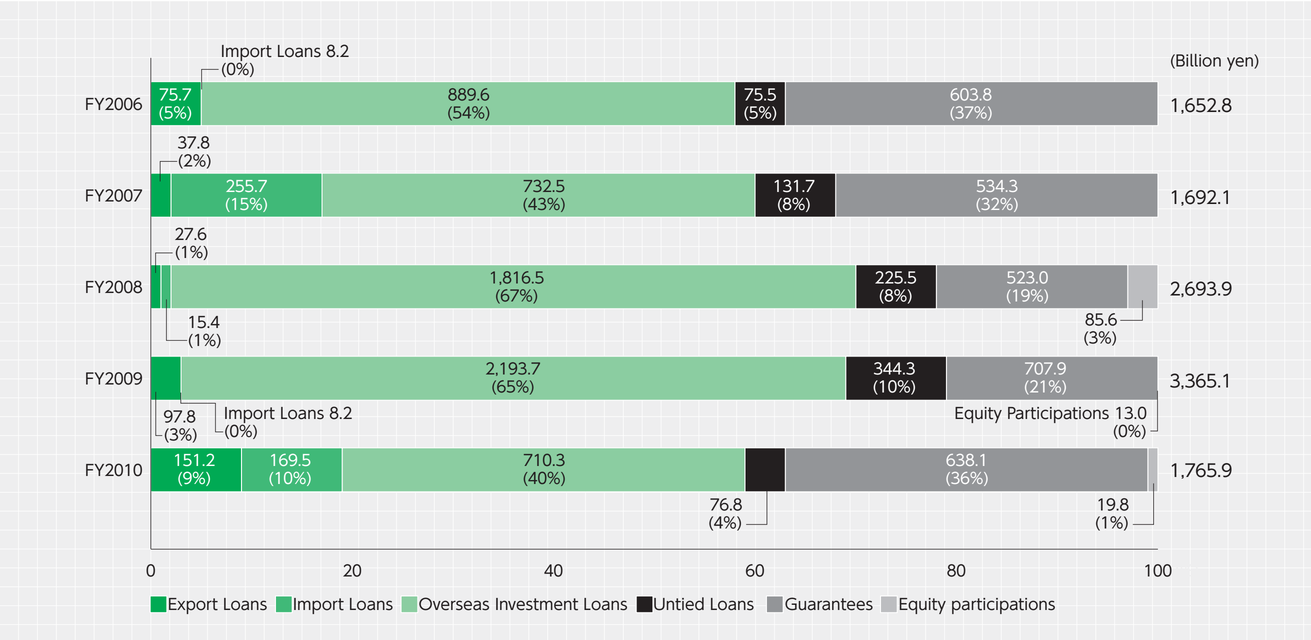


B. Commitments by Region

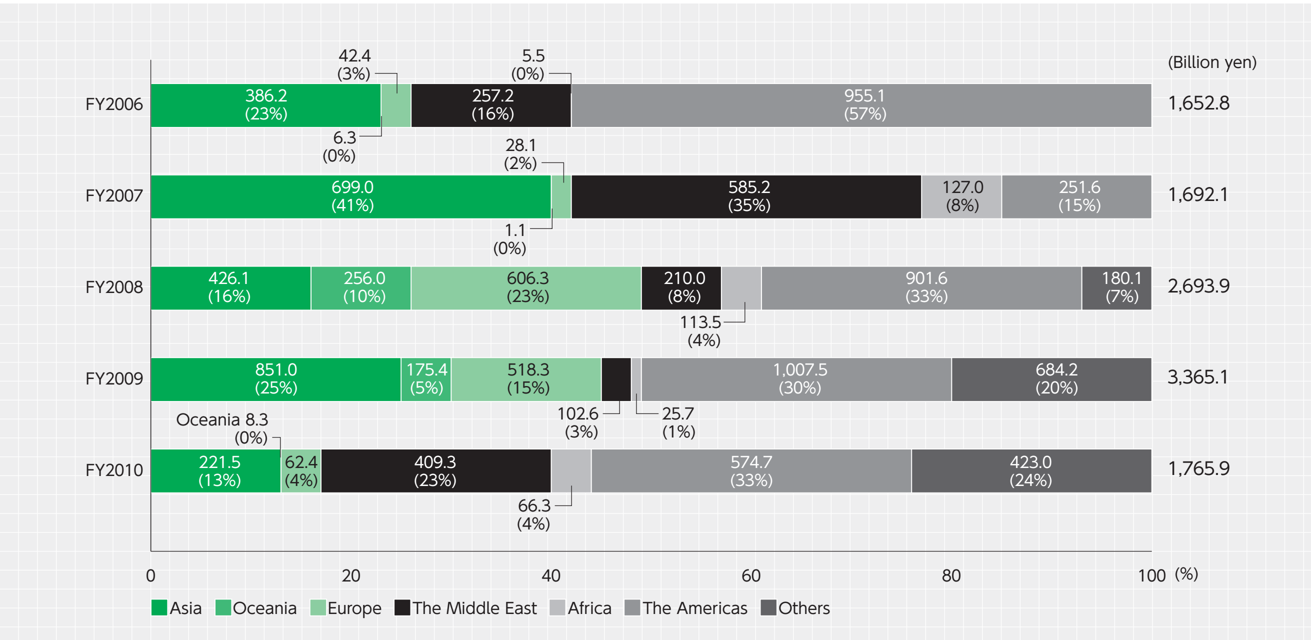
(FY2010)



3 Changing Composition of Loans, Equity Participations and Guarantees by Purpose of Financing



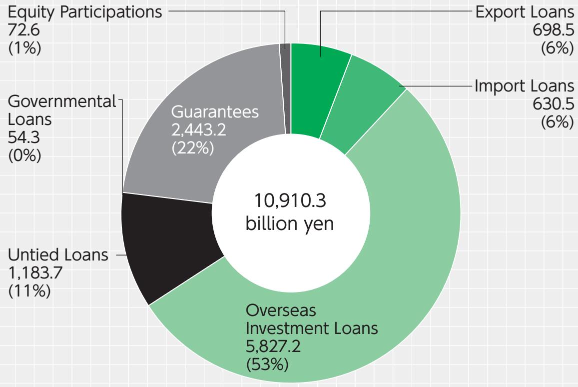
4. Changing Composition of Loans, Equity Participations and Guarantees by Region



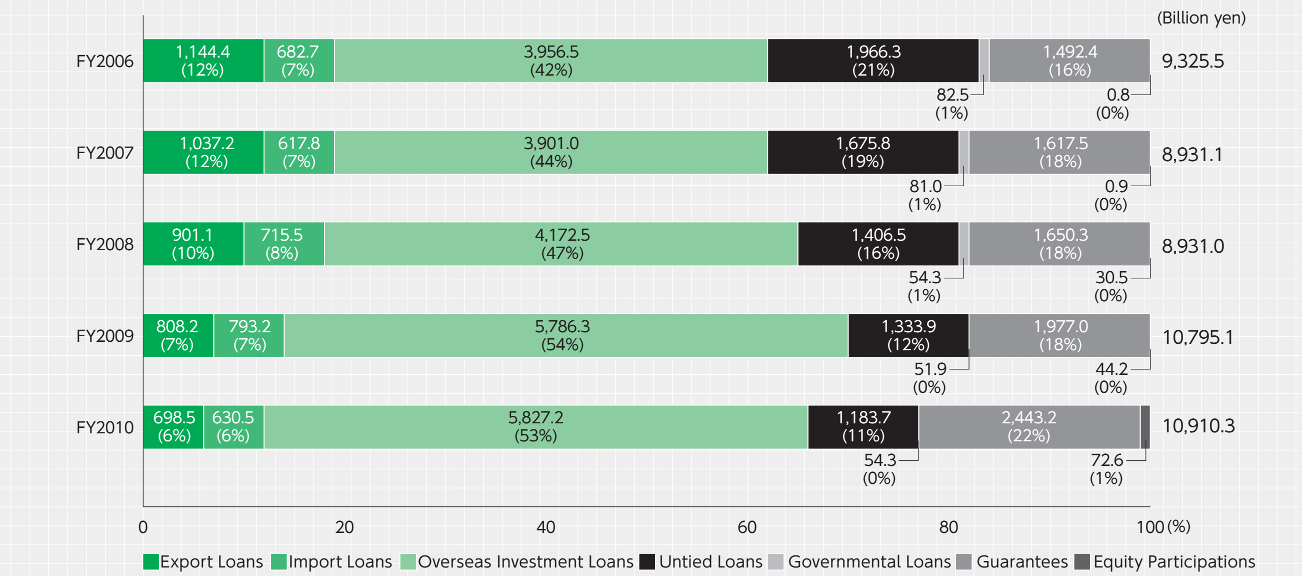
5 Breakdown of Outstanding Loans, Equity Participations and Guarantees by Purpose of Financing

Loan and Equity Participation Balances Breakdown

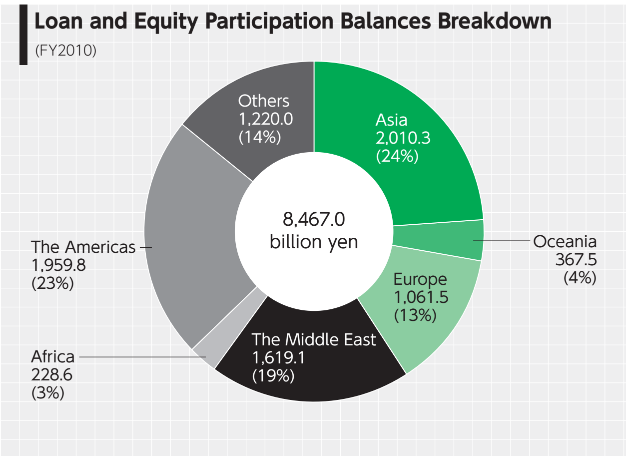
(FY2010)



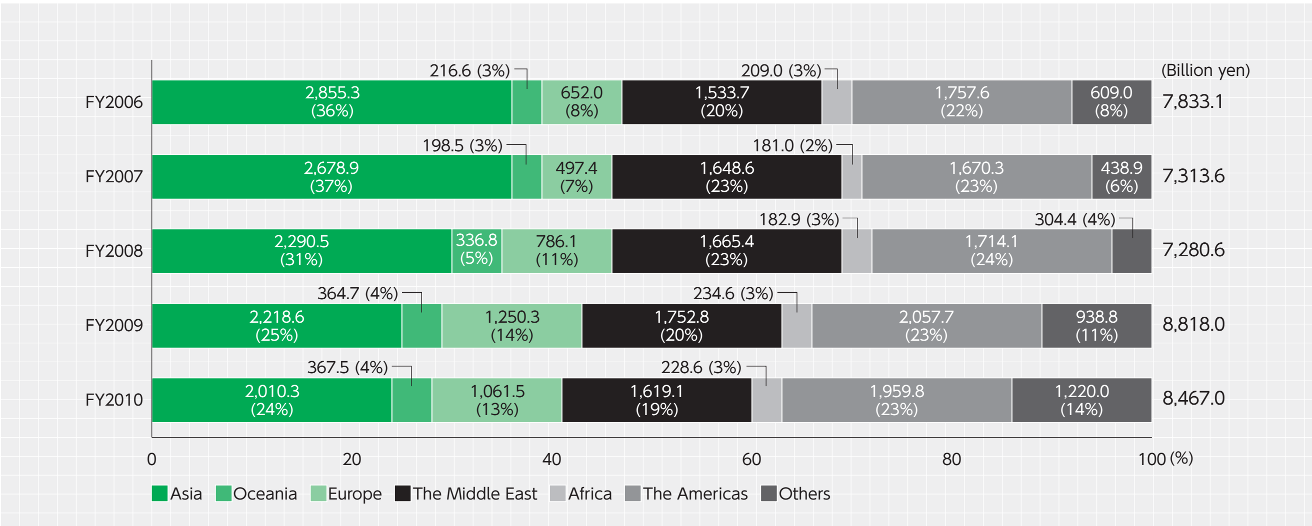
6 Changing Composition of Outstanding Loans, Equity Participations and Guarantees by Purpose of Financing



7 Breakdown of Outstanding Loans and Equity Participations by Region



8 Changing Composition of Outstanding Loans and Equity Participations by Region



9 Loans and Equity Participations Outstanding by Industry (FY2010)

(Unit: number, million yen)

Industry	Total	
	Number	Outstanding
Manufacturing	114	573,885
Mining and Quarrying of Stone and Gravel	10	208,540
Construction	3	3,483
Electricity, Gas, Heat Supply, and Water	5	52,105
Information and Communications	1	4,478
Transport and Postal Services	7	156,808
Wholesale Trade	21	674,697
Finance and Insurance	15	1,332,577
Goods Rental and Leasing	40	26,423
Scientific research, Professional and Technical Services	1	189
Overseas Yen Loan and Domestic Loans Transferred Overseas	426	5,357,425
Total, including Others	643	8,390,612
Loan Outstanding to SMEs	60	6,842

Note: SMEs are defined as domestic corporations that are capitalized at 300 million yen or less (100 million yen for wholesalers; 50 million yen for retailers and service providers) or corporations and individuals having 300 or less employees on the regular pay roll (100 employees for wholesalers and service providers; 50 employees for retailers and overseas subsidiaries which these SMEs and Individuals have equity stakes).

Operations to Facilitate Crisis Responses and Specific Businesses Promotion

Results of Operations to Facilitate Crisis Responses

(Unit: billion yen)

	Second Half FY2008	FY2009	FY2010	Total		
					For Development Bank of Japan	For Shoko Chukin Bank
Two-step loans	1,430.1	3,869.3	405.2	5,704.7	3,978.2	1,726.5
Loans, etc.	1,130.3	3,529.4	405.2	5,065.0	3,338.5	1,726.5
Commercial paper (CP) acquisitions	299.8	339.8	—	639.7	639.7	—
Loss compensation	345.1	1,811.9	1,893.3	4,050.4	266.3	3,784.0
Loans, etc.	345.1	1,781.9	1,893.3	4,020.4	236.3	3,784.0
Commercial paper (CP) acquisitions	—	—	—	—	—	—
Equity participations	—	30.0	—	30.0	30.0	—
Interest subsidies	—	—	0.3	0.3	0.1	0.1

Notes: 1. The figures of the two-step loans refer to the loan amounts JFC provided to the designated financial institutions (Development Bank of Japan Inc. and The Shoko Chukin Bank, Ltd.) through March 2011.
2. With respect to the loss compensation, the figures for loans, etc. represent the amounts of loans provided by the designated financial institutions through the end of March 2011, with loss compensation underwritten by JFC for the incurred losses by May 10, 2011.
Equity participation figures pertaining to the Industrial Revitalization Act are the amounts of equity investments made by the designated financial institutions through the end of September 2010, with loss compensation underwritten by JFC.
3. The figures for interest subsidies represent the amounts of interest subsidies JFC provided to the designated financial institutions for loans, etc. provided by the institutions through the end of September 2010.

Results of Operations to Facilitate Specific Businesses Promotion

(Unit: billion yen)

	FY2010	Total
Two-step loans	20.0	20.0

Notes: 1. Operations to Facilitate Specific Businesses Promotion commenced on August 16, 2010.
2. The figures for two-step loans refer to the loan amounts JFC provided to the designated financial institution (Development Bank of Japan Inc.) through March 2011.

Japan Finance Corporation

The balance sheet, statement of operations, statement of changes in net assets, and notes to the non-consolidated financial statements of JFC and each operating account were prepared in Japanese in accordance with Article 42 of the Japan Finance Corporation Act as well as Article 435 Paragraph 2 of the Companies Act, and audited by Ernst & Young ShinNihon LLC in accordance with Article 42 of the Japan Finance Corporation Act as well as Article 436 Paragraph 2 Item1 of the Companies Act.
Financial statements and notes in English were prepared based on these audited financial statements and notes in Japanese.

Balance Sheet (as of March 31, 2011)

(Millions of yen)

Assets		**Liabilities**	
Cash and due from banks	**3,354,455**	**Borrowed money**	**22,036,903**
Cash	197	Borrowings	22,036,903
Due from banks	3,354,257	**Bonds payable**	**5,670,825**
Securities	**1,153,254**	**Entrusted funds**	**37,735**
Government bonds	1,071,062	**Reserve for insurance policy liabilities**	**1,810,579**
Corporate bonds	1,049	**Other liabilities**	**125,833**
Stocks	2,030	Accrued expenses	62,214
Other securities	79,113	Unearned revenue	43,822
Loans and bills discounted	**29,009,231**	Derivatives other than for trading-liabilities	1,899
Loans on deeds	29,009,231	Lease obligations	7,479
Other assets	**1,059,184**	Other	10,417
Prepaid expenses	10,715	**Provision for bonuses**	**5,167**
Accrued income	59,766	**Provision for directors' bonuses**	**25**
Derivatives other than for trading-assets	966,988	**Provision for retirement benefits**	**206,434**
Agency accounts receivable	2,492	**Provision for directors' retirement benefits**	**116**
Other	19,221	**Reserve for compensation losses**	**59,757**
Property, plant and equipment	**254,083**	**Acceptances and guarantees**	**2,446,928**
Buildings	28,739	Total liabilities	32,400,307
Land	104,352	**Net assets**	
Lease assets	3,752	**Capital stock**	**3,352,547**
Construction in progress	115,793	**Capital surplus**	**2,007,351**
Other	1,446	Special reserve for administrative improvement funds	181,500
Intangible assets	**13,756**	Legal capital surplus	1,825,851
Software	9,545	**Retained earnings**	**(1,126,453)**
Lease assets	3,342	Legal retained earnings	745,412
Other	869	Other retained earnings	(1,871,865)
Customers' liabilities for acceptances and guarantees	**2,446,928**	Retained earnings brought forward	(1,871,865)
Allowance for loan losses	**(501,025)**	**Total shareholders' equity**	**4,233,444**
		Valuation difference on available-for-sale securities	**(1,665)**
		Deferred gains or losses on hedges	**157,781**
		Total valuation and translation adjustments	**156,115**
		Total net assets	4,389,560
Total assets	36,789,867	Total liabilities and net assets	36,789,867

Statement of Operations (Year ended March 31, 2011)

(Millions of yen)

Ordinary income	**768,105**
Interest income	554,071
Interest on loans and discounts	484,591
Interest and dividends on securities	970
Interest on receivables under resale agreements	123
Interest on deposits with banks	4,419
Interest on interest swaps	55,061
Other interest income	8,904
Fees and commissions	16,086
Fees and commissions on compensation security contract	2,679
Other fees and commissions	13,407
Insurance premiums and other	147,864
Insurance premiums	147,864
Other ordinary income	74
Other	74
Receipts from the national budget	43,142
Receipts from general account of the national budget	43,131
Receipts from special account of the national budget	11
Other income	6,865
Gain on sales of stocks and other securities	0
Other	6,865
Ordinary expenses	**1,643,704**
Interest expenses	322,782
Interest on call money	169
Interest on borrowings and rediscounts	211,024
Interest on bonds	100,094
Other interest expenses	11,493
Fees and commissions payments	12,790
Expense on compensation security contract	4,589
Other fees and commissions	8,200
Expenses on insurance claims and other	954,365
Expenses on insurance claims	723,170
Recoveries of insurance claims	(139,910)
Provision of reserve for insurance policy liabilities	371,104
Other ordinary expenses	4,997
Loss on foreign exchange transactions	2,501
Loss on devaluation of bonds	189
Amortization of bond issuance cost	1,695
Expenses on derivatives other than for trading or hedging	7
Interest subsidies	379
Other	224
General and administrative expenses	132,987
Other expenses	215,781
Provision of allowance for loan losses	162,468
Provision of reserve for compensation losses	27,966
Written-off of loans	19,937
Losses on devaluation of stocks and other securities	442
Other	4,966
Ordinary loss	**875,599**
Extraordinary income	**2,683**
Gain on disposal of noncurrent assets	1
Recoveries of written-off claims	2,670
Other	11
Extraordinary losses	**13,587**
Loss on disposal of noncurrent assets	13,143
Impairment loss	441
Other	2
Net loss	**886,503**

Statement of Changes in Net Assets (Year ended March 31, 2011)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the end of previous period	3,251,797
Changes of items during the period	
Issuance of new shares	100,750
Total changes of items during the period	100,750
Balance at the end of current period	3,352,547
Capital surplus	
Special reserve for administrative improvement funds	
Balance at the end of previous period	181,500
Changes of items during the period	
Total changes of items during the period	—
Balance at the end of current period	181,500
Legal capital surplus	
Balance at the end of previous period	2,223,603
Changes of items during the period	
Issuance of new shares	601,300
Reversal of legal capital surplus (Deficit disposition)	(999,052)
Total changes of items during the period	(397,752)
Balance at the end of current period	1,825,851
Total capital surplus	
Balance at the end of previous period	2,405,103
Changes of items during the period	
Issuance of new shares	601,300
Reversal of legal capital surplus (Deficit disposition)	(999,052)
Total changes of items during the period	(397,752)
Balance at the end of current period	2,007,351
Retained earnings	
Legal retained earnings	
Balance at the end of previous period	728,808
Changes of items during the period	
Provision of legal retained earnings	16,603
Total changes of items during the period	16,603
Balance at the end of current period	745,412
Other retained earnings	
Retained earnings brought forward	
Balance at the end of previous period	(1,951,207)
Changes of items during the period	
Provision of legal retained earnings	(16,603)
Payment to the national treasury	(16,603)
Reversal of legal capital surplus (Deficit disposition)	999,052
Net income (loss)	(886,503)
Total changes of items during the period	79,341
Balance at the end of current period	(1,871,865)
Total retained earnings	
Balance at the end of previous period	(1,222,398)
Changes of items during the period	
Payment to the national treasury	(16,603)
Reversal of legal capital surplus (Deficit disposition)	999,052
Net income (loss)	(886,503)
Total changes of items during the period	95,945
Balance at the end of current period	(1,126,453)
Total shareholders' equity	
Balance at the end of previous period	4,434,501
Changes of items during the period	
Issuance of new shares	702,050
Payment to the national treasury	(16,603)
Net income (loss)	(886,503)
Total changes of items during the period	(201,056)
Balance at the end of current period	4,233,444
Valuation and translation adjustments	
Valuation difference on available-for-sale securities	
Balance at the end of previous period	(687)
Changes of items during the period	
Net changes of items other than shareholders' equity	(977)
Total changes of items during the period	(977)
Balance at the end of current period	(1,665)
Deferred gains or losses on hedges	
Balance at the end of previous period	140,795
Changes of items during the period	
Net changes of items other than shareholders' equity	16,985
Total changes of items during the period	16,985
Balance at the end of current period	157,781
Total valuation and translation adjustments	
Balance at the end of previous period	140,107
Changes of items during the period	
Net changes of items other than shareholders' equity	16,007
Total changes of items during the period	16,007
Balance at the end of current period	156,115
Total net assets	
Balance at the end of previous period	4,574,609
Changes of items during the period	
Issuance of new shares	702,050
Payment to the national treasury	(16,603)
Net income (loss)	(886,503)
Net changes of items other than shareholders' equity	16,007
Total changes of items during the period	(185,048)
Balance at the end of current period	4,389,560

Notes to Financial Statements
JAPAN FINANCE CORPORATION

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Held-to-maturity securities are carried at amortized cost based on the moving average method. Investments in affiliates are carried at cost based on the moving average method. Available-for-sale securities, which have readily determinable fair value are stated at fair value with changes in net unrealized gains or losses, included directly in Net assets. Available-for-sale securities whose fair value is extremely difficult to be determined are carried at cost based on the moving average method.

(b) Valuation method for derivative financial instruments

Derivative financial instruments are carried at fair value. However, certain credit default swap transactions, for which neither quoted market price nor reliably estimated value is available and the fair value is undeterminable, are accounted for as guarantee of obligation.

(c) Depreciation basis for fixed assets

(i) Property, plant and equipment (except for lease assets)

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) which are depreciated under the straight-line method.

Amortization is based on the following range of estimated useful lives:

Buildings: 2 years to 50 years

Other: 2 years to 20 years

(ii) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JFC is amortized over its useful life (5 years).

(iii) Lease assets

Lease assets in “property, plant and equipment” or “intangible assets,” under finance leases that do not involve transfer of ownership to the lessee are amortized under the straight-line method over the lease term. Depreciation for lease assets is calculated with zero residual value being assigned to the asset.

(d) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

(e) Foreign currency translation and revaluation method

JFC maintains its accounting records in Japanese yen. Assets and liabilities denominated in foreign currencies are mostly translated into Japanese yen at the market exchange rate prevailing at the fiscal year end.

(f) Accounting policy for reserves

(i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

The allowance for claims on debtors who are legally bankrupt (“Bankrupt borrowers”) or substantially bankrupt (“Substantially bankrupt borrowers”) is provided based on the outstanding balance after the write-offs described in the followings and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt but are likely to become bankrupt (“Potentially bankrupt borrowers”) is provided based on an assessment of the overall solvency of the debtors after deducting the amount expected to be collected through the disposal of collateral and the execution of guarantees.

The allowance for claims on debtors other than Bankrupt borrowers, Substantially bankrupt borrowers and Potentially bankrupt borrowers is provided primarily based on the default rate, which is calculated based on the actual defaults during a certain period in the past.

The allowance for possible losses on specific overseas loans is provided based on the expected loss amount taking into consideration the political and economic situations of these countries.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments, which is independent from the operational departments, reviews these self-assessments, and the allowance is provided based on the results of the assessments.

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), the residual booked amount of the claims after deduction of the amount which is deemed collectible through the disposal of collateral or the execution of guarantees is written-off. The amount of accumulated write-off is ¥463,919 million.

Write-offs of the Account for Micro Business and Individual Operations, the Account for Agriculture, Forestry, Fisheries and Food Business Operations and the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type

Operation) are recognized by offsetting the current allowance for loan losses for the amount of the claim deemed uncollectable against the year-end claim amount balance; the previous allowance for loan losses and claim balances are reversed at the start of the fiscal year, upon approval received from the competent minister based on Article 4 of the "Ministerial Ordinance Concerning Accounting for the Japan Finance Corporation."

The Account for Micro Business and Individual Operations and the Account for SME Loan Programs and Securitization Programs (Guarantee-type Operation) had debtors of which condition could not be reflected on self-assessment as of the base date due to the temporary difficulties in the reassessment and physical inspection of guarantees and collateral as well as ascertaining the accurate status of debtors resulting from the impact of the Great East Japan Earthquake. In order to consider credit risk from the earthquake disaster, an allowance for loan losses is calculated by reasonably estimating future losses and making appropriate adjustment, such as to future outlooks, for the loan loss ratio appreciable by borrower classifications given as of the base date.

(ii) Reserve for compensation losses

The "reserve for compensation losses" provides for losses based on the estimated amounts of future losses attributed to compensation security contracts.

(iii) Provision for bonuses

The "provision for bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

(iv) Provision for directors' bonuses

The "provision for directors' bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

(v) Provision for retirement benefits

The "provision for retirement benefits" represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end.

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the year of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year.

(vi) Provision for directors' retirement benefits

The "provision for directors' retirement benefits," which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

(g) Accounting for hedging transactions

(i) Accounting for hedges of interest rate risk

(a) Hedge accounting

JFC used derivatives for interest rate risk hedging purposes under the deferral method.

(b) Hedging instruments and hedged items

Hedging instruments: interest rate swaps

Hedged items: loans, borrowings, bonds and notes

(c) Hedging policy

JFC enters into hedging transactions up to the amount of the underlying hedged assets and liabilities.

(d) Assessment of hedge effectiveness

JFC assesses the effectiveness of designated hedges by measuring and comparing the change of fair value or cumulative change of cash flows of both hedging instruments and corresponding hedged items from the date of inception of the hedges to the assessment date.

(ii) Accounting for hedges of foreign exchange risk

Hedge instruments used to hedge foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities are accounted for using the deferral method, in accordance with the standard treatment of The Japanese Institute of Certified Public Accountants (JICPA) Industry Audit Committee Report No. 25.

The effectiveness of the hedging instruments described above, such as currency swaps, foreign exchange forward contracts and similar transactions, used for hedging the foreign exchange risks of loans and bills discounted, borrowings, and bonds payable denominated in foreign currencies, is assessed by comparing the foreign currency position of the hedged loans and bills discounted, borrowings, and bonds payable with that of the hedging instruments. An asset and liability denominated in foreign currency for which currency swap is used to hedge the foreign currency fluctuations is translated at the contracted rate if the currency swap qualifies for hedge accounting. However, the assessment of hedging effectiveness is omitted for that currency swap.

(h) Accounting policies for reserve for insurance policy liabilities

The "reserve for insurance policy liabilities" consists of the following two items, pursuant to Article 9, Paragraph 1 of the Ministerial Ordinance Concerning Accounting for JFC. Furthermore, in accordance with Article 9, Paragraph 2 of the Ministerial Ordinance Concerning Accounting for JFC, an additional amount shall be provided for insurance policy liabilities in the event that an impediment to the fulfillment of future obligations has been confirmed.

(i) Policy reserve

The policy reserve which provides for future obligations under insurance policies has been calculated based on actuarial and statistical method.

(ii) Outstanding claims reserve

The outstanding claims reserve represents the accumulation of the estimates for reported losses and includes provision for losses incurred but not reported, after the deduction of collectable amounts based on insurance policies.

(i) Consumption and other taxes

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts. Amounts of non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

Change in accounting policy

(Accounting standard for equity method of accounting for investments)

ASBJ Statement No. 16, Accounting Standard for Equity Method of Accounting for Investments, issued on March 10, 2008, and ASBJ Practical Issue Task Force (PITF) No. 24 Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method, issued on March 10, 2008, have been adopted commencing with this fiscal year end.

(Accounting standard for asset retirement obligations)

ASBJ Statement No. 18, Accounting Standard for Asset Retirement Obligations, issued on March 31, 2008, and ASBJ Guidance No. 21, Guidance on Accounting Standard for Asset Retirement Obligations, issued on March 31, 2008, have been adopted commencing with this fiscal year end.

Note that this adoption does not have any impacts on income or expense.

2. Equity securities of or investment in affiliates

Equity securities of or investment in affiliates is ¥54,223 million.

3. Loans

All loans entered into are loans on deeds. The amounts reported in the balance sheet include the followings:

(Millions of yen)

	As of March 31, 2011			
	Account for Micro Business and Individual Operations	Account for Agriculture, Forestry, Fisheries and Food Business Operations	Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)	Account for JBIC Operations
Bankrupt loans	35,305	1,568	22,488	8,969
Non-accrual loans	136,178	82,436	358,787	97,717
Loans with interest or principal repayments more than three months in arrears	85	2,930	—	—
Restructured loans	570,268	13,553	47,450	187,046
Total	741,837	100,488	428,727	293,733

(Note) The description of the following five accounts, Securitization Support Programs (Purchase-type operation), Credit Insurance Programs, Finance Operations for Facilitating Realignment of United States Forces in Japan, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Business Promotion are omitted since there are no balance in these accounts.

(a) "Bankrupt loans" are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the corporate Tax Law Enforcement Ordinance (Government Ordinance No. 97), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.

(b) "Non-accrual loans" are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

(c) "Loans with interest or principal repayments more than three months in arrears" are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of "Bankrupt loans" and "Non-accrual loans"

(d) "Restructured loans" are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers' recovery from financial difficulties, and which do not fall under the category of "Bankrupt loans", "Non-accrual loans", and "Loans with interest or principal repayments more than three months in arrears".

(e) The amounts of loans indicated in the table above are the gross amounts prior to the deduction of allowance for possible loan losses.

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheet. The balance of unpaid amounts as of March 31, 2011 is ¥1,085,787 million.

4. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for bonds totaling ¥5,670,825 million.

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥10,324 million.

6. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (46,703 contracts)	1,869,023
Reserve for compensation	59,757
Net amount	1,809,266

7. Net assets per share

Net assets per share is ¥0.57.

8. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 22 (1) of the Act on Special Measures Concerning Smooth Implementation of Realignment of United States Forces in Japan (Act No. 67; 2007) and instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010).

*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010) and operations listed in Article 16 of the Act on Special Measures concerning Smooth Implementation of Realignment of United States Forces in Japan [hereafter referred to as "operations listed under each section of Article 41 of the same law."

9. Impairment losses

Impairment loss is recognized for the following assets:

Region	Purpose of use	Type	Impairment loss (Millions of yen)
Tokyo metropolitan area	Idle assets: 5 items	Land, buildings	176
Other	Idle assets: 21 items	Land, buildings	265

JFC does not have any operating assets that are subject to impairments. For idle assets, an impairment loss is recognized as the difference between the recoverable amount and the carrying value at the end of the fiscal year.

Each asset in the grouping of idle assets that have suffered impairment is treated as an individual unit.

The recoverable value in principle is calculated using net realizable value. The net realizable value is determined by the appraisal value based on the Real Estate Appraisal Standard. For certain immaterial real estate, the net realizable value is calculated based on the index that incorporates market value.

The recoverable value has been set at ¥0 for assets that are not expected to be used in the future.

10. The account title and the amount related to transactions with affiliates

Ordinary income–Other income-Other: ¥2,210 million

11. Net loss per share

Net loss per share is ¥0.12.

12. Issued shares

For the fiscal year ended March 31, 2011, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	6,994,374,407,741	702,050,000,000	—	7,696,424,407,741

(Note) Increases is due to the issuance of 702,050,000,000 shares.

13. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a governmental financial institution founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the development of the Japanese and global economic society and the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds and investments from the general account, equity participation, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, JBIC Operations, Financial Operations for Facilitating Realignment of United States Forces in Japan, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Business Promotion. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., as stipulated by The JFC Act.

The Account for Micro Business and Individual Operations is for operations, such as business fund financing and educational loans, etc., aimed at micro businesses and individuals. To conduct these operations funds are raised through the borrowing of fiscal investment funds and loans and the issuing of bonds. ALM (asset and liability management) is conducted for financial assets and liabilities in this account to ensure that interest rate fluctuations do not have an adverse effect on these operations.

In the Account for Agriculture, Forestry, Fisheries and Food Business Operations, the main operations consist of supplementing the financing provided by general financial institutions and supplying long-term funds at a low interest rate aimed at businesses engaged in agriculture, forestry, fisheries and food manufacturing, etc., in order to contribute to the sustainable and robust development of the agriculture, forestry, fisheries business and ensure the stable supply of food. To conduct these operations funds are raised through borrowing from fiscal investment funds and loans and the issuing of bonds. ALM (asset and liability management) is conducted for the risks inherent in the financial assets and liabilities in this account.

In the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), a stable supply of long-term funds is provided to supplement private sector financial institutions in order to support the growth and development of SMEs. To conduct these operations, funds are raised primarily through indirect financing by borrowing from the government and direct financing through the issuing of bonds. Also, derivative transactions are conducted for the purpose of mitigating risk inherent in foreign currency denominated transactions.

Operations in the Account for Securitization Support Programs (Purchase-type Operation) are conducted for the purpose of promoting the supply of unsecured funds to SMEs from private sector financial institutions, etc., utilizing securitization and fostering the securitization market for SME loan claims. To conduct these operations funds are raised through direct financing through the issuing of bonds.

In the Account for Credit Insurance Programs, insurance is provided for the guarantees related to the liabilities on SME loans. To conduct these operations funds are raised through capital investment from the government.

The purpose of the Account for JBIC Operations is to conduct the financing required for "Promoting overseas development and acquisition of strategically important natural resources to Japan", "Maintaining and improving the international competitiveness of Japanese industries", "Promoting overseas projects for conserving the global environment, such as mitigating global warming", and "Taking appropriate measures with respect to disruptions to international financial order". Principal operations consist of export loans, import loans, investment financing, financing for business development and capital investment (including guarantees except for "capital investment"). To conduct these operations funds are raised through borrowing from the fiscal investment funds and loans and the issuing of bonds. ALM (asset and liability management) is conducted for financial assets and liabilities in this account that are subject to interest rate and currency fluctuations to ensure that interest rate and currency fluctuations do not have an adverse effect on these operations. Also, derivative transactions are conducted for the purpose of mitigating risk inherent in foreign currency denominated transactions.

In the Financial Account related to the Financial Operations for Facilitating Realignment of United States Forces in Japan, this account conducts in this fiscal year necessary operations related to making equity investments, loans and other operations necessary for the projects to facilitate realignment of United States Forces in Japan. However, in this account there is no loan or funds for loan raised in this fiscal year.

In the Account for Operations to Facilitate Crisis Responses financing operations including 1) loans, 2) credit insurance underwriting (a certain portion of compensation paid by JFC to cover losses incurred by specified financial institutions on loans, including equity participation), and 3) interest subsidies (interest subsidies provided by JFC to specified financial institutions for loans, etc., conducted by specified financial institutions that received a credit facility from JFC) are conducted for financial institutions specified by the competent minister for domestic and global financial disturbance that is recognized by the competent minister when a crisis such as a large-scale disaster occurs. To conduct these operations, the financing required for 1) loans is procured through the borrowing from Fiscal Investment and Loan Program ("FILP"), and the issuing of government guaranteed bonds. The loan period and borrowing period are equal, and the financing cost is covered by the interest on the loans. The financing required for 2) credit insurance underwriting, and 3) interest subsidies is procured through equity participation from the government.

In the Account for Operations to Facilitate Specific Business Promotion, this account provides loans to designated financial institutions appointed by the competent minister in order to assist in the smooth financing of required funds for the execution of business by companies that develop or manufacture energy and environmentally friendly products. The required funds for these lending operations are financed using fiscal investment and loans. The loan period and borrowing period are equal, and the financing cost is covered by the interest on the loans.

(2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts, and the risks associated with the financial assets and liabilities contained within each account are described below.

a. Account for Micro Business and Individual Operations

The financial assets in this account mainly include loans to micro business and individuals and financial liabilities of micro businesses and individuals in Japan; and the financial liabilities mainly include borrowings and bonds. The associated risks are described below.

(a) Credit risk

The associated credit risk consists of risk of losses arising from uncollectable claims on business and educational loans from deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the entity to which credit is granted.

For this operation account, JFC strives to make a proper financing decision in the financial screening process, conduct detailed claims management based on the condition of the borrower after financing is provided, use statistical management methods, and increase the sophistication of management methods employed. In addition, risks are distributed as the credit portfolio is comprised of small business and educational loans that are not concentrated in a specified region or industry.

However, based on future economic trends and changes in the business climate of borrowers, the number of borrowers with deteriorated creditworthiness could increase, bringing about requests for financial support including loan restructuring, causing an increase in uncollectable debt and credits costs for this account.

(b) Market risk

The main type of market risk associated with this account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps arise between assets and liabilities. This account could incur losses from the interest rate risk caused by this gap.

(c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, government-backed bonds, and the FILP agency bonds are secured to finance this account and deposits are not accepted. To maintain daily cash flows, proper measures including establishing overdraft facility accounts with several private sector financial institutions have been taken, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

b. Account for Agriculture, Forestry, Fisheries and Food Business Operations

The financial assets in this account mainly include loans to agriculture, forestry, fisheries and food businesses, and financial liabilities mainly include borrowings, bonds, and entrusted funds. The associated risks are described below.

(a) Credit risk

The associated credit risk consists of risk of losses arising from uncollectable claims on credit to agriculture, forestry, fisheries and food businesses from deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the entity to which credit is granted. For this reason, efforts are made to maintain and improve the soundness of assets through proper financial screening and account management throughout the year.

However, among the majority of borrowers that make up this account, there are many small businesses in the agriculture, forestry, fisheries sector. These businesses are especially susceptible to natural conditions such as weather, etc., so depending on future conditions, uncollectable debt and credits costs for this account could increase.

(b) Market risk

The main type of market risk associated with this account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the duration of assets and liabilities. However, due to characteristics such as long redemption periods and fixed interest rates that are required by agriculture, forestry, and fisheries policy, duration gaps do arise. This account could incur losses from the interest rate risk caused by this gap.

(c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, government-backed bonds, and the FILP agency bonds are secured to finance this account and deposits are not accepted. Cash flows are assessed and proper measures are taken, including establishing overdraft facility accounts with multiple private sector financial institutions, to maintain daily cash flows, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

c. Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)

The financial assets held in this account mainly include loans and securities for SMEs, and financial liabilities mainly include borrowings and bonds. The associated risks are described below.

(a) Credit risk

The following operations are conducted in this account: (1) Loans to SMEs, (2) Acquisition of bonds issued by SMEs, (3) Securitization of loan claims and bonds of SMEs, and (4) Partial guarantee of loan claims for private sector financial institutions and partial guarantee of securitized financial products. Because credit is provided to SMEs in this account, the account risks losses arising from uncollectable claims caused by deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the SMEs to which credit is granted.

(b) Market risk

The main types of market risk associated with this account are interest rate risk and exchange rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps arise between assets and liabilities. This account could suffer losses from the interest rate risk caused by this gap.

The exchange rate risk associated with the issue of foreign currency-denominated bonds also applies to this account. However this risk is fully hedged through currency swaps.

(c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, government-backed bonds, and FILP agency bonds are secured to finance this account and deposits are not accepted. Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions are taken to maintain daily cash flows, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

d. Account for Securitization Support Programs (Purchase-type Operation)

The financial assets in this account mainly include securities for SMEs, and financial liabilities mainly include bonds. The associated risks are described below.

(a) Credit risk

The following operations are conducted in this account: (1) Receipt and securitization of loan claims for private sector financial institutions and (2) Partial purchase of securitized instruments. Since credit is provided to SMEs in this account, the account risks losses arising from uncollectable claims caused by deterioration in creditworthiness of the SMEs to which credit is granted and the resulting drop in value of securitized instruments owned.

(b) Market risk

The main type of market risk associated with this account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities.

(c) Liquidity risk

Long-term and stable funds such as FILP agency bonds are secured to finance this account and deposits are not accepted. Proper measures, including establishing overdraft facility accounts with multiple private sector financial institutions, are taken to maintain daily cash flows, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

e. Account for Credit Insurance Programs

The financial assets in this account mainly include deposits and securities. The associated risks are described below.

(a) Market risk

The market risk that this account is exposed to mainly comprises interest rate risk.

However, this account is exposed to limited interest rate risk because funds procured through government investments are managed using highly stable instruments including Japanese government bonds.

(b) Liquidity risk

This account does not accept deposits and since long-term stable funds such as investments from the Japanese government are secured to finance this account, liquidity risk is considered to be limited.

f. Account for JBIC Operations

The assets in this account mainly include loans to borrowers in Japan and overseas, and securities, and liabilities mainly include borrowings and bonds. The associated risks are described below.

(a) Credit risk

Credit risk is the risk that the account will suffer losses if the financial condition of the borrower deteriorates and the value of assets (including off-balance sheet assets) decrease or disappear.

The credit risks associated with this account include sovereign risk, country risk, corporate risk, and project risk. Characteristic of support for overseas economic transactions conducted in this account, much financing is conducted for overseas governments, governmental institutions, and overseas corporations. Much of the credit risk associated with the credit provided typically consists of sovereign or country risk.

As a result, if the financial condition of the individual borrower significantly deteriorates due to political and economic trends in the borrower's country or region, the performance and financial condition of these operations can be adversely affected.

(Note) Sovereign risk refers to risk associated with credit supplied to foreign governments, country risk refers to risk associated with the country in which the corporation or project is located (risk in addition to corporate risk or project risk associated with the country in which the corporation or the project is located), corporate risk refers to the risk associated with credit to corporations, and project risk refers to the risk that the cash flow of an underlying project will not perform as planned in the case of project finance where the repayment of the borrowing is primarily secured by the cash flow of the project to which credit is supplied.

(b) Market risk

Market risk is the risk that the value of assets and liabilities (including off-balance sheet assets) will fluctuate and losses will be suffered, or profits derived from assets and liabilities (including off-balance sheet assets) will fluctuate and losses will be suffered due to the fluctuation of various market risk factors such as interest rates, exchange rates, etc.

The market risk associated with this account mainly consists of exchange rate risk and interest rate risk, and losses could be suffered from these risks from market fluctuations. However, in principle, these risks are mitigated through interest rate swaps, currency swaps, and forward exchange transactions.

In this account hedge accounting is used for interest rate hedges, where the hedging instruments are interest rate swaps to hedge the market fluctuation risk associated with loans, borrowed money and bonds. The effectiveness of the hedges is assessed by measuring and comparing the change in fair value or cumulative change in cash flows of both hedging instruments and corresponding hedged items from the date of inception of the hedges to the assessment date.

In this account hedge accounting is used for foreign exchange hedges, where currency swaps and foreign exchange forward contracts are used to hedge items such as loans, borrowings, and bonds for exchange rate fluctuation risk. The effectiveness of the hedging currency-swaps and forward contracts, hedging the foreign exchange risks of monetary assets and liabilities denominated in foreign currencies, is assessed by comparing the foreign currency position of the hedged monetary assets and liabilities with that of the hedging instruments.

(c) Liquidity risk

Long-term and stable funds, such as fiscal loan funds, government-backed bonds, and FILP agency bonds, are secured to finance this account and deposits are not accepted, with the result that JFC considers liquidity risk to be limited. However, financing costs could increase due to market disturbances and unexpected events.

g. Financial Account Related to the Financial Operations for Facilitating Realignment of United States Forces in Japan

The only financial assets held in this account are cash deposits, and since there are no financial liabilities present, accordingly the following risks are considered to be limited.

(a) Market risk

Market risk is the risk that the value of assets and liabilities (including off-balance sheet assets) will fluctuate and losses will be suffered, or profits derived from assets and liabilities (including off-balance sheet assets) will fluctuate and losses will be suffered due to the fluctuation of various market risk factors such as interest rates, exchange rates, etc.

In the fiscal year the only financial assets or liabilities held in this account are cash deposits, and therefore market risk is considered to be limited.

(b) Liquidity risk

The liquidity risk of this account is considered to be limited because it does not accept deposits, it secures stable funds from government grants only, and it has yet to provide a loan as of the end of the current fiscal year.

h. Account for Operations to Facilitate Crisis Responses

The financial assets in this account mainly include loans and financial liabilities against designated financial institutions, and the financial liabilities include borrowings. The associated risks are described below.

(a) Credit risk

The main financial assets in this account are loans of funds to designated financial institutions that are required to conduct crisis response operations. The associated credit risk consists of risk of losses arising from uncollectable claims due to deterioration in creditworthiness of the designated financial institution.

JFC is liable for compensation to cover losses incurred by designated financial institution on loans to third parties. This account could incur losses if the payment of compensation fluctuates from the projected compensation payments caused by significant changes in the creditworthiness or economic condition of the third party business.

(b) Market risk

The operations of this account consist of loans to designated financial institutions, and fiscal investment and loans are used for financing. Interest rate risk is not present as a type of market risk because the terms and conditions of the loans and borrowings are equal, and the financing cost is covered by the interest on the loans.

(c) Liquidity risk

Long-term and stable funds such as fiscal investment and loans are secured to finance this account and deposits are not accepted. Sufficient short-term liquidity is secured for compensation payment funds towards designated financial institutions, and liquidity risk is considered to be limited. However borrowings are exposed to liquidity risk that payment cannot be made on the payment date due to unexpected events.

i. Account for Operations to Facilitate Specific Business Promotion Operations

The financial assets in this account mainly include loans and financial liabilities against designated financial institutions, and the financial liabilities include borrowings. The associated risks are described below.

(a) Credit risk

The main financial assets in this account are loans to designated financial institutions that are required to conduct specific businesses promotion operations. The associated credit risk consists of risk of losses arising from uncollectable claims due to deterioration in creditworthiness of the designated financial institution.

(b) Market risk

The operations of this account consist of loans to designated financial institutions, and fiscal investment and loans are used for financing. Interest rate risk is not present as a market risk because the terms and conditions of the loans and borrowings are equal, and the financing cost is covered by the interest on the loans.

(c) Liquidity risk

Long-term and stable fiscal investment and loans are secured to finance this account and deposits are not accepted. As a result, liquidity risk is considered to be limited. However, borrowings are exposed to liquidity risk that payment cannot be made on the payment date due to unexpected events.

(3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for each type of operation is described below.

a. Micro Business and Individual Operations

The risk management structure of these operations is described below.

(a) Credit risk management

For these operations, JFC has a structure to manage the credit risk of loans through (i) individual credit management, (ii) asset self assessment, and (iii) quantification of credit risk in accordance with regulations concerning financing operations and claims management operations, and management regulations concerning credit risk. This credit risk management is conducted by the credit department and risk management department as well as each branch office, and business operations meetings are regularly held with the General Manager acting as chairman to conduct discussions and reporting.

The specific risk management method is described below.

(i) Individual credit management

The financial screening process associated with these operations to support appropriate financing decisions is based on consideration of the borrower's financial condition in terms of eligibility for financing, validity of the use of funds, profitability and sustainability of the business, as well as the business's qualitative aspects such as technical capabilities, selling power, and the future potential of the business.

Efforts are made to carefully manage claims after financing has been conducted through assessment of the future business outlook and repayment capacity.

(ii) Asset self assessment

For these operations standards have been established in accordance with the Financial Inspection Manual prepared by the Financial Services Agency to conduct self assessment. In this process, first stage assessments are conducted by the branch offices, second stage assessments by the credit Analysis Office, and internal inspections by the auditing department.

The results of this self assessment are used to properly estimate write-off and allowance, and are used internally for the constant assessment of the credit conditions of the operations. They are also actively used for the disclosure of the quality of assets to enhance the transparency of financial position for the operations.

(iii) Quantification of credit risk

A credit scoring model for borrowers based on analysis of transaction data collected over a number of years has been developed for these operations. Starting in Fiscal Year 2007, credit scores have been assigned to borrowers, and these scores have been used for screening procedures and to monitor credit portfolios since Fiscal Year 2008. The reliability of this scoring model is ensured through continual recalibration based on annual inspections of the model's accuracy.

In addition, to assess the overall risk of the portfolio, efforts are made to quantify credit risk through methods that take into consideration the extremely diversified nature of the portfolios for these operations.

(b) Market risk management

These operations are subject to the interest rate risk caused by the cash flow gap between assets and liabilities, and the operations could incur losses caused by this risk. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder analysis and duration analysis, and appropriate risk management is carried out to reduce interest rate risk by diversifying the year of issue for bonds.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations include loans, borrowings and corporate bonds.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2011 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥55,453 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥27,249 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related to fund procurement

To conduct proper risk management in these operations, long-term and stable funds such as fiscal loan funds, government-backed bonds, and FILP agency bonds are secured to finance this account and deposits are not accepted. Cash flows are assessed and overdraft facility accounts are established with multiple private sector financial institutions to maintain daily cash flows.

b. Agriculture, Forestry, Fisheries and Food Business Operations

The risk management structure for these operations is described below.

(a) Credit risk management

For these operations, credit risk is properly managed through (i) individual credit management, (ii) credit rating, (iii) asset self assessment, and (iv) quantification of credit risk.

(i) Individual credit management

The screening process for these operations includes screening of the probability of repayment based on eligibility for financing, validity of the financing conditions, and the future potential of the business. Particularly, screening for the certainty of repayment is conducted with a screening standard that gives sufficient consideration to the specific industry (agriculture, forestry, and fisheries) risks. This consists of close examination of the creditworthiness of the borrower, investment-risk, investment-effect, and comprehensive verification and confirmation of repayment ability that takes into account feasibility of the payment and repayment plan, and suitability of financing conditions.

Efforts are also made to continuously assess the customer's economic condition, and maintain and improve the soundness of loan assets through active and detailed support activities.

(ii) Credit rating

These operations strive to maintain and improve the quality of loan assets by using ratings for early discovery of customers with business conditions that could be cause for concern in order to enact business support. Ratings are assigned based on a model built using internal data. The reliability of this scoring model is ensured through continual recalibration based on annual inspection of the models' evaluation accuracy.

The credit ratings are also used for individual credit management, asset self assessment, and quantification of credit risk as the basis for credit risk management. For this reason reassessment of the credit ratings system is conducted as required.

(iii) Asset self assessment

For these operations standards have been established in accordance with the Financial Inspection Manual prepared by the Financial Services Agency to conduct self assessment.

In this process, first stage assessments are conducted by the branch offices, second stage assessments by the credit department, and internal inspections by the auditing departments.

The results of this self assessment are used to appropriately estimate write-offs and allowances, and are used internally for the constant assessment of the credit conditions of the operations. They are also actively used for the disclosure of the quality of assets to enhance the transparency of the financial position of the operations.

(iv) Quantification of credit risk

To assess the overall risk of the portfolio, credit risks are quantified for internal management in these operations.

(b) Market risk management

The main type of market risk associated with this account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the duration of assets and liabilities. However, due to characteristics such as long redemption periods and fixed interest rates that are required by agriculture, forestry, fisheries policy, duration gaps arise. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder analysis and duration analysis, and to conduct proper risk management by attempting to reduce interest rate risk through the provision of long-term financing.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations include loans, borrowings, corporate bonds and entrusted funds.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2011 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥7,829 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥7,902 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that a these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related with fund procurement

Long-term and stable funds such as fiscal investment and loans and FILP agency bonds are secured to finance this account and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions have been taken to maintain daily cash flows for proper risk management.

c. SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)

The risk management structure for these operations is described below.

(a) Credit risk management

(i) Individual credit management

For financing operations, the financing decision is conducted upon assessment of the situation of company applying for funds from a fair and neutral position and verification of the certainty of repayment and validity of use of funds.

Since these financing operations specialize in long-term funding for businesses, in the screening process, verification assessment is made of the likelihood of long-term repayment focusing on business profits as well as on overall judgment being made on the certainty of repayment.

An overall judgment of the company's enterprise power is made, not limited to a quantitative analysis focusing on the financial statements, but taking into consideration various management activities including the combination of people, money, and other factors that makes up the company and the future prospects of the company that has applied for funds.

We strive to continuously assess the situation after financing has been granted through review of financial reports and regular company visits. Based on the classification of the borrower or otherwise as required, and after consideration of the results of management improvement plans, follow ups will be conducted as required to define transaction policy.

In addition, in order to support the growth and development of the borrower, we will strive to give as much feedback as possible on the screening results and provide consultation support to help resolve management issues. In particular, we will support companies struggling to respond to changes in the business environment by formulating business improvement plans through methods such as preparing and submitting management improvement proposals.

(ii) Credit rating
A credit scoring model based on analysis of transaction data collected over the years for borrowers has been developed for these operations and has been used in the screening process. In Fiscal Year 2002 this tool was developed for credit rating, and a credit rating system based on a new scoring model was introduced in Fiscal Year 2007 to improve default determination accuracy. In this manner, credit risk is being adequately evaluated.

(iii) Asset self assessment
For these operations standards have been established in accordance with the Financial Inspection Manual prepared by the Financial Services Agency to conduct self assessment. Classification of borrowers is being conducted based on the new credit rating system introduced in Fiscal Year 2007.

First stage assessments of borrower classification and asset type are conducted by the front offices and second stage assessments by a separate credit department. An auditing department independent from the other sections then conducts an internal inspection to verify the accuracy of assessments.

(iv) Quantification of credit risk
In addition to the individual credit management described above, from 2005 we started monitoring and quantifying credit risks to assess the overall risk of the credit portfolio to further improve the efficiency of financing operations and the quantification and management of credit risk.

(v) Credit risk management for securitization support operations
In the securitization support operations since July, 2004, we have used scoring models such as our proprietary creditworthiness measurement tool which was developed based on the analysis of transaction data collected over the years for SMEs, and a Credit Risk Database (CRD) to conduct screening. In addition, statistical methods such as Monte Carlo simulations are used to accurately assess the overall credit risk for pools of claims to establish a proper guarantee rate based on credit risk.

After guarantees have been conducted, accurate assessment of credit risk is conducted through confirmation of the repayment status, submission of financial reports, and regular reassessment of the pool of claims.

(b) Market risk management

(i) Interest rate risk
The main type of market risk associated with these operations is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps do arise between assets and liabilities. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder analysis and duration analysis, and conduct proper risk management by attempting to reduce interest rate risk by diversifying the year of issue for bonds.

(ii) Exchange rate risk
It is JFC policy to fully hedge at the time of issuance through the use of currency swaps, the exchange rate risk resulting from foreign-currency denominated corporate bonds. The counterparty risk associated with swaps is managed through regular assessment of the fair value and risk exposure of the swap transaction for counterparties, and the creditworthiness of counterparties.

(iii) Quantitative information relating to market risk
These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans, borrowings, and corporate bonds.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2011 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥21,612 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥19,865 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related to fund procurement

Long-term and stable funds such as fiscal loan funds, government-backed bonds, and FILP agency bonds are secured to finance this account and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions have been taken to maintain daily cash flows for proper risk management.

d. Securitization Support Programs (Purchase-type Operation)

The risk management structure for these operations is described below.

(a) Credit risk management

In the securitization support operations, we use scoring models such as our proprietary creditworthiness measurement tool developed based on analysis of transaction data collected over a number of years for SMEs, and a CRD (Credit Risk Database) to conduct screening. In addition, statistical methods such as Monte Carlo simulations are used to accurately assess the overall credit risk for pools of claims to establish a proper return based on credit risk.

(b) Market risk management

The main type of market risk associated with these operations is interest rate risk.

It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities, and we consider that interest rate risk is limited.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instrument that is subject to interest rate risk in these operations is securities.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2011 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥689 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥674 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related with fund procurement

It is considered that liquidity risk is limited because a system has been adopted to minimize liquidity risk and sufficient funding support can be expected from the government.

e. Credit Insurance Programs

The risk management structure for these operations is described below.

(a) Market risk management

The main type of market risk associated with these operations is interest rate risk.

These operations strive to undertake appropriate risk management practices by managing funds procured from government investments through using highly stable instruments such as Japanese government bonds.

The main financial instruments exposed to interest rate risk in these operations are deposits and securities. These financial instruments do not have material sensitivity to interest rate fluctuations because they are funds raised from government investments primarily managed using short-term maturities.

(b) Liquidity risk management related to fund procurement

Financing is provided from government funds. Efforts are made for proper risk management through the assessment of cash flows.

f. JBIC Operations

The risk management structure for these operations is described below.

(a) Credit risk management

The basis of credit risk management is centered on individual credit management based on the creditworthiness of the borrower during the credit approval process.

When a new credit application is processed, the relevant finance departments (sales promotion department) and credit departments collect and analyze information on the borrower. The overseas representative offices also play a part in collecting information on foreign governments and corporations. Credit appraisal takes place based on the information that has been gathered and analyzed, with the different departments ensuring appropriate check throughout the process, leading to the final decision by the management.

For lending to foreign governments and corporations, JFC makes most use of its position as a public institution and exchanges views and information with governments and other authorities in recipient countries, international institutions such as the IMF and the World Bank, other regional development banks and official export credit agencies as well as private financial institutions in the industrial countries. Using all these channels, JFC evaluates sovereign or country risk (in addition to corporate risk and project risk associated with the country in which the corporation is located) based on a broad range of information on government and government agency borrowers as well as political and economic conditions in their countries.

The relevant finance departments and credit departments conduct proper credit risk management based on the credit risk rating system for segmented risk categories and the asset self assessment system based on the Financial Inspection Manual. In addition, an Integrated Risk Management Committee is held regularly to report the status of credit management to the management. The credit management situation is also checked by an independent auditing department.

In addition, a claims protection mechanism exists based on an international framework unique to official creditors that is not contained in private sector financial institutions, for official claims on foreign governments. This mechanism consists of international financial assistance upon international approval by the Paris Club, an international group focusing on debt, to allow the debtor country to continue debt repayment when the debtor country becomes temporarily unable to service its debt due to economic conditions. As part of this international financial assistance, the debtor country conducts an economic reform program upon agreement with the IMF in order to secure the ability to sustainably service its debt. In view of JFC's position as a public financial institution, it will use the framework of the Paris Club to preserve its official claims on foreign governments.

Besides the individual credit management outlined above, credit risks are quantified to assess the overall risk of the portfolio in these operations. To quantify credit risks, it is important to take into account the characteristic of the loan portfolio, that there are a significant proportion of long-term loans and loans involving sovereign risk or country risk. Also to be taken into account is the mechanism of securing assets, such as the framework of international financial assistance to debtor countries through the Paris Club, which is unique to official creditors. This account uses a unique model to quantify the credit risk taking account of the above explained elements and measures amount of credit risk, which are utilized for credit risk management.

(b) Market risk management

ALM is used to manage exchange rate risk and interest rate risk for these operations. Market risk management protocols contain detailed stipulations of risk management methods and procedures, which are used by the ALM Committee to assess and confirm the execution of ALM, and for discussions concerning future responses. In addition, monitoring is conducted through gap analysis and interest rate sensitivity analysis as well as Value at Risk ("VaR") to comprehensively assess the interest and terms of financial assets and liabilities. The results are regularly reported to the ALM Committee.

The basic policy for managing exchange rate risk and interest rate risk in these operations is described below.

(i) Exchange rate risk

Foreign currency-denominated loans conducted in these operations involve risks related to exchange rate fluctuations.

We have a consistent policy of managing this risk by fully hedging this risk exposure through the use of currency swaps and forward foreign exchange transactions.

(ii) Interest rate risk

Interest rate risk arises from exposure to market interest rate fluctuations for yen-denominated loan and foreign currency-denominated loan operations and the policy for managing interest rate risk is described below.

① Yen-denominated loan operations

For the most part, funding for yen-denominated loans is managed at fixed-rate interest. Currently, interest rate risk for yen-denominated loans is limited since maturity of loans and the related funding arrangements are generally matched. In addition, swaps are used to hedge interest rate risk for portions of loans that are thought to have high exposures to interest rate fluctuation risk.

② Foreign currency-denominated loan operations

For foreign currency-denominated loan operations, interest rate risk is hedged through the application of a consistent policy of using interest rate swaps and managing funds with floating interest rates for both loans and related funding arrangements.

(iii) Status of market risk

These operations only maintain a banking account and do not have financial instruments in a trading account. While these operations are managed by hedging operation in principle, as stated previously, market risk, such as Value at Risk (VaR) is measured in order to as certain fair value assessment and risks inherent. The following represents the status of market risk in these operations in the current fiscal year as calculated using Value at Risk (VaR).

(a) VaR status (Fiscal year ended March 31, 2011)
(1) Interest rate VaR: 69.7 billions of yen
(2) Exchange rate VaR: 45.9 billions of yen

(b) VaR measurement model
(1) Interest rate VaR: Historical model
(2) Exchange rate VaR: Variance-covariance model
Quantitative standards: ① Confidence Interval: 99%; ② Holding period: 1 year; ③ Observation period: 5 years

(c) Risk management using VaR

VaR is a market risk measure that assesses the maximum possible profits or losses that could be incurred due to market movements within a certain period of time (or holding period) and degree of possibility (or confidence interval). These are derived statistically by employing the theory of possibility distribution based on historical market movements of interest rates or exchange rates, etc. over a specific period in the past (or observation period).

This measurement assumes actual market trends and the theory of probability distribution. Based on the possibility that future market trends could deviate from these assumptions, a back-test is performed to cross-check the model-measured interest rate VaR with actual profits or losses, in order to confirm the effectiveness of market risk measurements using VaR. In addition, a stress test, which goes beyond the probability distribution of historical market movements is conducted in order to capture risks from multifaceted perspectives.

The following bullet points represent general shortcomings of VaR models.

- Model-measured VaR may differ depending on the confidence interval, holding period, or observation period.
- The VaR value represents the maximum fluctuation of a mark-to-market profit or loss at the time of the measurement. This does not guarantee that the fluctuation will be within the limit as predicted at some future point in time, since conditions precedent, such as market trends, will vary during the time horizon.
- The VaR indicates the maximum value based on specific conditions precedent. As such, it is imperative to consider that model-measured VaR may underestimate the potential losses when using VaR as a risk management indicator in practice.

(c) Liquidity risk management related to fund procurement

Long-term and stable funds such as fiscal loan funds, government-backed bonds, and FILP agency bonds are used to finance these operations and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions are taken to maintain daily cash flows for proper risk management.

(d) Derivatives transactions

A protocol of internal checks with separate divisions executing transactions, assessing the effectiveness of hedges, and conducting office management has been established for derivatives transactions, and these transactions are conducted according to derivatives-related regulations.

g. Financial Operations for Facilitating Realignment of United States Forces in Japan

The risk management structure for these operations is described below.

(a) Market risk management

The main type of market risk associated with these operations is interest rate risk.

These operations strive to undertake appropriate risk management practices by managing funds procured from government grants through current deposits.

In addition, this financial instruments doesn't have material sensitivity to interest rate fluctuations since funds are managed using current deposits.

(b) Liquidity risk management related to fund procurement
Funding for these operation is procured by government grants only. Efforts are made for proper risk management through the assessment of the cash flows.

h. Operations to Facilitate Crisis Responses
The risk management structure for these operations is described below.

(a) Credit risk management
For these operations standards have been established in accordance with the Financial Inspection Manual prepared by the Financial Services Agency to conduct asset self assessment. In the asset self assessment, an inspection is conducted by the auditing department.

(b) Market risk management
The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans and borrowings.
These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans. Since the terms and conditions of lendings and borrowings are equal, cash inflows resulting from lendings and cash outflows resulting from borrowings are matched. Therefore, as a whole operations, interest rate risk does not exist as a market risk.

(c) Liquidity risk management related to fund procurement
Long-term and stable funds, such as fiscal investment and loans, are secured to finance this account and deposits are not accepted. In addition, the loan period and borrowing period are equal. Sufficient short-term liquidity is secured for compensation payment funds towards designated financial institutions, and liquidity risk is considered to be limited. In addition, continual efforts are being made to make financing plans more sophisticated and minimize liquidity risk.

i. Operations to Facilitate Specific Business Promotion
The risk management structure for these operations is described below.

(a) Credit risk management
For these operations standards have been established in accordance with the Financial Inspection Manual prepared by the Financial Services Agency to conduct asset self assessment. In the asset self assessment, an inspection is conducted by the auditing department.

(b) Market risk management
The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans and borrowings.
These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans. Since the terms and conditions of lendings and borrowings are equal, cash inflows resulting from lendings and cash outflows resulting from borrowings are matched. Therefore, as a whole operations, interest rate risk does not exist as a market risk.

(c) Liquidity risk management related to fund procurement
Long-term stable funds, such as fiscal investment and loans are secured to finance this account and deposits are not accepted. Liquidity risk is believed to be limited because the loan period and borrowing period are equal.

(4) Supplementary explanation concerning fair value of financial instruments
The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used the resulting amount could vary.

2. Fair value of financial instruments
The amount in the balance sheet at March 31, 2011, and the related fair value and difference is as follows. Note that unlisted securities and other financial instruments whose fair value is extremely difficult to be determined are not included in the following chart (refer to note 3).

(Millions of yen)

	Amount on Balance Sheet	Fair value	Difference
(1) Cash and due from banks	3,354,455	3,354,721	266
(2) Securities			
Held to maturity debt securities	1,071,356	1,072,551	1,194
Available-for sale securities	3,800	3,800	—
(3) Loans and bills discounted	28,962,571		
Allowance for loan losses (*1)	(465,749)		
	28,496,822	29,070,391	573,569
Total assets	32,926,434	33,501,465	575,030
(1) Borrowings	21,904,897	22,214,596	309,699
(2) Bonds payable	5,670,825	5,787,285	116,460
Total liabilities	27,575,722	28,001,882	426,159
Derivative transactions (*2)			
Derivative transactions not qualifying for hedge accounting	(4)	(4)	—
Derivative transactions qualifying for hedge accounting	965,093	965,093	—
Total derivative transactions	965,089	965,089	—

(*1) General allowance for loan losses, specific allowance for loans losses, and allowance for possible loan losses on specific overseas loan have been deducted from loans.
(*2) Derivatives recorded in "other assets and other liabilities" are collectively displayed.
The net values of assets and liabilities arising from derivative transactions are displayed. The figures in parenthesis indicate net liabilities.

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For Due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount. For due from banks that have a maturity over 3 months, fair value is based on the present value calculated by discounting future cash flow by the risk free rate (the standard Japanese government bond rate) based on the appropriate deposit term.

(2) Securities

Market value is used for securities. However, for corporate bonds in the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), the Account for Credit Insurance Programs and the Account for Operations to Facilitate Crisis Responses, the carrying amount is used as fair value because fair value approximates the carrying amount. The fair value of "Available-for sale securities" is based on the price that is indicated from other financial institution.

Notes for securities by purpose of holding are found in "15. Market Value of Securities".

(3) Loans and bills discounted

Loans, including loans with variable interest rates and loans with fixed interest rates, are calculated as follows.

a. Account for Micro Business and Individual Operations

All loans have a fixed interest rate and fair value is calculated by discounting the principal and interest by the interest rate assumed to be used if a new loan were conducted based on the type and period of loan. However, allowance for loan losses which was additionally provided for the borrowers whose condition could not be determined through self-assessment as of the base date has been deducted from the fair value mentioned above. (See "Significant accounting policies (f) (i)").

For obligations that have redemption problems or could default, allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value approximates the amount on the balance sheet on the closing date after a deduction has been made for allowance for loan losses, so this amount is used for fair value.

b. Account for Agriculture, Forestry, Fisheries and Food Business Operations

All loans have a fixed interest rate and fair value is calculated by discounting the risk-reflected principal and interest that incorporates risk by the risk free rate (the standard Japanese government bond rate) based on the type of borrower and period of loan.

c. Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)

All loans, with the exception of subordinated capital loans, have a fixed interest rate and fair value is calculated for all loans other than bankrupt loans and substantially bankrupt loans by discounting the risk-adjusted principal and interest by the risk free rate (the standard Japanese government bond rate) based on the type of borrower and period of loan. However, allowance for loan losses which was additionally provided for the borrowers whose condition could not be determined through self-assessment as of the base date has been deducted from the fair value mentioned above. (See "Significant accounting policies (f) (i)").

For obligations on bankrupt borrowers or substantially bankrupt borrowers, allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value resembles the amount on the balance sheet on the closing date after a deduction has been made for allowance for loan losses, so this amount is used for fair value.

d. Account for Securitization Support Programs (Purchase-type Operation)
Not applicable

e. Account for Credit Insurance Programs
Not applicable

f. Account for JBIC Operations
For loans with variable interest rates an amount calculated by the floating rate note method to reflect market interest rates over the short term is used for fair value.

For loans with fixed interest, the total principal and interest is discounted by a risk free rate that incorporates the default ratio and coverage ratio to calculate fair value. However for obligations on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value approximates the amount on the balance sheet on the closing date after a deduction has been made for allowance for loan losses, so this amount is used for fair value.

g. Financial Account Related to the Financial Operations for Facilitating Realignment of United States Forces in Japan
Not applicable

h. Account for Operations to Facilitate Crisis Responses
All loans have a fixed interest rate and fair value is calculated by discounting the principal and interest by the interest rate estimated from the market yield of bonds issued by the borrower based on the type of borrower and period of loan.

i. Account for Operations to Facilitate Specific Business Promotion
All loans have a fixed interest rate and fair value is calculated by discounting the principal and interest by the interest rate estimated from the market yield of bonds issued by the borrower based on the type of borrower and period of loan.

Liabilities

(1) Borrowings
Borrowings with variable interest rates indicate that short-term market interest rates and the credit conditions of JFC are not significantly altered by borrowings. Therefore, the carrying amount is used as fair value because it is considered that the carrying amount approximates the fair value. For borrowings with a fixed interest rate, in principle, fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

(2) Bonds payable
Market value is used for fair value of bonds. However, bonds that are subject to hedging with forward contracts are treated as yen-denominated bonds with fixed interest, and the fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate).

Derivative transactions

Derivative transactions consist of interest rate-related transactions (interest rate swap) and currency-related transactions (currency swap and forward exchange contract). Calculation of fair value is based on the discounted cash flow.

(Note 2) For credit insurance underwriting, the credit decision is conducted by a specified financial institution, and JFC does not participate in the credit decision for the individual subject to compensation at the time of loan, and therefore JFC does not retain the financial data of the individuals subject to compensation. Accordingly, it is recognized that fair value is extremely difficult to be determined.

The amount of compensation underwritten for compensation security contract is as follows.

Balance of compensation underwritten: ¥1,869,023 million

Compensation loss reserve: ¥59,757 million

(Note 3) Financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

They are not included in "Assets, (2) Securities," "Assets, (3) Loans and Bills Discounted" or "Liabilities, (1) Borrowings"

(Millions of yen)

Classification	Carrying amount on balance sheet
1) Unlisted stocks (*1)	21,937
2) Corporate bonds (specified asset-backed securities) (*2)	754
3) Other securities (trust beneficiary securities) (*2)	2,659
4) Partnership investments (*3)	52,746
5) Loans on deeds (subordinated capital loans) (*4)	46,659
6) Borrowings from general account of the national budget (*5)	131,300
7) Borrowings from the FILP special account (investment account) of the national budget (*6)	706
Total	256,763

(*1) Since unlisted stocks do not have quoted market prices available and fair value is extremely difficult to be determined, fair values are not stated.
(*2) Corporate bonds (specified asset-backed securities) and other securities (trust beneficiary securities) do not have a market value.
These are securities issues backed by loan claims on SMEs originating from multiple financial institutions. The following steps are followed when constructing the subordination structure for the securities:
(1) First, groups of loan claims from the financial institutions are put into sub-pools, and the most subordinated section is removed;
(2) The remainder of the sub-pool besides the most subordinated section is treated as an amalgamate and divided into levels of senior and subordinate.
For this reason, to evaluate the fair value of corporate bonds (specified asset-backed securities) and other securities (trust beneficiary securities) owned by JFC that have been amalgamated the individual financial data for the borrowers that back the securities issue is required. Because JFC is not structured to continuously acquire this data, fair value is extremely difficult to be determined and is not stated.
(*3) For partnership investments composed of unlisted stocks that do not have quoted market prices available and for which fair value is extremely difficult to be determined fair values are not stated.
(*4) For loans on deed (subordinated capital loans) under the Provision Scheme for Challenge Support and Capital Enhancement, fair values are not stated because it is recognized that fair value is extremely difficult to be determined. This is because future cash flow can not be reasonably estimated due to its particular scheme that applicable interest rates are determined by every year's business performance of the debtor, instead of being determined at the time of loan execution.
(*5) For borrowings from general account of the national budget, fair values are not stated because it is recognized that fair value is extremely difficult to be determined because no redemption period is stipulated and it is not possible to reasonably estimate future cash flows.
(*6) For borrowings from the FILP special account (investment account) of the national budget, fair values are not stated because it is recognized that fair value is extremely difficult to be determined for the following reason: an interest rate is not set at the time of borrowing, as this type of borrowing consists of a scheme in which a lump interest payment is made after the final installment payment redemption and it is not possible to reasonably estimate future cash flows.

(Note 4) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*1)	3,104,257	250,000	—	—	—	—
Securities (*2)						
Held-to-maturity debt securities	1,050,359	34	—	20,983	—	—
Available-for sale securities	—	1,192	2,607	—	—	—
Loans and bills discounted (*2)	4,688,213	8,712,268	7,228,091	3,206,243	2,412,584	2,333,840
Total	8,842,830	8,963,494	7,230,699	3,227,226	2,412,584	2,333,840

(*1) Demand deposits contained within due from banks are stated as "Maturities within one year".
(*2) Within loans and securities, claims against bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers contains an amount of ¥327,573 million that is not expected to be redeemed and not included in the table above. In addition, in the Account for Micro Business and Individual Operations, there are claims of ¥100,416 million that have redemption problems or could default, and are not expected to be redeemed. This amount is not included in the table, either.

(Note 5) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings (*)	3,633,023	7,242,880	6,580,623	2,316,247	1,336,543	796,284
Bonds payable	1,121,097	2,321,772	1,470,187	466,000	190,000	105,000
Total	4,754,121	9,564,653	8,050,811	2,782,247	1,526,543	901,284

(*) In borrowings, ¥131,300 million of general accounting investments with no redemption period stipulated are not included.

14. Market value of securities

In addition to "Government bonds," "Corporate bonds," "Stocks" and "Other securities" on the balance sheet, transferable deposits in "Due from banks" are also included.

The market value of securities at March 31, 2011 is as follows:

(a) Trading securities

Not applicable.

(b) Held-to-maturity debt securities with market value

	Type	Carrying amount on the balance sheet (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Securities whose fair value exceeds their carrying amount	Japanese government bonds	21,112	22,307	1,194
	Corporate bonds	—	—	—
	Others	—	—	—
	Subtotal	21,112	22,307	1,194
Securities whose fair value does not exceed their carrying amount	Japanese government bonds	1,049,949	1,049,949	—
	Corporate bonds	294	294	—
	Others	—	—	—
	Subtotal	1,050,244	1,050,244	—
Total		1,071,356	1,072,551	1,194

(c) Equity securities of or investment in subsidiaries and affiliates

(Note) These are equity securities of, or investment in, subsidiaries and affiliates whose fair value is extremely difficult to be determined.

	Carrying amount on balance sheet (Millions of yen)
Equity securities of or investment in affiliates	54,223

They have no quoted market price and their fair value is extremely difficult to be determined.

(d) Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount does not exceed acquisition cost	Others	583,400	583,400	—

(Note) Available-for-sale securities whose fair value is extremely difficult to be determined

	Carrying amount on the balance sheet (Millions of yen)
Debt securities	
Corporate bonds	754
Others	
Unlisted foreign stocks	15,095
Unlisted Japanese securities	2,884
Unlisted foreign securities	5,139
Total	23,874

These are not included in the above table of "Available-for-sale securities" because there are no quoted market prices available and it is extremely difficult to determine the fair value of these securities.

15. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34; 1965).

16. Retirement benefits

JFC has a defined benefit pension plan comprising of a welfare pension fund plan and a lump-sum severance indemnity plan.

(a) The funded status of the pension plans

	March 31, 2011 (Millions of yen)
Projected benefit obligations (A)	(272,660)
Fair value of plan assets (B)	67,197
Unfunded pension obligations (C)=(A)+(B)	(205,462)
Unrecognized prior service costs (D)	(3,665)
Actuarial unrecognized difference (E)	2,693
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(206,434)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(206,434)

(b) Component of pension cost

	March 31, 2011 (Millions of yen)
Service cost	7,337
Interest cost	5,452
Expected return on plan assets	(1,384)
Amortization of prior service cost accounted for as expense	(164)
Actuarial differences accounted for as expense	177
Other costs	—
Net pensions cost	11,418

(Note) Employee contributions to pension funds have been deducted from the service cost.

(c) Principal assumptions

	March 31, 2011
Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Terms to amortize unrecognized prior service costs	10 years
Terms to amortize actuarial unrecognized differences	10 years

17. Profit and loss on equity method

Investment in affiliates	¥54,223 million
Investment in affiliates (equity method)	¥54,135 million
Profit or Loss of Investment in affiliates (equity method)	¥76 million

18. Related party transactions

Related party Transactions in the fiscal year ended March 31, 2011 are as follows:

(a) Transactions with parent company and major shareholder companies

(Millions of yen)

	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amounts of transactions	Items	Balance as of March 31, 2011
Principal shareholder	Ministry of Finance (Minister of Finance)(Note i)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase(Note ii)	702,050	—	—
				Receipts from general account of the national budget	4,326	—	—
				Receipt of funds(Note iii)	4,972,810	Borrowings	21,824,109
				Repayment of borrowing	3,990,970		
				Payment of interest on borrowings	222,483	Accrued expenses	37,446
				Deposit of funds(Note iv)	2,375,300	Due from banks	1,771,500
				Guarantee for corporate bonds(Note v)	3,571,069	—	—

(Note)
(i) Transactions with the ministries and agencies other than Ministry of Finance are as follows:
- Ministry of Economy, Trade and Industry
  Receipts from the national budget ¥13 million
- Small and Medium Enterprise Agency
  Receipts from the national budget ¥18,333 million
- Agency for Natural Resources and Energy
  Receipts from the national budget ¥11 million
- Ministry of Health, Labor and Welfare Ministry
  Receipts from the national budget ¥1,229 million
- Ministry of Agriculture, Forestry and Fisheries
  Receipts from the national budget ¥19,229 million
  Repayment of borrowed money ¥12,001 million

(ii) The underwriting of capital increase represents the increase in capital through shareholder allocation by JFC at an allocation amount of ¥1 per share.
(iii) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.
(iv) Deposit of funds is the deposit for the FILP and the interest rates applicable under the FILP are applied.
(v) No guarantee fee has been paid for the guarantee of bonds.
(vi) Figures in the table above do not include consumption taxes.

(b) Transactions with fellow subsidiaries and affiliates' subsidiaries

Transactions stated here in the previous fiscal year's annual report as transactions with fellow subsidiaries and affiliates' subsidiaries (excluding transactions with the Independent Administrative Agency Agriculture, Forestry and Fisheries Credit Fund) have been omitted commencing this fiscal year end because the terms and conditions of these transactions are irrefutably in accordance with those of general transactions.

(c) Transactions with directors and major shareholders (not companies)

Transactions stated here in the previous fiscal year's annual report as transactions with directors and major shareholders (not companies) have been omitted commencing this fiscal year end because the terms and conditions of these transactions are irrefutably in accordance with those of general transactions.

19. Subsequent events

(a) Passage of the Japan Bank for International Cooperation Act

The Japan Bank for International Cooperation Act (hereafter, the "New JBIC Act") was passed on April 28, 2011 at the 177th ordinary session of the Diet. Based on this Act, on April 1, 2012, JBIC will be separated from JFC to form Japan Bank for International Cooperation Co., Ltd. (hereafter "New JBIC"), and effective on the same date, JFC's JBIC Operations and Finance Operations for Facilitating Realignment of United States Forces in Japan will be transferred to the New JBIC.

JFC will underwrite the stock of the New JBIC, and will transfer this stock without compensation to the government of Japan at the time the New JBIC is established on April 1, 2012. Effective the same day, assets and liabilities relating to JFC's JBIC operations and Financial Operations for Facilitating Realignment of United States Forces in Japan will be succeeded by the New JBIC. The amount of assets and liabilities to be succeeded will be the assessed amount as determined by an evaluation committee based on the New JBIC Act. After the establishment of the New JBIC, profit and loss relating to JFC's JBIC Operations and Finance Operations for Facilitating Realignment of United States Forces in Japan will no longer be recognized as profit and loss of JFC. The status of JFC's JBIC Operations and Financial Operations for Facilitating Realignment of United States Forces in Japan founded in the financial statements and notes of each account.

(b) The Board of Directors of JFC resolved on May 24, 2011 to issue new shares by way of allotment to shareholders as of July 4, 2011.

(i) Account for Micro Business and Individual Operations

(Unit: yen)

Type and number of shares	74,614,000,000 shares of common stock
Issue price	1 per share
Total issue amount	74,614,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	—
Total amount of incorporated into Capital stock	74,614,000,000
Total amount of incorporated into Legal capital surplus	—
Payment date	July 4, 2011
Purpose of use	To lower the interest rate of special loans provided to aid reconstruction from the Great East Japan Earthquake

(ii) Account for Agriculture, Forestry, Fisheries and Food Business Operations

(Unit: yen)

Type and number of shares	8,973,000,000 shares of common stock
Issue price	1 per share
Total issue amount	8,973,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	—
Total amount of incorporated into Capital stock	8,973,000,000
Total amount of incorporated into Legal capital surplus	—
Payment date	July 4, 2011
Purpose of use	To provide effectively unsecured and unguaranteed loans in order to enable smooth access to financing

(iii) Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)

(Unit: yen)

Type and number of shares	62,500,000,000 shares of common stock
Issue price	1 per share
Total issue amount	62,500,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	—
Total amount of incorporated into Capital stock	62,500,000,000
Total amount of incorporated into Legal capital surplus	—
Payment date	July 4, 2011
Purpose of use	To lower the interest rate of special loans provided to aid reconstruction from the Great East Japan Earthquake

(iv) Account for Credit Insurance Programs

(Unit: yen)

Type and number of shares	77,100,000,000 shares of common stock
Issue price	1 per share
Total issue amount	77,100,000,000
Amount incorporated into Capital stock	—
Amount incorporated into Legal capital surplus	1 per share
Total amount of incorporated into Capital stock	—
Total amount of incorporated into Legal capital surplus	77,100,000,000
Payment date	July 4, 2011
Purpose of use	To augment insurance platforms and ensure stable system management

(Unit: yen)

Type and number of shares	281,300,000,000 shares of common stock
Issue price	1 per share
Total issue amount	281,300,000,000
Amount incorporated into Capital stock	—
Amount incorporated into Legal capital surplus	1 per share
Total amount of incorporated into Capital stock	—
Total amount of incorporated into Legal capital surplus	281,300,000,000
Payment date	July 4, 2011
Purpose of use	For the establishment of an emergency provision for reconstruction from the Great East Japan Earthquake

(v) Account for Operations to Facilitate Crisis Responses

(Unit: yen)

Type and number of shares	44,100,000,000 shares of common stock
Issue price	1 per share
Total issue amount	44,100,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	—
Total amount of incorporated into Capital stock	44,100,000,000
Total amount of incorporated into Legal capital surplus	—
Payment date	July 4, 2011
Purpose of use	Act as resource for credit insurance underwriting and interest rate subsidy

Micro Business and Individual Unit

Account for Micro Business and Individual Operations

Balance Sheet (as of March 31, 2011)

(Millions of yen)

Assets		**Liabilities**	
Cash and due from banks	**55,773**	**Borrowed money**	**5,843,032**
Cash	192	Borrowings	5,843,032
Due from banks	55,580	**Bonds payable**	**989,602**
Loans and bills discounted	**7,162,022**	**Other liabilities**	**19,404**
Loans on deeds	7,162,022	Accrued expenses	11,760
Other assets	**17,381**	Lease obligations	2,714
Prepaid expenses	3,101	Other	4,929
Accrued income	8,306	**Provision for bonuses**	**2,972**
Agency accounts receivable	1,894	**Provision for directors' bonuses**	**6**
Other	4,078	**Provision for retirement benefits**	**121,696**
Property, plant and equipment	**105,133**	**Provision for directors' retirement benefits**	**33**
Buildings	17,936	**Total liabilities**	**6,976,748**
Land	47,610	**Net assets**	
Lease assets	1,863	**Capital stock**	**637,848**
Construction in progress	36,791	**Capital surplus**	**181,500**
Other	931	Special reserve for administrative improvement funds	181,500
Intangible assets	**4,544**	**Retained earnings**	**(596,757)**
Software	3,604	Other retained earnings	(596,757)
Lease assets	696	Retained earnings brought forward	(596,757)
Other	243	**Total shareholders' equity**	**222,590**
Allowance for loan losses	**(145,514)**	**Total net assets**	**222,590**
Total assets	**7,199,339**	**Total liabilities and net assets**	**7,199,339**

Statement of Operations (Year ended March 31, 2011)

(Millions of yen)

Ordinary income	**161,987**
Interest income	152,501
Interest on loans and discounts	152,492
Interest on receivables under resale agreements	5
Interest on deposits with banks	4
Other interest income	0
Fees and commissions	87
Other fees and commissions	87
Receipts from the national budget	8,686
Receipts from general account of the national budget	8,686
Receipts from special account of the national budget	0
Other income	712
Other	712
Ordinary expenses	**210,859**
Interest expenses	51,630
Interest on call money	49
Interest on borrowings and rediscounts	40,670
Interest on bonds	10,910
Other interest expenses	0
Fees and commissions payments	960
Other fees and commissions	960
Other ordinary expenses	349
Amortization of bond issuance cost	349
General and administrative expenses	69,790
Other expenses	88,127
Provision of allowance for loan losses	82,653
Written-off of loans	5,474
Other	0
Ordinary loss	**48,871**
Extraordinary income	**104**
Gain on disposal of noncurrent assets	0
Recoveries of written-off claims	92
Other	11
Extraordinary losses	**6,081**
Loss on disposal of noncurrent assets	5,740
Impairment loss	337
Other	2
Net loss	**54,848**

Statement of Changes in Net Assets (Year ended March 31, 2011)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the end of previous period	626,625
Changes of items during the period	
Issuance of new shares	11,223
Total changes of items during the period	11,223
Balance at the end of current period	637,848
Capital surplus	
Special reserve for administrative improvement funds	
Balance at the end of previous period	181,500
Changes of items during the period	
Total changes of items during the period	—
Balance at the end of current period	181,500
Total capital surplus	
Balance at the end of previous period	181,500
Changes of items during the period	
Total changes of items during the period	—
Balance at the end of current period	181,500
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the end of previous period	(541,908)
Changes of items during the period	
Net income (loss)	(54,848)
Total changes of items during the period	(54,848)
Balance at the end of current period	(596,757)
Total retained earnings	
Balance at the end of previous period	(541,908)
Changes of items during the period	
Net income (loss)	(54,848)
Total changes of items during the period	(54,848)
Balance at the end of current period	(596,757)
Total shareholders' equity	
Balance at the end of previous period	266,216
Changes of items during the period	
Issuance of new shares	11,223
Net income (loss)	(54,848)
Total changes of items during the period	(43,625)
Balance at the end of current period	222,590
Total net assets	
Balance at the end of previous period	266,216
Changes of items during the period	
Issuance of new shares	11,223
Net income (loss)	(54,848)
Total changes of items during the period	(43,625)
Balance at the end of current period	222,590

Notes to Financial Statements
ACCOUNT FOR MICRO BUSINESS AND INDIVIDUAL OPERATIONS

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Depreciation basis for fixed assets

(i) Property, plant and equipment (except for lease assets)

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) which are depreciated under the straight-line method.

Amortization is based on the following range of estimated useful lives:

Buildings: 2 years to 50 years

Other: 2 years to 20 years

(ii) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JFC is amortized over its useful life (5 years).

(iii) Lease assets

Lease assets in “property, plant and equipment” or “intangible assets,” under finance leases that do not involve transfer of ownership to the lessee are amortized under the straight-line method over the lease term. Depreciation for lease assets is calculated with zero residual value being assigned to the asset.

(b) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

(c) Accounting policy for reserves

(i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

The allowance for claims on debtors who are legally bankrupt (“Bankrupt borrowers”) or substantially bankrupt (“Substantially bankrupt borrowers”) is provided based on the outstanding balance after the write-offs described in the followings and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt but are likely to become bankrupt (“Potentially bankrupt borrowers”) is provided based on an assessment of the overall solvency of the debtors after deducting the amount expected to be collected through the disposal of collateral and the execution of guarantees.

The allowance for claims on debtors other than Bankrupt borrowers, Substantially bankrupt borrowers and Potentially bankrupt borrowers is provided primarily based on the default rate, which is calculated based on the actual defaults during a certain period in the past.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments which is independent from the operational departments, reviews these self-assessments, and the allowance is provided based on the results of the assessments.

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), the residual booked amount of the claims after deduction of the amount which is deemed collectible through the disposal of collateral or the execution of guarantees is written-off. The amount of accumulated write-off is ¥299,942 million.

Write-offs of the Account for Micro Business and Individual Operations, is recognized by offsetting the current allowance for loan losses for the amount of the claim deemed uncollectible against the year-end claim amount balance; the previous allowance for loan losses and claim balances are reversed at the start of the fiscal year, upon approval received from the competent minister based on Article 4 of the “Ministerial Ordinance Concerning Accounting for the Japan Finance Corporation.”

The Account for Micro Business and Individual Operations had debtors of which condition could not be reflected on self-assessment as of the base date due to the temporary difficulties in the reassessment and physical inspection of guarantees and collateral as well as ascertaining the accurate status of debtors resulting from the impact of the Great East Japan Earthquake. In order to consider credit risk from the earthquake disaster, an allowance for loan losses is calculated by reasonably estimating future losses and making appropriate adjustment, such as to future outlooks, for the loan loss ratio appreciable by borrower classifications given as of the base date.

(ii) Provision for bonuses

The “provision for bonuses” is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

(iii) Provision for directors’ bonuses

The “provision for directors’ bonuses” is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

(iv) Provision for retirement benefits

The "provision for retirement benefits" represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end.

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the year of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year.

(v) Provision for directors' retirement benefits

The "provision for directors' retirement benefits," which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

(d) Consumption and other taxes

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts. Amounts of non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

Change in accounting policy

(Accounting standard for asset retirement obligations)

ASBJ Statement No. 18, Accounting Standard for Asset Retirement Obligations, issued on March 31, 2008, and ASBJ Guidance No. 21, Guidance on Accounting Standard for Asset Retirement Obligations, issued on March 31, 2008, have been adopted commencing with this fiscal year end.

Note that this adoption does not have any impacts on income or expense.

2. Loans

All loans entered into are loans on deeds. The amounts reported in the balance sheet include the followings:

(Millions of yen)

	As of March 31, 2011 Account for Micro Business and Individual Operations
Bankrupt loans	35,305
Non-accrual loans	136,178
Loans with interest or principal repayments more than three months in arrears	85
Restructured loans	570,268
Total	741,837

(a) "Bankrupt loans" are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the corporate Tax Law Enforcement Ordinance (Government Ordinance No. 97), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.

(b) "Non-accrual loans" are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

(c) "Loans with interest or principal repayments more than three months in arrears" are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of "Bankrupt loans" and "Non-accrual loans"

(d) "Restructured loans" are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers' recovery from financial difficulties, and which do not fall under the category of "Bankrupt loans", "Non-accrual loans", and "Loans with interest or principal repayments more than three months in arrears".

(e) The amounts of loans indicated in the table above are the gross amounts prior to the deduction of allowance for possible loan losses.

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheet. The balance of unpaid amounts as of March 31, 2011 is ¥8,868 million.

3. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes Micro Business and Individual Operating Account bonds issued to total amount of ¥989,602 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥5,629 million.

5. Net assets per share

Net assets per share is ¥0.27.

6. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 22 (1) of the Act on Special Measures Concerning Smooth Implementation of Realignment of United States Forces in Japan (Act No. 67; 2007) and instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010).

*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010) and operations listed in Article 16 of the Act on Special Measures concerning Smooth Implementation of Realignment of United States Forces in Japan [hereafter referred to as "operations listed under each section of Article 41 of the same law."

7. Impairment losses

Impairment loss is recognized for the following assets:

Region	Purpose of use	Type	Impairment loss (Millions of yen)
Tokyo metropolitan area	Idle assets: 4 items	Land, buildings	90
Other	Idle assets: 19 items	Land, buildings	247

The Account for Micro Business and Individual Operations does not have any operating assets that are subject to impairments. For idle assets, an impairment loss is recognized as the difference between the recoverable amount and the carrying values at the end of the fiscal year.

Each asset in the grouping of idle assets that have suffered impairment is treated as an individual unit.

The recoverable value in principle is calculated using net realizable value. The net realizable value is determined by the appraisal value based on the Real Estate Appraisal Standard. For certain immaterial real estate, the net realizable value is calculated based on the index that incorporates market value.

8. Net loss per share

Net loss per share is ¥0.06.

9. Issued shares

For the fiscal year ended March 31, 2011 types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	808,125,000,000	11,223,000,000	—	819,348,000,000

(Note) Increases is due to the issuance of 11,223,000,000 shares.

10. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a governmental financial institution founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the development of the Japanese and global economic society and the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds and investments from the general account, equity participation, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, JBIC Operations, Financial Operations for Facilitating Realignment of United States Forces in Japan, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Business Promotion. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., as stipulated by The JFC Act.

The Account for Micro Business and Individual Operations is for operations, such as business fund financing and educational loans, etc., aimed at micro businesses and individuals. To conduct these operations funds are raised through the borrowing of fiscal investment funds and loans and the issuing of bonds. ALM (asset and liability management) is conducted for financial assets and liabilities in this account to ensure that interest rate fluctuations do not have an adverse effect on these operations.

(2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this account mainly include loans to micro business and individuals and financial liabilities in Japan; and the financial liabilities mainly include borrowings and bonds. The associated risks are described below.

(a) Credit risk

The associated credit risk consists of risk of losses arising from uncollectable claims on business and educational loans from deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the entity to which credit is granted.

For this operation account, JFC strives to make a proper financing decision in the financial screening process, conduct detailed claims management based on the condition of the borrower after financing is provided, use statistical management methods, and increase the sophistication of management methods employed. In addition, risks are distributed as the credit portfolio is comprised of small business and educational loans that are not concentrated in a specified region or industry.

However, based on future economic trends and changes in the business climate of borrowers, the number of borrowers with deteriorated creditworthiness could increase, bringing about requests for financial support including loan restructuring, causing an increase in uncollectable debt and credits costs for this account.

(b) Market risk

The main type of market risk associated with this account is interest-rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps arise between assets and liabilities. This account could incur losses from the interest rate risk caused by this gap.

(c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, government-backed bonds, and the FILP agency bonds are secured to finance this account and deposits are not accepted. To maintain daily cash flows, proper measures including establishing overdraft facility accounts with several private sector financial institutions have been taken, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

(3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure of these operations is described below.

(a) Credit risk management

For these operations, JFC has a structure to manage the credit risk of loans through (i) individual credit management, (ii) asset self assessment, and (iii) quantification of credit risk in accordance with regulations concerning financing operations and claims management operations, and management regulations concerning credit risk. This credit risk management is conducted by the credit department and risk management department as well as each branch office, and business operations meetings are regularly held with the General Manager acting as chairman to conduct discussions and reporting.

The specific risk management method is described below.

(i) Individual credit management

The financial screening process associated with these operations to support appropriate financing decisions is based on consideration of the borrower's financial condition in terms of eligibility for financing, validity of the use of funds, profitability and sustainability of the business, as well as the business's qualitative aspects such as technical capabilities, selling power, and the future potential of the business.

Efforts are made to carefully manage claims after financing has been conducted through assessment of the future business outlook and repayment capacity.

(ii) Asset self assessment

For these operations standards have been established in accordance with the Financial Inspection Manual prepared by the Financial Services Agency to conduct self assessment. In this process, first stage assessments are conducted by the branch offices, second stage assessments by the credit Analysis Office, and internal inspections by the auditing department.

The results of this self assessment are used to properly estimate write-off and allowance, and are used internally for the constant assessment of the credit conditions of the operations. They are also actively used for the disclosure of the quality of assets to enhance the transparency of financial position for the operations.

(iii) Quantification of credit risk

A credit scoring model for borrowers based on analysis of transaction data collected over a number of years has been developed for these operations. Starting in Fiscal Year 2007, credit scores have been assigned to borrowers, and these scores have been used for screening procedures and to monitor credit portfolios since Fiscal Year 2008. The reliability of this scoring model is ensured through continual recalibration based on annual inspections of the model's accuracy.

In addition, to assess the overall risk of the portfolio, efforts are made to quantify credit risk through methods that take into consideration the extremely diversified nature of the portfolios for these operations.

(b) Market risk management

These operations are subject to the interest rate risk caused by the cash flow gap between assets and liabilities, and the operations could incur losses caused by this risk. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder analysis and duration analysis, and appropriate risk management is carried out to reduce interest rate risk by diversifying the year of issue for bonds.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations include loans, borrowings and corporate bonds.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2011 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥55,453 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥27,249 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related to fund procurement

To conduct proper risk management in these operations, long-term and stable funds such as fiscal loan funds, government-backed bonds, and FILP agency bonds are secured to finance this account and deposits are not accepted. Cash flows are assessed and overdraft facility accounts are established with multiple private sector financial institutions to maintain daily cash flows.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2011, and the related fair value, and difference is as follows. Note that borrowing from general account of the national budget whose fair value is extremely difficult to be determined are not included in the following chart (refer to note 2).

(Millions of yen)

	Amount on Balance Sheet	Fair value	Difference
(1) Cash and due from banks	55,773	55,773	—
(2) Loans and bills discounted	7,162,022		
Allowance for loan losses (*)	(145,325)		
	7,016,696	7,119,868	103,171
Total assets	7,072,469	7,175,641	103,171
(1) Borrowings	5,711,700	5,752,398	40,698
(2) Bonds payable	989,602	1,003,111	13,508
Total liabilities	6,701,302	6,755,509	54,206

(*) General allowance for loan losses and specific allowance for loan losses have been deducted from loans.

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature, the carrying amount is used as fair value because fair value resembles the carrying amount approximates to the fair value.

(2) Loans and bills discounted

All loans have a fixed interest rate and fair value is calculated by discounting the principal and interest by the interest rate assumed to be used if a new loan were conducted based on the type and period of loan. However, allowance for loan losses which was additionally provided for the borrowers whose condition could not be determined through self-assessment as of the base date has been deducted from the fair value mentioned above. (See “Significant accounting policies (c) (i)”).

For obligations that have redemption problems or could default, allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value approximates the amount on the balance sheet on the closing date after a deduction has been made for the allowance for loan losses, so this amount is used for fair value.

Liabilities

(1) Borrowings

Borrowings are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of the loan.

(2) Bonds payable

Market value is used for fair value of bonds.

(Note 2) Financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.
They are not included in “Liabilities, (1) Borrowings”

(Millions of yen)

Classification	Carrying amount on balance sheet
1) Borrowings from general account of the national budget (*1)	131,300
2) Borrowings from the FILP special account (investment account) of the national budget (*2)	32
Total	131,332

(*1) For borrowings from general account of the national budget, fair values are not stated because it is recognized that fair value is extremely difficult to be determined because no redemption period is stipulated and it is not possible to reasonably estimate future cash flows.

(*2) For borrowings from the FILP special account (investment account) of the national budget, fair values are not stated because it is recognized that fair value is extremely difficult to be determined for the following reason: an interest rate is not set at the time of borrowing, as this type of borrowing consists of a scheme in which a lump interest payment is made after the final installment payment redemption and it is not possible to reasonably estimate future cash flows.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*1)	55,580	—	—	—	—	—
Loans and bill discounted (*2)	1,606,690	2,723,773	1,632,871	674,010	303,619	120,641
Total	1,662,270	2,723,773	1,632,871	674,010	303,619	120,641

(*1) Demand deposits contained within due from banks are stated as “Maturities within one year”.
(*2) Within loans, claims does not contain an amount of ¥100,416 million that have redemption problems or could default, and are not expected to be redeemed. This amount is not included in the table.

(Note 4) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings (*)	1,690,398	2,655,232	1,259,016	83,443	23,640	—
Bonds payable	260,000	440,000	180,000	110,000	—	—
Total	1,950,398	3,095,232	1,439,016	193,443	23,640	—

(*) In borrowings, ¥131,300 million of general accounting investments with no redemption period stipulated are not included.

11. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34; 1965).

12. Retirement benefits

JFC has a defined benefit pension plan comprising of a welfare pension fund plan and a lump-sum severance indemnity plan.

(a) The funded status of the pension plans

	March 31, 2011 (Millions of yen)
Projected benefit obligations (A)	(158,694)
Fair value of plan assets (B)	38,527
Unfunded pension obligations (C)=(A)+(B)	(120,166)
Unrecognized prior service costs (D)	(2,161)
Actuarial unrecognized difference (E)	631
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(121,696)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(121,696)

(b) Component of pension cost

	March 31, 2011 (Millions of yen)
Service cost	4,211
Interest cost	3,189
Expected return on plan assets	(791)
Amortization of prior service cost accounted for as expense	(18)
Actuarial differences accounted for as expense	(10)
Other costs	—
Net pensions cost	6,580

(Note) Employee contributions to pension funds have been deducted from the service cost.

(c) Principal assumption

	March 31, 2011
(1)Discount rate	2.0%
(2)Expected rate of return on plan assets	2.0%
(3)Method of attributing the projected benefits to periods of services	Straight-line basis
(4)Terms to amortize unrecognized prior service costs	10 years
(5)Terms to amortize actuarial unrecognized differences	10 years

13. Related party transactions

Related party transactions in the fiscal year ended March 31, 2011 are as follows:

(a) Transactions with parent company and major shareholder companies

(Millions of yen)

<table>
<tr><th></th><th>Corporate name</th><th>Ratio to Total Voting Rights (%)</th><th>Relation with related parties</th><th>Transactions</th><th>Amounts of transactions</th><th>Items</th><th>Balance as of March 31, 2011</th></tr>
<tr><td rowspan="6">Principal shareholder</td><td rowspan="6">Ministry of Finance (Minister of Finance) (Note i)</td><td rowspan="6">100 (Direct)</td><td rowspan="6">Administration for policy based financing</td><td>Underwriting of capital increase (Note ii)</td><td>11,223</td><td>—</td><td>—</td></tr>
<tr><td>Receipts from general account of the national budget</td><td>3,857</td><td>—</td><td>—</td></tr>
<tr><td>Receipt of funds (Note iii)</td><td>1,965,005</td><td rowspan="2">Borrowings</td><td rowspan="2">5,711,732</td></tr>
<tr><td>Repayment of borrowing</td><td>1,873,297</td></tr>
<tr><td>Payment of interest on borrowings</td><td>40,669</td><td>Accrued expenses</td><td>8,904</td></tr>
<tr><td>Guarantee for corporate bonds (Note iv)</td><td>589,607</td><td>—</td><td>—</td></tr>
</table>

(Note)
(i) Transactions with the ministries and agencies other than Ministry of Finance are as follows:
- Small and Medium Enterprise Agency
  Receipts from the national budget ¥3,600 million
- Ministry of Health, Labor and Welfare Ministry
  Receipts from the national budget ¥1,229 million
- Agency for Natural Resources and Energy
  Receipts from the national budget ¥0 million

(ii) The underwriting of capital increase represents the increase in capital through shareholder allocation by JFC at an allocation amount of ¥1 per share.
(iii) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.
(iv) No guarantee fee has been paid for the guarantee of bonds.
(v) Figures in the table above do not include consumption taxes.

Overview of JFC | JFC Activities | Overview of Operations | Systems for Operational Management | Organization and History | Data

(b) Transactions with directors and major shareholders (not companies)

Transactions stated here in the previous fiscal year's annual report as transactions with directors and major shareholders (not companies) have been omitted commencing this fiscal year end because the terms and conditions of these transactions are irrefutably in accordance with those of general transactions.

14. Subsequent events

The Board of Directors of JFC resolved on May 24, 2011 to issue new shares by way of allotment to shareholders as of July 4, 2011.

(Unit: yen)

Type and number of shares	74,614,000,000 shares of common stock
Issue price	1 per share
Total issue amount	74,614,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	—
Total amount of incorporated into Capital stock	74,614,000,000
Total amount of incorporated into Legal capital surplus	—
Payment date	July 4, 2011
Purpose of use	To lower the interest rate of special loans provided to aid reconstruction from the Great East Japan Earthquake

Account for Agriculture, Forestry, Fisheries and Food Business Operations

Balance Sheet (as of March 31, 2011)

(Millions of yen)

Assets		**Liabilities**	
Cash and due from banks	**48,097**	**Borrowed money**	**2,062,455**
Cash	1	Borrowings	2,062,455
Due from banks	48,096	**Bonds payable**	**174,920**
Securities	**2,030**	**Entrusted funds**	**37,735**
Stocks	2,030	**Other liabilities**	**10,173**
Loans and bills discounted	**2,548,718**	Accrued expenses	8,157
Loans on deeds	2,548,718	Unearned revenue	1
Other assets	**18,868**	Lease obligations	543
Prepaid expenses	2,426	Other	1,471
Accrued income	15,116	**Provision for bonuses**	**559**
Agency accounts receivable	597	**Provision for directors' bonuses**	**6**
Other	726	**Provision for retirement benefits**	**22,989**
Property, plant and equipment	**37,093**	**Provision for directors' retirement benefits**	**29**
Buildings	2,370	**Acceptances and guarantees**	**724**
Land	7,309	**Total liabilities**	**2,309,594**
Lease assets	506	**Net assets**	
Construction in progress	26,802	**Capital stock**	**325,400**
Other	104	**Retained earnings**	**2,655**
Intangible assets	**1,752**	Legal retained earnings	2,797
Software	1,551	Other retained earnings	(141)
Lease assets	10	Retained earnings brought forward	(141)
Other	190	**Total shareholders' equity**	**328,055**
Customers' liabilities for acceptances and guarantees	**724**		
Allowance for loan losses	**(19,635)**	**Total net assets**	**328,055**
Total assets	**2,637,650**	**Total liabilities and net assets**	**2,637,650**

Statement of Operations (Year ended March 31, 2011)

(Millions of yen)

Ordinary income	**73,321**
Interest income	53,858
Interest on loans and discounts	53,827
Interest on receivables under resale agreements	11
Interest on deposits with banks	18
Other interest income	0
Fees and commissions	7
Other fees and commissions	7
Receipts from the national budget	19,190
Receipts from general account of the national budget	19,190
Other income	264
Other	264
Ordinary expenses	**72,112**
Interest expenses	46,490
Interest on call money	0
Interest on borrowings and rediscounts	40,721
Interest on bonds	3,157
Other interest expenses	2,611
Fees and commissions payments	5,679
Other fees and commissions	5,679
Other ordinary expenses	112
Amortization of bond issuance cost	112
General and administrative expenses	15,893
Other expenses	3,936
Provision of allowance for loan losses	3,851
Written-off of loans	84
Other	0
Ordinary profit	**1,208**
Extraordinary income	**1,961**
Gain on disposal of noncurrent assets	0
Recoveries of written-off claims	1,961
Extraordinary losses	**3,311**
Loss on disposal of noncurrent assets	3,268
Impairment loss	42
Net loss	**141**

Statement of Changes in Net Assets (Year ended March 31, 2011)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the end of previous period	325,400
Changes of items during the period	
Total changes of items during the period	—
Balance at the end of current period	325,400
Retained earnings	
Legal retained earnings	
Balance at the end of previous period	2,797
Changes of items during the period	
Total changes of items during the period	—
Balance at the end of current period	2,797
Other retained earnings	
Retained earnings brought forward	
Balance at the end of previous period	—
Changes of items during the period	
Net income (loss)	(141)
Total changes of items during the period	(141)
Balance at the end of current period	(141)
Total retained earnings	
Balance at the end of previous period	2,797
Changes of items during the period	
Net income (loss)	(141)
Total changes of items during the period	(141)
Balance at the end of current period	2,655
Total shareholders' equity	
Balance at the end of previous period	328,197
Changes of items during the period	
Net income (loss)	(141)
Total changes of items during the period	(141)
Balance at the end of current period	328,055
Total net assets	
Balance at the end of previous period	328,197
Changes of items during the period	
Net income (loss)	(141)
Total changes of items during the period	(141)
Balance at the end of current period	328,055

Notes to Financial Statements
ACCOUNT FOR AGRICULTURE, FORESTRY, FISHERIES AND FOOD BUSINESS OPERATIONS

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Investment in affiliates are carried at cost based on the moving average method. Available-for-securities, which have readily determinable fair value are stated at fair value based on market prices as of the closing date with changes in the net unrealized gains or losses, included directly in Net assets.

(b) Valuation method for derivative financial instruments

Certain credit default swap transactions, for which neither quoted market price nor reliably estimated value is available and the fair value is undeterminable, are accounted for as guarantee of obligation.

(c) Depreciation basis for fixed assets

(i) Property, plant and equipment (except for lease assets)

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) which are depreciated under the straight-line method.

Amortization is based on the following range of estimated useful lives:

Buildings: 2 years to 50 years

Other: 2 years to 20 years

(ii) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JFC is amortized over its useful life (5 years).

(iii) Lease assets

Lease assets in “property, plant and equipment” or “intangible assets,” under finance leases that do not involve transfer of ownership to the lessee are amortized under the straight-line method over the lease term. Depreciation for lease assets is calculated with zero residual value being assigned to the asset.

(d) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

(e) Accounting policy for reserves

(i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

The allowance for claims on debtors who are legally bankrupt (“Bankrupt borrowers”) or substantially bankrupt (“Substantially bankrupt borrowers”) is provided based on the outstanding balance after the write-offs described in the followings and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt but are likely to become bankrupt (“Potentially bankrupt borrowers”) is provided based on an assessment of the overall solvency of the debtors after deducting the amount expected to be collected through the disposal of collateral and the execution of guarantees.

The allowance for claims on debtors other than Bankrupt borrowers, Substantially bankrupt borrowers and Potentially bankrupt borrowers is provided primarily based on the default rate, which is calculated based on the actual defaults during a certain period in the past.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments, which is independent from the operational departments, reviews these self-assessments, and the allowance is provided based on the results of the assessments.

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), the residual booked amount of the claims after deduction of the amount which is deemed collectible through the disposal of collateral or the execution of guarantees is written-off. The amount of accumulated write-off is ¥8,331 million.

Write-offs of the Account for Agriculture, Forestry, Fisheries and Food Business Operations, is recognized by offsetting the current allowance for loan losses for the amount of the claim deemed uncollectable against the year-end claim amount balance; the previous allowance for loan losses and claim balances are reversed at the start of the fiscal year, upon approval received from the competent minister based on Article 4 of the “Ministerial Ordinance Concerning Accounting for the Japan Finance Corporation.”

(ii) Provision for bonuses

The “provision for bonuses” is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

(iii) Provision for directors' bonuses

The "provision for directors' bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

(iv) Provision for retirement benefits

The "provision for retirement benefits" represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end.

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the year of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year.

(v) Provision for directors' retirement benefits

The "provision for directors' retirement benefits," which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

(f) Consumption and other taxes

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts. Amounts of non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

Change in accounting policy

(Accounting standard for equity method of accounting for investments)

ASBJ Statement No. 16, Accounting Standard for Equity Method of Accounting for Investments, issued on March 10, 2008, and ASBJ Practical Issue Task Force (PITF) No. 24 Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method, issued on March 10, 2008, have been adopted commencing with this fiscal year end.

(Accounting standard for asset retirement obligations)

ASBJ Statement No. 18, Accounting Standard for Asset Retirement Obligations, issued on March 31, 2008, and ASBJ Guidance No. 21, Guidance on Accounting Standard for Asset Retirement Obligations, issued on March 31, 2008, have been adopted commencing with this fiscal year end.

Note that this adoption does not have any impacts on income or expense.

2. Equity securities of or investment in affiliates

Equity securities of or investment in affiliates is ¥2,030 million.

3. Loans

All loans entered into are loans on deeds. The amounts reported in the balance sheet include the followings:

(Millions of yen)

	As of March 31, 2011 Account for Agriculture, Forestry, Fisheries and Food Business Operations
Bankrupt loans	1,568
Non-accrual loans	82,436
Loans with interest or principal repayments more than three months in arrears	2,930
Restructured loans	13,553
Total	100,488

(a) "Bankrupt loans" are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the corporate Tax Law Enforcement Ordinance (Government Ordinance No. 97), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.

(b) "Non-accrual loans" are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

(c) "Loans with interest or principal repayments more than three months in arrears" are loans whose principal or interest payment is more than three months in arrears, and which do not fall under category of "Bankrupt loans" and "Non-accrual loans"

(d) "Restructured loans" are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers' recovery from financial difficulties, and which do not fall under the category of "Bankrupt loans", "Non-accrual loans", and "Loans with interest or principal repayments more than three months in arrears".

(e) The amounts of loans indicated in the table above are the gross amounts prior to the deduction of allowance for possible loan losses.

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheet. The balance of unpaid amounts as of March 31, 2011 is ¥75,081 million.

4. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes Agriculture, Forestry, Fisheries and Food Business Operating Account bonds issued to a total amount of ¥174,920 million).

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥1,334 million.

6. Net assets per share

Net assets per share is ¥1.00.

7. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 22 (1) of the Act on Special Measures Concerning Smooth Implementation of Realignment of United States Forces in Japan (Act No. 67; 2007) and instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010).

*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010) and operations listed in Article 16 of the Act on Special Measures concerning Smooth Implementation of Realignment of United States Forces in Japan [hereafter referred to as "operations listed under each section of Article 41 of the same law."

8. Impairment losses

Impairment loss is recognized for the following assets:

Region	Purpose of use	Type	Impairment loss (Millions of yen)
Tokyo metropolitan area	Idle assets: 1 items	Land	25
Other	Idle assets: 2 items	Land, buildings	17

The Account for Agriculture, Forestry, Fisheries and Food Business Operations does not have any operating assets that are subject to impairments. For idle assets, an impairment loss is recognized as the difference between the recoverable amount and the carrying value at the end of the fiscal year.

Each asset in the grouping of idle assets that have suffered impairment is treated as an individual unit.

The recoverable value in principle is calculated using net realizable value. The net realizable value is determined by the appraisal value based on the Real Estate Appraisal Standard. For certain immaterial real estate, the net realizable value is calculated based on the index that incorporates market value.

9. The account title and the amount related to transactions with affiliates

Ordinary income–Other income-Other: ¥0 million

10. Net income per share

Net income per share is ¥0.00.

11. Issued shares

For the fiscal year ended March 31, 2011 types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	325,400,000,000	—	—	325,400,000,000

12. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a governmental financial institution founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the development of the Japanese and global economic society and the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, equity participation, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, JBIC Operations, Financial Operations for Facilitating Realignment of United States Forces in Japan, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Business Promotion. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., as stipulated by The JFC Act.

In the Account for Agriculture, Forestry, Fisheries and Food Business Operations, the main operations consist of supplementing the financing provided by general financial institutions and supplying long-term funds at a low interest rate aimed at businesses engaged in agriculture, forestry, fisheries and food manufacturing, etc., in order to contribute to the sustainable and robust development of the agriculture, forestry, fisheries business and ensure the stable supply of food. To conduct these operations funds are raised through borrowing from the fiscal investment funds and loans and the issuing of bonds. Asset and liability management is conducted for the risks inherent in the financial assets and liabilities in this account.

(2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this account mainly include loans to agriculture, forestry, fisheries and food businesses, and financial liabilities mainly include borrowings, bonds, and entrusted funds. The associated risks are described below.

(a) Credit risk

The associated credit risk consists of risk of losses arising from uncollectable claims on credit to agriculture, forestry, fisheries and food businesses from deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the entity to which credit is granted. For this reason, efforts are made to maintain and improve the soundness of assets through proper financial screening and account management throughout the year.

However, among the majority of borrowers that make up this account, there are many small businesses in the agriculture, forestry, fisheries sector. These businesses are especially susceptible to natural conditions such as weather, etc., so depending on future conditions, uncollectable debt and credits costs for this account could increase.

(b) Market risk

The main type of market risk associated with this account is interest-rate risk. It is JFC policy to minimize interest rate risk by matching the duration of assets and liabilities. However, due to characteristics such as long redemption periods and fixed interest rates that are required by agriculture, forestry, and fisheries policy, duration gaps do arise. This account could incur losses from the interest rate risk caused by this gap.

(c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, government-backed bonds, and the FILP agency bonds are secured to finance this account and deposits are not accepted. Cash flows are assessed and proper measures are taken, including establishing overdraft facility accounts with multiple private sector financial institutions, to maintain daily cash flows, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

(3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

(a) Credit risk management

For these operations, credit risk is properly managed through (i) individual credit management, (ii) credit rating, (iii) asset self assessment, and (iv) quantification of credit risk.

(i) Individual credit management

The screening process for these operations includes screening of the probability of repayment based on eligibility for financing, validity of the financing conditions, and the future potential of the business. Particularly, screening for the certainty of repayment is conducted with a screening standard that gives sufficient consideration to the specific industry (agriculture, forestry, and fisheries) risks. This consists of close examination of the creditworthiness of the borrower, investment-risk, investment-effect, and comprehensive verification and confirmation of repayment ability that takes into account feasibility of the payment and repayment plan, and suitability of financing conditions.

Efforts are also made to continuously assess the customer's economic condition, and maintain and improve the soundness of loan assets through active and detailed support activities.

(ii) Credit rating

These operations strive to maintain and improve the quality of loan assets by using ratings for early discovery of customers with business conditions that could be cause for concern in order to enact business support. Ratings are assigned based on a model built using internal data. The reliability of this scoring model is ensured through continual recalibration based on annual inspection of the model's evaluation accuracy.

The credit ratings are also used for individual credit management, asset self assessment, and quantification of credit risk as the basis for credit risk management. For this reason reassessment of the credit ratings system is conducted as required.

(iii) Asset self assessment

For these operations standards have been established in accordance with the Financial Inspection Manual prepared by the Financial Services Agency to conduct self assessment.

In this process, first stage assessments are conducted by the branch offices, second stage assessments by the credit department, and internal inspections by the auditing department.

The results of this self assessment are used to appropriately estimate write-off and allowance, and are used internally for the constant assessment of the credit conditions of the operations. They are also actively used for the disclosure of the quality of assets to enhance the transparency of financial position for the operations.

(iv) Quantification of credit risk

To assess the overall risk of the portfolio, credit risks are quantified for internal management in these operations.

(b) Market risk management

The main type of market risk associated with this account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the duration of assets and liabilities. However, due to characteristics such as long redemption periods and fixed interest rates that are required by agriculture, forestry, fisheries policy, duration gaps arise. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder analysis and duration analysis, and to conduct proper risk management by attempting to reduce interest rate risk through the provision of long-term financing.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations include loans, borrowings, corporate bonds and entrusted funds.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2011 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥7,829 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥7,902 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that a these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related with fund procurement

Long-term and stable funds such as fiscal investment and loans and FILP agency bonds are secured to finance this account and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions have been taken to maintain daily cash flows for proper risk management.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2011, and the related fair value, and difference is as follows. Note that unlisted securities whose fair value is extremely difficult to be determined are not included in the following chart (refer to note 2).

(Millions of yen)

	Amount on Balance Sheet	Fair value	Difference
(1) Cash and due from banks	48,097	48,101	3
(2) Loans and bills discounted	2,548,718		
Allowance for loan losses (*)	(19,466)		
	2,529,251	2,676,105	146,854
Total assets	2,577,349	2,724,206	146,857
(1) Borrowings	2,062,455	2,132,825	70,370
(2) Bonds payable	174,920	180,789	5,868
(3) Entrusted funds	37,735	29,326	(8,408)
Total liabilities	2,275,111	2,342,941	67,829

(*) General allowance for loan losses and specific allowance for loan losses have been deducted from loans.

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount. For due from banks that have a maturity over 3 months, fair value is based on the present value calculated by discounting future cash flow by the risk free rate (the standard Japanese government bond rate) based on the appropriate deposit term.

(2) Loans and bills discounted

All loans have a fixed interest rate and fair value is calculated by discounting the risk-reflected principal and interest that incorporates risk by the risk free rate (the standard Japanese government bond rate) based on the type of borrower and period of loan.

Liabilities

(1) Borrowings

Borrowings with variable interest rates indicate that short-term market interest rates and the credit conditions of JFC are not significantly altered by borrowings. Therefore, the carrying amount is used as fair value because it is considered that the carrying amount approximates the fair value. For borrowings with a fixed interest rate, in principle, fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

(2) Bonds payable

Market value is used for fair value of bonds.

(3) Entrusted funds

Fair value is calculated by discounting the principal and interest of the entrusted fund by the risk free rate (the standard Japanese government bond rate) based on the set period.

(Note 2) Financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

(Millions of yen)

Classification	Carrying amount on balance sheet
Unlisted stocks (*)	2,030

(*) Since unlisted stocks do not have quoted market prices available and fair value is extremely difficult to be determined, fair values are not stated.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*1)	48,096	—	—	—	—	—
Loans and bill discounted (*2)	239,491	446,045	359,778	282,276	332,959	794,035
Total	287,587	446,045	359,778	282,276	332,959	794,035

(*1) Demand deposits contained within due from banks are stated as "Maturities within one year".
(*2) Within loans, claims against bankrupt borrowers, substantially bankrupt borrowers and potentially bankrupt borrowers contains an amount of ¥94,131 million that is not expected to be redeemed and not includes in the table above.

(Note 4) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	186,939	383,113	351,215	294,139	330,202	516,844
Bonds payable	—	51,000	13,000	26,000	—	85,000
Entrusted fund	—	—	—	237	2,216	35,281
Total	186,939	434,113	364,215	320,377	332,418	637,126

13. Market value of securities

In addition to "Stocks," on the balance sheet, transferable deposits in "Due from banks" are also included.

The market value of securities at March 31, 2011 is as follows:

1. Equity securities of or investment in subsidiaries and affiliates

(Note) These are equity securities of, or investment in subsidiaries and affiliates whose fair value is extremely difficult to be determined.

	Carrying amount on the balance sheet (Millions of yen)
Equity securities of or investment in affiliates	2,030

They have no quoted market price and their fair value is extremely difficult to be determined.

2. Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount does not exceed acquisition cost	Others	1,100	1,100	—

14. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34; 1965).

15. Retirement benefits

JFC has a defined benefit pension plan comprising of a welfare pension fund plan and a lump-sum severance indemnity plan.

(a) The funded status of the pension plans

	March 31, 2011 (Millions of yen)
Projected benefit obligations (A)	(30,570)
Fair value of plan assets (B)	7,688
Unfunded pension obligations (C)=(A)+(B)	(22,881)
Unrecognized prior service costs (D)	(211)
Actuarial unrecognized difference (E)	103
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(22,989)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(22,989)

(b) Component of pension cost

	March 31, 2011 (Millions of yen)
Service cost	824
Interest cost	611
Expected return on plan assets	(159)
Amortization of prior service cost accounted for as expense	(1)
Actuarial differences accounted for as expense	(4)
Other costs	—
Net pensions cost	1,269

(Note) Employee contributions to pension funds have been deducted from the service cost.

(c) Principal assumptions

	March 31, 2011
Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Terms to amortize unrecognized prior service costs	10 years
Terms to amortize actuarial unrecognized differences	10 years

16. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥1,843 million
Profit or Loss of Investment in affiliates (equity method)	¥22 million

17. Related party transactions

Related party transactions in the fiscal year ended March 31, 2011 are as follows:

(a) Transactions with parent company and major shareholder companies

(Millions of yen)

	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amounts of transactions	Items	Balance as of March 31, 2011
Principal shareholder	Ministry of Finance (Minister of Finance)(Note i)	100 (Direct)	Administration for policy based financing	Receipt of funds(Note ii)	170,000	Borrowings	1,980,960
				Repayment of borrowing	276,084		
				Payment of interest on borrowings	43,320	Accrued expenses	6,078
				Deposit of funds(Note iii)	6,500	Due from banks	6,500
				Guarantee for corporate bonds(Note iv)	25,974	—	—

(Note)
(i) Transactions with the ministries and agencies other than Ministry of Finance are as follows:
- Ministry of Agriculture, Forestry and Fisheries
Receipts from the national budget ¥19,190 million
Receipt of borrowed money ¥12,001 million
(ii) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.
(iii) Deposit of funds is the deposit for the FILP and the interest rates applicable under the FILP are applied.
(iv) No guarantee fee has been paid for the guarantee of bonds.
(v) Figures in the table above do not include consumption taxes.

(b) Transactions with fellow subsidiaries and affiliates' subsidiaries

(Millions of yen)

	Corporate name	Ratio to Total Voting Rights	Relation with related parties	Transactions	Amounts of transactions	Items	Balance as of March 31, 2011
Companies that had the majority of voting rights by principal shareholders	Independent administrative agency Agriculture, Forestry and Fisheries Credit Fund	—	Acceptance of trusted fund	Receipts of entrust funds(Note i)	1,690	Entrusted fund	37,735
				Repayment of entrusted fund	1,243		

(Note)
(i) Entrusted funds represent the amounts received on an interest-free basis from the Agriculture, Forestry and Fisheries Credit Foundations in accordance with the Act on Temporary Measures concerning Fund for Improvement of Forestry Management Framework (Law No. 51 of 1979) and are provided as loans on an interest-free basis to help revitalize the forestry infrastructure.
(ii) Figures in the table above do not include consumption taxes.

18. Subsequent events

The Board of Directors of JFC resolved on May 24, 2011 to issue new shares by way of allotment to shareholders as of July 4, 2011.

(Unit: yen)

Type and number of shares	8,973,000,000 shares of common stock
Issue price	1 per share
Total issue amount	8,973,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	—
Total amount of incorporated into Capital stock	8,973,000,000
Total amount of incorporated into Legal capital surplus	—
Payment date	July 4, 2011
Purpose of use	To provide effectively unsecured and unguaranteed loans in order to enable smooth access to financing

Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)

Balance Sheet (as of March 31, 2011)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	64,413	Borrowed money	3,871,964
Cash	2	Borrowings	3,871,964
Due from banks	64,411	Bonds payable	1,802,750
Securities	2,264	Other liabilities	17,076
Corporate bonds	294	Accrued expenses	11,101
Other securities	1,969	Unearned revenue	1
Loans and bills discounted	6,164,738	Lease obligations	2,978
Loans on deeds	6,164,738	Other	2,994
Other assets	10,133	Provision for bonuses	974
Prepaid expenses	2,934	Provision for directors' bonuses	5
Accrued income	5,186	Provision for retirement benefits	40,466
Other	2,012	Provision for directors' retirement benefits	20
Property, plant and equipment	52,730	Acceptances and guarantees	282
Buildings	4,361	Total liabilities	5,733,541
Land	13,454	Net assets	
Lease assets	909	Capital stock	768,035
Construction in progress	33,843	Retained earnings	(402,219)
Other	160	Other retained earnings	(402,219)
Intangible assets	4,115	Retained earnings brought forward	(402,219)
Software	2,092	Total shareholders' equity	365,815
Lease assets	1,924		
Other	98		
Customers' liabilities for acceptances and guarantees	282		
Allowance for loan losses	(199,322)	Total net assets	365,815
Total assets	6,099,356	Total liabilities and net assets	6,099,356

Statement of Operations (Year ended March 31, 2011)

(Millions of yen)

Ordinary income	**124,973**
Interest income	109,857
Interest on loans and discounts	109,799
Interest and dividends on securities	33
Interest on deposits with banks	25
Fees and commissions	69
Other fees and commissions	69
Other ordinary income	0
Income from derivatives other than for trading or hedging	0
Receipts from the national budget	14,338
Receipts from general account of the national budget	14,326
Receipts from special account of the national budget	11
Other income	707
Gain on sales of stocks and other securities	0
Other	707
Ordinary expenses	**169,601**
Interest expenses	50,848
Interest on call money	119
Interest on borrowings and rediscounts	27,792
Interest on bonds	22,935
Fees and commissions payments	165
Other fees and commissions	165
Other ordinary expenses	658
Loss on devaluation of bonds	68
Amortization of bond issuance cost	579
Other	9
General and administrative expenses	26,211
Other expenses	91,718
Provision of allowance for loan losses	85,129
Written-off of loans	6,145
Losses on devaluation of stocks and other securities	441
Other	1
Ordinary loss	**44,628**
Extraordinary income	**191**
Recoveries of written-off claims	191
Extraordinary losses	**5,289**
Loss on disposal of noncurrent assets	5,255
Impairment loss	33
Net loss	**49,727**

Statement of Changes in Net Assets (Year ended March 31, 2011)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the end of previous period	724,285
Changes of items during the period	
Issuance of new shares	43,750
Total changes of items during the period	43,750
Balance at the end of current period	768,035
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the end of previous period	(352,492)
Changes of items during the period	
Net income (loss)	(49,727)
Total changes of items during the period	(49,727)
Balance at the end of current period	(402,219)
Total retained earnings	
Balance at the end of previous period	(352,492)
Changes of items during the period	
Net income (loss)	(49,727)
Total changes of items during the period	(49,727)
Balance at the end of current period	(402,219)
Total shareholders' equity	
Balance at the end of previous period	371,792
Changes of items during the period	
Issuance of new shares	43,750
Net income (loss)	(49,727)
Total changes of items during the period	(5,977)
Balance at the end of current period	365,815
Total net assets	
Balance at the end of previous period	371,792
Changes of items during the period	
Issuance of new shares	43,750
Net income (loss)	(49,727)
Total changes of items during the period	(5,977)
Balance at the end of current period	365,815

Notes to Financial Statements
ACCOUNT FOR SME LOAN PROGRAMS AND SECURITIZATION SUPPORT PROGRAMS (GUARANTEE-TYPE OPERATION)

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Held-to-maturity securities are carried at amortized cost based on the moving average method. Available-for-sale securities whose fair values are extremely difficult to be determined are carried at cost based on the moving average method.

(b) Valuation method for derivative financial instruments

Derivative financial instruments are carried at fair value.

(c) Depreciation basis for fixed assets

(i) Property, plant and equipment (except for lease assets)

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) which are depreciated under the straight-line method.

Amortization is based on the following range of estimated useful lives:

Buildings: 2 years to 50 years

Other: 2 years to 20 years

(ii) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JFC is amortized over its useful life (5 years).

(iii) Lease assets

Lease assets in “property, plant and equipment” or “intangible assets,” under finance leases that do not involve transfer of ownership to the lessee are amortized under the straight-line method over the lease term. Depreciation for lease assets is calculated with zero residual value being assigned to the asset.

(d) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

(e) Accounting policy for reserves

(i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

The allowance for claims on debtors who are legally bankrupt (“Bankrupt borrowers”) or substantially bankrupt (“Substantially bankrupt borrowers”) is provided based on the outstanding balance after the write-offs described in the followings and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt but are likely to become bankrupt (“Potentially bankrupt borrowers”) is provided based on an assessment of the overall solvency of the debtors after deducting the amount expected to be collected through the disposal of collateral and the execution of guarantees.

The allowance for claims on debtors other than Bankrupt borrowers, Substantially bankrupt borrowers and Potentially bankrupt borrowers is provided primarily based on the default rate, which is calculated based on the actual defaults during a certain period in the past.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments, which is independent from the operational departments, reviews these self-assessments, and the allowance is provided based on the results of the assessments.

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), the residual booked amount of the claims after deduction of the amount which is deemed collectible through the disposal of collateral or the execution of guarantees is written-off. The amount of accumulated write-off is ¥147,412 million.

Write-offs of the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation) are recognized by offsetting the current allowance for loan losses for the amount of the claim deemed uncollectable against the year-end claim amount balance; the previous allowance for loan losses and claim balances are reversed at the start of the fiscal year, upon approval received from the competent minister based on Article 4 of the “Ministerial Ordinance Concerning Accounting for the Japan Finance Corporation.”

The Account for SME Loan Programs and Securitization Programs (Guarantee-type Operation) had debtors of which condition could not be reflected on self-assessment as of the base date due to the temporary difficulties in the reassessment and physical inspection of guarantees and collateral as well as ascertaining the accurate status of debtors resulting from the impact of the Great East Japan Earthquake. In order to consider credit risk from the earthquake disaster, an allowance for loan losses is calculated by reasonably estimating future losses and making appropriate adjustment, such as to future outlooks, for the loan loss ratio appreciable by borrower classifications given as of the base date.

(ii) Provision for bonuses

The "provision for bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

(iii) Provision for directors' bonuses

The "provision for directors' bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

(iv) Provision for retirement benefits

The "provision for retirement benefits" represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end.

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the year of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year.

(v) Provision for directors' retirement benefits

The "provision for directors' retirement benefits," which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

(f) Accounting for hedging transactions

Corporate bonds dominated in foreign currency for which currency swaps are used to hedge the foreign currency fluctuations are translated at the contracted rate, as the specific requirements have been met. Assessment of effectiveness is omitted for those currency swaps.

(g) Consumption and other taxes

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts. Amounts of non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

Change in accounting policy

(Accounting standard for asset retirement obligations)

ASBJ Statement No. 18, Accounting Standard for Asset Retirement Obligations, issued on March 31, 2008, and ASBJ Guidance No. 21, Guidance on Accounting Standard for Asset Retirement Obligations, issued on March 31, 2008, have been adopted commencing with this fiscal year end.

Note that this adoption does not have any impacts on income or expense.

2. Loans

All loans entered into are loans on deeds. The amounts reported in the balance sheet include the followings:

(Millions of yen)

	As of March 31, 2011 Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)
Bankrupt loans	22,488
Non-accrual loans	358,787
Loans with interest or principal repayments more than three months in arrears	—
Restructured loans	47,450
Total	428,727

(a) "Bankrupt loans" are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the corporate Tax Law Enforcement Ordinance (Government Ordinance No. 97), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.

(b) "Non-accrual loans" are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

(c) "Loans with interest or principal repayments more than three months in arrears" are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of "Bankrupt loans" and "Non-accrual loans"

(d) "Restructured loans" are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers' recovery from financial difficulties, and which do not fall under the category of "Bankrupt loans", "Non-accrual loans", and "Loans with interest or principal repayments more than three months in arrears".

(e) The amounts of loans indicated in the table above are the gross amounts prior to the deduction of allowance for possible loan losses.

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheet. The balance of unpaid amounts as of March 31, 2011 is ¥126,817 million.

3. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes SME Loan Programs and Securitization Support Programs (Guarantee-type) Operating Account bonds issued to a total amount of ¥1,802,750 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥1,587 million.

5. Net assets per share

Net assets per share are ¥0.47.

6. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 22 (1) of the Act on Special Measures Concerning Smooth Implementation of Realignment of United States Forces in Japan (Act No. 67; 2007) and instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010).

*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010) and operations listed in Article 16 of the Act on Special Measures concerning Smooth Implementation of Realignment of United States Forces in Japan [hereafter referred to as "operations listed under each section of Article 41 of the same law."

7. Impairment losses

Impairment loss is recognized for the following assets:

Region	Purpose of use	Type	Impairment loss (Millions of yen)
Tokyo metropolitan area	Idle assets: 2 items	Land, buildings	33

The Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation) does not have any operating assets that are subject to impairments. For idle assets, an impairment loss is recognized as the difference between the recoverable amount and the carrying value at the end of the fiscal year.

Each asset in the grouping of idle assets that have suffered impairment is treated as an individual unit.

The recoverable value in principle is calculated using net realizable value. The net realizable value is determined by the appraisal value based on the Real Estate Appraisal Standard.

The recoverable value has been set at ¥0 for assets that are not expected to be used in the future.

8. Net loss per share

Net loss per share is ¥0.06.

9. Issued shares

For the fiscal year ended March 31, 2011 types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	724,285,000,000	43,750,000,000	—	768,035,000,000

(Note) Increases is due to the issuance of 43,750,000,000 shares.

10. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a governmental financial institution founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the development of the Japanese and global economic society and the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from fiscal investment funds and loans, bonds and investment from the general account, equity participation, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs Purchase-type Operation), Credit Insurance Programs, JBIC Operations, Financial Operations for Facilitating Realignment of United States Forces in Japan, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Business Promotion. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., as stipulated by the JFC Act.

In the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), a stable supply of long-term funds is provided to supplement private sector financial institutions in order to support the growth and development of SMEs. To conduct these operations, funds are raised primarily through indirect financing by borrowing from the government and direct financing through the issuing of bonds. Also, derivative transactions are conducted for the purpose of mitigating risk inherent in foreign currency denominated transactions.

(2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts,.

The financial assets in this account mainly include loans and securities for SMEs, and financial liabilities mainly include borrowings and bonds. The associated risks are described below.

(a) Credit risk

The following operations are conducted in this account: (1) Loans to SMEs, (2) Acquisition of bonds issued by SMEs, (3) Securitization of loan claims and bonds of SMEs, and (4) Partial guarantee of loan claims for private sector financial institutions and partial guarantee of securitized financial products. Because credit is provided to SMEs in this account, the account risks losses arising from uncollectable claims caused by deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the SMEs to which credit is granted.

(b) Market risk

The main types of market risk associated with this account are interest rate risk and exchange rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps arise between assets and liabilities. This account could suffer losses from the interest rate risk caused by this gap.

The exchange rate risk associated with the issue of foreign currency-denominated bonds also applies to this account. However this risk is fully hedged through currency swaps.

(c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, government-backed bonds, and FILP agency bonds are secured to finance this account and deposits are not accepted. Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions are taken to maintain daily cash flows, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

(3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

(a) Credit risk management

(i) Individual credit management

For financing operations, the financing decision is conducted upon assessment of the situation of company applying for funds from a fair and neutral position and verification of the certainty of repayment and validity of use of funds.

Since these financing operations specialize in long-term funding for businesses, in the screening process, verification assessment is made of the likelihood of long-term repayment focusing on business profits as well as on overall judgment being made on the certainty of repayment.

An overall judgment of the company's enterprise power is made, not limited to a quantitative analysis focusing on the financial statements, but taking into consideration various management activities including the combination of people, money, and other factors that makes up the company and the future prospects of the company that has applied for funds.

We strive to continuously assess the situation after financing has been granted through review of financial reports and regular company visits. Based on the classification of the borrower or otherwise as required, and after consideration of the results of management improvement plans, follow ups will be conducted as required to define transaction policy.

In addition, in order to support the growth and development of the borrower, we will strive to give as much feedback as possible on the screening results and provide consultation support to help resolve management issues. In particular, we will support companies struggling to respond to changes in the business environment by formulating business improvement plans through methods such as preparing and submitting management improvement proposals.

(ii) Credit rating

A credit scoring model based on analysis of transaction data collected over the years for borrowers has been developed for these operations and has been used in the screening process. In Fiscal Year 2002 this tool was developed for credit rating, and a credit rating system based on a new scoring model was introduced in Fiscal Year 2007 to improve default determination accuracy. In this manner, credit risk is being adequately evaluated.

(iii) Asset self assessment

For these operations standards have been established in accordance with the Financial Inspection Manual prepared by the Financial Services Agency to conduct self assessment. Classification of borrowers is being conducted based on the new credit rating system introduced in Fiscal Year 2007.

First stage assessments of borrower classification and asset type are conducted by the front offices and second stage assessments by a separate credit department. An auditing department independent from the other sections then conducts an internal inspection to verify the accuracy of assessments.

(iv) Quantification of credit risk

In addition to the individual credit management described above, from 2005 we started monitoring and quantifying credit risks to assess the overall risk of the credit portfolio to further improve the efficiency of financing operations and the quantification and management of credit risk.

(v) Credit risk management for securitization support operations

In the securitization support operations since July, 2004, we have used scoring models such as our proprietary creditworthiness measurement tool which was developed based on the analysis of transaction data collected over the years for SMEs, and a Credit Risk Database (CRD) to conduct screening. In addition, statistical methods such as Monte Carlo simulations are used to accurately assess the overall credit risk for pools of claims to establish a proper guarantee rate based on credit risk.

After guarantees have been conducted, accurate assessment of credit risk is conducted through confirmation of the repayment status, submission of financial reports, and regular reassessment of the pool of claims.

(b) Market risk management

(i) Interest rate risk

The main type of market risk associated with these operations is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps do arise between assets and liabilities. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder analysis and duration analysis, and conduct proper risk management by attempting to reduce interest rate risk by diversifying the year of issue for bonds.

(ii) Exchange rate risk

It is JFC policy to fully hedge at the time of issuance through the use of currency swaps, the exchange rate risk resulting from foreign-currency denominated corporate bonds. The counterparty risk associated with swaps is managed through regular assessment of the fair value and risk exposure of the swap transaction for counterparties, and the creditworthiness of counterparties.

(iii) Quantitative information relating to market risk

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans, borrowings, and corporate bonds.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2011 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥21,612 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥19,865 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related to fund procurement

Long-term and stable funds such as fiscal loan funds, government-backed bonds, and FILP agency bonds are secured to finance this account and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions have been taken to maintain daily cash flows for proper risk management.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2011, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to be determined are not included in the following chart (refer to note 2).

(Millions of yen)

	Amount on Balance Sheet	Fair value	Difference
(1) Cash and due from banks	64,413	64,413	—
(2) Securities			
Held to maturity debt securities	294	294	—
(3) Loans and bills discounted	6,118,079		
Allowance for loan losses (*)	(178,640)		
	5,939,439	6,157,991	218,551
Total assets	6,004,148	6,222,699	218,551
(1) Borrowings	3,871,290	3,909,567	38,277
(2) Bonds payable	1,802,750	1,828,426	25,676
Total liabilities	5,674,040	5,737,993	63,953

(*) General allowance for loan losses and specific allowance for loan losses have been deducted from loans.

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature, the carrying amount is used as fair value because fair value resembles the carrying amount.

(2) Securities

For corporate bonds in the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), the carrying amount is used as fair value because fair value approximates the carrying amount.

Notes for securities by purpose of holding are found in "11. Market value of securities".

(3) Loans and bills discounted

All loans, with the exception of subordinated capital loans, have a fixed interest rate and fair value is calculated for all loans other than bankruptcy loans and substantially bankruptcy loans by discounting the risk-adjusted principal and interest by the risk free rate (the standard Japanese government bond rate) based on the type of borrower and period of loan. However, allowance for loan losses which was additionally provided for the borrowers whose condition could not be determined through self-assessment as of the base date has been deducted from the fair value mentioned above. (See "Significant accounting policies (e) (i)").

For obligations on bankrupt borrowers or substantially bankrupt borrowers, allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value resembles the amount on the balance sheet on the closing date after a deduction has been made for allowance for loan losses, so this amount is used for fair value.

Liabilities

(1) Borrowings

Borrowings through the fiscal investment funds and loans are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of the loan.

(2) Bonds payable

Market value is used for fair value of bonds. However, bonds that are subject to hedging with forward contracts are treated as yen-denominated bonds with fixed interest, and the fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate).

(Note 2) Financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.
They are not included in "Assets, (2) Securities," "Assets, (3) Loans and bills discounted" and "Liabilities, (1) Borrowings"

(Millions of yen)

Classification	Carrying amount on balance sheet
1) Other securities (trust beneficiary securities) (*1)	1,969
2) Loans on deeds (subordinated capital loans) (*2)	46,659
3) Borrowings from the FILP special account (investment account) of the national budget (*3)	674
Total	49,303

(*1) Other securities (trust beneficiary securities) do not have a market value.
These are securities issues backed by loan claims on SMEs originating from multiple financial institutions. The following steps are followed when constructing the subordination structure for the securities:
(1) First, groups of loan claims from the financial institutions are put into sub-pools, and the most subordinated section is removed;
(2) The remainder of the sub-pool besides the most subordinated section is treated as an amalgamate and divided into levels of senior and subordinate.
For this reason, to evaluate the fair value of corporate bonds (specified asset-backed securities) and other securities (trust beneficiary securities) owned by JFC that have been amalgamated the individual financial data for the borrowers that back the securities issue is required. Because JFC is not structured to continuously acquire this data, fair value is extremely difficult to be determined and is not stated.
(*2) For loans on deed (subordinated capital loans) under the Provision Scheme for Challenge Support and Capital Enhancement, fair values are not stated because it is recognized that fair value is extremely difficult to be determined. This is because future cash flow can not be reasonably estimated due to its particular scheme that applicable interest rates are determined by every year's business performance of the debtor instead of being determined at the time of loan execution.
(*3) For borrowings from the FILP special account (investment account) of the national budget, fair values are not stated because it is recognized that fair value is extremely difficult to be determined. This is because future cash flow can not be reasonably estimated due to its particular scheme that applicable interest rates are determined by every year's business performance of the debtor instead of being determined at the time of loan execution.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*1)	64,411	—	—	—	—	—
Securities (*2) Held-to-maturity debt securities	259	34	—	—	—	—
Loans and bill discounted (*2)	1,267,702	2,059,419	1,407,884	732,167	344,195	228,934
Total	1,332,373	2,059,453	1,407,884	732,167	344,195	228,934

(*1) Demand deposits contained within due from banks are stated as "Maturities within one year".
(*2) Within loans and securities, claims against bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers contains an amount of ¥124,436 million that is not expected to be redeemed and not included in the table above.

(Note 4) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	891,816	1,487,642	939,794	299,961	252,750	—
Bonds payable	357,710	736,000	440,000	180,000	90,000	—
Total	1,249,526	2,223,642	1,379,794	479,961	342,750	—

11. Market value of securities

The market value of securities at March 31, 2011 is as follows:

(a) Held-to-maturity debt securities with market value

	Type	Carrying amount on the balance sheet (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Securities whose fair value does not exceed their carrying amount	Corporate bonds	294	294	—

(b) Available-for-sale securities

(Note) Available-for-sale securities whose fair value is extremely difficult to be determined

	Carrying amount on the balance sheet (Millions of yen)
Others Unlisted Japanese securities	1,969

They have no quoted market price and their fair value is extremely difficult to be determined.

12. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34; 1965).

13. Retirement benefits

JFC has a defined benefit pension plan comprising of a welfare pension fund plan and a lump-sum severance indemnity plan.

(a) The funded status of the pension plans

	March 31, 2011 (Millions of yen)
Projected benefit obligations (A)	(54,162)
Fair value of plan assets (B)	13,707
Unfunded pension obligations (C)=(A)+(B)	(40,455)
Unrecognized prior service costs (D)	(1,210)
Actuarial unrecognized difference (E)	1,199
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(40,466)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(40,466)

(b) Component of pension cost

	March 31, 2011 (Millions of yen)
Service cost	1,459
Interest cost	1,073
Expected return on plan assets	(283)
Amortization of prior service cost accounted for as expense	(128)
Actuarial differences accounted for as expense	90
Other costs	—
Net pensions cost	2,212

(Note) Employee contributions to pension funds have been deducted from the service cost.

(c) Principal assumptions

	March 31, 2011
Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Terms to amortize unrecognized prior service costs	10 years
Terms to amortize actuarial unrecognized differences	10 years

14. Related party transactions

Related party transactions in the fiscal year ended March 31, 2011 are as follows:

(a) Transactions with parent company and major shareholder companies

(Millions of yen)

<table>
<tr><th></th><th>Corporate name</th><th>Ratio to Total Voting Rights (%)</th><th>Relation with related parties</th><th>Transactions</th><th>Amounts of transactions</th><th>Items</th><th>Balance as of March 31, 2011</th></tr>
<tr><td rowspan="5">Principal shareholder</td><td rowspan="5">Ministry of Finance (Minister of Finance)(Note i)</td><td rowspan="5">100 (Direct)</td><td rowspan="5">Administration for policy based financing</td><td>Underwriting of capital increase(Note ii)</td><td>43,750</td><td>—</td><td>—</td></tr>
<tr><td>Receipt of funds(Note iii)</td><td>1,398,080</td><td rowspan="2">Borrowings</td><td rowspan="2">3,871,964</td></tr>
<tr><td>Repayment of borrowing</td><td>886,861</td></tr>
<tr><td>Payment of interest on borrowings</td><td>27,771</td><td>Accrued expenses</td><td>7,338</td></tr>
<tr><td>Guarantee for corporate bonds(Note iv)</td><td>1,321,775</td><td>—</td><td>—</td></tr>
</table>

(Note)
(i) Transactions with the ministries and agencies other than Ministry of Finance are as follows:
- Small and Medium Enterprise Agency
  Receipts from the national budget ¥14,326 million
- Agency for Natural Resources and Energy
  Receipts from the national budget ¥11 million

(ii) The underwriting of capital increase represents the increase in capital through shareholder allocation by JFC at an allocation amount of ¥1 per share.
(iii) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.
(iv) No guarantee fee has been paid for the guarantee of bonds.
(v) Figures in the table above do not include consumption taxes.

(b) Transactions with directors and major shareholders (not company)

Transactions stated here in the previous fiscal year's annual report as transactions with directors and major shareholders (not companies) have been omitted commencing this fiscal year end because the terms and conditions of these transactions are irrefutably in accordance with those of general transactions.

15. Subsequent events

The Board of Directors of JFC resolved on May 24, 2011 to issue new shares by way of allotment to shareholders as of July 4, 2011.

(Unit: yen)

Type and number of shares	62,500,000,000 shares of common stock
Issue price	1 per share
Total issue amount	62,500,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	—
Total amount of incorporated into Capital stock	62,500,000,000
Total amount of incorporated into Legal capital surplus	—
Payment date	July 4, 2011
Purpose of use	To lower the interest rate of special loans provided to aid reconstruction from the Great East Japan Earthquake

Account for Securitization Support Programs (Purchase-type Operation)

Balance Sheet (as of March 31, 2011)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	943	Other liabilities	39
Cash	0	Accrued expenses	2
Due from banks	943	Other	37
Securities	22,557	Provision for bonuses	1
Government bonds	21,112	Provision for directors' bonuses	0
Corporate bonds	754	Provision for retirement benefits	27
Other securities	689	Provision for directors' retirement benefits	0
Other assets	35	Acceptances and guarantees	2,654
Accrued income	13	Total liabilities	2,722
Other	21	Net assets	
Customers' liabilities for acceptances and guarantees	2,654	Capital stock	24,476
Allowance for loan losses	(232)	Retained earnings	(1,240)
		Other retained earnings	(1,240)
		Retained earnings brought forward	(1,240)
		Total shareholders' equity	23,235
		Total net assets	23,235
Total assets	25,957	Total liabilities and net assets	25,957

Statement of Operations (Year ended March 31, 2011)

(Millions of yen)

Ordinary income	**423**
Interest income	365
Interest and dividends on securities	364
Interest on receivables under resale agreements	0
Interest on deposits with banks	1
Fees and commissions	56
Other fees and commissions	56
Other income	0
Other	0
Ordinary expenses	**229**
Interest expenses	9
Interest on borrowings and rediscounts	0
Interest on bonds	9
Fees and commissions payments	39
Other fees and commissions	39
Other ordinary expenses	125
Loss on devaluation of bonds	120
Amortization of bond issuance cost	0
Other	4
General and administrative expenses	54
Other expenses	1
Losses on devaluation of stocks and other securities	1
Ordinary profit	**194**
Extraordinary income	**489**
Reversal of allowance for loan losses	489
Net income	**683**

Statement of Changes in Net Assets (Year ended March 31, 2011)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the end of previous period	24,476
Changes of items during the period	
Total changes of items during the period	—
Balance at the end of current period	24,476
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the end of previous period	(1,924)
Changes of items during the period	
Net income (loss)	683
Total changes of items during the period	683
Balance at the end of current period	(1,240)
Total retained earnings	
Balance at the end of previous period	(1,924)
Changes of items during the period	
Net income (loss)	683
Total changes of items during the period	683
Balance at the end of current period	(1,240)
Total shareholders' equity	
Balance at the end of previous period	22,551
Changes of items during the period	
Net income (loss)	683
Total changes of items during the period	683
Balance at the end of current period	23,235
Total net assets	
Balance at the end of previous period	22,551
Changes of items during the period	
Net income (loss)	683
Total changes of items during the period	683
Balance at the end of current period	23,235

Notes to Financial Statements
ACCOUNT FOR SECURITIZATION SUPPORT PROGRAMS (PURCHASE-TYPE OPERATION)

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Held-to-maturity securities are carried at amortized cost based on the moving average method. Available-for-sale securities, which have readily determinable fair value are stated at fair value with changes in net unrealized gains or losses, included directly in Net assets. Available-for-sale securities whose fair value is extremely difficult to be determined are carried at cost based on the moving average method.

(Change in accounting policy)

ASBJ Statement No. 10 Accounting Standards for Financial Instruments and ASBJ Guidance on Disclosures about Fair Value of Financial Instruments issued on March 10, 2008 have been adopted commencing with this fiscal year end. Note that this adoption did not have any impacts on income or expense.

(b) Valuation method for derivative financial instruments

Certain credit default swap transactions, for which neither quoted market price nor reliably estimated value is available and the fair value is undeterminable, are accounted for as guarantee of obligation.

(c) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

(d) Accounting policy for reserves

(i) Allowance for loan losses

The allowance for loan losses are calculated and recorded based on an anticipated loan loss ratio in accordance with internally established standards for write-offs and allowances.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation department, which is independent from the operational departments, reviews these self-assessments, and the allowance is provided based on the results of the assessments.

(ii) Provision for bonuses

The "provision for bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

(iii) Provision for directors' bonuses

The "provision for directors' bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

(iv) Provision for retirement benefits

The "provision for retirement benefits" represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end.

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the year of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year.

(v) Provision for directors' retirement benefits

The "provision for directors' retirement benefits," which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

(e) Consumption and other taxes

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts.

2. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for all bonds issued by JFC. No securitization support programs (purchase-type operation) account bonds have been issued.

3. Net assets per share

Net assets per share are ¥0.94.

4. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act.*1 In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 22 (1) of the Act on Special Measures Concerning Smooth Implementation of Realignment of United States Forces in Japan (Act No. 67; 2007) and instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010).

*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010) and operations listed in Article 16 of the Act on Special Measures concerning Smooth Implementation of Realignment of United States Forces in Japan [hereafter referred to as "operations listed under each section of Article 41 of the same law."

5. Net Income per share

Net Income per share is ¥0.02.

6. Issued shares

For the fiscal year ended March 31, 2011, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	24,476,000,000	—	—	24,476,000,000

7. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a governmental financial institution founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the development of the Japanese and global economic society and the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, equity participation, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, JBIC Operations, Financial Operations for Facilitating Realignment of United States Forces in Japan, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Business Promotion. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., as stipulated by the JFC Act.

Operations in the Account for Securitization Support Programs (Purchase-type Operation) are conducted for the purpose of promoting the supply of unsecured funds to SMEs from private sector financial institutions, etc., utilizing securitization and fostering the securitization market for SME loan claims. To conduct these operations funds are raised through direct financing through the issuing of bonds.

(2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this account mainly include securities for SMEs, and financial liabilities mainly include bonds. The associated risks are described below.

(a) Credit risk

The following operations are conducted in this account: (1) Receipt and securitization of loan claims for private sector financial institutions and (2) Partial purchase of securitized instruments. Since credit is provided to SMEs in this account, the account risks losses arising from uncollectable claims caused by deterioration in creditworthiness of the SMEs to which credit is granted and the resulting drop in value of securitized instruments owned.

(b) Market risk

The main type of market risk associated with this account is interest-rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities.

(c) Liquidity risk

Long-term and stable funds such as FILP agency bonds are secured to finance this account and deposits are not accepted. Proper measures, including establishing overdraft facility accounts with multiple private sector financial institutions, are taken to maintain daily cash flows, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

(3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

(a) Credit risk management

In the securitization support operations, we use scoring models such as our proprietary creditworthiness measurement tool developed based on analysis of transaction data collected over a number of years for SMEs, and a CRD (Credit Risk Database) to conduct screening. In addition, statistical methods such as Monte Carlo simulations are used to accurately assess the overall credit risk for pools of claims to establish a proper return based on credit risk.

(b) Market risk management

The main type of market risk associated with these operations is interest rate risk.

It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities, and we consider that interest rate risk is limited.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instrument that is subject to interest rate risk in these operations is securities.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2011 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥689 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥674 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related with fund procurement

It is considered that liquidity risk is limited because a system has been adopted to minimize liquidity risk and sufficient funding support can be expected from the government.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2011, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to be determined are not included in the following chart (refer to note 2).

(Millions of yen)

	Amount on Balance Sheet	Fair value	Difference
(1) Cash and due from banks	943	943	—
(2) Securities			
Held to maturity debt securities	21,112	22,307	1,194
Total assets	22,056	23,251	1,194

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For Due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount.

(2) Securities

Market value is used for securities.

Notes for securities by purpose of holding are found in "8. Market value of securities".

(Note 2) Financial instruments that are recognized to be extremely difficult to be determined fair value are as follows. They are not included in "Assets, (2) Securities".

(Millions of yen)

Classification	Carrying amount on balance sheet
1) Corporate bonds (specified asset-backed securities) (*1)	754
2) Other securities (trust beneficiary securities) (*1)	689
3) Credit default swap (CDS) (*2)	—
Total	1,444

(*1) Corporate bonds (specified asset-backed securities) and other securities (trust beneficiary securities) do not have a market value.

These are securities issues backed by loan claims on SMEs originating from multiple financial institutions. The following steps are followed when constructing the subordination structure for the securities:

(1) First, groups of loan claims from the financial institutions are put into sub-pools, and the most subordinated section is removed;

(2) The remainder of the sub-pool besides the most subordinated section is treated as an amalgamate and divided into levels of senior and subordinate.

For this reason, to evaluate the fair value of other securities (trust beneficiary securities) owned by JFC that have been amalgamated , the individual financial data for the borrowers that back the securities issue is required. Because JFC is not structured to continuously acquire this data, fair value is extremely difficult to be determined and is not stated.

(*2) Credit default swaps (CDS) reference loan claims on SMEs, and do not have market value. JFC is not structured to continuously acquire the individual financial data for the borrowers referenced by these CDS, and is hence unable to reasonably estimate the likelihood of defaults occurring. For this reason, fair value is not stated for these instruments owing to the extreme difficulty in determining fair value.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*)	943	—	—	—	—	—
Securities Held-to-maturity debt securities	—	—	—	20,983	—	—
Total	943	—	—	20,983	—	—

(*) Demand deposits contained within due from banks are stated as "Maturities within one year".

8. Market value of securities

(a) Held-to-maturity debt securities with market value

	Type	Carrying amount on the balance sheet (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Securities whose fair value exceeds their carrying amount	Japanese government bonds	21,112	22,307	1,194

(b) Available-for-sale securities

(Note) Available-for-sale securities whose fair value is extremely difficult to be determined

	Carrying amount on the balance sheet (Millions of yen)
Debt securities Corporate bonds	754
Others Unlisted Japanese securities	689
Total	1,444

There are no quoted market prices available and it is extremely difficult to determine the fair value of these securities.

9. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34; 1965).

10. Retirement benefits

JFC has a defined benefit pension plan comprising of a welfare pension fund plan and a lump-sum severance indemnity plan.

(a) The funded status of the pension plans

	March 31, 2011 (Millions of yen)
Projected benefit obligations (A)	(36)
Fair value of plan assets (B)	6
Unfunded pension obligations (C)=(A)+(B)	(29)
Unrecognized prior service costs (D)	(2)
Actuarial unrecognized difference (E)	5
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(27)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(27)

(b) Component of pension cost

	March 31, 2011 (Millions of yen)
Service cost	2
Interest cost	0
Expected return on plan assets	(0)
Amortization of prior service cost accounted for as expense	(0)
Actuarial differences accounted for as expense	0
Other costs	—
Net pensions cost	3

(Note) Employee contributions to pension funds have been deducted from the service cost.

(c) Principal assumptions

	March 31, 2011
Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Terms to amortize unrecognized prior service costs	10 years
Terms to amortize actuarial unrecognized differences	10 years

11. Subsequent events

Not applicable.

Small and Medium Enterprise Unit

Account for Credit Insurance Programs

Balance Sheet (as of March 31, 2011)

(Millions of yen)

Assets		**Liabilities**	
Cash and due from banks	**2,106,778**	**Reserve for insurance policy liabilities**	**1,810,579**
Cash	0	**Other liabilities**	**2,151**
Due from banks	2,106,778	Accrued expenses	19
Securities	**695,994**	Lease obligations	952
Government bonds	695,994	Other	1,180
Other assets	**10,442**	**Provision for bonuses**	**181**
Prepaid expenses	2,018	**Provision for directors' bonuses**	**1**
Accrued income	479	**Provision for retirement benefits**	**8,817**
Other	7,944	**Provision for directors' retirement benefits**	**4**
Property, plant and equipment	**21,460**	**Total liabilities**	**1,821,736**
Buildings	581	**Net assets**	
Land	2,095	**Capital surplus**	**1,825,851**
Lease assets	414	Legal capital surplus	1,825,851
Construction in progress	18,352	**Retained earnings**	**(812,011)**
Other	16	Other retained earnings	(812,011)
Intangible assets	**899**	Retained earnings brought forward	(812,011)
Software	84	**Total shareholders' equity**	**1,013,839**
Lease assets	492		
Other	322	**Total net assets**	**1,013,839**
Total assets	**2,835,575**	**Total liabilities and net assets**	**2,835,575**

Statement of Operations (Year ended March 31, 2011)

(Millions of yen)

Ordinary income	**151,365**
Interest income	3,279
Interest and dividends on securities	168
Interest on receivables under resale agreements	31
Interest on deposits with banks	3,078
Insurance premiums and other	147,864
Insurance premiums	147,864
Other income	221
Other	221
Ordinary expenses	**964,471**
Expenses on insurance claims and other	954,365
Expenses on insurance claims	723,170
Recoveries of insurance claims	(139,910)
Provision of reserve for insurance policy liabilities	371,104
General and administrative expenses	5,207
Other expenses	4,899
Other	4,899
Ordinary loss	**813,106**
Extraordinary income	**1,130**
Gain on disposal of noncurrent assets	1,130
Extraordinary losses	**36**
Loss on disposal of noncurrent assets	8
Impairment loss	27
Net loss	**812,011**

Statement of Changes in Net Assets (Year ended March 31, 2011)

(Millions of yen)

Shareholders' equity	
Capital surplus	
Legal capital surplus	
Balance at the end of previous period	2,223,603
Changes of items during the period	
Issuance of new shares	601,300
Reversal of legal capital surplus (Deficit disposition)	(999,052)
Total changes of items during the period	(397,752)
Balance at the end of current period	1,825,851
Total capital surplus	
Balance at the end of previous period	2,223,603
Changes of items during the period	
Issuance of new shares	601,300
Reversal of legal capital surplus (Deficit disposition)	(999,052)
Total changes of items during the period	(397,752)
Balance at the end of current period	1,825,851
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the end of previous period	(999,052)
Changes of items during the period	
Reversal of legal capital surplus (Deficit disposition)	999,052
Net income (loss)	(812,011)
Total changes of items during the period	187,040
Balance at the end of current period	(812,011)
Total retained earnings	
Balance at the end of previous period	(999,052)
Changes of items during the period	
Reversal of legal capital surplus (Deficit disposition)	999,052
Net income (loss)	(812,011)
Total changes of items during the period	187,040
Balance at the end of current period	(812,011)
Total shareholders' equity	
Balance at the end of previous period	1,224,551
Changes of items during the period	
Issuance of new shares	601,300
Net income (loss)	(812,011)
Total changes of items during the period	(210,711)
Balance at the end of current period	1,013,839
Total net assets	
Balance at the end of previous period	1,224,551
Changes of items during the period	
Issuance of new shares	601,300
Net income (loss)	(812,011)
Total changes of items during the period	(210,711)
Balance at the end of current period	1,013,839

Notes to Financial Statements
ACCOUNT FOR CREDIT INSURANCE PROGRAMS

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Held-to-maturity securities are carried at amortized cost based on the moving average method.

(b) Depreciation basis for fixed assets

(i) Property, plant and equipment (except for lease assets)

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) which are depreciated under the straight-line method.

Amortization is based on the following range of estimated useful lives:

Buildings: 10 years to 47 years

Other: 2 years to 15 years

(ii) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JFC is amortized over its useful life (5 years).

(iii) Lease assets

Lease assets in "property, plant and equipment" or "intangible assets," under finance leases that do not involve transfer of ownership to the lessee are amortized under the straight-line method over the lease term. Depreciation for lease assets is calculated with zero residual value being assigned to the asset.

(c) Accounting policy for reserves

(i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments, which is independent from the operational departments, reviews these self-assessments, and the allowance is provided based on the results of the assessments.

(ii) Provision for bonuses

The "provision for bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

(iii) Provision for directors' bonuses

The "provision for directors' bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

(iv) Provision for retirement benefits

The "provision for retirement benefits" represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end.

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the year of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year.

(v) Provision for directors' retirement benefits

The "provision for directors' retirement benefits," which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

(d) Accounting policies for reserve for insurance policy liabilities

The "reserve for insurance policy liabilities" consists of the following two items, pursuant to Article 9, Paragraph 1 of the Ministerial Ordinance Concerning Accounting for JFC. Furthermore, in accordance with Article 9, Paragraph 2 of the Ministerial Ordinance Concerning Accounting for JFC, an additional amount shall be provided for insurance policy liabilities in the event that an impediment to the fulfillment of future obligations has been confirmed.

(i) Policy reserve

The policy reserve which provides for future obligations under insurance policies has been calculated based on actuarial and statistical method.

(ii) Outstanding claims reserve

The outstanding claims reserve represents the accumulation of the estimates for reported losses and includes provision for losses incurred but not reported, after the deduction of collectable amounts based on insurance policies.

(e) Consumption and other taxes

Consumption taxes and local consumption taxes (“consumption taxes”) are excluded from transaction amounts. Amounts of non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

Change in accounting policy
(Accounting standard for asset retirement obligations)
ASBJ Statement No. 18, Accounting Standard for Asset Retirement Obligations, issued on March 31, 2008, and ASBJ Guidance No. 21, Guidance on Accounting Standard for Asset Retirement Obligations, issued on March 31, 2008, have been adopted commencing with this fiscal year end.
Note that this adoption does not have any impacts on income or expense.

2. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for all bonds issued by JFC. No Credit Insurance Programs account bonds have been issued.

3. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥434 million.

4. Net assets per share

Net assets per share are ¥0.24.

5. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 22 (1) of the Act on Special Measures Concerning Smooth Implementation of Realignment of United States Forces in Japan (Act No. 67; 2007) and instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010).
*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010) and operations listed in Article 16 of the Act on Special Measures concerning Smooth Implementation of Realignment of United States Forces in Japan [hereafter referred to as “operations listed under each section of Article 41 of the same law.”

6. Other expenses

Other expenses include refund of insurance premiums ¥4,828 million.

7. Impairment losses

Impairment loss is recognized for the following assets:

Region	Purpose of use	Type	Impairment loss (Millions of yen)
Tokyo metropolitan area	Idle assets: 1 item	Land	27

The account for Credit Insurance Programs does not have any operating assets that are subject to impairments. For idle assets, an impairment loss is recognized as the difference between the recoverable amount and the carrying value at the end of the fiscal year.

Each asset in the grouping of idle assets that have suffered impairment is treated as an individual unit.

The recoverable value in principle is calculated using net realizable value. The net realizable value is determined by the appraisal value based on the Real Estate Appraisal Standard.

8. Net loss per share

Net loss per share is ¥0.21.

9. Issued shares

For the fiscal year ended March 31, 2011 types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	3,561,077,407,741	601,300,000,000	—	4,162,377,407,741

(Note) Increases is due to the issuance of 601,300,000,000 shares.

10. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a governmental financial institution founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the development of the Japanese and global economic society and the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, equity participation, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs Purchase-type Operation), Credit Insurance Programs, JBIC Operations, Financial Operations for Facilitating Realignment of United States Forces in Japan, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Business Promotion. Accounts are made for each classification (“operation account”) for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., as stipulated by the JFC Act.

In the Account for Credit Insurance Programs, insurance is provided for the guarantees related to the liabilities on SME loans. To conduct these operations funds are raised through capital investment from the government.

(2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this account mainly include deposits and securities. The associated risks are described below.

(a) Market risk

The market risk that this account is exposed to mainly comprises interest rate risk.

However, this account is exposed to limited interest-rate risk because funds procured through government investments are managed using highly stable instruments including Japanese government bonds.

(b) Liquidity risk

This account does not accept deposits and since long-term stable funds such as investments from the Japanese government are secured to finance this account, liquidity risk is considered to be limited.

(3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

The risk management structure for these operations is described below.

(a) Market risk management

The main type of market risk associated with these operations is interest rate risk.

These operations strive to undertake appropriate risk management practices by managing funds procured from government investments through using highly stable instruments such as Japanese government bonds.

The main financial instruments exposed to interest rate risk in these operations are deposits and securities. These financial instruments do not have material sensitivity to interest rate fluctuations because they are funds raised from government investments primarily managed using short-term maturities.

(b) Liquidity risk management related to fund procurement
Financing is provided from government funds. Efforts are made for proper risk management through the assessment of cash flows.

(4) Supplementary explanation concerning fair value of financial instruments
The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used the resulting amount could vary.

2. Fair value of financial instruments
The amount in the balance sheet at March 31, 2011, and the related fair value, and difference is as follows.

(Millions of yen)

	Amount on Balance Sheet	Fair value	Difference
(1) Cash and due from banks	2,106,778	2,107,041	263
(2) Securities			
Held to maturity debt securities	695,994	695,994	—
Total assets	2,802,772	2,803,036	263

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks
For due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount. For due from banks that have a maturity over 3 months, fair value is based on the present value calculated by discounting future cash flow by the risk free rate (the standard Japanese government bond rate) based on the appropriate deposit term.

(2) Securities
For Japanese government bonds in the Account for Credit Insurance Programs, the carrying amount is used as fair value because fair value approximates the carrying amount.
Notes for securities by purpose of holding are found in "11. Market value of securities".

(Note 2) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*)	1,856,778	250,000	—	—	—	—
Securities Held-to-maturity debt securities	696,100	—	—	—	—	—
Total	2,552,878	250,000	—	—	—	—

(*) Demand deposits contained within due from banks are stated as "Maturities within one year".

11. Market value of securities

Held-to-maturity debt securities with market value

	Type	Carrying amount on the balance sheet (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Securities whose fair value does not exceed their carrying amount	Japanese government bonds	695,994	695,994	—

12. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34; 1965).

13. Retirement benefits

JFC has a defined benefit pension plan comprising of a welfare pension fund plan and a lump-sum severance indemnity plan.

(a) The funded status of the pension plans

	March 31, 2011 (Millions of yen)
Projected benefit obligations (A)	(11,828)
Fair value of plan assets (B)	3,051
Unfunded pension obligations (C)=(A)+(B)	(8,777)
Unrecognized prior service costs (D)	(158)
Actuarial unrecognized difference (E)	118
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(8,817)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(8,817)

(b) Component of pension cost

	March 31, 2011 (Millions of yen)
Service cost	279
Interest cost	234
Expected return on plan assets	(63)
Amortization of prior service cost accounted for as expense	(16)
Actuarial differences accounted for as expense	10
Other costs	—
Net pensions cost	443

(Note) Employee contributions to pension funds have been deducted from the service cost.

(c) Principal assumptions

	March 31, 2011
Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Terms to amortize unrecognized prior service costs	10 years
Terms to amortize actuarial unrecognized differences	10 years

14. Related party transactions

Related party transactions in the fiscal year ended March 31, 2011 are as follows:

Transactions with parent company and major shareholder companies

(Millions of yen)

	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amounts of transactions	Items	Balance as of March 31, 2011
Principal share-holder	Ministry of Finance (Minister of Finance)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase(Note i)	601,300	—	—
				Deposit of funds(Note ii)	2,368,800	Due from banks	1,765,000

(Note)
(i) The underwriting of capital increase represents the increase in capital through shareholder allocation by JFC at an allocation amount of ¥1 per share.
(ii) Deposit of funds is the deposit for FILP and the interest rates applicable under FILP are applied.
(iii) Figures in the table above do not include consumption taxes.

15. Subsequent events

The Board of Directors of JFC resolved on May 24, 2011 to issue new shares by way of allotment to shareholders as of July 4, 2011.

(Unit: yen)

Type and number of shares	77,100,000,000 shares of common stock
Issue price	1 per share
Total issue amount	77,100,000,000
Amount incorporated into Capital stock	—
Amount incorporated into Legal capital surplus	1 per share
Total amount of incorporated into Capital stock	—
Total amount of incorporated into Legal capital surplus	77,100,000,000
Payment date	July 4, 2011
Purpose of use	To augment insurance platforms and ensure stable system management

(Unit: yen)

Type and number of shares	281,300,000,000 shares of common stock
Issue price	1 per share
Total issue amount	281,300,000,000
Amount incorporated into Capital stock	—
Amount incorporated into Legal capital surplus	1 per share
Total amount of incorporated into Capital stock	—
Total amount of incorporated into Legal capital surplus	281,300,000,000
Payment date	July 4, 2011
Purpose of use	For the establishment of an emergency provision for reconstruction from the Great East Japan Earthquake

Japan Bank for International Cooperation

Account for JBIC Operations

Balance Sheet (as of March 31, 2011)

(Millions of yen)

Assets		**Liabilities**	
Cash and due from banks	**978,074**	**Borrowed money**	**5,502,495**
Cash	0	Borrowings	5,502,495
Due from banks	978,074	**Bonds payable**	**2,703,551**
Securities	**76,453**	**Other liabilities**	**71,181**
Other securities	76,453	Accrued expenses	29,911
Loans and bills discounted	**8,376,794**	Unearned revenue	38,881
Loans on deeds	8,376,794	Derivatives other than for trading-liabilities	1,899
Other assets	**1,001,457**	Lease obligations	290
Prepaid expenses	234	Other	198
Accrued income	29,379	**Provision for bonuses**	**465**
Derivatives other than for trading-assets	966,988	**Provision for directors' bonuses**	**6**
Other	4,855	**Provision for retirement benefits**	**12,135**
Property, plant and equipment	**37,664**	**Provision for directors' retirement benefits**	**28**
Buildings	3,488	**Acceptances and guarantees**	**2,443,266**
Land	33,881	**Total liabilities**	**10,733,129**
Lease assets	58	**Net assets**	
Construction in progress	2	**Capital stock**	**1,091,000**
Other	233	**Retained earnings**	**801,398**
Intangible assets	**2,349**	Legal retained earnings	742,615
Software	2,116	Other retained earnings	58,783
Lease assets	218	Retained earnings brought forward	58,783
Other	14	**Total shareholders' equity**	**1,892,398**
Customers' liabilities for acceptances and guarantees	**2,443,266**	**Valuation difference on available-for-sale securities**	**(1,665)**
Allowance for loan losses	**(134,417)**	**Deferred gains or losses on hedges**	**157,781**
		Total valuation and translation adjustments	**156,115**
		Total net assets	**2,048,513**
Total assets	**12,781,643**	**Total liabilities and net assets**	**12,781,643**

Statement of Operations (Year ended March 31, 2011)

(Millions of yen)

Ordinary income	**197,217**
Interest income	178,661
Interest on loans and discounts	122,329
Interest and dividends on securities	48
Interest on deposits with banks	1,199
Interest on interest swaps	55,061
Other interest income	22
Fees and commissions	13,183
Other fees and commissions	13,183
Other ordinary income	74
Other	74
Other income	5,298
Other	5,298
Ordinary expenses	**147,576**
Interest expenses	118,777
Interest on borrowings and rediscounts	55,696
Interest on bonds	63,081
Fees and commissions payments	1,332
Other fees and commissions	1,332
Other ordinary expenses	3,370
Loss on foreign exchange transactions	2,501
Amortization of bond issuance cost	651
Expenses on derivatives other than for trading or hedging	8
Other	209
General and administrative expenses	15,861
Other expenses	8,233
Written-off of loans	8,232
Other	0
Ordinary profit	**49,641**
Extraordinary income	**9,142**
Gain on disposal of noncurrent assets	0
Reversal of allowance for loan losses	8,715
Recoveries of written-off claims	425
Extraordinary losses	**0**
Loss on disposal of noncurrent assets	0
Net income	**58,783**

Statement of Changes in Net Assets (Year ended March 31, 2011)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the end of previous period	1,055,500
Changes of items during the period	
Issuance of new shares	35,500
Total changes of items during the period	35,500
Balance at the end of current period	1,091,000
Retained earnings	
Legal retained earnings	
Balance at the end of previous period	726,011
Changes of items during the period	
Provision of legal retained earnings	16,603
Total changes of items during the period	16,603
Balance at the end of current period	742,615
Other retained earnings	
Retained earnings brought forward	
Balance at the end of previous period	33,207
Changes of items during the period	
Provision of legal retained earnings	(16,603)
Payment to the national treasury	(16,603)
Net income (loss)	58,783
Total changes of items during the period	25,575
Balance at the end of current period	58,783
Total retained earnings	
Balance at the end of previous period	759,218
Changes of items during the period	
Payment to the national treasury	(16,603)
Net income (loss)	58,783
Total changes of items during the period	42,179
Balance at the end of current period	801,398
Total shareholders' equity	
Balance at the end of previous period	1,814,718
Changes of items during the period	
Issuance of new shares	35,500
Payment to the national treasury	(16,603)
Net income (loss)	58,783
Total changes of items during the period	77,679
Balance at the end of current period	1,892,398
Valuation and translation adjustments	
Valuation difference on available-for-sale securities	
Balance at the end of previous period	(687)
Changes of items during the period	
Net changes of items other than shareholders' equity	(977)
Total changes of items during the period	(977)
Balance at the end of current period	(1,665)
Deferred gains or losses on hedges	
Balance at the end of previous period	140,795
Changes of items during the period	
Net changes of items other than shareholders' equity	16,985
Total changes of items during the period	16,985
Balance at the end of current period	157,781
Total valuation and translation adjustments	
Balance at the end of previous period	140,107
Changes of items during the period	
Net changes of items other than shareholders' equity	16,007
Total changes of items during the period	16,007
Balance at the end of current period	156,115
Total net assets	
Balance at the end of previous period	1,954,826
Changes of items during the period	
Issuance of new shares	35,500
Payment to the national treasury	(16,603)
Net income (loss)	58,783
Net changes of items other than shareholders' equity	16,007
Total changes of items during the period	93,687
Balance at the end of current period	2,048,513

Notes to Financial Statements
ACCOUNT FOR JBIC OPERATIONS

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Held-to-maturity securities are carried at amortized cost based on the moving average method. Investments in affiliates are carried at cost based on the moving average method. Available-for-sale securities, which have readily determinable fair value are stated at fair value with changes in net unrealized gains or losses, included directly in Net assets. Available-for-sale securities whose fair value is extremely difficult to be determined are carried at cost based on the moving average method.

(b) Valuation method for derivative financial instruments

Derivative financial instruments are carried at fair value.

(c) Depreciation basis for fixed assets

(i) Property, plant and equipment (except for lease assets)

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) which are depreciated under the straight-line method.

Amortization is based on the following range of estimated useful lives:

Buildings: 2 years to 50 years

Other: 2 years to 20 years

(ii) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JFC is amortized over its useful life (5 years).

(iii) Lease assets

Lease assets in “property, plant and equipment” or “intangible assets,” under finance leases that do not involve transfer of ownership to the lessee are amortized under the straight-line method over the lease term. Depreciation for lease assets is calculated with zero residual value being assigned to the asset.

(d) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

(e) Foreign currency translation and revaluation method

JFC maintains its accounting records in Japanese yen. Assets and liabilities denominated in foreign currencies are mostly translated into Japanese yen at the market exchange rate prevailing at the fiscal year end.

(f) Accounting policy for reserves

(i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

The allowance for claims on debtors who are legally bankrupt (“Bankrupt borrowers”) or substantially bankrupt (“Substantially bankrupt borrowers”) is provided based on the outstanding balance after the write-offs described in the followings and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt but are likely to become bankrupt (“Potentially bankrupt borrowers”) is provided based on an assessment of the overall solvency of the debtors after deducting the amount expected to be collected through the disposal of collateral and the execution of guarantees.

The allowance for claims on debtors other than Bankrupt borrowers, Substantially bankrupt borrowers and Potentially bankrupt borrowers is provided primarily based on the default rate, which is calculated based on the actual defaults during a certain period in the past.

The allowance for possible losses on specific overseas loans is provided based on the expected loss amount taking into consideration the political and economic situations of these countries.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation department, which is independent from the operational departments, reviews these self-assessments, and the allowance is provided based on the results of the assessments.

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), the residual booked amount of the claims after deduction of the amount which is deemed collectible through the disposal of collateral or the execution of guarantees is written-off. The amount of accumulated write-off is ¥8,232 million.

(ii) Provision for bonuses

The “provision for bonuses” is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

(iii) Provision for directors' bonuses

The "provision for directors' bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

(iv) Provision for retirement benefits

The "provision for retirement benefits" represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end.

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the year of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year.

(v) Provision for directors' retirement benefits

The "provision for directors' retirement benefits," which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

(g) Accounting for hedging transactions

(i) Accounting for hedges of interest rate risk

(a) Hedge accounting

JFC used derivatives for interest rate risk hedging purposes under the deferral method.

(b) Hedging instruments and hedged items

Hedging instruments: interest rate swaps

Hedged items: loans, borrowings, bonds and notes

(c) Hedging policy

JFC enters into hedging transactions up to the amount of the underlying hedged assets and liabilities.

(d) Assessment of hedge effectiveness

JFC assesses the effectiveness of designated hedges by measuring and comparing the change of fair value or cumulative change of cash flows of both hedging instruments and corresponding hedged items from the date of inception of the hedges to the assessment date.

(ii) Accounting for hedges of foreign exchange risk

Hedge instruments used to hedge foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities are accounted for using the deferral method, in accordance with the standard treatment of The Japanese Institute of Certified Public Accountants (JICPA) Industry Audit Committee Report No. 25.

The effectiveness of the hedging instruments described above, such as currency swaps, foreign exchange forward contracts and similar transactions, used for hedging the foreign exchange risks of loans and bills discounted, borrowings, and bonds payable denominated in foreign currencies, is assessed by comparing the foreign currency position of the hedged loans and bills discounted, borrowings, and bonds payable with that of the hedging instruments. An asset and liability denominated in foreign currency for which currency swap is used to hedge the foreign currency fluctuations are translated at the contracted rate if the currency swap qualifies for hedge accounting.

(h) Consumption and other taxes

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts. Amounts of non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

Change in accounting policy

(Accounting standard for equity method of accounting for investments)

ASBJ Statement No. 16, Accounting Standard for Equity Method of Accounting for Investments, issued on March 10, 2008, and ASBJ Practical Issue Task Force (PITF) No. 24 Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method, issued on March 10, 2008, have been adopted commencing with this fiscal year end.

(Accounting standard for asset retirement obligations)

ASBJ Statement No. 18, Accounting Standard for Asset Retirement Obligations, issued on March 31, 2008, and ASBJ Guidance No. 21, Guidance on Accounting Standard for Asset Retirement Obligations, issued on March 31, 2008, have been adopted commencing with this fiscal year end.

Note that this adoption does not have any impacts on income or expense.

2. Equity securities of or investment in affiliates

Equity securities of or investment in affiliates is ¥52,193 million.

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3. Loans

All loans entered into are loans on deeds. The amounts reported in the balance sheet include the followings:

(Millions of yen)

	As of March 31, 2011 Account for JBIC Operations
Bankrupt loans	8,969
Non-accrual loans	97,717
Loans with interest or principal repayments more than three months in arrears	—
Restructured loans	187,046
Total	293,733

(Note) The description of the following five accounts, Securitization Support Programs (Purchase-type operation), Credit Insurance Programs, Finance Operations for Facilitating Realignment of United States Forces in Japan, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Business Promotion are omitted since there are no balance in these accounts.

(a) "Bankrupt loans" are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the corporate Tax Law Enforcement Ordinance (Government Ordinance No. 97), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.

(b) "Non-accrual loans" are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

(c) "Loans with interest or principal repayments more than three months in arrears" are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of "Bankrupt loans" and "Non-accrual loans"

(d) "Restructured loans" are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers' recovery from financial difficulties, and which do not fall under the category of "Bankrupt loans", "Non-accrual loans", and "Loans with interest or principal repayments more than three months in arrears".

(e) The amounts of loans indicated in the table above are the gross amounts prior to the deduction of allowance for possible loan losses.

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheet. The balance of unpaid amounts as of March 31, 2011 is ¥875,019 million.

4. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for all bonds issued by JFC (which include JBIC Operating Account bonds to a total amount ¥2,703,551 million.)

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥1,337 million.

6. Net assets per share

Net assets per share is ¥1.87.

7. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 22 (1) of the Act on Special Measures Concerning Smooth Implementation of Realignment of United States Forces in Japan (Act No. 67; 2007) and instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010).

*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010) and operations listed in Article 16 of the Act on Special Measures concerning Smooth Implementation of Realignment of United States Forces in Japan [hereafter referred to as "operations listed under each section of Article 41 of the same law."

8. The account title and the amount related to transactions with affiliates

Ordinary income – Other income – Other: ¥2,210 million

9. Net income per share

Net income per share is ¥0.05.

10. Issued shares

For the fiscal year ended March 31, 2011, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	1,055,500,000,000	35,500,000,000	—	1,091,000,000,000

(Note) Increases is due to the issuance of 35,500,000,000 shares.

11. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a governmental financial institution founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the development of the Japanese and global economic society and the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds and investments from the general account, equity participation, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, JBIC Operations, Financial Operations for Facilitating Realignment of United States Forces in Japan, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Business Promotion. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., as stipulated by The JFC Act.

The purpose of the Account for JBIC Operations is to conduct the financing required for "Promoting overseas development and acquisition of strategically important natural resources to Japan", "Maintaining and improving the international competitiveness of Japanese industries", "Promoting overseas projects for conserving the global environment, such as mitigating global warming", and "Taking appropriate measures with respect to disruptions to international financial order". Principal operations consist of export loans, import loans, investment financing, financing for business development and capital investment (including guarantees expect for "capital investment"). To conduct these operations funds are raised through borrowing from the fiscal investment funds and loans and the issuing of bonds. ALM (asset and liability management) is conducted for financial assets and liabilities in this account that are subject to interest-rate and currency fluctuations to ensure that interest-rate and currency fluctuations do not have an adverse effect on these operations. Also, derivative transactions are conducted for the purpose of mitigating risk inherent in foreign currency denominated transactions.

(2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The assets in this account mainly include loans to borrowers in Japan and overseas, and securities, and liabilities mainly include borrowings and bonds. The associated risks are described below.

(a) Credit risk

Credit risk is the risk that the account will suffer losses if the financial condition of the borrower deteriorates and the value of assets (including off-balance sheet assets) decrease or disappear.

The credit risks associated with this account include sovereign risk, country risk, corporate risk, and project risk. Characteristic of support for overseas economic transactions conducted in this account, much financing is conducted for overseas governments, governmental institutions, and overseas corporations. Much of the credit risk associated with the credit provided typically consists of sovereign or country risk.

As a result, if the financial condition of the individual borrower significantly deteriorates due to political and economic trends in the borrower's country or region, the performance and financial condition of these operations can be adversely affected.

(Note) Sovereign risk refers to risk associated with credit supplied to foreign governments, country risk refers to risk associated with the country in which the corporation or project is located (risk in addition to corporate risk or project risk associated with the country in which the corporation or the project is located), corporate risk refers to the risk associated with credit to corporations, and project risk refers to the risk that the cash flow of an underlying project will not perform as planned in the case of project finance where the repayment of the borrowing is primarily secured by the cash flow of the project to which credit is supplied.

(b) Market risk

Market risk is the risk that the value of assets and liabilities (including off-balance sheet assets) will fluctuate and losses will be suffered, or profits derived from assets and liabilities (including off-balance sheet assets) will fluctuate and losses will be suffered due to the fluctuation of various market risk factors such as interest rates, exchange rates, etc.

The market risk associated with this account mainly consists of exchange rate risk and interest rate risk, and losses could be suffered from these risks from market fluctuations. However, in principle, these risks are mitigated through interest rate swaps, currency swaps, and forward exchange transactions.

In this account hedge accounting is used for interest rate hedges, where the hedging instruments are interest rate swaps to hedge the market fluctuation risk associated with loans, borrowed money and bonds. The effectiveness of the hedges is assessed by measuring and comparing the change in fair value or cumulative change in cash flows of both hedging instruments and corresponding hedged items from the date of inception of the hedges to the assessment date.

In this account hedge accounting is used for foreign exchange hedges, where currency swaps and foreign exchange forward contracts are used to hedge items such as loans, borrowings, and bonds for exchange rate fluctuation risk. The effectiveness of the hedging currency-swaps and forward contracts, hedging the foreign exchange risks of monetary assets and liabilities denominated in foreign currencies, is assessed by comparing the foreign currency position of the hedged monetary assets and liabilities with that of the hedging instruments.

(c) Liquidity risk

Long-term and stable funds, such as fiscal loan funds, government-backed bonds, and FILP agency bonds, are secured to finance this account and deposits are not accepted, with the result that JFC considers liquidity risk to be limited. However, financing costs could increase due to market disturbances and unexpected events.

(3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

(a) Credit risk management

The basis of credit risk management is centered on individual credit management based on the creditworthiness of the borrower during the credit approval process.

When a new credit application is processed, the relevant finance departments (sales promotion department) and credit departments collect and analyze information on the borrower. The overseas representative offices also play a part in collecting information on foreign governments and corporations. Credit appraisal takes place based on the information that has been gathered and analyzed, with the different departments ensuring appropriate check throughout the process, leading to the final decision by the management.

For lending to foreign governments and corporations, JFC makes most use of its position as a public institution and exchanges views and information with governments and other authorities in recipient countries, international institutions such as the IMF and the World Bank, other regional development banks and official export credit agencies as well as private financial institutions in the industrial countries. Using all these channels, JFC evaluates sovereign or country risk (in addition to corporate risk and project risk associated with the country in which the corporation is located) based on a broad range of information on government and government agency borrowers as well as political and economic conditions in their countries.

The relevant finance departments and credit departments conduct proper credit risk management based on the credit risk rating system for segmented risk categories and the asset self assessment system based on the Financial Inspection Manual. In addition, an Integrated Risk Management Committee is held regularly to report the status of credit management to the management. The credit management situation is also checked by an independent auditing department.

In addition, a claims protection mechanism exists based on an international framework unique to official creditors that is not contained in private sector financial institutions, for official claims on foreign governments. This mechanism consists of international financial assistance upon international approval by the Paris Club, an international group focusing on debt, to allow the debtor country to continue debt repayment when the debtor country becomes temporarily unable to service its debt due to economic conditions. As part of this international financial assistance, the debtor country conducts an economic reform program upon agreement with the IMF in order to secure the ability to sustainably service its debt. In view of JFC's position as a public financial institution, it will use the framework of the Paris Club to preserve its official claims on foreign governments.

Besides the individual credit management outlined above, credit risks are quantified to assess the overall risk of the portfolio in these operations. To quantify credit risks, it is important to take into account the characteristic of the loan portfolio, that there are a significant proportion of long-term loans and loans involving sovereign risk or country risk. Also to be taken into account is the mechanism of securing assets, such as the framework of international financial assistance to debtor countries through the Paris Club, which is unique to official creditors. This account uses a unique model to quantify the credit risk taking account of the above explained elements and measures amount of credit risk, which are utilized for credit risk management.

(b) Market risk management

ALM is used to manage exchange rate risk and interest rate risk for these operations. Market risk management protocols contain detailed stipulations of risk management methods and procedures, which are used by the ALM Committee to assess and confirm the execution of ALM, and for discussions concerning future responses. In addition, monitoring is conducted through gap analysis and interest rate sensitivity analysis as well as Value at Risk ("VaR") to comprehensively assess the interest and terms of financial assets and liabilities. The results are regularly reported to the ALM Committee

The basic policy for managing exchange rate risk and interest rate risk in these operations is described below.

(i) Exchange rate risk

Foreign currency-denominated loans conducted in these operations involve risks related to exchange rate fluctuations.

We have a consistent policy of managing this risk by fully hedging this risk exposure through the use of currency swaps and forward foreign exchange transactions.

(ii) Interest rate risk

Interest rate risk arises from exposure to market interest rate fluctuations for yen-denominated loan and foreign currency-denominated loan operations and the policy for managing interest rate risk is described below.

① Yen-denominated loan operations

For the most part, funding for yen-denominated loans is managed at fixed-rate interest. Currently, interest rate risk for yen-denominated loans is limited since maturity of loans and the related funding arrangements are generally matched. In addition, swaps are used to hedge interest rate risk for portions of loans that are thought to have high exposures to interest rate fluctuation risk.

② Foreign currency-denominated loan operations

For foreign currency-denominated loan operations, interest rate risk is hedged through the application of a consistent policy of using interest rate swaps and managing funds with floating interest rates for both loans and related funding arrangements.

(iii) Status of market risk

These operations only maintain a banking account and do not have financial instruments in a trading account. While these operations are managed by hedging operation in principle, as stated previously, market risk, such as Value at Risk is measured in order to as certain fair value assessment and risks inherent. The following represents the status of market risk in these operations in the current fiscal year as calculated using Value at Risk (VaR).

(a) VaR status (Fiscal year ended March 31, 2011)

(1) Interest rate VaR: 69.7 billions of yen

(2) Exchange rate VaR: 45.9 billions of yen

(b) VaR measurement model

(1) Interest rate VaR: Historical model

(2) Exchange rate VaR: Variance-covariance model

Quantitative standards: ① Confidence Interval: 99%; ② Holding period: 1 year; ③ Observation period: 5 years

(c) Risk management using VaR

VaR is a market risk measure that assesses the maximum possible profits or losses that could be incurred due to market movements within a certain period of time (or holding period) and degree of possibility (or confidence interval). These are derived statistically by employing the theory of possibility distribution based on historical market movements of interest rates or exchange rates, etc. over a specific period in the past (or observation period).

This measurement assumes actual market trends and the theory of probability distribution. Based on the possibility that future market trends could deviate from these assumptions, a back-test is performed to cross-check the model-measured interest rate VaR with actual profits or losses, in order to confirm the effectiveness of market risk measurements using VaR. In addition, a stress test, which goes beyond the probability distribution of historical market movements is conducted in order to capture risks from multifaceted perspectives.

The following bullet points represent general shortcomings of VaR models.

- Model-measured VaR may differ depending on the confidence interval, holding period, or observation period.
- The VaR value represents the maximum fluctuation of a mark-to-market profit or loss at the time of the measurement. This does not guarantee that the fluctuation will be within the limit as predicted at some future point in time, since conditions precedent, such as market trends, will vary during the time horizon.
- The VaR indicates the maximum value based on specific conditions precedent. As such, it is imperative to consider that model-measured VaR may underestimate the potential losses when using VaR as a risk management indicator in practice.

(c) Liquidity risk management related to fund procurement

Long-term and stable funds such as fiscal loan funds, government-backed bonds, and FILP agency bonds are used to finance these operations and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions are taken to maintain daily cash flows for proper risk management.

(d) Derivatives transactions

A protocol of internal checks with separate divisions executing transactions, assessing the effectiveness of hedges, and conducting office management has been established for derivatives transactions, and these transactions are conducted according to derivatives-related regulations.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2011, and the related fair value, and difference is as follows. Note that unlisted securities and partnership investments whose fair value is extremely difficult to be determined are not included in the following chart (refer to note 2).

(Millions of yen)

	Amount on Balance Sheet	Fair value	Difference
(1) Cash and due from banks	978,074	978,074	—
(2) Securities			
Available-for sale securities	3,800	3,800	—
(3) Loans and bills discounted	8,376,794		
Allowance for loan losses (*1)	(120,414)		
	8,256,380	8,324,476	68,096
Total assets	9,238,255	9,306,351	68,096
(1) Borrowings	5,502,495	5,599,191	96,696
(2) Bonds payable	2,703,551	2,774,959	71,407
Total liabilities	8,206,046	8,374,150	168,104
Derivative transactions (*2)			
Derivative transactions not qualifying for hedge accounting	(4)	(4)	—
Derivative transactions qualifying for hedge accounting	965,093	965,093	—
Total derivative transactions	965,089	965,089	—

(*1) General allowance for loan losses, specific allowance for loan losses and allowance for possible loan losses on specific overseas loan have been deducted from loans.
(*2) Derivative recorded in "other assets and other liabilities" are collectively displayed.
The net values of assets and liabilities arising from derivative transactions are displayed. The figures in parenthesis indicate net liabilities.

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount.

(2) Securities

The fair value of "Available-for sale securities" is based on the price that is indicated from other financial institution.

(3) Loans and bills discounted

For loans with variable interest rates an amount calculated by the floating rate note method to reflect market interest rates over the short term is used for fair value.

For loans with fixed interest, the total principal and interest is discounted by a risk free rate that incorporates the default ratio and coverage ratio to calculate fair value. However for obligations on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value approximates the amount on the balance sheet on the closing date after a deduction has been made for allowance for loan losses, so this amount is used for fair value.

Liabilities

(1) Borrowings

Borrowings with variable interest rates indicate that short-term market interest rates and the credit conditions of JFC are not significantly altered by borrowings. Therefore, the carrying amount is used as fair value because it is considered that the carrying amount approximates the fair value. For borrowings with a fixed interest rate, in principle, fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

(2) Bonds payable

Market value is used for fair value of bonds.

Derivative transactions

Derivative transactions consist of interest rate-related transactions (interest rate swap) and currency-related transactions (currency swap and forward exchange contract). Calculation of fair value is based on the discounted cash flow.

(Note 2) Financial instruments that are recognized to be extremely difficult to be determined fair value are as follows. They are not included in Fair value of financial instruments.

(Millions of yen)

Classification	Carrying amount on balance sheet
1) Unlisted stocks (*1)	19,907
2) Partnership investments (*2)	52,746
Total	72,653

(*1) Since unlisted stocks do not have quoted market prices available and fair value is extremely difficult to be determined, fair values are not stated.
(*2) For partnership investments composed of unlisted stocks that do not have quoted market prices available and for which fair value is extremely difficult to be determined fair values are not stated.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*1)	978,074	—	—	—	—	—
Securities (*2) Available-for sale securities	—	1,192	2,607	—	—	—
Loans and bill discounted (*2)	1,078,144	1,970,380	2,275,246	951,556	1,081,671	910,789
Total	2,056,218	1,971,572	2,277,853	951,556	1,081,671	910,789

(*1) Demand deposits contained within due from banks are stated as "Maturities within one year".
(*2) Within loans and securities, claims against bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers contains an amount of ¥109,005 million that is not expected to be redeemed and not included in the table above.

(Note 4) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	367,683	1,204,243	2,478,286	1,072,471	379,812	—
Bonds payable	503,387	1,094,772	837,187	150,000	100,000	20,000
Total	871,070	2,299,015	3,315,473	1,222,471	479,812	20,000

12. Market value of securities

In addition to "Other securities" on the balance sheet, transferable deposits in "Due from banks" are also included.

The market value of securities at March 31, 2011 is as follows:

(a) Equity securities of or investment in subsidiaries and affiliates

(Note) These are equity securities of, or investment in, subsidiaries and affiliates whose fair value is extremely difficult to be determined.

	Carrying amount on the balance sheet (Millions of yen)
Equity securities of or investment in affiliates	52,193

They have no quoted market price and their fair value is extremely difficult to be determined.

(b) Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount does not exceed their acquisition cost	Others	503,800	503,800	—

(Note) Available-for-sale securities whose fair value is extremely difficult to be determined

	Carrying amount on the balance sheet (Millions of yen)
Others	
Unlisted foreign stocks	15,095
Unlisted Japanese securities	224
Unlisted foreign securities	5,139

These are not included in the above table of "Available-for-sale securities" because there are no quoted market prices available and it is extremely difficult to determine the fair value of these securities.

13. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34; 1965).

14. Retirement benefits

JFC has a defined benefit pension plan comprising of a welfare pension fund plan and a lump-sum severance indemnity plan.

(a) The funded status of the pension plans

	March 31, 2011 (Millions of yen)
Projected benefit obligations (A)	(16,969)
Fair value of plan assets (B)	4,134
Unfunded pension obligations (C)=(A)+(B)	(12,834)
Unrecognized prior service costs (D)	81
Actuarial unrecognized difference (E)	617
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(12,135)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(12,135)

(b) Component of pension cost

	March 31, 2011 (Millions of yen)
Service cost	545
Interest cost	334
Expected return on plan assets	(83)
Amortization of prior service cost accounted for as expense	0
Actuarial differences accounted for as expense	89
Other costs	—
Net pensions cost	886

(Note) Employee contributions to pension funds have been deducted from the service cost.

(c) Principal assumptions

	March 31, 2011
Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Terms to amortize unrecognized prior service costs	10 years
Terms to amortize actuarial unrecognized differences	10 years

15. Profit and loss on equity method

Investment in affiliates	¥52,193 million
Investment in affiliates (equity method)	¥52,292 million
Profit or Loss of Investment in affiliates (equity method)	¥98 million

16. Related party transactions

Related party transactions in the fiscal year ended March 31, 2011 are as follows:

Transactions with parent company and major shareholder companies

(Millions of yen)

	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amounts of transactions	Items	Balance as of March 31, 2011
Principal shareholder	Ministry of Finance (Minister of Finance) (Note i)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase (Note i)	35,500	—	—
				Receipt of funds (Note ii)	1,014,444	Borrowings	5,502,495
				Repayment of borrowing	626,657		
				Payment of interest on borrowings	55,696	Accrued expenses	13,863
				Guarantee for corporate bonds (Note iii)	1,633,712	—	—

(Note)
(i) The underwriting of capital increase represents the increase in capital through shareholder allocation by JFC at an allocation amount of ¥1 per share.
(ii) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.
(iii) No guarantee fee has been paid for the guarantee of bonds.
(iv) Figures in the table above do not include consumption taxes.

17. Subsequent events

The Japan Bank for International Cooperation Act (hereafter, the "New JBIC Act") was passed on April 28, 2011 at the 177th ordinary session of the Diet. Based on this Act, on April 1, 2012, JBIC will be separated from JFC to form Japan Bank for International Cooperation Co., Ltd. (hereafter "New JBIC"), and effective on the same date, JFC's JBIC Operations and Finance Operations for Facilitating Realignment of United States Forces in Japan will be transferred to the New JBIC.

JFC will underwrite the stock of the New JBIC, and will transfer this stock without compensation to the government of Japanese at the time the New JBIC is established on April 1, 2012. Effective the same day, assets and liabilities relating to JFC's JBIC operations and Financial Operations for Facilitating Realignment of United States Forces in Japan will be succeeded by the New JBIC. The amount of assets and liabilities to be succeeded will be the assessed amount as determined by an evaluation committee based on the New JBIC Act. After the establishment of the New JBIC, profit and loss relating to JFC's JBIC Operations and Finance Operations for Facilitating Realignment of United States Forces in Japan will no longer be recognized as profit and loss of JFC. Note that there is no impact on cash flows of Account for JBIC operations, Financial Account Related to the Financial Operations for Facilitating Realignment of United States Forces in Japan, or the New JBIC.

Japan Bank for International Cooperation

Financial Account Related to the Financial Operations for Facilitating Realignment of United States Forces in Japan

Balance Sheet (as of March 31, 2011)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	359	Other liabilities	1
Due from banks	359	Accrued expenses	1
Other assets	0	Provision for bonuses	4
Other	0	Provision for directors' bonuses	0
Property, plant and equipment	0	Provision for retirement benefits	113
Other	0	Provision for directors' retirement benefits	0
		Total liabilities	119
		Net assets	
		Retained earnings	241
		Other retained earnings	241
		Retained earnings brought forward	241
		Total shareholders' equity	241
		Total net assets	241
Total assets	360	Total liabilities and net assets	360

Statement of Operations (Year ended March 31, 2011)

(Millions of yen)

Ordinary income	**411**
Receipts from the national budget	411
Receipts from the general account of the national budget	411
Other income	0
Other	0
Ordinary expenses	**170**
Fees and commissions payments	22
Other fees and commissions	22
General and administrative expenses	147
Ordinary profit	**241**
Net income	**241**

Statement of Changes in Net Assets (Year ended March 31, 2011)

(Millions of yen)

Shareholders' equity	
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the end of previous period	—
Changes of items during the period	
Net income (loss)	241
Total changes of items during the period	241
Balance at the end of current period	241
Total retained earnings	
Balance at the end of previous period	—
Changes of items during the period	
Net income (loss)	241
Total changes of items during the period	241
Balance at the end of current period	241
Total shareholders' equity	
Balance at the end of previous period	—
Changes of items during the period	
Net income (loss)	241
Total changes of items during the period	241
Balance at the end of current period	241
Total net assets	
Balance at the end of previous period	—
Changes of items during the period	
Net income (loss)	241
Total changes of items during the period	241
Balance at the end of current period	241

Notes to Financial Statements
FINANCIAL ACCOUNT RELATED TO THE FINANCIAL OPERATIONS FOR FACILITATAING REALIGNMENT OF UNITED STATES FORCES IN JAPAN

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Depreciation basis for fixed assets

Property, plant and equipment

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives.

Amortization is based on the following range of estimated useful lives:

Other: 2 years to 20 years

(b) Accounting policy for reserves

(i) Provision for bonuses

The "provision for bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

(ii) Provision for directors' bonuses

The "provision for directors' bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

(iii) Provision for retirement benefits

The "provision for retirement benefits" represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end.

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the year of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year.

(iv) Provision for directors' retirement benefits

The "provision for directors' retirement benefits," which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

(c) Consumption and other taxes

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts. Amounts of nondeductible consumption taxes related to property, plant and equipment are expensed as incurred.

2. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for all bonds issued by JFC. There is no issued bond in Financial Account Related to the Financial Operations for Facilitating Realignment of United States Forces in Japan.

3. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥0 million.

4. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 22 (1) of the Act on Special Measures Concerning Smooth Implementation of Realignment of United States Forces in Japan (Act No. 67; 2007) and instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010).

*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010) and operations listed in Article 16 of the Act on Special Measures Concerning Smooth Implementation of Realignment of United States Forces in Japan [hereafter referred to as "operations listed under each section of Article 41 of the same law."

5. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a governmental financial institution founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the development of the Japanese and global economic society and the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds and investments from the general account, equity participation, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, JBIC Operations, Financial Operations for Facilitating Realignment of United States Forces in Japan, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Business Promotion. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., as stipulated by The JFC Act.

In the Financial Account related to the Financial Operations for Facilitating Realignment of United States Forces in Japan, this account conducts in this fiscal year necessary operations related to making equity investments, loans and other operations necessary for the projects to facilitate realignment of United States Forces in Japan. However, in this account there is no loan or funds for loan raised in this fiscal year.

(2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The only financial assets held in this account are cash deposits and since there are no financial liabilities present, accordingly the following risks are considered to be limited.

(a) Market risk

Market risk is the risk that the value of assets and liabilities (including off-balance sheet assets) will fluctuate and losses will be suffered, or profits derived from assets and liabilities (including off-balance sheet assets) will fluctuate and losses will be suffered due to the fluctuation of various market risk factors such as interest rates, exchange rates, etc.

In the fiscal year the only financial assets or liabilities held in this account are cash deposits, and therefore market risk is considered to be limited.

(b) Liquidity risk

The liquidity risk of this account is considered to be limited because it does not accept deposits, it secures stable funds from government grants only, and it has yet to provide a loan as of the end of the current fiscal year.

(3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

(a) Market risk management

The main type of market risk associated with these operations is interest-rate risk.

These operations strive to undertake appropriate risk management practices by managing funds procured from government grants through current deposits.

In addition, this financial instrument doesn't have material sensitivity to interest rate fluctuations since funds are managed using current deposits.

(b) Liquidity risk management related to fund procurement

Funding for these operations is procured by government grants only. Efforts are made for proper risk management through the assessment of the cash flows.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2011, and the related fair value, and difference is as follows.

(Millions of yen)

	Amount on Balance Sheet	Fair value	Difference
Cash and due from banks	359	359	—
Total assets	359	359	—

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

Cash and due from banks

For due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount.

(Note 2) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks	359	—	—	—	—	—

6. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34; 1965).

7. Retirement benefits

JFC has a defined benefit pension plan comprising of a welfare pension fund plan and a lump-sum severance indemnity plan.

(a) The funded status of the pension plans

	March 31, 2011 (Millions of yen)
Projected benefit obligations (A)	(159)
Fair value of plan assets (B)	38
Unfunded pension obligations (C)=(A)+(B)	(120)
Unrecognized prior service costs (E)	0
Actuarial unrecognized difference (D)	5
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(113)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(113)

(b) Component of pension cost

	March 31, 2011 (Millions of yen)
Service cost	5
Interest cost	3
Expected return on plan assets	(0)
Amortization of prior service cost accounted for as expense	0
Actuarial differences accounted for as expense	0
Other costs	—
Net pensions cost	8

(Note) Employee contributions to pension funds have been deducted from the service cost.

(c) Principal assumptions

	March 31, 2011
Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Terms to amortize unrecognized prior service costs	10 years
Terms to amortize actuarial unrecognized differences	10 years

8. Related party transaction

No Capital stock, but Receipts from the national budget ¥411 million

9. Subsequent events

The Japan Bank for International Cooperation Act (hereafter, the “New JBIC Act”) was passed on April 28, 2011 at the 177th ordinary session of the Diet. Based on this Act, on April 1, 2012, JBIC will be separated from JFC to form Japan Bank for International Cooperation Co., Ltd. (hereafter “New JBIC”), and effective on the same date, JFC’s JBIC Operations and Finance Operations for Facilitating Realignment of United States Forces in Japan will be transferred to the New JBIC.

JFC will underwrite the stock of the New JBIC, and will transfer this stock without compensation to the government of Japanese at the time the New JBIC is established on April 1, 2012. Effective the same day, assets and liabilities relating to JFC’s JBIC operations and Financial Operations for Facilitating Realignment of United States Forces in Japan will be succeeded by the New JBIC. The amount of assets and liabilities to be succeeded will be the assessed amount as determined by an evaluation committee based on the New JBIC Act. After the establishment of the New JBIC, profit and loss relating to JFC’s JBIC Operations and Financial Operations for Facilitating Realignment of United States Forces in Japan will no longer be recognized as profit and loss of JFC. Note that there is no impact on cash flows of Account for JBIC operations, Financial Account Related to the Financial Operations for Facilitating Realignment of United States Forces in Japan, or the New JBIC.

Account for Operations to Facilitate Crisis Responses

Balance Sheet (as of March 31, 2011)

(Millions of yen)

Assets		**Liabilities**	
Cash and due from banks	**99,880**	**Borrowed money**	**4,736,957**
Due from banks	99,880	Borrowings	4,736,957
Securities	**353,955**	**Other liabilities**	**6,284**
Government bonds	353,955	Accrued expenses	1,260
Loans and bills discounted	**4,736,957**	Unearned revenue	4,938
Loans on deeds	4,736,957	Lease obligations	0
Other assets	**1,345**	Other	85
Prepaid expenses	0	**Provision for bonuses**	**6**
Accrued income	1,283	**Provision for directors' bonuses**	**0**
Other	61	**Provision for retirement benefits**	**154**
Property, plant and equipment	**0**	**Provision for directors' retirement benefits**	**0**
Lease assets	0	**Reserve for compensation losses**	**59,757**
Intangible assets	**82**	**Total liabilities**	**4,803,160**
Software	82	**Net assets**	
Lease assets	0	**Capital stock**	**505,668**
Allowance for loan losses	**(1,895)**	**Retained earnings**	**(118,502)**
		Other retained earnings	(118,502)
		Retained earnings brought forward	(118,502)
		Total shareholders' equity	**387,165**
		Total net assets	**387,165**
Total assets	**5,190,325**	**Total liabilities and net assets**	**5,190,325**

Statement of Operations (Year ended March 31, 2011)

(Millions of yen)

Ordinary income	**58,794**
Interest income	55,546
Interest on loans and discounts	46,142
Interest and dividends on securities	356
Interest on receivables under resale agreements	73
Interest on deposits with banks	92
Other interest income	8,881
Fees and commissions	2,681
Fees and commissions on compensation security contract	2,679
Other fees and commissions	2
Receipts from the national budget	502
Receipts from the general account of the national budget	502
Other income	62
Other	62
Ordinary expenses	**88,259**
Interest expenses	55,024
Interest on borrowings and rediscounts	46,142
Other interest expenses	8,881
Fees and commissions payments	4,589
Expense on compensation security contract	4,589
Other ordinary expenses	381
Amortization of bond issuance cost	2
Interest subsidies	379
General and administrative expenses	201
Other expenses	28,062
Provision of allowance for loan losses	30
Provision of reserve for compensation losses	27,966
Other	64
Ordinary loss	**29,464**
Net loss	**29,464**

Statement of Changes in Net Assets (Year ended March 31, 2011)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the end of previous period	495,511
Changes of items during the period	
Issuance of new shares	10,157
Total changes of items during the period	10,157
Balance at the end of current period	505,668
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the end of previous period	(89,037)
Changes of items during the period	
Net income (loss)	(29,464)
Total changes of items during the period	(29,464)
Balance at the end of current period	(118,502)
Total retained earnings	
Balance at the end of previous period	(89,037)
Changes of items during the period	
Net income (loss)	(29,464)
Total changes of items during the period	(29,464)
Balance at the end of current period	(118,502)
Total shareholders' equity	
Balance at the end of previous period	406,473
Changes of items during the period	
Issuance of new shares	10,157
Net income (loss)	(29,464)
Total changes of items during the period	(19,307)
Balance at the end of current period	387,165
Total net assets	
Balance at the end of previous period	406,473
Changes of items during the period	
Issuance of new shares	10,157
Net income (loss)	(29,464)
Total changes of items during the period	(19,307)
Balance at the end of current period	387,165

Notes to Financial Statements
ACCOUNT FOR OPERATIONS TO FACILITATE CRISIS RESPONSES

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Held-to-maturity securities are carried at amortized cost based on the moving average method. Available-for-sale securities which have readily determinable fair value are started at fair value with changes in net unrealized gains or losses, included directly in Net assets.

(b) Depreciation basis for fixed assets

(i) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JFC is amortized over its useful life (5 years).

(ii) Lease assets

Lease assets in "property, plant and equipment" or "intangible assets," under finance leases that do not involve transfer of ownership to the lessee are amortized under the straight-line method over the lease term. Depreciation for lease assets is calculated with zero residual value being assigned to the asset.

(c) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

(d) Accounting policy for reserves

(i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

The allowance for claims on debtors who are legally bankrupt ("Bankrupt borrowers") or substantially bankrupt ("Substantially bankrupt borrowers") is provided based on the outstanding balance after the write-offs described in the followings and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt but are likely to become bankrupt ("Potentially bankrupt borrowers") is provided based on an assessment of the overall solvency of the debtors after deducting the amount expected to be collected through the disposal of collateral and the execution of guarantees.

The allowance for claims on debtors other than Bankrupt borrowers, Substantially bankrupt borrowers and Potentially bankrupt borrowers is provided primarily based on the default rate, which is calculated based on the actual defaults during a certain period in the past.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation department, which is independent from the operational departments, reviews these self-assessments, and the allowance is provided based on the results of the assessments.

(ii) Reserve for compensation losses

The "reserve for compensation losses" provides for losses based on the estimated amounts of future losses attributed to compensation security contracts.

(iii) Provision for bonuses

The "provision for bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

(iv) Provision for directors' bonuses

The "provision for directors' bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

(v) Provision for retirement benefits

The "provision for retirement benefits" represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end.

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the year of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year.

(vi) Provision for directors' retirement benefits

The "provision for directors' retirement benefits," which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

(e) Consumption and other taxes

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts.

Change in accounting policy

(Accounting standard for asset retirement obligations)

ASBJ Statement No. 18, Accounting Standard for Asset Retirement Obligations, issued on March 31, 2008, and ASBJ Guidance No. 21, Guidance on Accounting Standard for Asset Retirement Obligations, issued on March 31, 2008, have been adopted commencing with this fiscal year end.

Note that this adoption does not have any impacts on income or expense.

2. Loans

There were no Bankrupt loans, Non-accrual loans, Loans with interest or principal repayments more than three months in arrears and Restructured loans as of March 31, 2011.

"Bankrupt loans" are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the corporate Tax Law Enforcement Ordinance (Government Ordinance No.97), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.

"Non-accrual loans" are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

"Loans with interest or principal repayments more than three months in arrears" are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of "Bankrupt loans" and "Non-accrual loans"

"Restructured loans" are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers' recovery from financial difficulties, and which do not fall under the category of "Bankrupt loans", "Non-accrual loans", and "Loans with interest or principal repayments more than three months in arrears".

3. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for all bonds issued by JFC. No Operations to Facilitate Crisis Responses account bonds have been issued.

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥0 million.

5. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (46,703 contracts)	1,869,023
Reserve for compensation	59,757
Net amount	1,809,266

6. Net assets per share

Net assets per share is ¥0.76.

7. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 22 (1) of the Act on Special Measures Concerning Smooth Implementation of Realignment of United States Forces in Japan (Act No. 67; 2007) and instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010).

*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010) and operations listed in Article 16 of the Act on Special Measures concerning Smooth Implementation of Realignment of United States Forces in Japan [hereafter referred to as "operations listed under each section of Article 41 of the same law."

8. Net loss per share

Net loss per share is ¥0.05.

9. Issued shares

For the fiscal year ended March 31, 2011, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	495,511,000,000	10,157,000,000	—	505,668,000,000

(Note) Increases is due to the issuance of 10,157,000,000 shares.

10. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a governmental financial institution founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the development of the Japanese and global economic society and the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from fiscal investment funds and loans, bonds and investments from the general account, equity participation, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, JBIC Operations, Financial Operations for Facilitating Realignment of United States Forces in Japan, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Business Promotion. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., as stipulated by The JFC Act.

In the Account for Operations to Facilitate Crisis Responses financing operations including 1) loans, 2) credit insurance underwriting (a certain potion of compensation paid by JFC to cover losses incurred by specified financial institutions on loans, including equity participation), and 3) interest subsidies (interest subsidies provided by JFC to a specified financial institutions for loans, etc., conducted by specified financial institutions that received a credit facility from JFC) are conducted for financial institutions specified by the competent minister for domestic and global financial disturbance that is recognized by the competent minister when a crisis such as a large-scale disaster occurs. To conduct these operations, the financing required for 1) loans is procured through the borrowing from Fiscal Investment and Loan Program ("FILP"), and the issuing of government guaranteed bonds. The loan period and borrowing period are equal, and the financing cost is covered by the interest on the loans. The financing required for 2) credit insurance underwriting, and 3) interest subsidies is procured through equity participation from the government.

(2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts,.

The financial assets in this account mainly include loans and financial liabilities against designated financial institutions, and the financial liabilities include borrowings. The associated risks are described below.

(a) Credit risk

The main financial assets in this account are loans of funds to designated financial institutions that are required to conduct crisis response operations. The associated credit risk consists of risk of losses arising from uncollectable claims due to deterioration in creditworthiness of the designated financial institution.

JFC is liable for compensation to cover losses incurred by designated financial institution on loans to third parties. This account could incur losses if the payment of compensation fluctuates from the projected compensation payments caused by significant changes in the creditworthiness or economic condition of the third party business.

(b) Market risk

The operations of this account consist of loans to designated financial institutions, and fiscal investment and loans are used for financing. Interest rate risk is not present as a type of market risk because the terms and conditions of the loans and borrowings are equal, and the financing cost is covered by the interest on the loans.

(c) Liquidity risk

Long-term and stable funds such as fiscal investment and loans are secured to finance this account and deposits are not accepted. Sufficient short-term liquidity is secured for compensation payment funds towards designated financial institutions, and liquidity risk is considered to be limited. However borrowings are exposed to liquidity risk that payment cannot be made on the payment date due to unexpected events.

(3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

(a) Credit risk management

For these operations standards have been established in accordance with the Financial Inspection Manual prepared by the Financial Services Agency to conduct asset self assessment. In the asset self assessment, an inspection is conducted by the auditing department.

(b) Market risk management

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans and borrowings.

These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans. Since the terms and conditions of lendings and borrowings are equal, cash inflows resulting from lendings and cash outflows resulting from borrowings are matched. Therefore, as a whole operations, interest rate risk does not exist as a market risk.

(c) Liquidity risk management related to fund procurement

Long-term and stable funds, such as fiscal investment and loans, are secured to finance this account and deposits are not accepted. In addition, the loan period and borrowing period are equal. Sufficient short-term liquidity is secured for compensation payment funds towards designated financial institutions, and liquidity risk is considered to be limited. In addition, continual efforts are being made to make financing plans more sophisticated and minimize liquidity risk.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2011, and the related fair value, and difference is as follows.

(Millions of yen)

	Amount on Balance Sheet	Fair value	Difference
(1) Cash and due from banks	99,880	99,880	—
(2) Securities			
Held to maturity debt securities	353,955	353,955	—
(3) Loans and bills discounted	4,736,957		
Allowance for loan losses (*)	(1,894)		
	4,735,062	4,771,978	36,916
Total assets	5,188,898	5,225,814	36,916
(1) Borrowings	4,736,957	4,800,477	63,520
Total liabilities	4,736,957	4,800,477	63,520

(*) General allowance for loan losses and specific allowance for loan losses have been deducted from loans.

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount.

(2) Securities

For corporate bonds in the Account for Operations to Facilitate Crisis Responses, the carrying amount is used as fair value because fair value approximates the carrying amount.

Notes for securities by purpose of holding are found in "11. Market Value of Securities".

(3) Loans and bills discounted

All loans have a fixed interest rate and fair value is calculated by discounting the principal and interest by the interest rate estimated from the market yield of bonds issued by the borrower based on the type of borrower and period of loan.

Liabilities

Borrowings

Borrowings are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of the loan.

(Note 2) For credit insurance underwriting, the credit decision is conducted by a specified financial institution, and JFC does not participate in the credit decision for the individual subject to compensation at the time of loan, and therefore JFC does not retain the financial data of the individuals subject to compensation. Accordingly, it is recognized that fair value is extremely difficult to be determined.

The amount of compensation underwritten for compensation security contract is as follows.

Balance of compensation underwritten: ¥1,869,023 million

Compensation loss reserve: ¥59,757 million

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*)	99,880	—	—	—	—	—
Securities Held-to-maturity debt securities	354,000	—	—	—	—	—
Loans and bills discounted	496,186	1,510,149	1,547,311	561,232	342,639	279,440
Total	950,066	1,510,149	1,547,311	561,232	342,639	279,440

(*) Demand deposits contained within due from banks are stated as "Maturities within one year".

(Note 4) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	496,186	1,510,149	1,547,311	561,232	342,639	279,440

11. Market value of securities

In addition to "Government bonds" on the balance sheet, transferable deposits in "Due from banks" are also included.

The market value of securities at March 31, 2011 is as follows:

(a) Held-to-maturity debt securities with market value

	Type	Carrying amount on the balance sheet (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Securities whose fair value does not exceed their carrying amount	Japanese government bonds	353,955	353,955	—

(b) Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount does not exceed their acquisition cost	Others	78,500	78,500	—

12. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34; 1965).

13. Retirement benefits

JFC has a defined benefit pension plan comprising of a welfare pension fund plan and a lump-sum severance indemnity plan.

(a) The funded status of the pension plans

	March 31, 2011 (Millions of yen)
Projected benefit obligations (A)	(198)
Fair value of plan assets (B)	35
Unfunded pension obligations (C)=(A)+(B)	(163)
Unrecognized prior service costs (D)	(2)
Actuarial unrecognized difference (E)	11
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(154)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(154)

(b) Component of pension cost

	March 31, 2011 (Millions of yen)
Service cost	8
Interest cost	3
Expected return on plan assets	(0)
Amortization of prior service cost accounted for as expense	(0)
Actuarial differences accounted for as expense	0
Other costs	—
Net pensions cost	11

(Note) Employee contributions to pension funds have been deducted from the service cost.

(c) Principal assumptions

	March 31, 2011
Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Terms to amortize unrecognized prior service costs	10 years
Terms to amortize actuarial unrecognized differences	10 years

14. Related party transactions

Related party transactions in the fiscal year ended March 31, 2011 are as follows:

(a) Transactions with parent company and major shareholder companies

(Millions of yen)

	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amounts of transactions	Items	Balance as of March 31, 2011
Principal shareholder	Ministry of Finance (Minister of Finance) (Note i)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase (Note ii)	10,157	—	—
				Receipts from general account of the national budget	57	—	—
				Receipt of funds (Note iii)	405,281	Borrowings	4,736,957
				Repayment of borrowing	328,070		
				Payment of interest on borrowings	55,024	Accrued expenses	1,259

(Note)
(i) Transactions with the ministries and agencies other than Ministry of Finance are as follows:
- Small and Medium Enterprise Agency
  Receipts from the national budget ¥406 million
- Ministry of Agriculture, Forestry and Fisheries
  Receipts from the national budget ¥38 million

(ii) The underwriting of capital increase represents the increase in capital through shareholder allocation by JFC at an allocation amount of ¥1 per share.
(iii) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.
(iv) Figures in the table above do not include consumption taxes.

(b) Transactions with fellow subsidiaries and affiliates' subsidiaries

Transactions stated here in the previous fiscal year's annual report as transactions with fellow subsidiaries and affiliates' subsidiaries have been omitted commencing this fiscal year end because the terms and conditions of these transactions are irrefutably in accordance with those of general transactions.

15. Subsequent events

The Board of Directors of JFC resolved on May 24, 2011 to issue new shares by way of allotment to shareholders as of July 4, 2011.

(Unit: yen)

Type and number of shares	44,100,000,000 shares of common stock
Issue price	1 per share
Total issue amount	44,100,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	—
Total amount of incorporated into Capital stock	44,100,000,000
Total amount of incorporated into Legal capital surplus	—
Payment date	July 4, 2011
Purpose of use	Act as resource for credit insurance underwriting and interest rate subsidy

Account for Operations to Facilitate Specific Business Promotion

Balance Sheet (as of March 31, 2011)

(Millions of yen)

Assets		**Liabilities**	
Cash and due from banks	**132**	**Borrowed money**	**20,000**
Due from banks	132	Borrowings	20,000
Loans and bills discounted	**20,000**	**Other liabilities**	**0**
Loans on deeds	20,000	Accrued expenses	0
Other assets	**0**	Other	0
Prepaid expenses	0	**Provision for bonuses**	**1**
Accrued income	0	**Provision for retirement benefits**	**32**
Other	0	**Total liabilities**	**20,034**
Intangible assets	**12**	**Net assets**	
Software	12	**Capital stock**	**120**
Allowance for loan losses	**(8)**	**Retained earnings**	**(16)**
		Other retained earnings	(16)
		Retained earnings brought forward	(16)
		Total shareholders' equity	**103**
		Total net assets	**103**
Total assets	**20,137**	**Total liabilities and net assets**	**20,137**

Statement of Operations (from August 16, 2010 to March 31, 2011)

(Millions of yen)

Ordinary income	**13**
Interest income	0
Interest on loans and discounts	0
Receipts from the national budget	13
Receipts from the general account of the national budget	13
Ordinary expenses	**30**
Interest expenses	0
Interest on borrowings and rediscounts	0
General and administrative expenses	22
Other expenses	8
Provision of allowance for loan losses	8
Ordinary loss	**16**
Net loss	**16**

Statement of Changes in Net Assets (from August 16, 2010 to March 31, 2011)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the end of previous period	—
Changes of items during the period	
Issuance of new shares	120
Total changes of items during the period	120
Balance at the end of current period	120
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the end of previous period	—
Changes of items during the period	
Net income (loss)	(16)
Total changes of items during the period	(16)
Balance at the end of current period	(16)
Total retained earnings	
Balance at the end of previous period	—
Changes of items during the period	
Net income (loss)	(16)
Total changes of items during the period	(16)
Balance at the end of current period	(16)
Total shareholders' equity	
Balance at the end of previous period	—
Changes of items during the period	
Issuance of new shares	120
Net income (loss)	(16)
Total changes of items during the period	103
Balance at the end of current period	103
Total net assets	
Balance at the end of previous period	—
Changes of items during the period	
Issuance of new shares	120
Net income (loss)	(16)
Total changes of items during the period	103
Balance at the end of current period	103

Notes to Financial Statements
ACCOUNT FOR OPERATIONS TO FACILITATE SPECIFIC BUSINESS PROMOTION

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Depreciation basis for fixed assets

Intangible assets

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JFC is amortized over its useful life (5 years).

(b) Accounting policy for reserves

(i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

The allowance for claims on debtors who are legally bankrupt ("Bankrupt borrowers") or substantially bankrupt ("Substantially bankrupt borrowers") is provided based on the outstanding balance after the write-offs described in the followings and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt but are likely to become bankrupt ("Potentially bankrupt borrowers") is provided based on an assessment of the overall solvency of the debtors after deducting the amount expected to be collected through the disposal of collateral and the execution of guarantees.

The allowance for claims on debtors other than Bankrupt borrowers, Substantially bankrupt borrowers and Potentially bankrupt borrowers is provided primarily based on the default rate, which is calculated based on the actual defaults during a certain period in the past.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation department, which is independent from the operational departments, reviews these self-assessments, and the allowance is provided based on the results of the assessments.

(ii) Provision for bonuses

The "provision for bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

(iii) Provision for retirement benefits

The "provision for retirement benefits" represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end.

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the year of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year.

(c) Consumption and other taxes

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts.

2. Loans

There were no Bankrupt loans, Non-accrual loans, Loans with interest or principal repayments more than three months in arrears and Restructured loans as of March 31, 2011.

"Bankrupt loans" are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the corporate Tax Law Enforcement Ordinance (Government Ordinance No.97), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.

"Non-accrual loans" are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

"Loans with interest or principal repayments more than three months in arrears" are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of "Bankrupt loans" and "Non-accrual loans"

"Restructured loans" are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers' recovery from financial difficulties, and which do not fall under the category of "Bankrupt loans", "Non-accrual loans", and "Loans with interest or principal repayments more than three months in arrears".

3 Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for all bonds issued by JFC. No Operations to Facilitate Specific Businesses Promotion account bonds have been issued.

4. Net assets per share

Net assets per share is ¥0.85.

5. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 22 (1) of the Act on Special Measures Concerning Smooth Implementation of Realignment of United States Forces in Japan (Act No. 67; 2007) and instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010).

*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38; 2010) and operations listed in Article 16 of the Act on Special Measures concerning Smooth Implementation of Realignment of United States Forces in Japan [hereafter referred to as "operations listed under each section of Article 41 of the same law."

6. Net loss per share

Net loss per share is ¥0.17.

7. Standard for allocating common expenses

For revenue and expense items that are recognized as common among two or more operation accounts, JFC allocates such items as common expenses to each operation account.

The standard for allocating common expenses needs to receive an approval from the competent minister pursuant to Article 11, Paragraph 4 of the Ministerial Ordinance Concerning Accounting for Japan Finance Corporation (Ordinance of the Ministry of Finance / Ministry of Health, Labor and Welfare / Ministry of Agriculture, Forestry and Fisheries / Ministry of Economy, Trade and Industry No. 3, 2008). This ordinance is applied under the provision of Article 2 of the Ministerial Ordinance to provide for special provisions of the Ministerial Ordinance Concerning Accounting for the Japan Finance Corporation in the case of conducting business set forth in Article 6 of Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmental Friendly Products (Ordinance of the Ministry of Finance / Ministry of Economy, Trade and Industry No. 1, 2010).

In this fiscal year, no common expenses have been allocated in relation to this operation account based on the standard for allocating common expenses.

8. Issued shares

For the fiscal year ended March 31, 2011, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	—	120,000,000	—	120,000,000

(Note) Increases is due to the issuance of 120,000,000 shares.

9. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a governmental financial institution founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the development of the Japanese and global economic society and the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds and investments from the general account, equity participation, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, JBIC Operations, Financial Operations for Facilitating Realignment of United States Forces in Japan, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Business Promotion. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., as stipulated by The JFC Act.

In the Account for Operations to Facilitate Specific Business Promotion, this account provides loans to designated financial institutions appointed by the competent minister in order to assist in the smooth financing of required funds for the execution of business by companies that develop or manufacture energy and environmentally friendly products. The required funds for these lending operations are financed using fiscal investment and loans. The loan period and borrowing period are equal, and the financing cost is covered by the interest on the loans.

(2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this account mainly include loans and financial liabilities against designated financial institutions, and the financial liabilities include borrowings. The associated risks are described below.

(a) Credit risk

The main financial assets in this account are loans to designated financial institutions that are required to conduct specific businesses promotion operations. The associated credit risk consists of risk of losses arising from uncollectable claims due to deterioration in creditworthiness of the designated financial institution.

(b) Market risk

The operations of this account consist of loans to designated financial institutions, and fiscal investment and loans are used for financing. Interest rate risk is not present as a market risk because the terms and conditions of the loans and borrowings are equal, and the financing cost is covered by the interest on the loans.

(c) Liquidity risk

Long-term and stable fiscal investment and loans are secured to finance this account and deposits are not accepted. As a result, liquidity risk is considered to be limited. However, borrowings are exposed to liquidity risk that payment cannot be made on the payment date due to unexpected events.

(3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

(a) Credit risk management

For these operations standards have been established in accordance with the Financial Inspection Manual prepared by the Financial Services Agency to conduct asset self assessment. In the asset self assessment, an inspection is conducted by the auditing department.

(b) Market risk management

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans and borrowings.

These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans. Since the terms and conditions of lendings and borrowings are equal, cash inflows resulting from lendings and cash outflows resulting from borrowings are matched. Therefore, as a whole operations, interest rate risk does not exist as a market risk.

(c) Liquidity risk management related to fund procurement

Long-term stable funds, such as fiscal investment and loans are secured to finance this account and deposits are not accepted. Liquidity risk is believed to be limited because the loan period and borrowing period are equal.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2011, and the related fair value, and difference is as follows.

(Millions of yen)

	Amount on Balance Sheet	Fair value	Difference
(1) Cash and due from banks	132	132	—
(2) Loans and bills discounted	20,000		
Allowance for loan losses (*)	(8)		
	19,992	19,971	(20)
Total assets	20,124	20,103	(20)
Borrowings	20,000	20,136	136
Total liabilities	20,000	20,136	136

(*) General allowance for loan losses and specific allowance for loan losses have been deducted from loans.

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature, the carrying amount is used as fair value because fair value resembles the carrying amount.

(2) Loans and bills discounted

All loans have a fixed interest rate and fair value is calculated by discounting the principal and interest by the interest rate estimated from the market yield of bonds issued by the borrower based on the type of borrower and period of loan.

Liabilities

Borrowings

Borrowings are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of the loan.

(Note 2) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*)	132	—	—	—	—	—
Loans and bills discounted	—	2,500	5,000	5,000	7,500	—
Total	132	2,500	5,000	5,000	7,500	—

(*) Demand deposits contained within due from banks are stated as "Maturities within one year".

(Note 3) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	—	2,500	5,000	5,000	7,500	—

10. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34; 1965).

11. Retirement benefits

JFC has a defined benefit pension plan comprising of a welfare pension fund plan and a lump-sum severance indemnity plan.

(a) The funded status of the pension plans

	March 31, 2011 (Millions of yen)
Projected benefit obligations (A)	(39)
Fair value of plan assets (B)	6
Unfunded pension obligations (C)=(A)+(B)	(32)
Unrecognized prior service costs (D)	(0)
Actuarial unrecognized difference (E)	0
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(32)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(32)

(b) Component of pension cost

	March 31, 2011 (Millions of yen)
Service cost	2
Interest cost	0
Expected return on plan assets	(0)
Amortization of prior service cost accounted for as expense	(0)
Actuarial differences accounted for as expense	—
Other costs	—
Net pensions cost	2

(Note) Employee contributions to pension funds have been deducted from the service cost.

(c) Principal assumptions

	March 31, 2011
Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Terms to amortize unrecognized prior service costs	10 years
Terms to amortize actuarial unrecognized differences	10 years

12. Related party transactions

Related party Transactions in the fiscal year ended March 31, 2011 are as follows:

Transactions with parent company and major shareholder companies

(Millions of yen)

	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amounts of transactions	Items	Balance as of March 31, 2011
Principal shareholder	Ministry of Finance (Minister of Finance) (Note i)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase (Note ii)	120	—	—
				Receipt of funds (Note iii)	20,000	Borrowings	20,000
				Payment of interest on borrowings	0	Accrued expenses	0

(Note)
(i) Transactions with the ministries and agencies other than Ministry of Finance are as follows:
- Ministry of Economy, Trade and Industry
Receipts from the national budget ¥13 million
(ii) The underwriting of capital increase represents the increase in capital through shareholder allocation by JFC at an allocation amount of ¥1 per share.
(iii) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.
(iv) Figures in the table above do not include consumption taxes.

13. Subsequent events

Not applicable

Risk-monitored Loans

JFC reports risk-monitored loan amounts calculated based on the Ministerial Ordinance Concerning Accounting of Japan Finance Corporation (Ordinance of the Ministry of Finance, the Ministry of Health, Labour and Welfare, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Economy, Trade and Industry; Ordinance No. 3 of 2008)

■ Risk-monitored Loans

(Millions of yen)

	JFC-Micro (Account for Micro Business and Individual Operations)	AFFF Unit (Account for Agriculture, Forestry, Fisheries and Food Business Operations)	SME Unit (Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation))	JBIC (Account for JBIC Operations)
Bankrupt loans	35,305	1,568	22,488	8,969
Non-accrual loans	136,178	82,436	358,787	97,717
Past due loans (3 months or more)	85	2,930	—	—
Restructured loans	570,268	13,553	47,450	187,046
Total	741,837	100,488	428,727	293,733
Total of risk-monitored loans/outstanding loans (%)	10.36	3.94	6.95	3.51

(Definitions)

- Bankrupt loans
  Loans for which no accrued interest is recorded because the collection or repayment of principal or interest is unlikely due to a prolonged delay in payment of principal or interest (excluding the portion written off; hereinafter referred to as "loans for which accrued interest is not recorded") and other reasons, and those fall under any category listed in Article 96-1-3, sub-items (a) through (e) as well as Article 96-1-4 of the Corporate Tax Law Enforcement Ordinance (Ordinance No.97 of 1965).

- Non-accrual loans
  Loans for which accrued interest is not recorded; except "bankrupt loans" and loans for which interest payment has been waived to facilitate restructuring or supporting of the debtor's business.

- Past due loans (3 months or more)
  Loans for which payment of principal or interest has fallen more than three months behind counting from the day following the contracted payment date; except "bankrupt loans" and "non-accrual loans."

- Restructured loans
  Loans for which payment of interest is reduced, exempted, or extended, payment of principal is extended, the claim is waived, or another preferential treatment is given to the debtor in order to facilitate restructuring or supporting of the debtor's business; except "bankrupt loans," "non-accrual loans" and "past due loans (3 months or more)."

■ Claims Disclosed under the Financial Reconstruction Law

(Millions of yen)

	JFC-Micro (Account for Micro Business and Individual Operations)	AFFF Unit (Account for Agriculture, Forestry, Fisheries and Food Business Operations)	SME Unit (Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation))	JBIC (Account for JBIC Operations)
Bankrupt or de facto bankrupt	116,943	6,708	68,727	8,969
Doubtful	55,371	77,344	312,892	97,717
Special attention	570,353	16,483	47,450	187,046
Subtotal (1)	742,668	100,536	429,070	293,733
Normal	6,428,471	2,464,069	5,741,543	10,555,352
Total (2)	7,171,140	2,564,606	6,170,842	10,849,086
(1/2) (%)	10.36	3.92	6.95	2.71

Notes: 1. Although JFC is not subject to the provisions of the Law concerning Emergency Measures for the Revitalization of the Financial Functions (Law No.132 of 1998; hereinafter the "Financial Reconstruction Law"), all calculations above are based on the same criteria used for private financial institutions.
2. Figures for "Total (2)" include loans for which reimbursement agreements have been concluded by means of the indemnity rights of borrowers requiring special attention, and as such vary from the total of "Subtotal (1)" and "Normal."

(Definitions)

- Bankrupt or de facto bankrupt:
  Loans or loan equivalents to borrowers who have gone bankrupt for reasons such as a declaration of bankruptcy, reorganization, or revitalization proceedings.

- Doubtful:
  Loans to borrowers who have not yet reached a state of legal bankruptcy but whose financial position and business performance have deteriorated; therefore, the prospect of complete repayment of principal and interest is remote in accordance with the contract obligations.

- Special attention:
  Loans that are "past due loans (3 months or more)" or "restructured loans."

- Normal:
  Loans to borrowers whose financial position or business performance are not a point of concern; therefore, those are excluded from the above three categories of "bankrupt or de facto bankrupt," "doubtful" and "special attention."

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