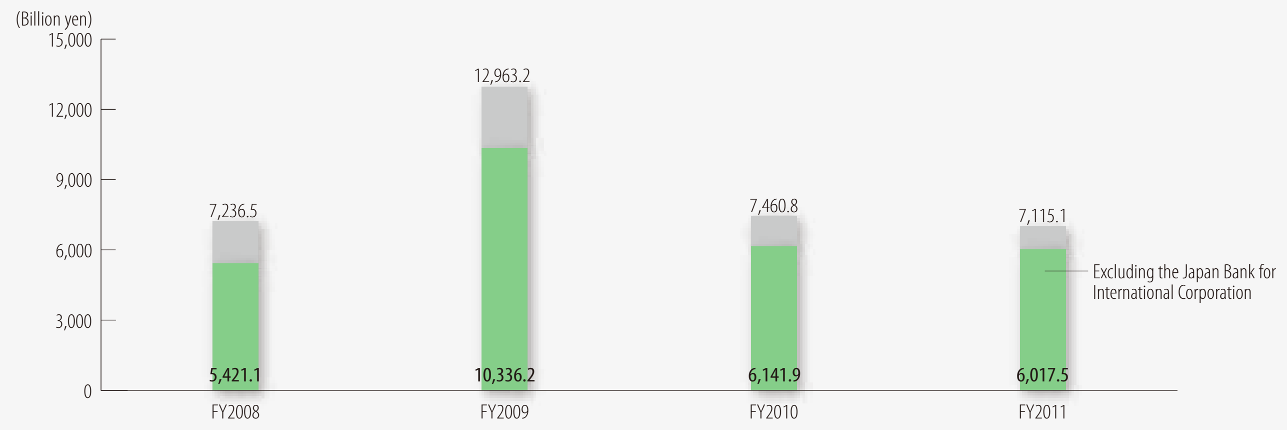
Data

JFC 2012

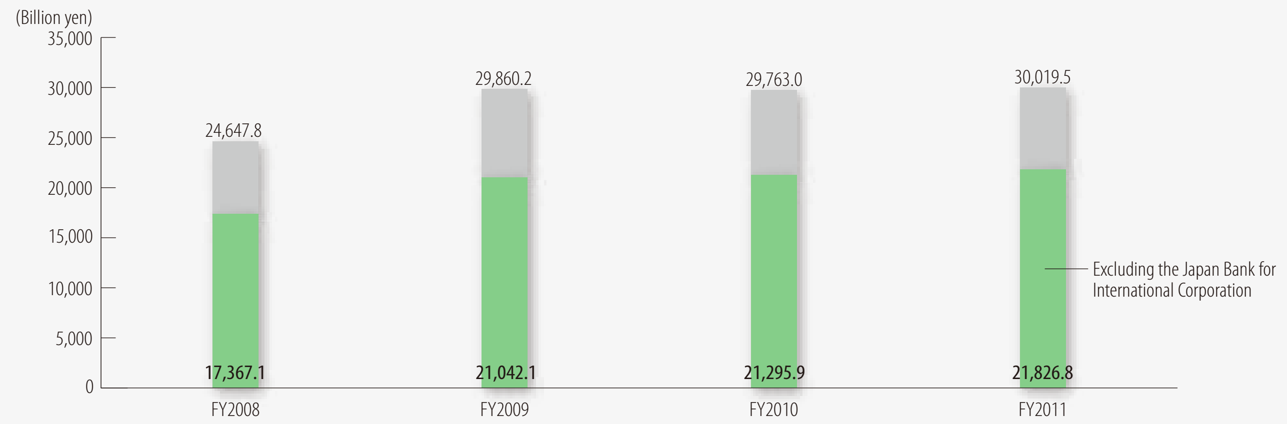
Operational Performances

Japan Finance Corporation

1 Changes in Loan Operations

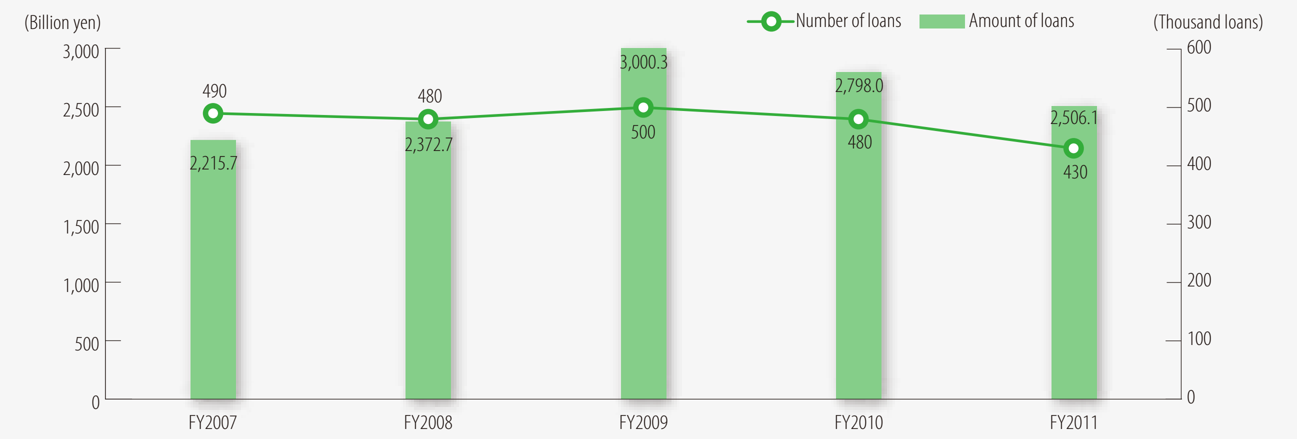


2 Changes in Outstanding Loans



Micro Business and Individual Unit

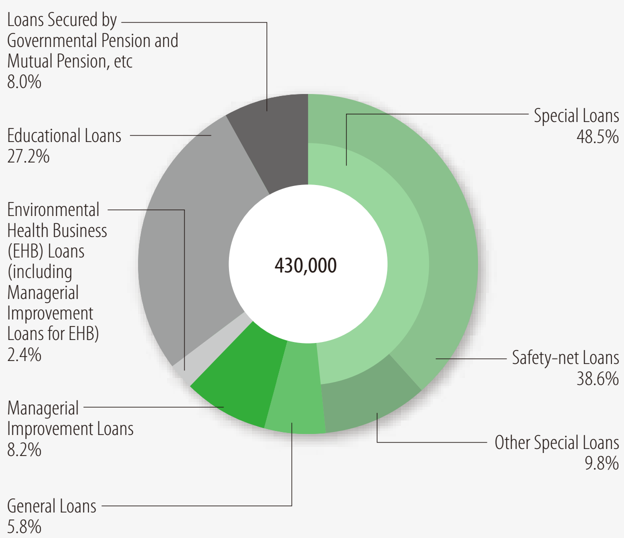
1 Changes in Loan Operations



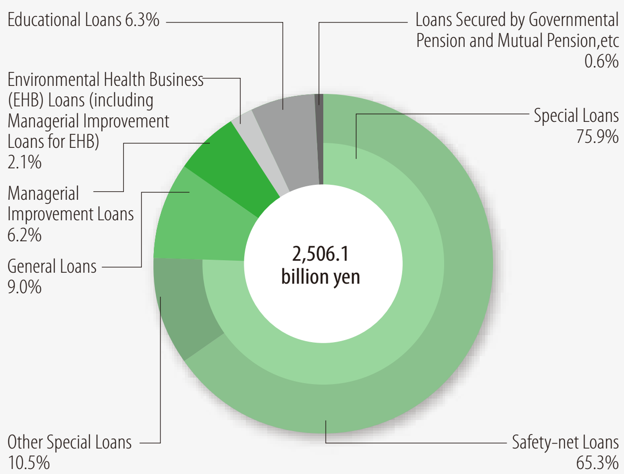
Note: Figures before FY2008 October are based on data from the former National Life Finance Corporation.

2 Breakdown of Loans

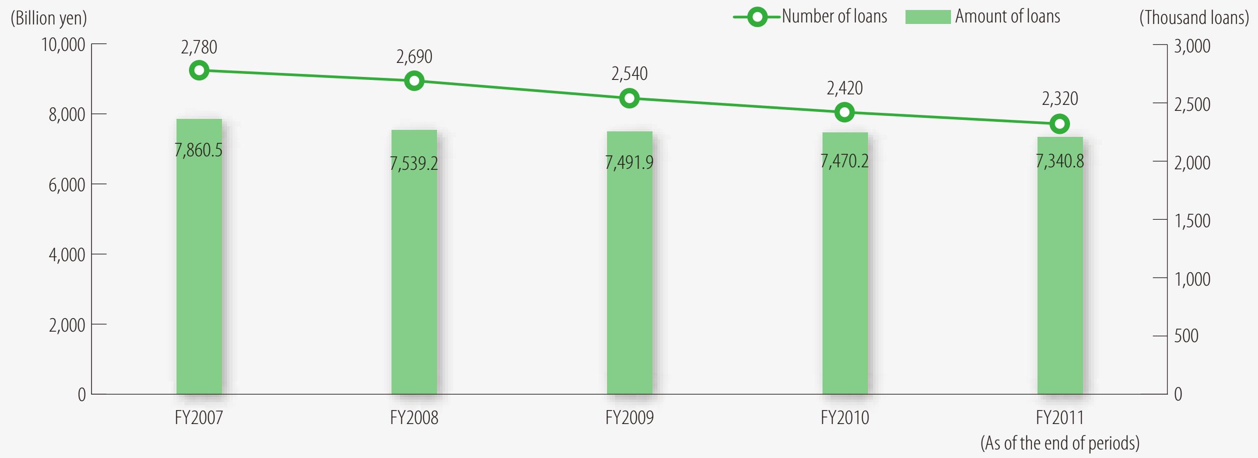
▼ Number of Loans (FY2011)



▼ Total Amount of Loans (FY2011)



3 Changes in Outstanding Loans



Note: Figures for FY2007 are based on data from the former National Life Finance Corporation.

4 Breakdown of Business Loans Outstanding by Industry

(Unit: billion yen, %)

	FY2007	FY2008	FY2009	FY2010	FY2011
Manufacturing	788.7 (11.6)	764.1 (11.7)	799.6 (12.2)	795.6 (12.2)	782.4 (12.1)
Wholesale & retail	1,626.7 (24.0)	1,560.4 (23.9)	1,572.2 (24.1)	1,591.6 (24.3)	1,582.5 (24.5)
Restaurants & hotels	626.5 (9.2)	597.4 (9.1)	579.0 (8.9)	569.6 (8.7)	556.3 (8.6)
Services	1,388.1 (20.4)	1,358.5 (20.8)	1,370.4 (21.0)	1,413.9 (21.6)	1,417.7 (22.0)
Construction	1,016.0 (15.0)	992.1 (15.2)	1,019.5 (15.6)	1,025.2 (15.7)	997.1 (15.5)
Others	1,344.8 (19.8)	1,260.3 (19.3)	1,189.8 (18.2)	1,145.6 (17.5)	1,113.4 (17.3)
Total	6,791.1 (100.0)	6,533.1 (100.0)	6,530.8 (100.0)	6,541.7 (100.0)	6,449.5 (100.0)

Notes: 1. Figures for FY2007 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, %)

	FY2007	FY2008	FY2009	FY2010	FY2011
Restaurant-related services	295.1 (48.6)	264.1 (48.2)	233.8 (47.6)	207.9 (47.0)	183.2 (46.4)
Hotels	127.4 (21.0)	115.7 (21.1)	104.9 (21.4)	95.2 (21.5)	85.5 (21.6)
Beauty parlors	82.1 (13.5)	76.0 (13.9)	69.9 (14.2)	65.5 (14.8)	61.1 (15.5)
Barbershops	48.3 (8.0)	42.9 (7.8)	37.7 (7.7)	33.3 (7.5)	29.1 (7.4)
Public bath	30.3 (5.0)	28.0 (5.1)	25.6 (5.2)	23.1 (5.2)	20.6 (5.2)
Laundries	15.2 (2.5)	13.5 (2.5)	12.0 (2.5)	10.8 (2.4)	9.8 (2.5)
Meat shops	4.3 (0.7)	3.7 (0.7)	3.3 (0.7)	3.0 (0.7)	3.5 (0.9)
Entertainment facilities	2.7 (0.5)	2.4 (0.4)	2.4 (0.5)	2.3 (0.5)	1.8 (0.5)
Others	1.5 (0.3)	1.2 (0.2)	1.2 (0.3)	1.2 (0.3)	0.3 (0.1)
Total	607.3 (100.0)	548.1 (100.0)	491.2 (100.0)	442.7 (100.0)	395.2 (100.0)

Notes:1. Figures for FY2007 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, %)

	FY2007	FY2008	FY2009	FY2010	FY2011
Working fund	3,523.7 (51.9)	3,570.9 (54.7)	3,999.8 (61.2)	4,292.9 (65.6)	4,381.5 (67.9)
Equipment fund	3,267.4 (48.1)	2,962.1 (45.3)	2,531.0 (38.8)	2,248.7 (34.4)	2,067.9 (32.1)
Total	6,791.1 (100.0)	6,533.1 (100.0)	6,530.8 (100.0)	6,541.7 (100.0)	6,449.5 (100.0)

Notes:1. Figures for FY2007 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)

	FY2007	FY2008	FY2009	FY2010	FY2011
Borrowers	1,194,111	1,135,110	1,084,043	1,030,910	989,697

Notes:1. Figures for FY2007 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)

	FY2007	FY2008	FY2009	FY2010	FY2011
Average loans outstanding per borrower	5,687	5,755	6,024	6,345	6,516

Notes:1. Figures for FY2007 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)

	FY2007	FY2008	FY2009	FY2010	FY2011
Educational Loans	1,035.8	974.9	932.6	903.5	869.4
Loans Secured by Government Pensions and Mutual Pensions, etc.	32.3	30.1	27.5	24.3	21.3

Note: Figures for FY2007 are based on data from the former National Life Finance Corporation.

10 Breakdown of Loans by Credit Amount

(Unit: number of loans, %)

	FY2007	FY2008	FY2009	FY2010	FY2011
Up to 3 million yen	112,664 (36.9)	115,962 (36.4)	106,525 (31.2)	105,367 (33.1)	91,472 (32.8)
Over 3 million yen and up to 5 million yen	69,577 (22.8)	69,891 (21.9)	66,327 (19.4)	61,391 (19.3)	54,851 (19.7)
Over 5 million yen and up to 8 million yen	46,982 (15.4)	47,169 (14.8)	51,267 (15.0)	44,721 (14.0)	38,434 (13.8)
Over 8 million yen	76,292 (25.0)	85,615 (26.9)	117,463 (34.4)	106,862 (33.6)	94,022 (33.7)
Total	305,515 (100.0)	318,637 (100.0)	341,582 (100.0)	318,341 (100.0)	278,779 (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, %)

	FY2007	FY2008	FY2009	FY2010	FY2011
4 or less	200,413 (65.6)	207,975 (65.3)	221,528 (64.8)	209,917 (65.9)	184,596 (66.2)
5–9	64,354 (21.1)	67,061 (21.0)	73,039 (21.4)	67,046 (21.1)	58,213 (20.9)
10–19	26,857 (8.8)	28,029 (8.8)	30,985 (9.1)	27,353 (8.6)	23,832 (8.5)
20 or more	13,862 (4.5)	15,546 (4.9)	16,008 (4.7)	14,010 (4.4)	12,132 (4.4)
Total	305,486 (100.0)	318,611 (100.0)	341,560 (100.0)	318,326 (100.0)	278,773 (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

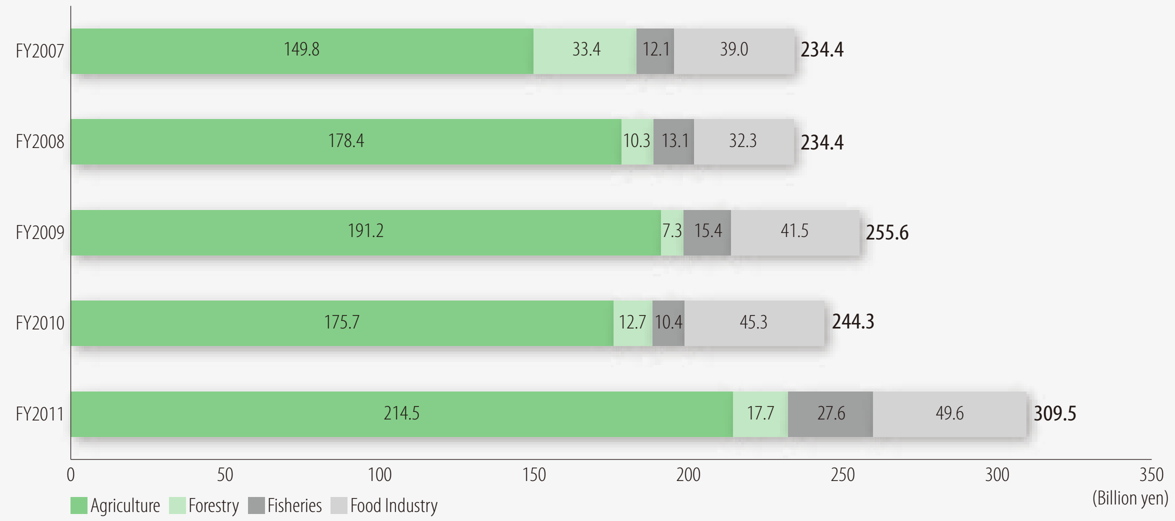
(Unit: number of loans, %)

		FY2007	FY2008	FY2009	FY2010	FY2011
No-collateral		245,086 (80.4)	256,390 (80.6)	267,088 (78.3)	245,023 (77.0)	215,024 (77.2)
Collateral	Real estate (including partial collateral)	59,425 (19.5)	61,659 (19.4)	74,105 (21.7)	73,038 (23.0)	63,559 (22.8)
	Securities	61 (0.0)	44 (0.0)	37 (0.0)	32 (0.0)	26 (0.0)
	Credit Guarantee Corporations	201 (0.1)	16 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
	Others	5 (0.0)	3 (0.0)	1 (0.0)	1 (0.0)	1 (0.0)
Total		304,778 (100.0)	318,112 (100.0)	341,231 (100.0)	318,094 (100.0)	278,610 (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

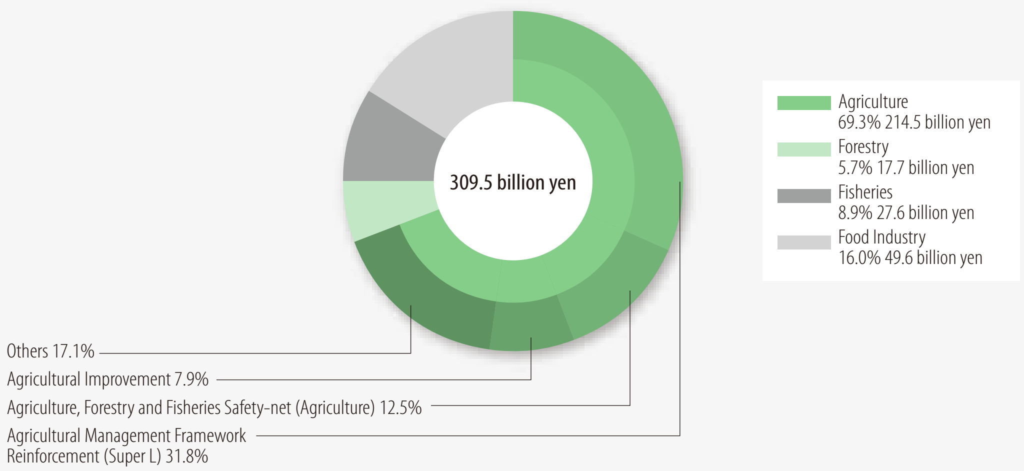
1 Changes in Annual Loan Operations



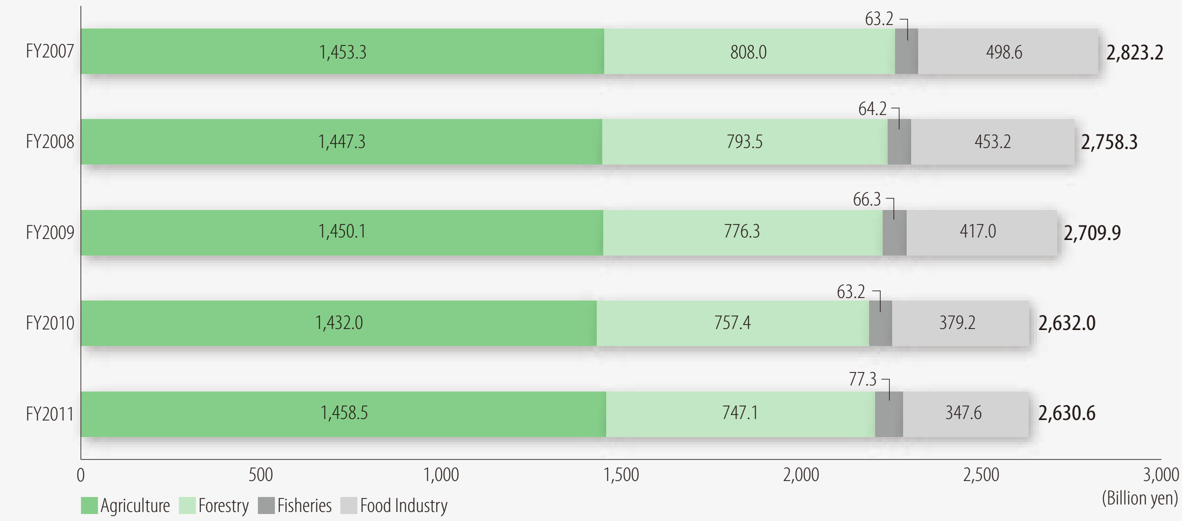
Note: Figures before October 2008 are based on data from the former Agriculture, Forestry and Fisheries Finance Corporation.

2 Breakdown of Loans

Amount (FY2011)



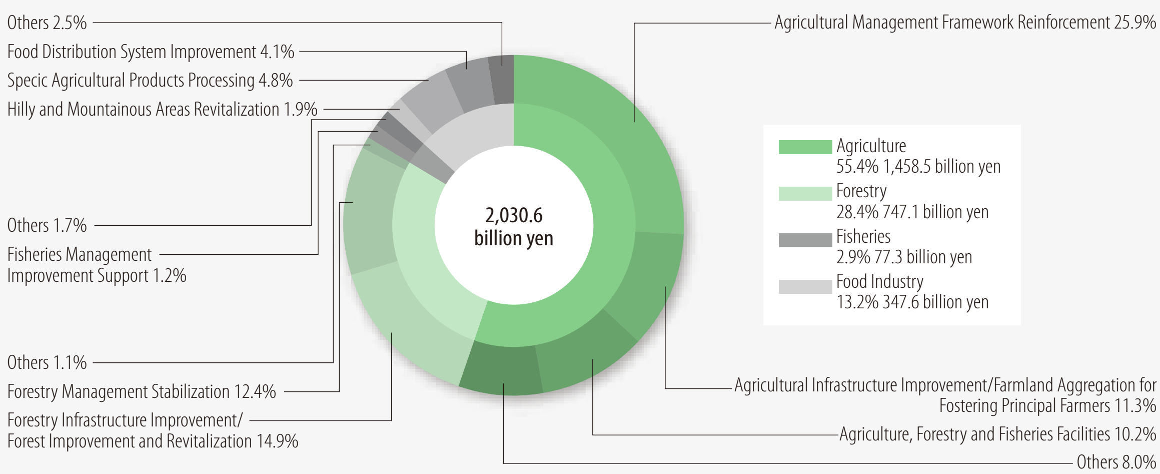
3 Changes in Outstanding Loans



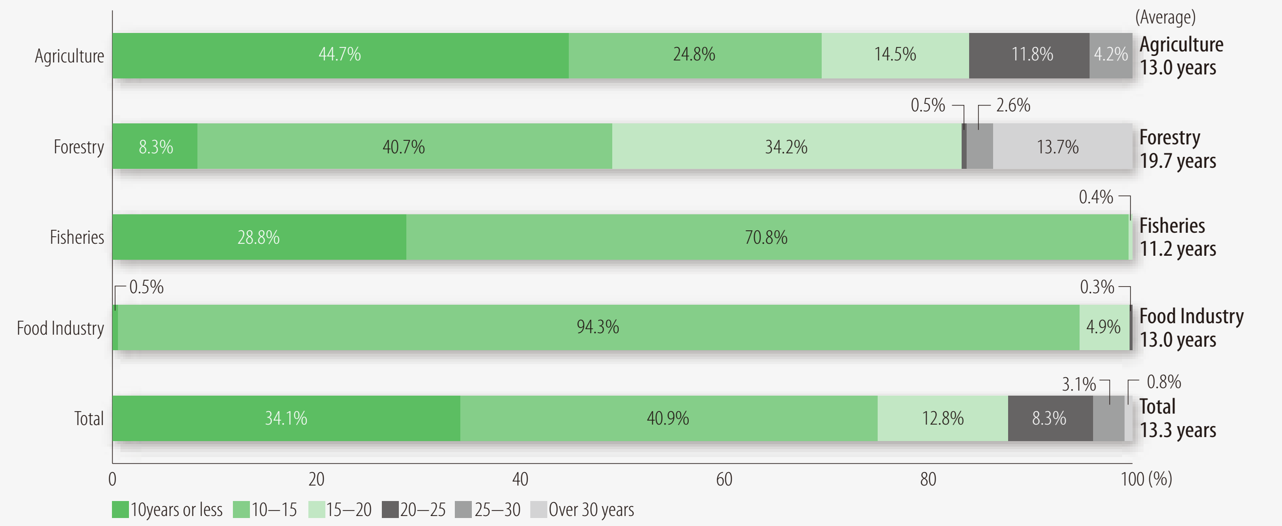
Note: Figures in FY2007 are based on data from the former Agriculture, Forestry and Fisheries Finance Corporation.

4 Breakdown of Outstanding Loans by Sector and Use

▼ **Amount** (FY2011)



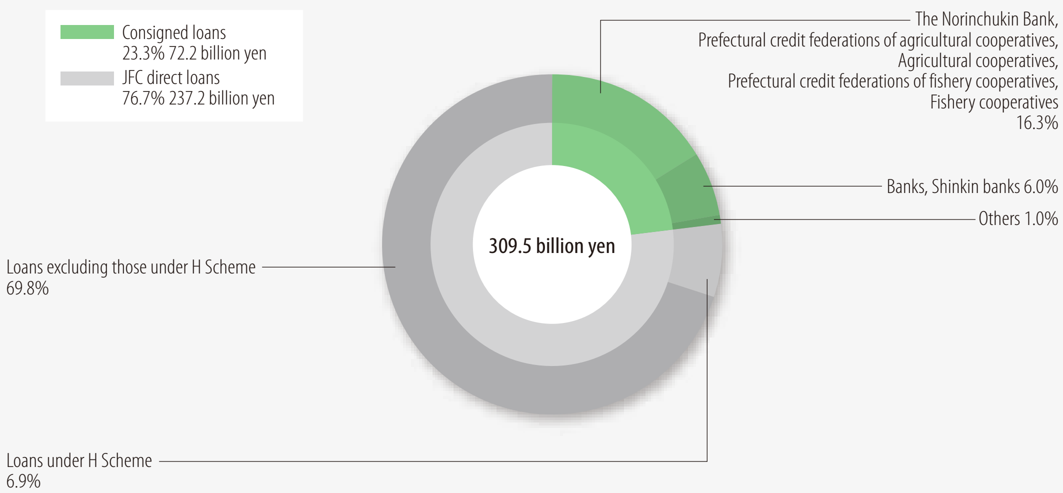
5 Loans by Repayment Period (FY2011)



Note: Figures are calculated by amount of loans contracted.

6 Loans by Commissioned Financial Institutions

Amount (FY2011)

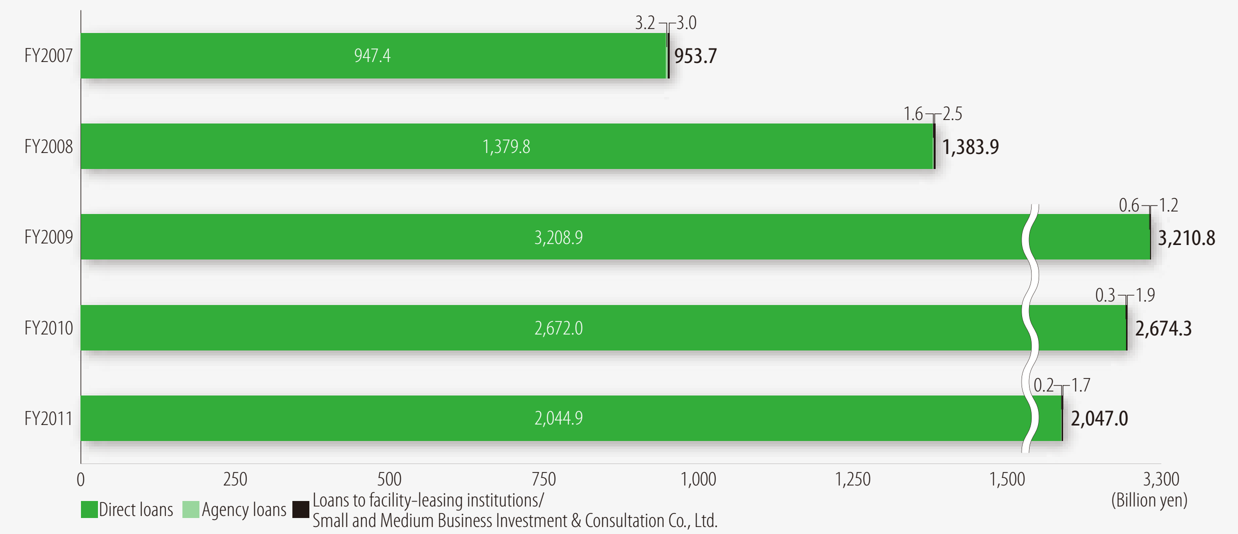


Note: H Scheme refers to a loan system through consignment of part of administration works for JFC's direct loans to agricultural cooperatives, banks, Shinkin banks, etc.

Small and Medium Enterprise (SME) Unit

I. Loan Programs

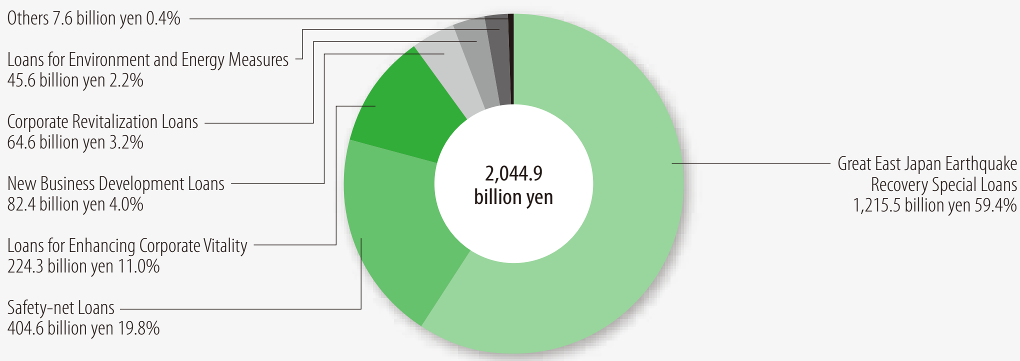
1 Changes in Loan Operations



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 (FY2011)



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 FY2007 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)

	FY2007	FY2008	FY2009	FY2010	FY2011
Manufacturing	2,814.3 (48.5)	2,748.9 (48.9)	3,007.3 (48.7)	3,137.1 (48.8)	3,132.8 (48.7)
Construction	322.4 (5.6)	296.1 (5.3)	328.1 (5.3)	329.9 (5.1)	327.0 (5.1)
Wholesale & retail	914.2 (15.8)	896.3 (15.9)	1,025.4 (16.6)	1,089.0 (16.9)	1,098.8 (17.1)
Transport & telecommunications	499.9 (8.6)	481.7 (8.6)	540.0 (8.8)	568.9 (8.8)	580.8 (9.0)
Services	659.1 (11.4)	649.7 (11.5)	654.7 (10.6)	686.8 (10.7)	697.2 (10.8)
Others	589.8 (10.2)	554.1 (9.8)	615.1 (10.0)	616.4 (9.6)	595.3 (9.3)
Total	5,799.7 (100.0)	5,626.8 (100.0)	6,170.6 (100.0)	6,428.3 (100.0)	6,432.2 (100.0)

Notes:1. Figures for FY2007 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)

	FY2007	FY2008	FY2009	FY2010	FY2011
Operating funds	2,581.9 (44.5)	2,618.7 (46.5)	3,600.9 (58.4)	4,043.3 (62.9)	4,221.4 (65.6)
Facility funds	3,217.7 (55.5)	3,008.0 (53.5)	2,569.7 (41.6)	2,385.0 (37.1)	2,210.7 (34.4)
Total	5,799.7 (100.0)	5,626.8 (100.0)	6,170.6 (100.0)	6,428.3 (100.0)	6,432.1 (100.0)

Notes:1. Figures for FY2007 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)

	FY2007	FY2008	FY2009	FY2010	FY2011
Client companies	45,438	44,519	46,139	46,330	46,599

Notes:1. Figures for FY2007 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

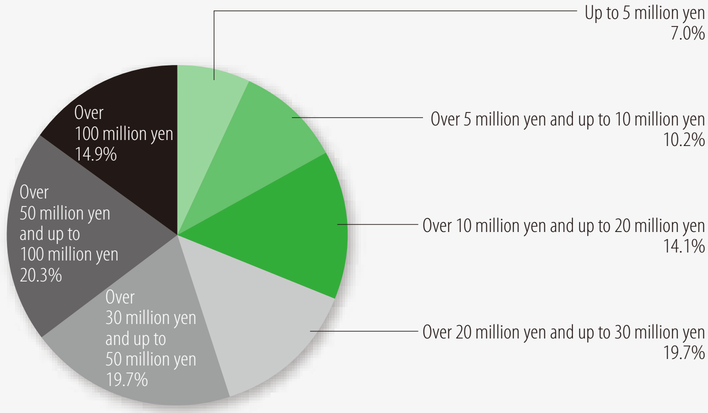
(Unit: million yen)

	FY2007	FY2008	FY2009	FY2010	FY2011
Average outstanding loans per company	125	124	132	137	137

Notes:1. Figures for FY2007 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

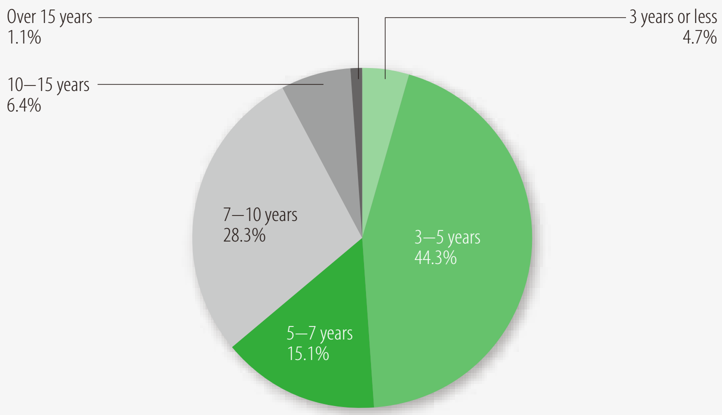
Loan Percentage Breakdown (FY2011)



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

9 Loans by Repayment Period

Loan Percentage Breakdown (FY2011)



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

II. Credit Insurance Programs

(Unit: billion yen)

Items	FY2009	FY2010	FY2011
Acceptance of insurance and loans			
Small Business Credit Insurance	16,116.4	13,439.9	11,131.3
Loans to CGCs	—	—	—
Special Insurance for Midsize Enterprises	—	—	—
Outstanding amounts of insurance and loans			
Small Business Credit Insurance	36,368.0	35,657.7	34,913.6
Loans to CGCs	—	—	—
Special Insurance for Midsize Enterprises	0.1	0.1	0.1
Machinery Credit Insurance (Note)	111.3	43.0	19.8

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

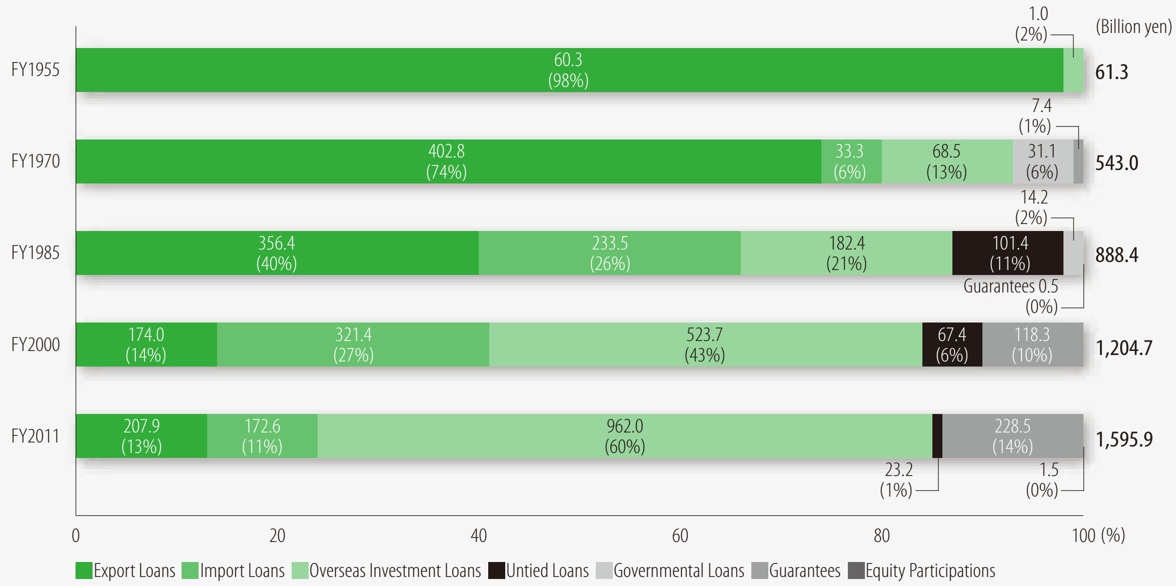
(Unit: billion yen)

Items	FY2009	FY2010	FY2011
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)	2.8	1.4	1.1
Guarantee-type (outstanding amount of guaranteed liabilities)	16.5	0.2	0.1

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.

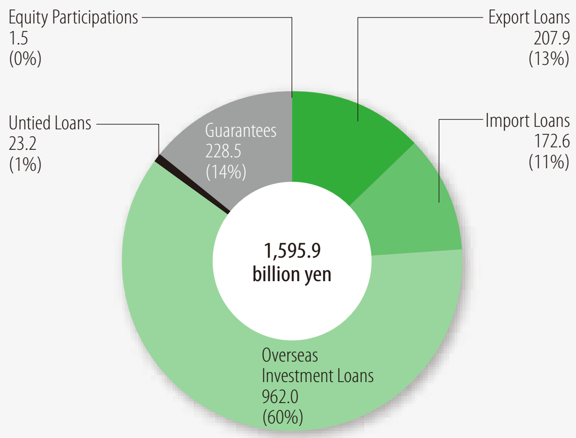
Japan Bank for International Cooperation (JBIC)

1 Changing Composition of Loans, Equity Participations and Guarantees

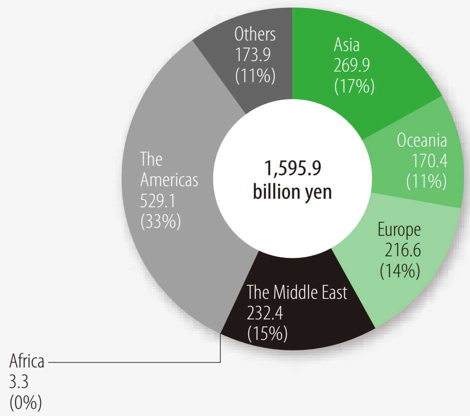


2 Breakdown of Composition of Loans, Equity Participations and Guarantees

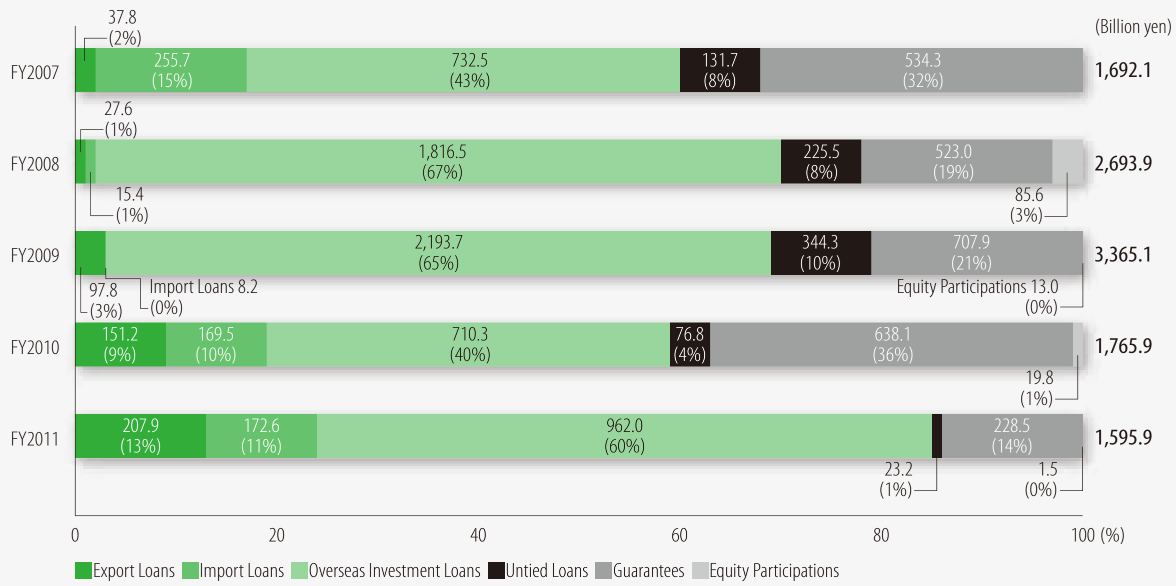
A. Commitments by Purpose of Financing (FY2011)



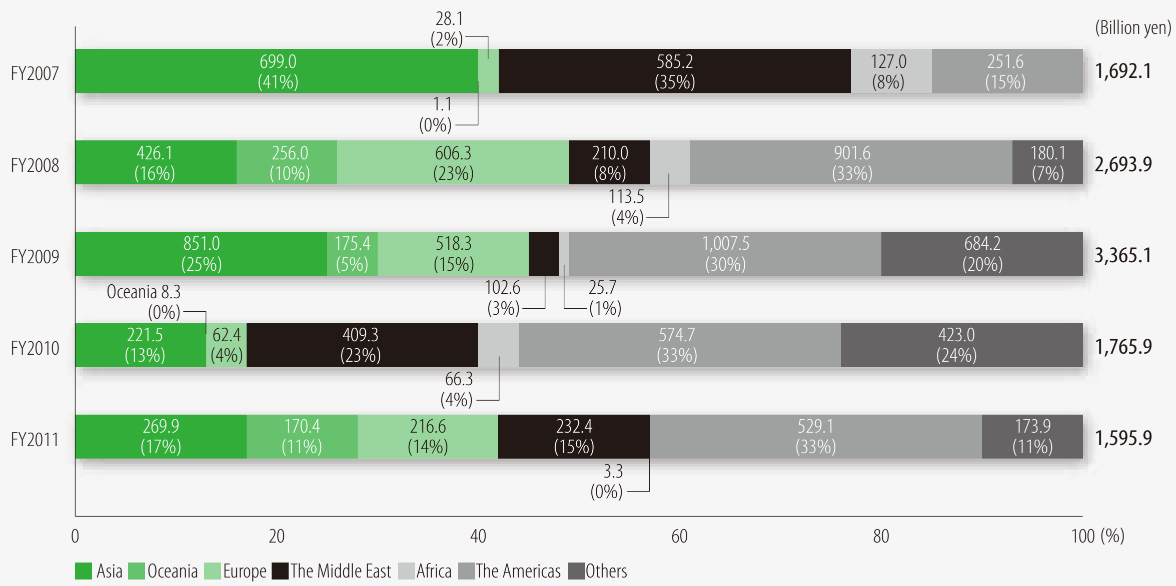
B. Commitments by Region (FY2011)



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

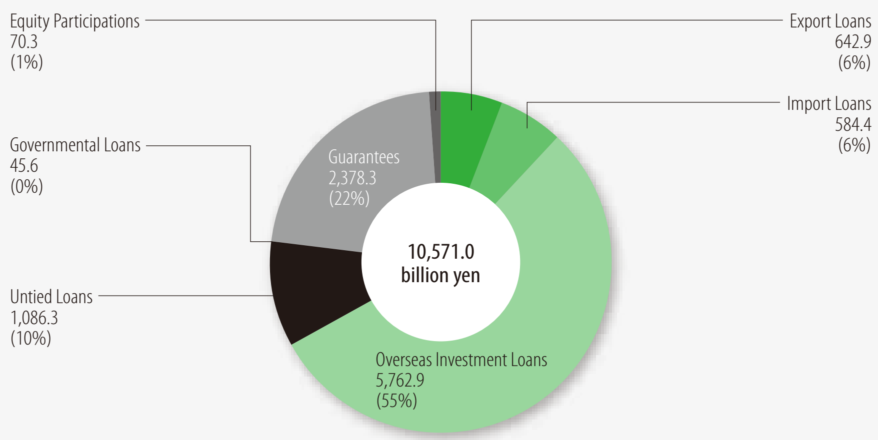


4. Changing Composition of Loans, Equity Participations and Guarantees by Region

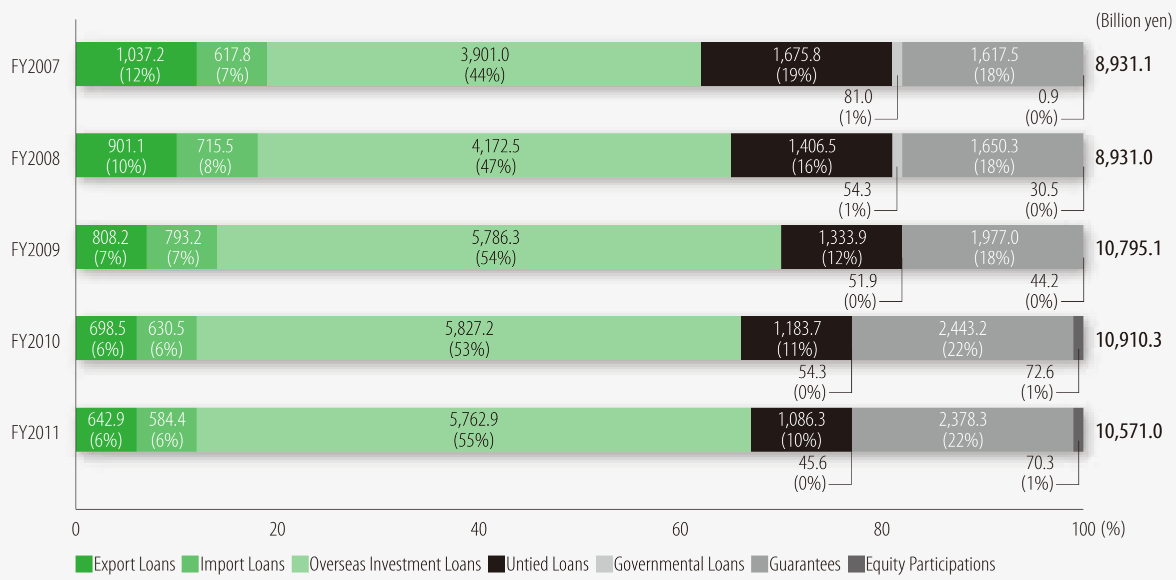


5 Breakdown of Outstanding Loans, Equity Participations and Guarantees by Purpose of Financing

Loan and Equity Participation Balances Breakdown (FY2011)

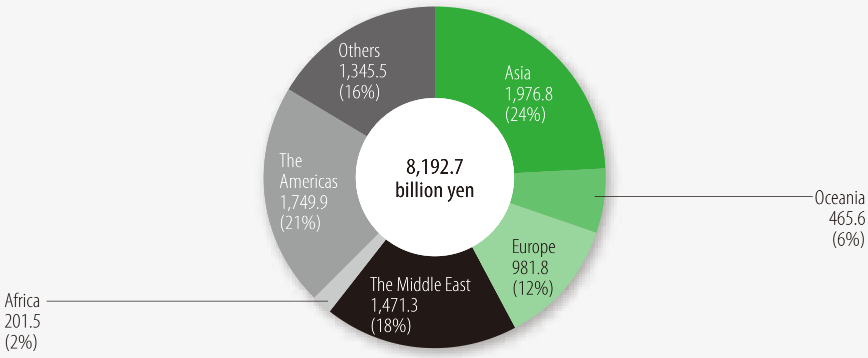


6 Changing Composition of Outstanding Loans, Equity Participations and Guarantees by Purpose of Financing

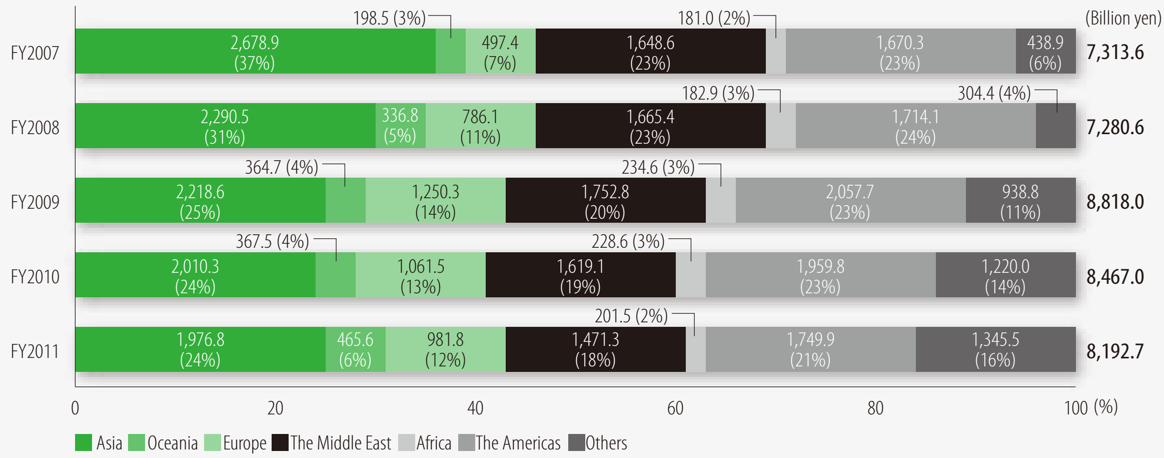


7 Breakdown of Outstanding Loans and Equity Participations by Region

Loan and Equity Participation Balances Breakdown (FY2011)



8 Changing Composition of Outstanding Loans and Equity Participations by Region



9 Loans and Equity Participations Outstanding by Industry (FY2011)

(Unit: number, million yen)

Industry	Total	
	Number	Outstanding
Manufacturing	101	347,339
Mining and Quarrying of Stone and Gravel	9	210,643
Construction	3	3,383
Electricity, Gas, Heat Supply, and Water	5	224,783
Information and Communications	1	1,800
Transport and Postal Services	6	51,545
Wholesale Trade	20	589,060
Finance and Insurance	14	1,334,999
Goods Rental and Leasing	34	16,654
Scientific research, Professional and Technical Services	1	189
Overseas Yen Loan and Domestic Loans Transferred Overseas	416	5,338,189
Total, including Others	610	8,118,589
Loan Outstanding to SMEs (Note)	60	6,647

Note: Outstanding balance of investment financing loans to SMEs and their overseas subsidiaries (excluding sub-borrowers of two-step loans to financial institutions).
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).

Operations to Facilitate Crisis Responses and Specific Businesses Promotion, etc.

Results of Operations to Facilitate Crisis Responses

(Unit: billion yen)

		Second Half FY2008	FY2009	FY2010	FY2011
Two-step loans		1,430.1	3,869.3	405.2	1,153.4
	Loans, etc.	1,130.3	3,529.4	405.2	1,153.4
	Commercial paper (CP) acquisitions	299.8	339.8	—	—
Loss compensation		345.1	1,811.9	1,893.3	1,739.8
	Loans, etc.	345.1	1,781.9	1,893.3	1,739.8
	Commercial paper (CP) acquisitions	—	—	—	—
	Equity participations	—	30.0	—	—
Interest subsidies		—	—	0.3	2.4

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 2012.

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 2012, with loss compensation underwritten by JFC for the incurred losses by May 10, 2012.

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 March 2012, 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 2011. The payment period for loans from October 1 to March 31 each year is through June 10. That for loans from April 1 to September 30 is through December 10.

Results of Operations to Facilitate Specific Businesses Promotion

(Unit: billion yen)

	FY2010	FY2011
Two-step loans	20.0	1.3

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 2012.

Results of Operations to Facilitate Business Restructuring Promotion, etc.

Operations to Facilitate Business Restructuring Promotion, etc. commenced on July 1, 2011, but for FY2011 no cases of lending were seen.

Financial Statements and Notes

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, 2012)

(Millions of yen)

Assets		**Liabilities**	
Cash and due from banks	**4,553,477**	**Borrowed money**	**22,211,657**
Cash	185	Borrowings	22,211,657
Due from banks	4,553,291	**Bonds payable**	**5,053,582**
Receivables under resale agreements	**615,964**	**Entrusted funds**	**37,015**
Securities	**552,071**	**Reserve for insurance policy liabilities**	**1,727,272**
Government bonds	473,029	**Other liabilities**	**424,751**
Corporate bonds	758	Accrued expenses	56,936
Stocks	2,030	Unearned revenue	54,131
Other securities	76,253	Derivatives other than for trading-liabilities	1,893
Loans and bills discounted	**29,420,809**	Lease obligations	4,904
Loans on deeds	29,420,809	Other	306,885
Other assets	**999,425**	**Provision for bonuses**	**5,075**
Prepaid expenses	7,563	**Provision for directors' bonuses**	**22**
Accrued income	61,026	**Provision for retirement benefits**	**208,269**
Derivatives other than for trading-assets	894,785	**Provision for directors' retirement benefits**	**120**
Agency accounts receivable	2,746	**Reserve for compensation losses**	**59,060**
Other	33,302	**Acceptances and guarantees**	**2,381,077**
Property, plant and equipment	**247,920**	**Total liabilities**	**32,107,904**
Buildings	28,770	**Net assets**	
Land	99,249	**Capital stock**	**4,366,709**
Lease assets	2,400	**Capital surplus**	**2,236,239**
Construction in progress	116,290	Special reserve for administrative improvement funds	181,500
Other	1,210	Legal capital surplus	2,054,739
Intangible assets	**11,304**	**Retained earnings**	**(639,482)**
Software	7,114	Legal retained earnings	774,663
Lease assets	2,250	Other retained earnings	(1,414,145)
Other	1,938	Retained earnings brought forward	(1,414,145)
Customers' liabilities for acceptances and guarantees	**2,381,077**	**Total shareholders' equity**	**5,963,466**
Allowance for loan losses	**(531,415)**	**Valuation difference on available-for-sale securities**	**(1,825)**
		Deferred gains or losses on hedges	**181,089**
		Total valuation and translation adjustments	**179,263**
		Total net assets	**6,142,730**
Total assets	**38,250,634**	**Total liabilities and net assets**	**38,250,634**

Statement of Operations (Year ended March 31, 2012)

(Millions of yen)

Ordinary income	857,197
Interest income	531,419
Interest on loans and discounts	472,359
Interest and dividends on securities	933
Interest on receivables under resale agreements	517
Interest on deposits with banks	4,618
Interest on interest swaps	52,985
Other interest income	5
Fees and commissions	17,753
Fees and commissions on compensation security contract	3,411
Other fees and commissions	14,342
Insurance premiums and other	253,024
Insurance premiums	150,129
Receipts of burden charges under the Responsibility-sharing System	19,588
Reversal of reserve for insurance policy liabilities	83,306
Receipts from the national budget	43,436
Receipts from general account of the national budget	43,428
Receipts from special account of the national budget	8
Other income	11,562
Recoveries of written-off claims	2,263
Other	9,299
Ordinary expenses	1,147,627
Interest expenses	291,551
Interest on call money	122
Interest on borrowings and rediscounts	196,859
Interest on bonds	91,346
Other interest expenses	3,224
Fees and commissions payments	12,696
Expense on compensation security contract	5,322
Other fees and commissions	7,373
Expenses on insurance claims and other	548,958
Expenses on insurance claims	676,408
Recoveries of insurance claims	(127,450)
Other ordinary expenses	9,233
Loss on foreign exchange transactions	1,242
Amortization of bond issuance cost	1,407
Expenses on derivatives other than for trading or hedging	405
Interest subsidies	2,440
Other	3,737
General and administrative expenses	132,747
Other expenses	152,440
Provision of allowance for loan losses	127,054
Provision of reserve for compensation losses	2,980
Written-off of loans	13,834
Losses on sales of stocks and other securities	198
Losses on devaluation of stocks and other securities	191
Other	8,180
Ordinary loss	290,430
Extraordinary income	227
Gain on disposal of noncurrent assets	227
Extraordinary losses	5,206
Loss on disposal of noncurrent assets	162
Impairment loss	451
Other	4,592
Net loss	295,408

Statement of Changes in Net Assets (Year ended March 31, 2012)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the beginning of current period	3,352,547
Changes of items during the period	
Issuance of new shares	1,014,162
Total changes of items during the period	1,014,162
Balance at the end of current period	4,366,709
Capital surplus	
Special reserve for administrative improvement funds	
Balance at the beginning of current 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 beginning of current period	1,825,851
Changes of items during the period	
Issuance of new shares	1,040,900
Reversal of legal capital surplus (Deficit disposition)	(812,011)
Total changes of items during the period	228,888
Balance at the end of current period	2,054,739
Total capital surplus	
Balance at the beginning of current period	2,007,351
Changes of items during the period	
Issuance of new shares	1,040,900
Reversal of legal capital surplus (Deficit disposition)	(812,011)
Total changes of items during the period	228,888
Balance at the end of current period	2,236,239
Retained earnings	
Legal retained earnings	
Balance at the beginning of current period	745,412
Changes of items during the period	
Provision of legal retained earnings	29,392
Reversal of legal retained earnings	(141)
Total changes of items during the period	29,250
Balance at the end of current period	774,663
Other retained earnings	
Retained earnings brought forward	
Balance at the beginning of current period	(1,871,865)
Changes of items during the period	
Provision of legal retained earnings	(29,392)
Reversal of legal retained earnings	141
Payment to the national treasury	(29,632)
Reversal of legal capital surplus (Deficit disposition)	812,011
Net income (loss)	(295,408)
Total changes of items during the period	457,719
Balance at the end of current period	(1,414,145)
Total retained earnings	
Balance at the beginning of current period	(1,126,453)
Changes of items during the period	
Payment to the national treasury	(29,632)
Reversal of legal capital surplus (Deficit disposition)	812,011
Net income (loss)	(295,408)
Total changes of items during the period	486,970
Balance at the end of current period	(639,482)
Total shareholders' equity	
Balance at the beginning of current period	4,233,444
Changes of items during the period	
Issuance of new shares	2,055,062
Payment to the national treasury	(29,632)
Net income (loss)	(295,408)
Total changes of items during the period	1,730,021
Balance at the end of current period	5,963,466
Valuation and translation adjustments	
Valuation difference on available-for-sale securities	
Balance at the beginning of current period	(1,665)
Changes of items during the period	
Net changes of items other than shareholders' equity	(160)
Total changes of items during the period	(160)
Balance at the end of current period	(1,825)
Deferred gains or losses on hedges	
Balance at the beginning of current period	157,781
Changes of items during the period	
Net changes of items other than shareholders' equity	23,308
Total changes of items during the period	23,308
Balance at the end of current period	181,089
Total valuation and translation adjustments	
Balance at the beginning of current period	156,115
Changes of items during the period	
Net changes of items other than shareholders' equity	23,148
Total changes of items during the period	23,148
Balance at the end of current period	179,263
Total net assets	
Balance at the beginning of current period	4,389,560
Changes of items during the period	
Issuance of new shares	2,055,062
Payment to the national treasury	(29,632)
Net income (loss)	(295,408)
Net changes of items other than shareholders' equity	23,148
Total changes of items during the period	1,753,169
Balance at the end of current period	6,142,730

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 translated into Japanese yen primarily 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 are independent from the operational departments, review 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 ¥406,535 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."

(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 hedging instruments, such as currency swaps and foreign exchange forward contracts used for hedging the foreign exchange risks of loans, borrowings, and bonds payable denominated in foreign currencies, is assessed by comparing the foreign currency position of the hedged loans, borrowings, and bonds payable with that of the hedging instruments.

(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.

Additional information

(The Accounting Standard for Accounting Changes and Error Corrections)

JFC has applied "the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Statement No. 24, December 4, 2009) and "Guidance on the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Guidance No. 24, December 4, 2009) beginning with the treatment of accounting changes and corrections of prior period errors that are made after the beginning of this fiscal year.

(Conclusion of an agreement regarding the acceptance of burden charges under the Responsibility-sharing System)

In February 2012, JFC concluded an agreement regarding the acceptance of burden charges under the Responsibility-sharing System with Credit Guarantee Corporations. As a result of this agreement, beginning with this fiscal year, JFC has recorded "Receipts of burden charges under the Responsibility-sharing System" in "Insurance premiums and other" on the statement of operations whose amounts were ¥19,588 million for the fiscal year ended March 31, 2012. In addition, the reserve for insurance policy liabilities decreased by ¥84,948 million, due to considering the receipts of burden charges under the Responsibility-sharing System in the calculation for the reserve for insurance policy liabilities.

2. Equity securities of or investment in affiliates

Equity securities of or investment in affiliates is ¥52,278 million.

3. Receivables under resale agreements

Among the securities acquired under resale agreements, these securities which can be sold or pledged without restrictions amounted to ¥615,964 million.

4. 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, 2012			
	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	30,372	1,879	18,458	—
Non-accrual loans	136,877	65,833	446,022	101,565
Loans with interest or principal repayments more than three months in arrears	41	1,952	5	176
Restructured loans	591,233	35,773	74,702	83,014
Total	758,525	105,440	539,189	184,755

(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 Businesses Promotion, etc. 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, 2012 is ¥1,248,717 million.

5. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for bonds totaling ¥5,053,582 million.

6. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥12,833 million.

7. Contingent liabilities

Contingent liabilities pertaining to debt assumption agreements for bonds payable are as follows.

6th FILP Agency Bonds (the former JBIC)	¥50,000 million
8th FILP Agency Bonds (the former JBIC)	¥60,000 million
15th FILP Agency Bonds (the former JBIC)	¥50,000 million
26th FILP Agency Bonds (the former JBIC)	¥50,000 million
28th FILP Agency Bonds (the former JBIC)	¥50,000 million
31st FILP Agency Bonds (the former JBIC)	¥20,000 million

8. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (69,629 contracts)	2,512,034
Reserve for compensation	59,060
Net amount	2,452,973

9. 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."]

10. 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: 6 items	Land, buildings	154
Other	Idle assets: 25 items	Land, buildings, other intangible assets	296

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.

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

Ordinary income–Other income-Other: ¥0 million
Ordinary expenses - Other expenses - Other: ¥2,450 million

12. Other extraordinary losses

Other extraordinary losses of ¥4,592 million occurred in the account for JBIC Operations on August 4, 2011 in the form of cancellation fee paid for the agreed invalidation of the transfer agreement of the reserved floor area with the Urban Renaissance Agency for Building A of the Otemachi 1-chome Second Area 1st Class Urban Redevelopment Project (Chiyoda-ku, Tokyo).

13. Issued shares

For the fiscal year ended March 31, 2012, 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	7,696,424,407,741	2,055,062,000,000	—	9,751,486,407,741

(Note) Increases is due to the issuance of 2,055,062,000,000 shares.

14. 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, and loans, 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 Businesses Promotion, etc. 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.

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 Businesses Promotion, etc., 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 both the execution of business by companies that develop or manufacture energy and environmentally friendly products and the execution of business restructuring by Japanese companies in order to strengthen their international competitiveness. 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 and discounts.

(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 cash flows between 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, 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. 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 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 suffer 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 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. 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. 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 the deposit for the FILP.

(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, 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 Businesses Promotion, etc.

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 and businesses restructuring promotion, etc. 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, 2012 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥69,835 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 ¥31,581 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

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 adjustments of financing periods.

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, 2012 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥3,903 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 ¥5,140 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

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 Fiscal Year 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) 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, 2012 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥29,276 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 ¥28,929 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, 2012 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥357 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 ¥533 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 the deposit for the FILP.

The main financial instruments exposed to interest rate risk in these operations are deposits. This 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.

①Yen-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.

②Foreign 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, 2012)

(1) Interest rate VaR: 94.1 billions of yen

(2) Exchange rate VaR: 54.0 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 operations 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 Businesses Promotion, etc.
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, 2012, and the related fair value and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine 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	4,553,477	4,554,109	632
(2) Receivables under resale agreements	615,964	615,964	—
(3) Securities			
Held to maturity debt securities	473,249	474,568	1,319
Available-for sale securities	3,795	3,795	—
(4) Loans and bills discounted	29,349,617		
Allowance for loan losses (*1)	(494,575)		
	28,855,041	29,548,432	693,390
Total assets	34,501,527	35,196,869	695,341
(1) Borrowings	22,074,835	22,434,621	359,785
(2) Bonds payable	5,053,582	5,196,791	143,208
Total liabilities	27,128,418	27,631,412	502,993
Derivative transactions (*2)			
Derivative transactions not qualifying for hedge accounting	—	—	—
Derivative transactions qualifying for hedge accounting	892,892	892,892	—
Total derivative transactions	892,892	892,892	—

(*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) Receivables under resale agreements
For securities acquired under resale agreements, the carrying amount is used as fair value because contractual terms of this item are short (i.e., within three months) and fair value resembles the carrying amount.

(3) 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) 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."

(4) 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. 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 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.

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. 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 Businesses Promotion, etc.
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.

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: ¥2,512,034 million

Compensation loss reserve: ¥59,060 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, (3) Securities," "Assets, (4) Loans and Bills Discounted" or "Liabilities, (1) Borrowings"

(Millions of yen)

Classification	Carrying amount on balance sheet
1) Unlisted stocks (*1)	16,988
2) Corporate bonds (specified asset-backed securities) (*2)	538
3) Other securities (trust beneficiary securities) (*2)	2,145
4) Partnership investments (*3)	55,354
5) Loans on deeds (subordinated capital loans) (*4)	71,192
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)	5,521
Total	283,041

(*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 or other schemes, 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)	4,553,291	—	—	—	—	—
Receivables under resale agreements	615,964	—	—	—	—	—
Securities (*2)						
Held-to-maturity debt securities	452,196	22	20,983	—	—	—
Available-for sale securities	—	2,921	878	—	—	—
Loans and bills discounted (*2)	5,002,834	9,295,062	6,489,834	3,262,332	2,787,391	2,158,377
Total	10,624,287	9,298,006	6,511,696	3,262,332	2,787,391	2,158,377

(*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 ¥424,976 million that is not expected to be redeemed and not included in the table above.

(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 (*)	3,952,963	8,319,744	5,611,052	2,211,313	1,309,327	675,956
Bonds payable	1,285,782	1,578,367	1,529,753	372,737	160,000	130,000
Total	5,238,745	9,898,112	7,140,805	2,584,051	1,469,327	805,956

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

15. 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, 2012 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	21,091	22,410	1,319
Securities whose fair value does not exceed their carrying amount	Japanese government bonds	451,938	451,938	—
	Corporate bonds	219	219	—
	Subtotal	452,157	452,157	—
Total		473,249	474,568	1,319

(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	52,278

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	540,655	540,660	(4)

(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	538
Others	
Unlisted foreign stocks	14,958
Unlisted Japanese securities	2,325
Unlisted foreign securities	4,926
Total	22,748

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.

16. 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).

17. 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, 2012 (Millions of yen)
Projected benefit obligations (A)	(275,814)
Fair value of plan assets (B)	67,115
Unfunded pension obligations (C)=(A)+(B)	(208,699)
Unrecognized prior service costs (D)	(3,281)
Actuarial unrecognized difference (E)	3,711
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(208,269)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)–(G)	(208,269)

(b) Component of pension cost

	March 31, 2012 (Millions of yen)
Service cost	7,192
Interest cost	5,449
Expected return on plan assets	(1,343)
Amortization of prior service cost accounted for as expense	(384)
Actuarial differences accounted for as expense	396
Other costs	—
Net pensions cost	11,310

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

(c) Principal assumptions

	March 31, 2012
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

18. Profit and loss on equity method

Investment in affiliates	¥52,278 million
Investment in affiliates (equity method)	¥52,042 million
Loss of investment in affiliates (equity method)	¥48 million

19. Related party transactions

Related party transactions in the fiscal year ended March 31, 2012 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, 2012
Principal shareholder	Ministry of Finance (Minister of Finance)[Note i]	100 (Direct)	Administration for policy based financing	Underwriting of capital increase[Note ii]	2,055,062	—	—
				Receipts from general account of the national budget	9,162	—	—
				Receipt of funds[Note iii]	4,399,013	Borrowings	22,008,542
				Repayment of borrowing	4,193,341		
				Payment of interest on borrowings	199,948	Accrued expenses	35,241
				Deposit of funds[Note iv]	3,805,100	Due from banks	3,236,900
				Refund of funds	2,339,700		
				Guarantee for corporate bonds[Note v]	3,453,761	—	—

(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 ¥52 million
- Small and Medium Enterprise Agency
  Receipts from the national budget ¥18,894 million
- Agency for Natural Resources and Energy
  Receipts from the national budget ¥8 million
- Ministry of Health, Labor and Welfare Ministry
  Receipts from the national budget ¥1,522 million
- Ministry of Agriculture, Forestry and Fisheries
  Receipts from the national budget ¥13,796 million
  Repayment of borrowed money ¥9,679 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

There are no material transactions to be reported.

20. Per share information

Net assets per share	¥0.62
Net loss per share	¥0.03

21. Subsequent events

(a) Establishment of the Japan Bank for International Cooperation

Based on the Japan Bank for International Cooperation Act (hereafter, the "New JBIC Act"), the Japan Bank for International Cooperation (hereinafter "New JBIC") was established on April 1, 2012. JFC's JBIC Operations and Financial Operations for Facilitating Realignment of United States Forces in Japan were handed over to the New JBIC as of the same date.

JFC underwrote the shares of the New JBIC, and transferred these shares without compensation to the government of Japan at the time the New JBIC was established on April 1, 2012. Effective the same day, in accordance with the New JBIC Act, assets and liabilities that belong to JFC's JBIC operations and Financial Operations for Facilitating Realignment of United States Forces in Japan were succeeded by the New JBIC. The amount of such assets and liabilities are determined by an evaluation committee pursuant to the New JBIC Act. After the establishment of the New JBIC, profit and loss that belong to JFC's JBIC Operations and Financial Operations for Facilitating Realignment of United States Forces in Japan are no longer recognized as profit and loss of JFC. The status of JFC's Account for JBIC Operations and Financial Account Related to the Financial Operations for Facilitating Realignment of United States Forces in Japan is founded in the financial statements and notes of each account.

(b) The Board of Directors of JFC resolved on May 22, 2012 to issue new shares by way of allotment to shareholders as of July 4, 2012.

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

(Unit: yen)

Type and number of shares	157,000,000 shares of common stock
Issue price	1 per share
Total issue amount	157,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	—
Total amount of incorporated into Capital stock	157,000,000
Total amount of incorporated into Legal capital surplus	—
Payment date	July 4, 2012
Purpose of use	To provide effectively unsecured and unguaranteed loans in order to enable smooth access to financing for fishery operators

(ii) Account for Credit Insurance Programs

(Unit: yen)

Type and number of shares	59,300,000,000 shares of common stock
Issue price	1 per share
Total issue amount	59,300,000,000
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	59,300,000,000
Payment date	July 4, 2012
Purpose of use	To augment insurance platforms and ensure stable system management

(iii) Account for Operations to Facilitate Crisis Responses

(Unit: yen)

Type and number of shares	68,000,000 shares of common stock
Issue price	1 per share
Total issue amount	68,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	—
Total amount of incorporated into Capital stock	68,000,000
Total amount of incorporated into Legal capital surplus	—
Payment date	July 4, 2012
Purpose of use	Act as resource for credit insurance underwriting

Micro Business and Individual Unit

Account for Micro Business and Individual Operations

Balance Sheet (as of March 31, 2012)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	**61,744**	**Borrowed money**	**5,587,463**
Cash	180	Borrowings	5,587,463
Due from banks	61,563	**Bonds payable**	**919,781**
Loans and bills discounted	**7,065,592**	**Other liabilities**	**16,744**
Loans on deeds	7,065,592	Accrued expenses	9,928
Other assets	**16,308**	Lease obligations	1,934
Prepaid expenses	2,108	Other	4,880
Accrued income	8,174	**Provision for bonuses**	**2,880**
Agency accounts receivable	1,715	**Provision for directors' bonuses**	**5**
Other	4,310	**Provision for retirement benefits**	**122,425**
Property, plant and equipment	**102,330**	**Provision for directors' retirement benefits**	**44**
Buildings	18,147	**Total liabilities**	**6,649,344**
Land	45,123	Net assets	
Lease assets	1,282	**Capital stock**	**884,893**
Construction in progress	37,117	**Capital surplus**	**181,500**
Other	659	Special reserve for administrative improvement funds	181,500
Intangible assets	**3,900**	**Retained earnings**	**(618,705)**
Software	2,698	Other retained earnings	(618,705)
Lease assets	538	Retained earnings brought forward	(618,705)
Other	663	**Total shareholders' equity**	**447,687**
Allowance for loan losses	**(152,844)**	**Total net assets**	**447,687**
Total assets	**7,097,032**	**Total liabilities and net assets**	**7,097,032**

Statement of Operations (Year ended March 31, 2012)

(Millions of yen)

Ordinary income	163,273
Interest income	148,345
Interest on loans and discounts	148,327
Interest on receivables under resale agreements	11
Interest on deposits with banks	6
Other interest income	0
Fees and commissions	53
Other fees and commissions	53
Receipts from the national budget	13,952
Receipts from general account of the national budget	13,952
Receipts from special account of the national budget	0
Other income	922
Recoveries of written-off claims	96
Other	826
Ordinary expenses	185,000
Interest expenses	41,929
Interest on call money	31
Interest on borrowings and rediscounts	33,480
Interest on bonds	8,417
Other interest expenses	0
Fees and commissions payments	1,035
Other fees and commissions	1,035
Other ordinary expenses	263
Amortization of bond issuance cost	263
General and administrative expenses	69,362
Other expenses	72,409
Provision of allowance for loan losses	64,699
Written-off of loans	7,695
Other	14
Ordinary loss	21,726
Extraordinary income	216
Gain on disposal of noncurrent assets	216
Extraordinary losses	438
Loss on disposal of noncurrent assets	54
Impairment loss	383
Net loss	21,948

Statement of Changes in Net Assets (Year ended March 31, 2012)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the beginning of current period	637,848
Changes of items during the period	
Issuance of new shares	247,045
Total changes of items during the period	247,045
Balance at the end of current period	884,893
Capital surplus	
Special reserve for administrative improvement funds	
Balance at the beginning of current 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 beginning of current 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 beginning of current period	(596,757)
Changes of items during the period	
Net income (loss)	(21,948)
Total changes of items during the period	(21,948)
Balance at the end of current period	(618,705)
Total retained earnings	
Balance at the beginning of current period	(596,757)
Changes of items during the period	
Net income (loss)	(21,948)
Total changes of items during the period	(21,948)
Balance at the end of current period	(618,705)
Total shareholders' equity	
Balance at the beginning of current period	222,590
Changes of items during the period	
Issuance of new shares	247,045
Net income (loss)	(21,948)
Total changes of items during the period	225,096
Balance at the end of current period	447,687
Total net assets	
Balance at the beginning of current period	222,590
Changes of items during the period	
Issuance of new shares	247,045
Net income (loss)	(21,948)
Total changes of items during the period	225,096
Balance at the end of current period	447,687

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Available-for-sale securities, which have readily determinable fair value are stated at fair value based on market prices as of the closing date with changes in net unrealized gains or losses.

(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: 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.

(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 departments which are independent from the operational departments, review 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 ¥266,575 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."

(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. Amounts of non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

Additional information

(The Accounting Standard for Accounting Changes and Error Corrections)

JFC has applied "the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Statement No. 24, December 4, 2009) and "Guidance on the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Guidance No. 24, December 4, 2009) beginning with the treatment of accounting changes and corrections of prior period errors that are made after the beginning of this fiscal year.

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, 2012 Account for Micro Business and Individual Operations
Bankrupt loans	30,372
Non-accrual loans	136,877
Loans with interest or principal repayments more than three months in arrears	41
Restructured loans	591,233
Total	758,525

(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 Sheets. The balance of unpaid amounts as of March 31, 2012 is ¥9,248 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 ¥919,781 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥7,271 million.

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. 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	146
Other	Idle assets: 22 items	Land, buildings	236

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.

7. Issued shares

For the fiscal year ended March 31, 2012 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	819,348,000,000	247,045,000,000	—	1,066,393,000,000

(Note) Increases is due to the issuance of 247,045,000,000 shares.

8. 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, and loans, 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 Businesses Promotion, etc. 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, 2012 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥69,835 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 ¥31,581 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, 2012, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine 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	61,744	61,744	—
(2) Loans and bills discounted	7,065,592		
Allowance for loan losses (*)	(152,644)		
	6,912,948	7,050,731	137,782
Total assets	6,974,693	7,112,476	137,782
(1) Borrowings	5,456,140	5,493,509	37,369
(2) Bonds payable	919,781	932,273	12,492
Total liabilities	6,375,921	6,425,783	49,862

(*) 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) 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.

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 resembles 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 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 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)	23
Total	131,323

(*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)	61,563	—	—	—	—	—
Loans and bill discounted (*2)	1,580,654	2,669,535	1,576,826	649,761	291,391	130,032
Total	1,642,218	2,669,535	1,576,826	649,761	291,391	130,032

(*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 ¥167,390 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 (*)	1,762,859	2,538,946	976,516	105,211	63,430	9,200
Bonds payable	320,000	385,000	155,000	60,000	—	—
Total	2,082,859	2,923,946	1,131,516	165,211	63,430	9,200

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

9. Market value of securities

Transferable deposits in "Due from banks" on the balance sheet are included.

The market value of securities at March 31, 2012 is as follows:

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	30,000	30,000	—

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, 2012 (Millions of yen)
Projected benefit obligations (A)	(160,615)
Fair value of plan assets (B)	38,599
Unfunded pension obligations (C)=(A)+(B)	(122,016)
Unrecognized prior service costs (D)	(1,943)
Actuarial unrecognized difference (E)	1,533
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(122,425)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)−(G)	(122,425)

(b) Component of pension cost

	March 31, 2012 (Millions of yen)
Service cost	4,091
Interest cost	3,173
Expected return on plan assets	(770)
Amortization of prior service cost accounted for as expense	(217)
Actuarial differences accounted for as expense	122
Other costs	—
Net pensions cost	6,398

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

(c) Principal assumption

	March 31, 2012
(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

12. Related party transactions

Related party transactions in the fiscal year ended March 31, 2012 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, 2012
Principal shareholder	Ministry of Finance (Minister of Finance) (Note i)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase (Note ii)	247,045	—	—
				Receipts from general account of the national budget	8,829	—	—
				Receipt of funds (Note iii)	1,560,000	Borrowings	5,456,163
				Repayment of borrowing	1,815,568		
				Payment of interest on borrowings	33,479	Accrued expenses	7,675
				Guarantee for corporate bonds (Note iv)	569,781	—	—

(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 ¥1,522 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.

13. Per share information

Net assets per share ¥0.41

Net loss per share ¥0.02

14. Subsequent events

Not applicable.

Account for Agriculture, Forestry, Fisheries and Food Business Operations

Balance Sheet (as of March 31, 2012)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	35,058	Borrowed money	2,008,635
Cash	1	Borrowings	2,008,635
Due from banks	35,056	Bonds payable	199,935
Receivables under resale agreements	7,999	Entrusted funds	37,015
Securities	2,030	Other liabilities	12,817
Stocks	2,030	Accrued expenses	7,495
Loans and bills discounted	2,544,475	Unearned revenue	2
Loans on deeds	2,544,475	Lease obligations	228
Other assets	17,457	Other	5,090
Prepaid expenses	1,680	Provision for bonuses	540
Accrued income	14,029	Provision for directors' bonuses	5
Agency accounts receivable	1,031	Provision for retirement benefits	23,204
Other	716	Provision for directors' retirement benefits	27
Property, plant and equipment	35,864	Acceptances and guarantees	840
Buildings	2,279	Total liabilities	2,283,022
Land	6,485	Net assets	
Lease assets	209	Capital stock	341,863
Construction in progress	26,802	Retained earnings	2,655
Other	87	Legal retained earnings	2,655
Intangible assets	1,835	Total shareholders' equity	344,518
Software	1,190		
Lease assets	8		
Other	636		
Customers' liabilities for acceptances and guarantees	840		
Allowance for loan losses	(18,020)	Total net assets	344,518
Total assets	2,627,541	Total liabilities and net assets	2,627,541

Statement of Operations (Year ended March 31, 2012)

(Millions of yen)

Ordinary income	66,280
Interest income	50,408
Interest on loans and discounts	50,378
Interest on receivables under resale agreements	9
Interest on deposits with banks	19
Other interest income	0
Fees and commissions	10
Other fees and commissions	10
Receipts from the national budget	13,755
Receipts from general account of the national budget	13,755
Other income	2,105
Recoveries of written-off claims	1,770
Other	335
Ordinary expenses	66,194
Interest expenses	42,591
Interest on call money	0
Interest on borrowings and rediscounts	35,826
Interest on bonds	3,673
Other interest expenses	3,090
Fees and commissions payments	5,036
Other fees and commissions	5,036
Other ordinary expenses	111
Amortization of bond issuance cost	111
General and administrative expenses	15,896
Other expenses	2,559
Provision of allowance for loan losses	2,361
Written-off of loans	197
Ordinary profit	85
Extraordinary income	7
Gain on disposal of noncurrent assets	7
Extraordinary losses	93
Loss on disposal of noncurrent assets	32
Impairment loss	60
Net income	—

Statement of Changes in Net Assets (Year ended March 31, 2012)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the beginning of current period	325,400
Changes of items during the period	
Issuance of new shares	16,463
Total changes of items during the period	16,463
Balance at the end of current period	341,863
Retained earnings	
Legal retained earnings	
Balance at the beginning of current period	2,797
Changes of items during the period	
Reversal of legal retained earnings	(141)
Total changes of items during the period	(141)
Balance at the end of current period	2,655
Other retained earnings	
Retained earnings brought forward	
Balance at the beginning of current period	(141)
Changes of items during the period	
Reversal of legal retained earnings	141
Net income (loss)	—
Total changes of items during the period	141
Balance at the end of current period	—
Total retained earnings	
Balance at the beginning of current period	2,655
Changes of items during the period	
Net income (loss)	—
Total changes of items during the period	—
Balance at the end of current period	2,655
Total shareholders' equity	
Balance at the beginning of current period	328,055
Changes of items during the period	
Issuance of new shares	16,463
Net income (loss)	—
Total changes of items during the period	16,463
Balance at the end of current period	344,518
Total net assets	
Balance at the beginning of current period	328,055
Changes of items during the period	
Issuance of new shares	16,463
Net income (loss)	—
Total changes of items during the period	16,463
Balance at the end of current period	344,518

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 are independent from the operational departments, review 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 ¥10,843 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.

Additional information

(The Accounting Standard for Accounting Changes and Error Corrections)

JFC has applied "the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Statement No. 24, December 4, 2009) and "Guidance on the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Guidance No. 24, December 4, 2009) beginning with the treatment of accounting changes and corrections of prior period errors that are made after the beginning of this fiscal year. Based on "Practical Guidelines on Accounting standards for Financial Instruments", (JICPA Accounting Practice Committee Statement No. 14), "Recoveries of written-off claims" has been recorded in "Other income in Ordinary income" beginning with this fiscal year.

2. Equity securities of or investment in affiliates

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

3. Receivables under resale agreements

Among the securities acquired under resale agreements, these securities which can be sold or pledged without restrictions amounted to ¥7,999 million.

4. 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, 2012 Account for Agriculture, Forestry, Fisheries and Food Business Operations
Bankrupt loans	1,879
Non-accrual loans	65,833
Loans with interest or principal repayments more than three months in arrears	1,952
Restructured loans	35,773
Total	105,440

(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, 2012 is ¥75,555 million.

5. 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 ¥199,935 million).

6. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥1,333 million.

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)
Other	Idle assets:3 items	Land, buildings, other intangible assets	60

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. Issued shares

For the fiscal year ended March 31, 2012 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	16,463,000,000	—	341,863,000,000

(Note) Increases is due to the issuance of 16,463,000,000 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, investments from the general account, and loans, 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 Businesses Promotion, etc. 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 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 cash flows between 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, 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. 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 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

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 adjustments of financing periods.

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, 2012 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥3,903 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 ¥5,140 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

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, 2012, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine are not include in the following chart (refer to note 2).

(Millions of yen)

	Amount on Balance Sheet	Fair value	Difference
(1) Cash and due from banks	35,058	35,057	(0)
(2) Receivables under resale agreements	7,999	7,999	—
(3) Loans and bills discounted	2,544,475		
Allowance for loan losses (*)	(17,986)		
	2,526,488	2,692,983	166,494
Total assets	2,569,546	2,736,041	166,494
(1) Borrowings	2,008,635	2,092,946	84,311
(2) Bonds payable	199,935	210,524	10,589
(3) Entrusted funds	37,015	30,361	(6,653)
Total liabilities	2,245,586	2,333,833	88,246

(*) 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) Receivables under resale agreements

For securities acquired under resale agreements, the carrying amount is used as fair value because contractual terms of this item are short (i.e., within three months) and fair value resembles the carrying amount.

(3) 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 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.

(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)	35,056	—	—	—	—	—
Receivables under resale agreements	7,999	—	—	—	—	—
Loans and bills discounted (*2)	243,309	453,269	363,038	293,641	349,368	769,397
Total	286,366	453,269	363,038	293,641	349,368	769,397

(*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 ¥72,449 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	165,101	348,568	348,327	289,824	321,687	535,127
Bonds payable	25,000	39,000	26,000	—	—	110,000
Entrusted funds	—	—	—	499	2,822	33,693
Total	190,101	387,568	374,327	290,324	324,509	678,820

12. 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, 2012 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 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	21,110	21,110	—

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, 2012 (Millions of yen)
Projected benefit obligations (A)	(30,856)
Fair value of plan assets (B)	7,648
Unfunded pension obligations (C)=(A)+(B)	(23,208)
Unrecognized prior service costs (D)	(190)
Actuarial unrecognized difference (E)	194
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(23,204)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)–(G)	(23,204)

(b) Component of pension cost

	March 31, 2012 (Millions of yen)
Service cost	807
Interest cost	611
Expected return on plan assets	(153)
Amortization of prior service cost accounted for as expense	(21)
Actuarial differences accounted for as expense	21
Other costs	—
Net pensions cost	1,265

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

(c) Principal assumptions

	March 31, 2012
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	¥2,030 million
Investment in affiliates (equity method)	¥1,794 million
Profit or Loss of Investment in affiliates (equity method)	¥48 million

16. Related party transactions

Related party transactions in the fiscal year ended March 31, 2012 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, 2012
Principal shareholder	Ministry of Finance (Minister of Finance)[Note i]	100 (Direct)	Administration for policy based financing	Underwriting of capital increase [Note ii]	16,463	—	—
				Receipt of funds [Note iii]	202,800	Borrowings	1,936,820
				Repayment of borrowing	246,939		
				Payment of interest on borrowings	38,916	Accrued expenses	5,606
				Deposit of funds [Note iv]	6,500	Due from banks	6,500
				Refund of funds	6,500		
				Guarantee for corporate bonds [Note v]	25,983	—	—

(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 ¥13,755 million
  Repayment of borrowed money ¥9,679 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

(Millions of yen)

	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amounts of transactions	Items	Balance as of March 31, 2012
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]	1,400	Entrusted fund	37,015
				Repayment of entrusted fund	2,119		

(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.

17. Per share information

Net assets per share ¥1.00
Net income per share ¥0.00

18. Subsequent events

The Board of Directors of JFC resolved on May 22, 2012 to issue new shares by way of allotment to shareholders as of July 4, 2012.

(Unit: yen)

Type and number of shares	157,000,000 shares of common stock
Issue price	1 per share
Total issue amount	157,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	—
Total amount of incorporated into Capital stock	157,000,000
Total amount of incorporated into Legal capital surplus	—
Payment date	July 4, 2012
Purpose of use	To provide effectively unsecured and unguaranteed loans in order to enable smooth access to financing for fishery operators

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

Balance Sheet (as of March 31, 2012)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	51,337	Borrowed money	3,944,508
Cash	2	Borrowings	3,944,508
Due from banks	51,334	Bonds payable	1,555,229
Securities	1,732	Other liabilities	13,509
Corporate bonds	219	Accrued expenses	9,148
Other securities	1,512	Unearned revenue	1
Loans and bills discounted	6,284,823	Lease obligations	1,935
Loans on deeds	6,284,823	Other	2,423
Other assets	8,987	Provision for bonuses	962
Prepaid expenses	1,995	Provision for directors' bonuses	4
Accrued income	4,891	Provision for retirement benefits	40,778
Other	2,100	Provision for directors' retirement benefits	17
Property, plant and equipment	51,640	Acceptances and guarantees	185
Buildings	4,578	Total liabilities	5,555,195
Land	12,459	Net assets	
Lease assets	590	Capital stock	1,039,985
Construction in progress	33,843	Retained earnings	(429,717)
Other	168	Other retained earnings	(429,717)
Intangible assets	2,996	Retained earnings brought forward	(429,717)
Software	1,498	Total shareholders' equity	610,267
Lease assets	1,254		
Other	243		
Customers' liabilities for acceptances and guarantees	185		
Allowance for loan losses	(236,239)	Total net assets	610,267
Total assets	6,165,463	Total liabilities and net assets	6,165,463

Statement of Operations (Year ended March 31, 2012)

(Millions of yen)

Ordinary income	**123,380**
Interest income	107,497
Interest on loans and discounts	107,463
Interest and dividends on securities	20
Interest on receivables under resale agreements	1
Interest on deposits with banks	11
Fees and commissions	31
Other fees and commissions	31
Receipts from the national budget	14,703
Receipts from general account of the national budget	14,694
Receipts from special account of the national budget	8
Other income	1,148
Recoveries of written-off claims	152
Other	996
Ordinary expenses	**150,825**
Interest expenses	44,939
Interest on call money	90
Interest on borrowings and rediscounts	27,452
Interest on bonds	17,395
Fees and commissions payments	125
Other fees and commissions	125
Other ordinary expenses	301
Amortization of bond issuance cost	292
Other	8
General and administrative expenses	26,543
Other expenses	78,915
Provision of allowance for loan losses	72,235
Written-off of loans	5,941
Losses on devaluation of stocks and other securities	178
Other	559
Ordinary loss	**27,444**
Extraordinary income	**0**
Gain on disposal of noncurrent assets	0
Extraordinary losses	**52**
Loss on disposal of noncurrent assets	44
Impairment loss	8
Net loss	**27,497**

Statement of Changes in Net Assets (Year ended March 31, 2012)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the beginning of current period	768,035
Changes of items during the period	
Issuance of new shares	271,950
Total changes of items during the period	271,950
Balance at the end of current period	1,039,985
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the beginning of current period	(402,219)
Changes of items during the period	
Net income (loss)	(27,497)
Total changes of items during the period	(27,497)
Balance at the end of current period	(429,717)
Total retained earnings	
Balance at the beginning of current period	(402,219)
Changes of items during the period	
Net income (loss)	(27,497)
Total changes of items during the period	(27,497)
Balance at the end of current period	(429,717)
Total shareholders' equity	
Balance at the beginning of current period	365,815
Changes of items during the period	
Issuance of new shares	271,950
Net income (loss)	(27,497)
Total changes of items during the period	244,452
Balance at the end of current period	610,267
Total net assets	
Balance at the beginning of current period	365,815
Changes of items during the period	
Issuance of new shares	271,950
Net income (loss)	(27,497)
Total changes of items during the period	244,452
Balance at the end of current period	610,267

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 value is extremely difficult to be determined are carried at 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: 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.

(c) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

(d) Foreign currency translation and revaluation method

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

(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 are independent from the operational departments, review 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 ¥120,883 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."

(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.

Additional information

(The Accounting Standard for Accounting Changes and Error Corrections)

JFC has applied "the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Statement No. 24, December 4, 2009) and "Guidance on the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Guidance No. 24, December 4, 2009) beginning with the treatment of accounting changes and corrections of prior period errors that are made after the beginning of this fiscal year.

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, 2012 Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)
Bankrupt loans	18,458
Non-accrual loans	446,022
Loans with interest or principal repayments more than three months in arrears	5
Restructured loans	74,702
Total	539,189

(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, 2012 is ¥35,184 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 ¥1,555,229 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥2,237 million.

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. 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	Buildings	8

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

7. Issued shares

For the fiscal year ended March 31, 2012 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	768,035,000,000	271,950,000,000	—	1,039,985,000,000

(Note) Increases is due to the issuance of 271,950,000,000 shares.

8. 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, and loans, 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 Businesses Promotion, etc. 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.

(2) Types of financial instruments and risks

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

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 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 suffer 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 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) 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, 2012 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥29,276 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 ¥28,929 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, 2012, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine 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	51,337	51,337	—
(2) Securities			
Held to maturity debt securities	219	219	—
(3) Loans and bills discounted	6,213,631		
Allowance for loan losses (*)	(206,288)		
	6,007,342	6,250,601	243,259
Total assets	6,058,899	6,302,158	243,259
(1) Borrowings	3,939,010	3,982,653	43,643
(2) Bonds payable	1,555,229	1,581,727	26,498
Total liabilities	5,494,239	5,564,381	70,142

(*) 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 "9. 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.

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.

(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)	1,512
2) Loans on deeds (subordinated capital loans) (*2)	71,192
3) Borrowings from the FILP special account (investment account) of the national budget (*3)	5,498
Total	78,203

(*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 or other schemes, 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)	51,334	—	—	—	—	—
Securities (*2) Held-to-maturity debt securities	196	22	—	—	—	—
Loans and bill discounted (*2)	1,382,089	2,204,432	1,404,433	654,623	314,886	242,208
Total	1,433,621	2,204,455	1,404,433	654,623	314,886	242,208

(*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 ¥82,148 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	921,147	1,585,747	805,277	354,856	277,480	—
Bonds payable	386,000	530,000	470,000	90,000	80,000	—
Total	1,307,147	2,115,747	1,275,277	444,856	357,480	—

9. Market value of securities

The market value of securities at March 31, 2012 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	219	219	—

(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	1,512

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

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, 2012 (Millions of yen)
Projected benefit obligations (A)	(54,599)
Fair value of plan assets (B)	13,593
Unfunded pension obligations (C)=(A)+(B)	(41,005)
Unrecognized prior service costs (D)	(1,075)
Actuarial unrecognized difference (E)	1,302
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(40,778)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)−(G)	(40,778)

(b) Component of pension cost

	March 31, 2012 (Millions of yen)
Service cost	1,451
Interest cost	1,079
Expected return on plan assets	(273)
Amortization of prior service cost accounted for as expense	(134)
Actuarial differences accounted for as expense	149
Other costs	—
Net pensions cost	2,272

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

(c) Principal assumptions

	March 31, 2012
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, 2012 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, 2012
Principal shareholder	Ministry of Finance (Minister of Finance)(Note i)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase(Note ii)	271,950	—	—
				Receipt of funds(Note iii)	1,050,000	Borrowings	3,944,508
				Repayment of borrowing	977,456		
				Payment of interest on borrowings	27,452	Accrued expenses	6,452
				Guarantee for corporate bonds(Note iv)	1,169,243	—	—

(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 ¥ 14,694 million
- Agency for Natural Resources and Energy
  Receipts from the national budget ¥8 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.

13. Per share information

Net assets per share ¥0.58
Net loss per share ¥0.03

14. Subsequent events

Not applicable

Small and Medium Enterprise Unit Account for Securitization Support Programs (Purchase-type Operation)

Balance Sheet (as of March 31, 2012)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	1,291	Other liabilities	30
Cash	0	Accrued expenses	1
Due from banks	1,291	Other	29
Receivables under resale agreements	239	Provision for bonuses	0
Securities	22,262	Provision for directors' bonuses	0
Government bonds	21,091	Provision for retirement benefits	9
Corporate bonds	538	Provision for directors' retirement benefits	0
Other securities	632	Acceptances and guarantees	1,725
Other assets	25	Total liabilities	1,766
Accrued income	12	Net assets	
Other	12	Capital stock	24,476
Customers' liabilities for acceptances and guarantees	1,725	Retained earnings	(737)
Allowance for loan losses	(39)	Other retained earnings	(737)
		Retained earnings brought forward	(737)
		Total shareholders' equity	23,738
		Total net assets	23,738
Total assets	25,505	Total liabilities and net assets	25,505

Statement of Operations (Year ended March 31, 2012)

(Millions of yen)

Ordinary income	591
Interest income	347
Interest and dividends on securities	345
Interest on receivables under resale agreements	0
Interest on deposits with banks	1
Fees and commissions	25
Other fees and commissions	25
Other income	218
Reversal of allowance for loan losses	193
Other	25
Ordinary expenses	87
Fees and commissions payments	24
Other fees and commissions	24
Other ordinary expenses	6
Amortization of bond issuance cost	0
Other	6
General and administrative expenses	43
Other expenses	12
Losses on devaluation of stocks and other securities	12
Ordinary profit	503
Net income	503

Statement of Changes in Net Assets (Year ended March 31, 2012)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the beginning of current 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 beginning of current period	(1,240)
Changes of items during the period	
Net income (loss)	503
Total changes of items during the period	503
Balance at the end of current period	(737)
Total retained earnings	
Balance at the beginning of current period	(1,240)
Changes of items during the period	
Net income (loss)	503
Total changes of items during the period	503
Balance at the end of current period	(737)
Total shareholders' equity	
Balance at the beginning of current period	23,235
Changes of items during the period	
Net income (loss)	503
Total changes of items during the period	503
Balance at the end of current period	23,738
Total net assets	
Balance at the beginning of current period	23,235
Changes of items during the period	
Net income (loss)	503
Total changes of items during the period	503
Balance at the end of current period	23,738

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.

(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 departments, which are independent from the operational departments, review 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 are excluded from transaction amounts.

Additional information

(The Accounting Standard for Accounting Changes and Error Corrections)

JFC has applied "the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Statement No. 24, December 4, 2009) and "Guidance on the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Guidance No. 24, December 4, 2009) beginning with the treatment of accounting changes and corrections of prior period errors that are made after the beginning of this fiscal year. Based on "Practical Guidelines on Accounting Standards for Financial Instruments", (JICPA Accounting Practice Committee Statement No.14) "Reversal of allowance for loan losses" has been recorded in "Other income in Ordinary income" beginning with this fiscal year.

2. Receivables under resale agreements

Among the securities acquired under resale agreements, these securities which can be sold or pledged without restrictions amounted to ¥239 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. No Securitization Support Programs (Purchase-type Operation) account bonds have been issued.

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. Issued shares

For the fiscal year ended March 31, 2012, 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

6. 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, and loans, 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 Businesses Promotion, etc. 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.

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 held in this account mainly include securities. 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, 2012 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥357 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 ¥533 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, 2012, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine 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	1,291	1,291	—
(2) Receivables under resale agreements	239	239	—
(3) Securities			
Held to maturity debt securities	21,091	22,410	1,319
Total assets	22,622	23,941	1,319

(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) Receivables under resale agreements

For securities acquired under resale agreements, the carrying amount is used as fair value because contractual terms of this item are short (i.e., within three months) and fair value resembles the carrying amount.

(3) Securities

Market value is used for securities.

Notes for securities by purpose of holding are found in "7" 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, (3) Securities".

(Millions of yen)

Classification	Carrying amount on balance sheet
1) Corporate bonds (specified asset-backed securities) (*1)	538
2) Other securities (trust beneficiary securities) (*1)	632
3) Credit default swap (CDS) (*2)	—
Total	1,171

(*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 (*)	1,291	—	—	—	—	—
Receivables under resale agreements	239	—	—	—	—	—
Securities Held to maturity debt securities	—	—	20,983	—	—	—
Total	1,531	—	20,983	—	—	—

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

7. Market value of securities

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

The market value of securities at March 31, 2012 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 exceeds their carrying amount	Japanese government bonds	21,091	22,410	1,319

(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 acquisition cost	Others	750	750	—

(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	538
Others Unlisted Japanese securities	632
Total	1,171

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.

8. 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).

9. 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, 2012 (Millions of yen)
Projected benefit obligations (A)	(16)
Fair value of plan assets (B)	3
Unfunded pension obligations (C)=(A)+(B)	(13)
Unrecognized prior service costs (D)	(2)
Actuarial unrecognized difference (E)	5
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(9)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)–(G)	(9)

(b) Component of pension cost

	March 31, 2012 (Millions of yen)
Service cost	0
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	1

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

(c) Principal assumptions

	March 31, 2012
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

10. Per share information

Net assets per share ¥0.96
Net income per share ¥0.02

11. Subsequent events

Not applicable.

Small and Medium Enterprise Unit — Account for Credit Insurance Programs

Balance Sheet (as of March 31, 2012)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	3,441,356	Reserve for insurance policy liabilities	1,727,272
Cash	0	Other liabilities	1,605
Due from banks	3,441,356	Accrued expenses	19
Other assets	28,684	Lease obligations	669
Prepaid expenses	1,528	Other	916
Accrued income	613	Provision for bonuses	180
Other	26,543	Provision for directors' bonuses	0
Property, plant and equipment	20,658	Provision for retirement benefits	9,035
Buildings	537	Provision for directors' retirement benefits	6
Land	1,299	Total liabilities	1,738,101
Lease assets	295	Net assets	
Construction in progress	18,513	Capital surplus	2,054,739
Other	12	Legal capital surplus	2,054,739
Intangible assets	784	Retained earnings	(301,357)
Software	47	Other retained earnings	(301,357)
Lease assets	341	Retained earnings brought forward	(301,357)
Other	394	Total shareholders' equity	1,753,382
		Total net assets	1,753,382
Total assets	3,491,484	Total liabilities and net assets	3,491,484

Statement of Operations (Year ended March 31, 2012)

(Millions of yen)

Ordinary income	256,830
Interest income	3,469
Interest and dividends on securities	105
Interest on receivables under resale agreements	1
Interest on deposits with banks	3,362
Insurance premiums and other	253,024
Insurance premiums	150,129
Receipts of burden charges under the Responsibility-sharing System	19,588
Reversal of reserve for insurance policy liabilities	83,306
Other income	336
Other	336
Ordinary expenses	558,160
Expenses on insurance claims and other	548,958
Expenses on insurance claims	676,408
Recoveries of insurance claims	(127,450)
General and administrative expenses	5,194
Other expenses	4,007
Other	4,007
Ordinary loss	301,329
Extraordinary losses	27
Loss on disposal of noncurrent assets	27
Net loss	301,357

Statement of Changes in Net Assets (Year ended March 31, 2012)

(Millions of yen)

Shareholders' equity	
Capital surplus	
Legal capital surplus	
Balance at the beginning of current period	1,825,851
Changes of items during the period	
Issuance of new shares	1,040,900
Reversal of legal capital surplus (Deficit disposition)	(812,011)
Total changes of items during the period	228,888
Balance at the end of current period	2,054,739
Total capital surplus	
Balance at the beginning of current period	1,825,851
Changes of items during the period	
Issuance of new shares	1,040,900
Reversal of legal capital surplus (Deficit disposition)	(812,011)
Total changes of items during the period	228,888
Balance at the end of current period	2,054,739
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the beginning of current period	(812,011)
Changes of items during the period	
Reversal of legal capital surplus (Deficit disposition)	812,011
Net income (loss)	(301,357)
Total changes of items during the period	510,654
Balance at the end of current period	(301,357)
Total retained earnings	
Balance at the beginning of current period	(812,011)
Changes of items during the period	
Reversal of legal capital surplus (Deficit disposition)	812,011
Net income (loss)	(301,357)
Total changes of items during the period	510,654
Balance at the end of current period	(301,357)
Total shareholders' equity	
Balance at the beginning of current period	1,013,839
Changes of items during the period	
Issuance of new shares	1,040,900
Net income (loss)	(301,357)
Total changes of items during the period	739,542
Balance at the end of current period	1,753,382
Total net assets	
Balance at the beginning of current period	1,013,839
Changes of items during the period	
Issuance of new shares	1,040,900
Net income (loss)	(301,357)
Total changes of items during the period	739,542
Balance at the end of current period	1,753,382

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: 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.

(b) 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 are independent from the operational departments, review 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.

(c) 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.

(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.

Additional information

(The Accounting Standard for Accounting Changes and Error Corrections)

JFC has applied "the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Statement No. 24 December 4, 2009) and "Guidance on the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Guidance No. 24 December 4, 2009) beginning with the treatment of accounting changes and corrections of prior period errors that are made after the beginning of this fiscal year.

(Conclusion of an agreement regarding the acceptance of burden charges under the Responsibility-sharing System)

In February 2012, JFC concluded an agreement regarding the acceptance of burden charges under the Responsibility-sharing System with Credit Guarantee Corporations. As a result of this agreement, beginning with this fiscal year, JFC has recorded "Receipts of burden charges under the Responsibility-sharing System" in "Insurance premiums and other" on the statement of operations whose amounts were ¥19,588 million for the fiscal year ended March 31, 2012. In addition, the reserve for insurance policy liabilities decreased by ¥84,948 million, due to considering the receipts of burden charges under the Responsibility-sharing System in the calculation for the reserve for insurance policy liabilities.

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 ¥358 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. Other expenses

Other expenses include refund of insurance premiums ¥3,969 million.

6. Issued shares

For the fiscal year ended March 31, 2012, 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	4,162,377,407,741	1,040,900,000,000	—	5,203,277,407,741

(Note) Increases is due to the issuance of 1,040,900,000,000 shares.

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, and loans, 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 Businesses Promotion, etc. 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. 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 the deposit for the FILP.

(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 the deposit for the FILP.

The main financial instruments exposed to interest rate risk in these operations are deposits. This 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, 2012, 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	3,441,356	3,441,988	632

(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. 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.

(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 (*)	3,441,356	—	—	—	—	—

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

8. 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).

9. 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, 2012 (Millions of yen)
Projected benefit obligations (A)	(11,973)
Fair value of plan assets (B)	3,019
Unfunded pension obligations (C)=(A)+(B)	(8,954)
Unrecognized prior service costs (D)	(141)
Actuarial unrecognized difference (E)	59
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(9,035)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)–(G)	(9,035)

(b) Component of pension cost

	March 31, 2012 (Millions of yen)
Service cost	282
Interest cost	237
Expected return on plan assets	(61)
Amortization of prior service cost accounted for as expense	(17)
Actuarial differences accounted for as expense	17
Other costs	—
Net pensions cost	458

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

(c) Principal assumptions

	March 31, 2012
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

10. Related party transactions

Related party transactions in the fiscal year ended March 31, 2012 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, 2012
Principal share-holder	Ministry of Finance (Minister of Finance)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase(Note i)	1,040,900	—	—
				Deposit of funds(Note ii)	3,798,600	Due from banks	3,230,400
				Refund of funds	2,333,200		

(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 the FILP and the interest rates applicable under the FILP are applied.

(iii) Figures in the table above do not include consumption taxes.

11. Per share information

Net assets per share ¥0.33
Net loss per share ¥0.06

12. Subsequent events

The Board of Directors of JFC resolved on May 22, 2012 to issue new shares by way of allotment to shareholders as of July 4, 2012.

(Unit: yen)

Type and number of shares	59,300,000,000 shares of common stock
Issue price	1 per share
Total issue amount	59,300,000,000
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	59,300,000,000
Payment date	July 4, 2012
Purpose of use	To augment insurance platforms and ensure stable system management

Account for JBIC Operations

Balance Sheet (as of March 31, 2012)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	685,678	Borrowed money	5,255,489
Cash	0	Borrowings	5,255,489
Due from banks	685,678	Bonds payable	2,378,637
Receivables under resale agreements	602,725	Other liabilities	372,934
Securities	74,108	Accrued expenses	28,923
Other securities	74,108	Unearned revenue	47,745
Loans and bills discounted	8,110,356	Derivatives other than for trading-liabilities	1,893
Loans on deeds	8,110,356	Lease obligations	135
Other assets	927,190	Collateral accepted for derivative transactions	293,090
Prepaid expenses	250	Other	1,146
Accrued income	31,856	Provision for bonuses	496
Derivatives other than for trading-assets	894,785	Provision for directors' bonuses	6
Other	296	Provision for retirement benefits	12,481
Property, plant and equipment	37,425	Provision for directors' retirement benefits	24
Buildings	3,227	Acceptances and guarantees	2,378,325
Land	33,881	Total liabilities	10,398,395
Lease assets	22	Net assets	
Construction in progress	13	Capital stock	1,291,000
Other	281	Retained earnings	824,522
Intangible assets	1,642	Legal retained earnings	772,006
Software	1,535	Other retained earnings	52,515
Lease assets	107	Retained earnings brought forward	52,515
Customers' liabilities for acceptances and guarantees	2,378,325	Total shareholders' equity	2,115,522
Allowance for loan losses	(124,271)	Valuation difference on available-for-sale securities	(1,825)
		Deferred gains or losses on hedges	181,089
		Total valuation and translation adjustments	179,263
		Total net assets	2,294,786
Total assets	12,693,182	Total liabilities and net assets	12,693,182

Statement of Operations (Year ended March 31, 2012)

(Millions of yen)

Ordinary income	201,695
Interest income	176,852
Interest on loans and discounts	122,206
Interest and dividends on securities	75
Interest on receivables under resale agreements	491
Interest on deposits with banks	1,088
Interest on interest swaps	52,985
Other interest income	5
Fees and commissions	14,221
Other fees and commissions	14,221
Other income	10,621
Reversal of allowance for loan losses	10,146
Recoveries of written-off claims	244
Other	230
Ordinary expenses	144,588
Interest expenses	118,110
Interest on borrowings and rediscounts	56,117
Interest on bonds	61,859
Other interest expenses	133
Fees and commissions payments	1,105
Other fees and commissions	1,105
Other ordinary expenses	6,110
Loss on foreign exchange transactions	1,242
Amortization of bond issuance cost	739
Expenses on derivatives other than for trading or hedging	405
Other	3,723
General and administrative expenses	15,662
Other expenses	3,598
Losses on sales of stocks and other securities	198
Other	3,400
Ordinary profit	57,107
Extraordinary income	3
Gain on disposal of noncurrent assets	3
Extraordinary losses	4,594
Loss on disposal of noncurrent assets	2
Other	4,592
Net income	52,515

Statement of Changes in Net Assets (Year ended March 31, 2012)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the beginning of current period	1,091,000
Changes of items during the period	
Issuance of new shares	200,000
Total changes of items during the period	200,000
Balance at the end of current period	1,291,000
Retained earnings	
Legal retained earnings	
Balance at the beginning of current period	742,615
Changes of items during the period	
Provision of legal retained earnings	29,391
Total changes of items during the period	29,391
Balance at the end of current period	772,006
Other retained earnings	
Retained earnings brought forward	
Balance at the beginning of current period	58,783
Changes of items during the period	
Provision of legal retained earnings	(29,391)
Payment to the national treasury	(29,391)
Net income (loss)	52,515
Total changes of items during the period	(6,267)
Balance at the end of current period	52,515
Total retained earnings	
Balance at the beginning of current period	801,398
Changes of items during the period	
Payment to the national treasury	(29,391)
Net income (loss)	52,515
Total changes of items during the period	23,124
Balance at the end of current period	824,522
Total shareholders' equity	
Balance at the beginning of current period	1,892,398
Changes of items during the period	
Issuance of new shares	200,000
Payment to the national treasury	(29,391)
Net income (loss)	52,515
Total changes of items during the period	223,124
Balance at the end of current period	2,115,522
Valuation and translation adjustments	
Valuation difference on available-for-sale securities	
Balance at the beginning of current period	(1,665)
Changes of items during the period	
Net changes of items other than shareholders' equity	(160)
Total changes of items during the period	(160)
Balance at the end of current period	(1,825)
Deferred gains or losses on hedges	
Balance at the beginning of current period	157,781
Changes of items during the period	
Net changes of items other than shareholders' equity	23,308
Total changes of items during the period	23,308
Balance at the end of current period	181,089
Total valuation and translation adjustments	
Balance at the beginning of current period	156,115
Changes of items during the period	
Net changes of items other than shareholders' equity	23,148
Total changes of items during the period	23,148
Balance at the end of current period	179,263
Total net assets	
Balance at the beginning of current period	2,048,513
Changes of items during the period	
Issuance of new shares	200,000
Payment to the national treasury	(29,391)
Net income (loss)	52,515
Net changes of items other than shareholders' equity	23,148
Total changes of items during the period	246,272
Balance at the end of current period	2,294,786

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 translated into Japanese yen primarily 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 department 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 hedging instruments, such as currency swaps and foreign exchange forward contracts used for hedging the foreign exchange risks of loans, 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 hedging instruments.

(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.

Additional information

(The Accounting Standard for Accounting Changes and Error Corrections)

JFC has applied "the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Statement No. 24, December 4, 2009) and "Guidance on the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Guidance No. 24, December 4, 2009) beginning with the treatment of accounting changes and corrections of prior period errors that are made after the beginning of this fiscal year. Based on "Practical Guidelines on Accounting Standards for Financial Instruments" (JICPA Accounting Practice Committee Statement No. 14), "Reversal of allowance for loan losses" and "Recoveries of written-off claims" have been recorded in "Other income in Ordinary income" beginning with this fiscal year.

2. Equity securities of or investment in affiliates

Equity securities of or investment in affiliates is ¥50,248 million.

3. Receivables under resale agreements

Among the securities acquired under resale agreements, these securities which can be sold or pledged without restrictions amounted to ¥602,725 million.

4. 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, 2012 Account for JBIC Operations
Bankrupt loans	—
Non-accrual loans	101,565
Loans with interest or principal repayments more than three months in arrears	176
Restructured loans	83,014
Total	184,755

(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, 2012 is ¥1,128,729 million.

5. 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 ¥2,378,637 million.)

6. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥1,631 million.

7. Contingent liabilities

Contingent liabilities pertaining to debt assumption agreements for bonds payable are as follows.

6th FILP Agency Bonds (the former JBIC)	¥50,000 million
8th FILP Agency Bonds (the former JBIC)	¥60,000 million
15th FILP Agency Bonds (the former JBIC)	¥50,000 million
26th FILP Agency Bonds (the former JBIC)	¥50,000 million
28th FILP Agency Bonds (the former JBIC)	¥50,000 million
31st FILP Agency Bonds (the former JBIC)	¥20,000 million

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

Ordinary expenses - Other expenses - Other: ¥2,450 million

10. Other extraordinary losses

Other extraordinary losses of ¥4,592 million occurred in the account for JBIC Operations on August 4, 2011 in the form of cancellation fee paid for the agreed invalidation of the transfer agreement of the reserved floor area with the Urban Renaissance Agency for Building A of the Otemachi 1-chome Second Area 1st Class Urban Redevelopment Project (Chiyoda-ku, Tokyo).

11. Issued shares

For the fiscal year ended March 31, 2012, 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	1,091,000,000,000	200,000,000,000	—	1,291,000,000,000

(Note) Increases is due to the issuance of 200,000,000,000 shares.

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, and loans, 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 Businesses Promotion, etc. 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 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.

(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, 2012)

(1) Interest rate VaR: 94.1 billions of yen

(2) Exchange rate VaR: 54.0 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, 2012, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine 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	685,678	685,678	—
(2) Receivables under resale agreements	602,725	602,725	—
(3) Securities			
Available-for sale securities	3,795	3,795	—
(4) Loans and bills discounted	8,110,356		
Allowance for loan losses (*1)	(117,656)		
	7,992,700	8,069,429	76,728
Total assets	9,284,900	9,361,629	76,728
(1) Borrowings	5,255,489	5,361,694	106,205
(2) Bonds payable	2,378,637	2,472,265	93,628
(3) Collateral accepted for derivative transactions	293,090	293,090	—
Total liabilities	7,927,216	8,127,049	199,833
Derivative transactions (*2)			
Derivative transactions not qualifying for hedge accounting	—	—	—
Derivative transactions qualifying for hedge accounting	892,892	892,892	—
Total derivative transactions	892,892	892,892	—

(*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) Receivables under resale agreements

For securities acquired under resale agreements, the carrying amount is used as fair value because contractual terms of this item are short (i.e., within three months) and fair value resembles the carrying amount.

(3) Securities

The fair value of "Available-for sale securities" is based on the price that is indicated from other financial institution.

(4) 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.

(3) Collateral accepted for derivative transactions

For Collateral accepted for derivative transactions, the carrying amount is used as fair value because fair value resembles the carrying amount.

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 "Assets, (3) Securities", Fair value of financial instruments.

(Millions of yen)

Classification	Carrying amount on balance sheet
1) Unlisted stocks (*1)	14,958
2) Partnership investments (*2)	55,354
Total	70,312

(*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)	685,678	—	—	—	—	—
Receivables under resale agreements	602,725	—	—	—	—	—
Securities (*2) Available-for sale securities	—	2,921	878	—	—	—
Loans and bill discounted (*2)	1,030,849	2,170,354	1,640,783	1,055,416	1,224,854	885,109
Total	2,319,254	2,173,275	1,641,662	1,055,416	1,224,854	885,109

(*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 ¥102,988 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	337,924	2,049,013	1,976,179	852,533	39,840	—
Bonds payable	554,782	624,367	878,753	222,737	80,000	20,000
Total	892,706	2,673,380	2,854,932	1,075,270	119,840	20,000

13. 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, 2012 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	50,248

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	213,795	213,800	(4)

(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	14,958
Unlisted Japanese securities	180
Unlisted foreign securities	4,926

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.

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, 2012 (Millions of yen)
Projected benefit obligations (A)	(17,310)
Fair value of plan assets (B)	4,163
Unfunded pension obligations (C)=(A)+(B)	(13,147)
Unrecognized prior service costs (D)	73
Actuarial unrecognized difference (E)	592
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(12,481)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)–(G)	(12,481)

(b) Component of pension cost

	March 31, 2012 (Millions of yen)
Service cost	540
Interest cost	339
Expected return on plan assets	(82)
Amortization of prior service cost accounted for as expense	8
Actuarial differences accounted for as expense	83
Other costs	—
Net pensions cost	888

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

(c) Principal assumptions

	March 31, 2012
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	¥50,248 million
Investment in affiliates (equity method)	¥50,248 million
Profit or Loss of Investment in affiliates (equity method)	None

17. Related party transactions

Related party transactions in the fiscal year ended March 31, 2012 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, 2012
Principal shareholder	Ministry of Finance (Minister of Finance) (Note i)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase (Note i)	200,000	—	—
				Receipt of funds (Note ii)	431,423	Borrowings	5,255,489
				Repayment of borrowing	657,191		
				Payment of interest on borrowings	56,117	Accrued expenses	14,091
				Guarantee for corporate bonds (Note iii)	1,688,752	—	—

(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.

18. Per share information

Net assets per share	¥1.77
Net income per share	¥0.04

19. Subsequent events

Based on the Japan Bank for International Cooperation Act (hereafter, the "New JBIC Act"), the Japan Bank for International Cooperation (hereinafter "New JBIC") was established on April 1, 2012. JFC's JBIC Operations and Financial Operations for Facilitating Realignment of United States Forces in Japan were handed over to the New JBIC as of the same date.

JFC underwrote the shares of the New JBIC, and transferred these shares without compensation to the government of Japan at the time the New JBIC was established on April 1, 2012. Effective the same day, in accordance with the New JBIC Act, assets and liabilities that belong to JFC's JBIC operations and Financial Operations for Facilitating Realignment of United States Forces in Japan were succeeded by the New JBIC. The amount of such assets and liabilities are determined by an evaluation committee pursuant to the New JBIC Act. After the establishment of the New JBIC, profit and loss that belong to JFC's JBIC Operations and Financial Operations for Facilitating Realignment of United States Forces in Japan are no longer recognized as profit and loss of JFC. The status of JFC's Account for JBIC Operations and Financial Account Related to the Financial Operations for Facilitating Realignment of United States Forces in Japan is founded in the financial statements and notes of each account.

Balance Sheet (as of March 31, 2012)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	180	Other liabilities	1
Due from banks	180	Accrued expenses	1
Other assets	0	Other	0
Prepaid expenses	0	Provision for bonuses	4
Other	0	Provision for directors' bonuses	0
Property, plant and equipment	0	Provision for retirement benefits	116
Other	0	Provision for directors' retirement benefits	0
		Total liabilities	123
		Net assets	
		Retained earnings	57
		Legal retained earnings	0
		Other retained earnings	57
		Retained earnings brought forward	57
		Total shareholders' equity	57
		Total net assets	57
Total assets	181	Total liabilities and net assets	181

Statement of Operations (Year ended March 31, 2012)

(Millions of yen)

Ordinary income	271
Receipts from the national budget	271
Receipts from the general account of the national budget	271
Other income	0
Other	0
Ordinary expenses	214
Fees and commissions payments	45
Other fees and commissions	45
General and administrative expenses	168
Ordinary profit	57
Net income	57

Statement of Changes in Net Assets (Year ended March 31, 2012)

(Millions of yen)

Shareholders' equity	
Retained earnings	
Legal retained earnings	
Balance at the beginning of current period	—
Changes of items during the period	
Provision of legal retained earnings	0
Total changes of items during the period	0
Balance at the end of current period	0
Other retained earnings	
Retained earnings brought forward	
Balance at the beginning of current period	241
Changes of items during the period	
Provision of legal retained earnings	(0)
Payment to the national treasury	(240)
Net income (loss)	57
Total changes of items during the period	(183)
Balance at the end of current period	57
Total retained earnings	
Balance at the beginning of current period	241
Changes of items during the period	
Payment to the national treasury	(240)
Net income (loss)	57
Total changes of items during the period	(183)
Balance at the end of current period	57
Total shareholders' equity	
Balance at the beginning of current period	241
Changes of items during the period	
Payment to the national treasury	(240)
Net income (loss)	57
Total changes of items during the period	(183)
Balance at the end of current period	57
Total net assets	
Balance at the beginning of current period	241
Changes of items during the period	
Payment to the national treasury	(240)
Net income (loss)	57
Total changes of items during the period	(183)
Balance at the end of current period	57

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 non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

Additional information

(The Accounting Standard for Accounting Changes and Error Corrections)

JFC has applied "the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Statement No. 24, December 4, 2009) and "Guidance on the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Guidance No. 24, December 4, 2009) beginning with the treatment of accounting changes and corrections of prior period errors that are made after the beginning of this fiscal year.

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, investments from the general account, and loans, 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 Businesses Promotion, etc. 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, 2012, 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	180	180	—

(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	180	—	—	—	—	—

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, 2012 (Millions of yen)
Projected benefit obligations (A)	(161)
Fair value of plan assets (B)	38
Unfunded pension obligations (C)=(A)+(B)	(122)
Unrecognized prior service costs (D)	0
Actuarial unrecognized difference (E)	5
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(116)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)−(G)	(116)

(b) Component of pension cost

	March 31, 2012 (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, 2012
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 (subsidy from the government) ¥271 million

9. Subsequent events

Based on the Japan Bank for International Cooperation Act (hereafter, the "New JBIC Act"), the Japan Bank for International Cooperation (hereinafter "New JBIC") was established on April 1, 2012. JFC's JBIC Operations and Financial Operations for Facilitating Realignment of United States Forces in Japan were handed over to the New JBIC as of the same date.

JFC underwrote the shares of the New JBIC, and transferred these shares without compensation to the government of Japan at the time the New JBIC was established on April 1, 2012. Effective the same day, in accordance with the New JBIC Act, assets and liabilities that belong to JFC's JBIC operations and Financial Operations for Facilitating Realignment of United States Forces in Japan were succeeded by the New JBIC. The amount of such assets and liabilities are determined by an evaluation committee pursuant to the New JBIC Act. After the establishment of the New JBIC, profit and loss that belong to JFC's JBIC Operations and Financial Operations for Facilitating Realignment of United States Forces in Japan are no longer recognized as profit and loss of JFC. The status of JFC's Account for JBIC Operations and Financial Account Related to the Financial Operations for Facilitating Realignment of United States Forces in Japan is founded in the financial statements and notes of each account.

Account for Operations to Facilitate Crisis Responses

Balance Sheet (as of March 31, 2012)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	276,578	Borrowed money	5,394,261
Due from banks	276,578	Borrowings	5,394,261
Receivables under resale agreements	4,998	Other liabilities	7,806
Securities	451,938	Accrued expenses	1,352
Government bonds	451,938	Unearned revenue	6,382
Loans and bills discounted	5,394,261	Lease obligations	0
Loans on deeds	5,394,261	Other	71
Other assets	1,440	Provision for bonuses	6
Accrued income	1,383	Provision for directors' bonuses	0
Other	56	Provision for retirement benefits	148
Property, plant and equipment	0	Provision for directors' retirement benefits	0
Lease assets	0	Reserve for compensation losses	59,060
Intangible assets	134	Total liabilities	5,461,282
Software	134	Net assets	
Lease assets	0	Capital stock	784,253
Other	0	Retained earnings	(116,184)
		Other retained earnings	(116,184)
		Retained earnings brought forward	(116,184)
		Total shareholders' equity	668,068
		Total net assets	668,068
Total assets	6,129,351	Total liabilities and net assets	6,129,351

Statement of Operations (Year ended March 31, 2012)

(Millions of yen)

Ordinary income	**57,255**
Interest income	44,319
Interest on loans and discounts	43,802
Interest and dividends on securities	386
Interest on receivables under resale agreements	1
Interest on deposits with banks	129
Fees and commissions	3,411
Fees and commissions on compensation security contract	3,411
Receipts from the national budget	701
Receipts from the general account of the national budget	701
Other income	8,824
Reversal of allowance for loan losses	1,895
Other	6,928
Ordinary expenses	**54,937**
Interest expenses	43,802
Interest on borrowings and rediscounts	43,802
Fees and commissions payments	5,322
Expense on compensation security contract	5,322
Other ordinary expenses	2,440
Interest subsidies	2,440
General and administrative expenses	193
Other expenses	3,178
Provision of reserve for compensation losses	2,980
Other	197
Ordinary profit	**2,318**
Net income	**2,318**

Statement of Changes in Net Assets (Year ended March 31, 2012)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the beginning of current period	505,668
Changes of items during the period	
Issuance of new shares	278,585
Total changes of items during the period	278,585
Balance at the end of current period	784,253
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the beginning of current period	(118,502)
Changes of items during the period	
Net income (loss)	2,318
Total changes of items during the period	2,318
Balance at the end of current period	(116,184)
Total retained earnings	
Balance at the beginning of current period	(118,502)
Changes of items during the period	
Net income (loss)	2,318
Total changes of items during the period	2,318
Balance at the end of current period	(116,184)
Total shareholders' equity	
Balance at the beginning of current period	387,165
Changes of items during the period	
Issuance of new shares	278,585
Net income (loss)	2,318
Total changes of items during the period	280,903
Balance at the end of current period	668,068
Total net assets	
Balance at the beginning of current period	387,165
Changes of items during the period	
Issuance of new shares	278,585
Net income (loss)	2,318
Total changes of items during the period	280,903
Balance at the end of current period	668,068

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) 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 are independent from the operational departments, review 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.

(d) Consumption and other taxes

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

Additional information

(The Accounting Standard for Accounting Changes and Error Corrections)

JFC has applied "the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Statement No. 24, December 4, 2009) and "Guidance on the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Guidance No. 24, December 4, 2009) beginning with the treatment of accounting changes and corrections of prior period errors that are made after the beginning of this fiscal year. Based on "Practical Guidelines on Accounting Standards for Financial Instruments" (JICPA Accounting Practice Committee Statement No. 14) , "Reversal of allowance for loan losses" has been recorded in "Other income in Ordinary income" beginning with this fiscal year.

2. Receivables under resale agreements

Among the securities acquired under resale agreements, these securities which can be sold or pledged without restrictions amounted to ¥4,998 million.

3. 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, 2012.

"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".

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. No Operations to Facilitate Crisis Responses account bonds have been issued.

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥0 million.

6. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (69,629 contracts)	2,512,034
Reserve for compensation	59,060
Net amount	2,452,973

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 proceeds from collection of compensation for security contract

Ordinary income-Other income-Other: ¥6,928 million

9. Issued shares

For the fiscal year ended March 31, 2012, 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	505,668,000,000	278,585,000,000	—	784,253,000,000

(Note) Increases is due to the issuance of 278,585,000,000 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, and loans, 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 Businesses Promotion, etc. 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 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 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, 2012, 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	276,578	276,578	—
(2) Receivables under resale agreements	4,998	4,998	—
(3) Securities			
Held to maturity debt securities	451,938	451,938	—
(4) Loans and bills discounted	5,394,261	5,463,028	68,767
Total assets	6,127,776	6,196,543	68,767
Borrowings	5,394,261	5,482,072	87,811
Total liabilities	5,394,261	5,482,072	87,811

(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) Receivables under resale agreements

For securities acquired under resale agreements, the carrying amount is used as fair value because contractual terms of this item are short (i.e., within three months) and fair value resembles the carrying amount.

(3) 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".

(4) 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: ¥2,512,034 million
Compensation loss reserve: ¥59,060 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 (*)	276,578	—	—	—	—	—
Receivables under resale agreements	4,998	—	—	—	—	—
Securities Held-to-maturity debt securities	452,000	—	—	—	—	—
Loans and bills discounted	765,931	1,792,304	1,499,428	603,565	601,404	131,629
Total	1,499,507	1,792,304	1,499,428	603,565	601,404	131,629

(*) 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	765,931	1,792,304	1,499,428	603,565	601,404	131,629

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, 2012 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	451,938	451,938	—

(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	275,000	275,000	—

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, 2012 (Millions of yen)
Projected benefit obligations (A)	(195)
Fair value of plan assets (B)	33
Unfunded pension obligations (C)=(A)+(B)	(161)
Unrecognized prior service costs (D)	(2)
Actuarial unrecognized difference (E)	15
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(148)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)–(G)	(148)

(b) Component of pension cost

	March 31, 2012 (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	1
Other costs	—
Net pensions cost	12

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

(c) Principal assumptions

	March 31, 2012
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, 2012 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, 2012
Principal shareholder	Ministry of Finance (Minister of Finance) (Note i)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase (Note ii)	278,585	—	—
				Receipts from general account of the national budget	701	—	—
				Receipt of funds (Note iii)	1,153,490	Borrowings	5,394,261
				Repayment of borrowing	496,186		
				Payment of interest on borrowings	43,802	Accrued expenses	1,351

(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 ¥599 million
- Ministry of Agriculture, Forestry and Fisheries
  Receipts from the national budget ¥40 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.

15. Per share information

Net assets per share ¥0.85
Net income per share ¥0.00

16. Subsequent events

The Board of Directors of JFC resolved on May 22, 2012 to issue new shares by way of allotment to shareholders as of July 4, 2012.

(Unit: yen)

Type and number of shares	68,000,000 shares of common stock
Issue price	1 per share
Total issue amount	68,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	—
Total amount of incorporated into Capital stock	68,000,000
Total amount of incorporated into Legal capital surplus	—
Payment date	July 4, 2012
Purpose of use	Act as resource for credit insurance underwriting

Account for Operations to Facilitate Specific Businesses Promotion, etc.

Balance Sheet (as of March 31, 2012)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	**251**	**Borrowed money**	**21,300**
Due from banks	251	Borrowings	21,300
Loans and bills discounted	**21,300**	**Other liabilities**	**66**
Loans on deeds	21,300	Accrued expenses	65
Other assets	**97**	Lease obligations	0
Prepaid expenses	0	Other	0
Accrued income	65	**Provision for bonuses**	**2**
Other	31	**Provision for directors' bonuses**	**0**
Property, plant and equipment	**0**	**Provision for retirement benefits**	**67**
Lease assets	0	**Provision for directors' retirement benefits**	**0**
Intangible assets	**10**	**Total liabilities**	**21,437**
Software	10	Net assets	
Lease assets	0	**Capital stock**	**239**
Other	0	**Retained earnings**	**(17)**
		Other retained earnings	(17)
		Retained earnings brought forward	(17)
		Total shareholders' equity	**221**
		Total net assets	**221**
Total assets	**21,658**	**Total liabilities and net assets**	**21,658**

Statement of Operations (Year ended March 31, 2012)

(Millions of yen)

Ordinary income	240
Interest income	179
Interest on loans and discounts	179
Interest on deposits with banks	0
Receipts from the national budget	52
Receipts from general account of the national budget	52
Other income	8
Reversal of allowance for loan losses	8
Ordinary expenses	241
Interest expenses	179
Interest on borrowings and rediscounts	179
General and administrative expenses	61
Ordinary loss	0
Net loss	0

Statement of Changes in Net Assets (Year ended March 31, 2012)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the beginning of current period	120
Changes of items during the period	
Issuance of new shares	119
Total changes of items during the period	119
Balance at the end of current period	239
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the beginning of current period	(16)
Changes of items during the period	
Net income (loss)	(0)
Total changes of items during the period	(0)
Balance at the end of current period	(17)
Total retained earnings	
Balance at the beginning of current period	(16)
Changes of items during the period	
Net income (loss)	(0)
Total changes of items during the period	(0)
Balance at the end of current period	(17)
Total shareholders' equity	
Balance at the beginning of current period	103
Changes of items during the period	
Issuance of new shares	119
Net income (loss)	(0)
Total changes of items during the period	118
Balance at the end of current period	221
Total net assets	
Balance at the beginning of current period	103
Changes of items during the period	
Issuance of new shares	119
Net income (loss)	(0)
Total changes of items during the period	118
Balance at the end of current period	221

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) 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.

(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 departments, which are independent from the operational departments, review 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.

(c) Consumption and other taxes

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

Additional information

(The Accounting Standard for Accounting Changes and Error Corrections)

JFC has applied "the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Statement No. 24, December 4, 2009) and "Guidance on the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Guidance No. 24, December 4, 2009) beginning with the treatment of accounting changes and corrections of prior period errors that are made after the beginning of this fiscal year. Based on "Practical Guidelines on Accounting Standards for Financial Instruments" (JICPA Accounting Practice Committee Statement No. 14), "Reversal of allowance for loan losses" has been recorded in "Other income in Ordinary income" beginning with this fiscal year.

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, 2012.

"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, etc. account bonds have been issued.

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥0 million.

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. Issued shares

For the fiscal year ended March 31, 2012, 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	119,000,000	—	239,000,000

(Note) Increases is due to the issuance of 119,000,000 shares.

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, and loans, 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 Businesses Promotion, etc. 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 Businesses Promotion, etc., 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 both the execution of business by companies that develop or manufacture energy and environmentally friendly products and the execution of business restructuring by Japanese companies in order to strengthen their international competitiveness. 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 loans and discounts.

(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 and businesses restructuring promotion, etc. 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, 2012, 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	251	251	—
(2) Loans and bills discounted	21,300	21,657	357
Total assets	21,551	21,909	357
Borrowings	21,300	21,743	443
Total liabilities	21,300	21,743	443

(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 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 (*)	251	—	—	—	—	—
Loans and bills discounted	—	5,166	5,324	5,324	5,486	—
Total	251	5,166	5,324	5,324	5,486	—

(*) 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	—	5,166	5,324	5,324	5,486	—

8. 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).

9. 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, 2012 (Millions of yen)
Projected benefit obligations (A)	(84)
Fair value of plan assets (B)	14
Unfunded pension obligations (C)=(A)+(B)	(70)
Unrecognized prior service costs (D)	(0)
Actuarial unrecognized difference (E)	2
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(67)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)−(G)	(67)

(b) Component of pension cost

	March 31, 2012 (Millions of yen)
Service cost	4
Interest cost	1
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	5

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

(c) Principal assumptions

	March 31, 2012
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

10. Related party transactions

Related party transactions in the fiscal year ended March 31, 2012 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, 2012
Principal shareholder	Ministry of Finance (Minister of Finance) (Note i)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase (Note ii)	119	—	—
				Receipt of funds (Note iii)	1,300	Borrowings	21,300
				Payment of interest on borrowings	179	Accrued expenses	65

(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 ¥52 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.

11. Per share information

Net assets per share ¥0.92
Net loss per share ¥0.00

12. 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	30,372	1,879	18,458	—
Non-accrual loans	136,877	65,833	446,022	101,565
Past due loans (3 months or more)	41	1,952	5	176
Restructured loans	591,233	35,773	74,702	83,014
Total	758,525	105,440	539,189	184,755
Total of risk-monitored loans/outstanding loans (%)	10.74	4.14	8.58	2.28

(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	103,764	6,115	53,560	658
Doubtful	64,228	61,633	411,133	100,906
Special attention	591,274	37,726	74,708	83,190
Subtotal (1)	759,268	105,475	539,402	184,755
Normal	6,315,243	2,453,900	5,750,830	10,335,469
Total (2)	7,074,511	2,559,376	6,290,470	10,520,225
(1/2) (%)	10.73	4.12	8.57	1.76

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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JAPAN FINANCE CORPORATION

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