

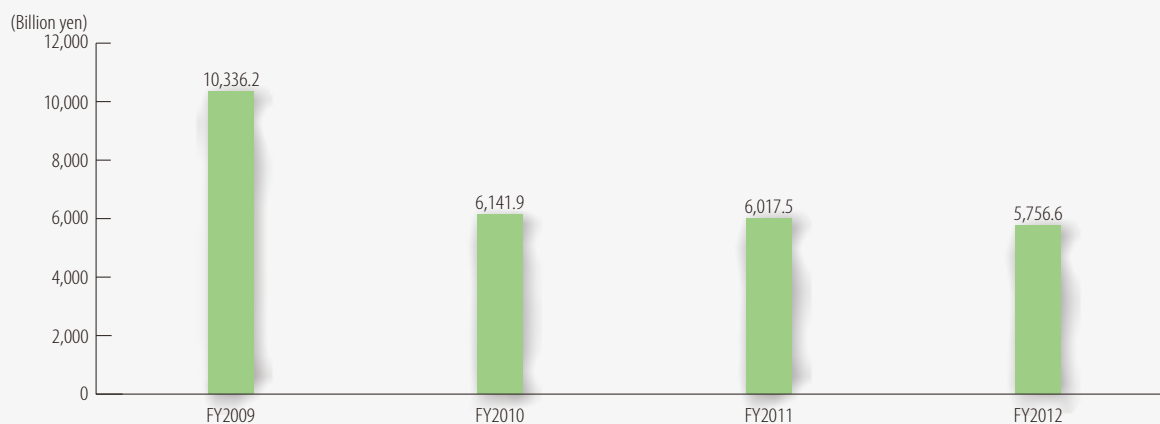
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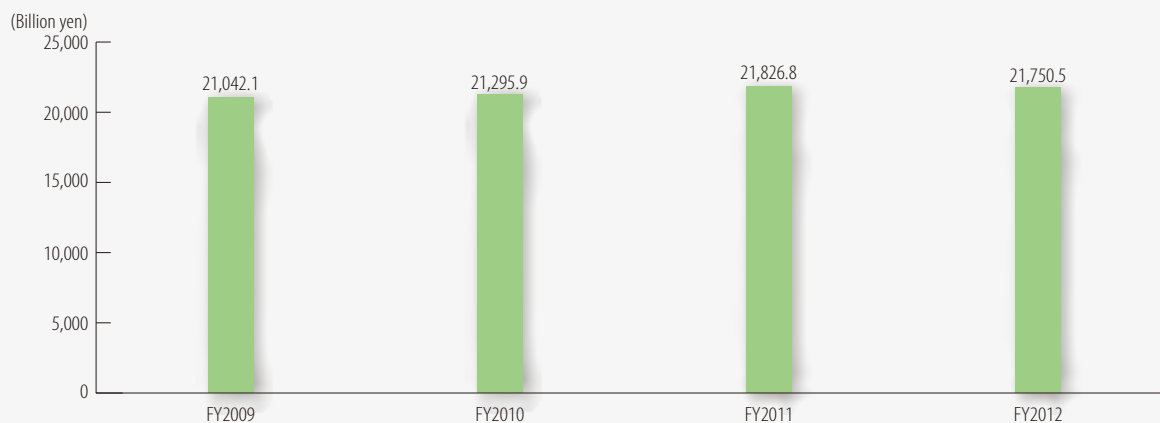
JFC 2013

Japan Finance Corporation

1 Changes in Loan Operations

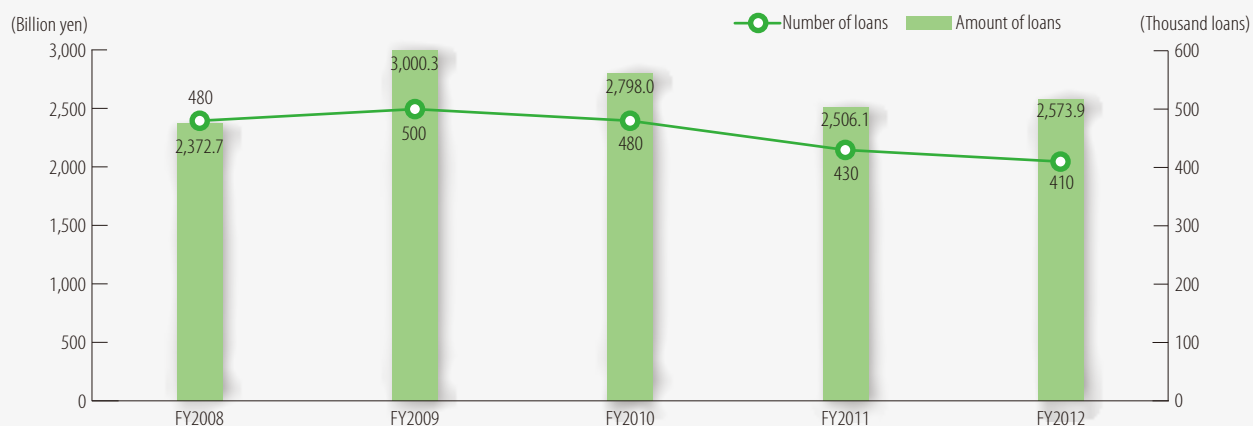


2 Changes in Outstanding Loans



Micro Business and Individual Unit

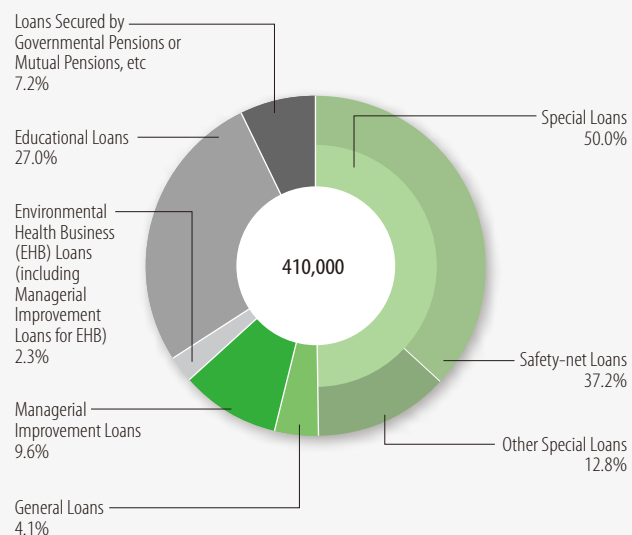
1 Changes in Loan Operations



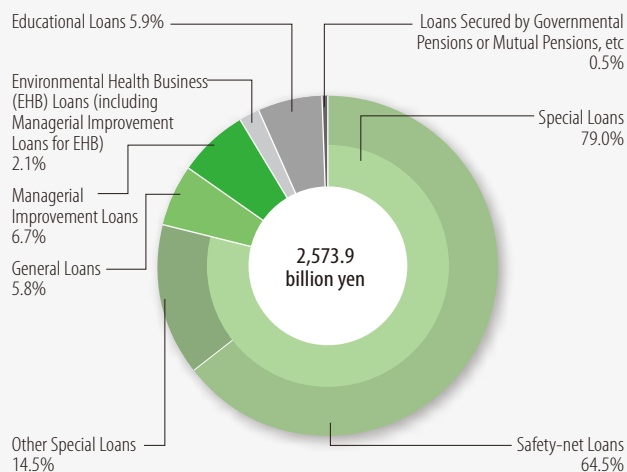
Note: Figures up to September 2008 are based on data from the former National Life Finance Corporation.

2 Breakdown of Loans

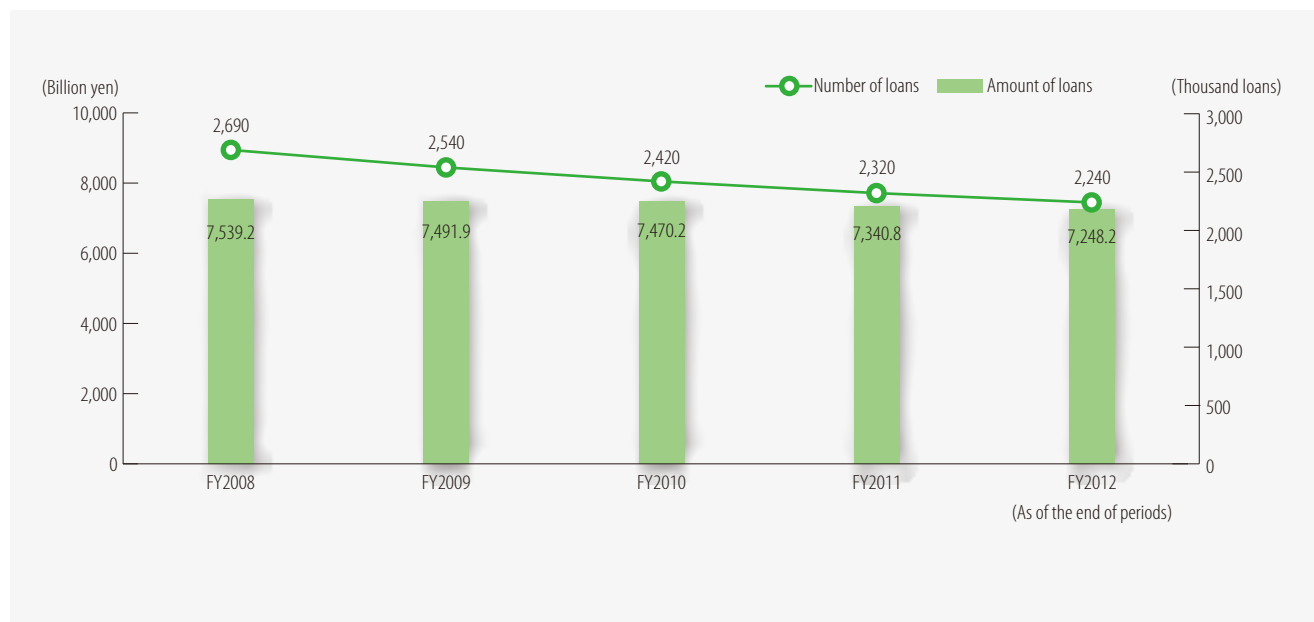
▼ Number of Loans (FY2012)



▼ Total Amount of Loans (FY2012)



3 Changes in Outstanding Loans



4 Breakdown of Business Loans Outstanding by Industry

(Unit: billion yen, %)

	FY2008	FY2009	FY2010	FY2011	FY2012
Manufacturing	764.1 (11.7)	799.6 (12.2)	795.6 (12.2)	782.4 (12.1)	764.7 (12.0)
Wholesale & retail	1,560.4 (23.9)	1,572.2 (24.1)	1,591.6 (24.3)	1,582.5 (24.5)	1,561.2 (24.4)
Restaurants & hotels	597.4 (9.1)	579.0 (8.9)	569.6 (8.7)	556.3 (8.6)	537.8 (8.4)
Services	1,358.5 (20.8)	1,370.4 (21.0)	1,413.9 (21.6)	1,417.7 (22.0)	1,430.4 (22.4)
Construction	992.1 (15.2)	1,019.5 (15.6)	1,025.2 (15.7)	997.1 (15.5)	968.4 (15.2)
Others	1,260.3 (19.3)	1,189.8 (18.2)	1,145.6 (17.5)	1,113.4 (17.3)	1,122.9 (17.6)
Total	6,533.1 (100.0)	6,530.8 (100.0)	6,541.7 (100.0)	6,449.5 (100.0)	6,385.5 (100.0)

Notes: 1. Loans comprise General Loans and Environmental Health Business Loans.

2. Industries are in accordance with the Japan Standard Industrial Classification as revised in March 2002.

3. Figures in parentheses denote percentage shares.

5 Breakdown of Environmental Health Business Loans Outstanding by Industry

(Unit: billion yen, %)

	FY2008	FY2009	FY2010	FY2011	FY2012
Restaurant-related services	264.1 (48.2)	233.8 (47.6)	207.9 (47.0)	183.2 (46.4)	165.9 (46.6)
Hotels	115.7 (21.1)	104.9 (21.4)	95.2 (21.5)	85.5 (21.6)	73.5 (20.7)
Beauty parlors	76.0 (13.9)	69.9 (14.2)	65.5 (14.8)	61.1 (15.5)	58.7 (16.5)
Barbershops	42.9 (7.8)	37.7 (7.7)	33.3 (7.5)	29.1 (7.4)	25.6 (7.2)
Public baths	28.0 (5.1)	25.6 (5.2)	23.1 (5.2)	20.6 (5.2)	18.1 (5.1)
Laundries	13.5 (2.5)	12.0 (2.5)	10.8 (2.4)	9.8 (2.5)	8.9 (2.5)
Meat shops	3.7 (0.7)	3.3 (0.7)	3.0 (0.7)	3.5 (0.9)	3.1 (0.9)
Entertainment facilities	2.4 (0.4)	2.4 (0.5)	2.3 (0.5)	1.8 (0.5)	1.5 (0.4)
Others	1.2 (0.2)	1.2 (0.3)	1.2 (0.3)	0.3 (0.1)	0.2 (0.1)
Total	548.1 (100.0)	491.2 (100.0)	442.7 (100.0)	395.2 (100.0)	355.9 (100.0)

Note: Figures in parentheses denote percentage shares.

6 Breakdown of Outstanding Loans by Use

(Unit: billion yen, %)

	FY2008	FY2009	FY2010	FY2011	FY2012
Working fund	3,570.9 (54.7)	3,999.8 (61.2)	4,292.9 (65.6)	4,381.5 (67.9)	4,347.8 (68.1)
Equipment fund	2,962.1 (45.3)	2,531.0 (38.8)	2,248.7 (34.4)	2,067.9 (32.1)	2,037.6 (31.9)
Total	6,533.1 (100.0)	6,530.8 (100.0)	6,541.7 (100.0)	6,449.5 (100.0)	6,385.5 (100.0)

Notes: 1. Breakdown is for total of General Loans and Environmental Health Business Loans.

2. Figures in parentheses denote percentage shares.

7 Number of Business Loan Borrowers

(Unit: number of companies)

	FY2008	FY2009	FY2010	FY2011	FY2012
Borrowers	1,135,110	1,084,043	1,030,910	989,697	958,282

Note: Loans comprise General Loans and Environmental Health Business Loans.

8 Average Loans Outstanding per Borrower

(Unit: thousand yen)

	FY2008	FY2009	FY2010	FY2011	FY2012
Average loans outstanding per borrower	5,755	6,024	6,345	6,516	6,663

Note: Loans comprise General Loans and Environmental Health Business Loans.

9 Educational Loans Outstanding, etc.

(Unit: billion yen)

	FY2008	FY2009	FY2010	FY2011	FY2012
Educational Loans	974.9	932.6	903.5	869.4	843.7
Loans Secured by Governmental Pensions and Mutual Pensions, etc.	30.1	27.5	24.3	21.3	18.5

10 Breakdown of Loans by Credit Amount

(Unit: number of loans, %)

	FY2008	FY2009	FY2010	FY2011	FY2012
Up to 3 million yen	115,962 (36.4)	106,525 (31.2)	105,367 (33.1)	91,472 (32.8)	91,091 (33.0)
Over 3 million yen and up to 5 million yen	69,891 (21.9)	66,327 (19.4)	61,391 (19.3)	54,851 (19.7)	51,811 (18.8)
Over 5 million yen and up to 8 million yen	47,169 (14.8)	51,267 (15.0)	44,721 (14.0)	38,434 (13.8)	37,587 (13.6)
Over 8 million yen	85,615 (26.9)	117,463 (34.4)	106,862 (33.6)	94,022 (33.7)	95,513 (34.6)
Total	318,637 (100.0)	341,582 (100.0)	318,341 (100.0)	278,779 (100.0)	276,002 (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, %)

	FY2008	FY2009	FY2010	FY2011	FY2012
4 or less	207,975 (65.3)	221,528 (64.8)	209,917 (65.9)	184,596 (66.2)	183,363 (66.4)
5-9	67,061 (21.0)	73,039 (21.4)	67,046 (21.1)	58,213 (20.9)	57,805 (20.9)
10-19	28,029 (8.8)	30,985 (9.1)	27,353 (8.6)	23,832 (8.5)	23,251 (8.4)
20 or more	15,546 (4.9)	16,008 (4.7)	14,010 (4.4)	12,132 (4.4)	11,575 (4.2)
Total	318,611 (100.0)	341,560 (100.0)	318,326 (100.0)	278,773 (100.0)	275,994 (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, %)

	FY2008	FY2009	FY2010	FY2011	FY2012
No-collateral	256,390 (80.6)	267,088 (78.3)	245,023 (77.0)	215,024 (77.2)	204,363 (74.1)
Collateral	Real estate (including partial collateral)	61,659 (19.4)	74,105 (21.7)	73,038 (23.0)	63,559 (22.8)
	Securities	44 (0.0)	37 (0.0)	32 (0.0)	26 (0.0)
	Credit Guarantee Corporations	16 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
	Others	3 (0.0)	1 (0.0)	1 (0.0)	1 (0.0)
Total	318,112 (100.0)	341,231 (100.0)	318,094 (100.0)	278,610 (100.0)	275,855 (100.0)

Notes: 1. Figures up to September 2008 are based on data from the former National Life Finance Corporation.

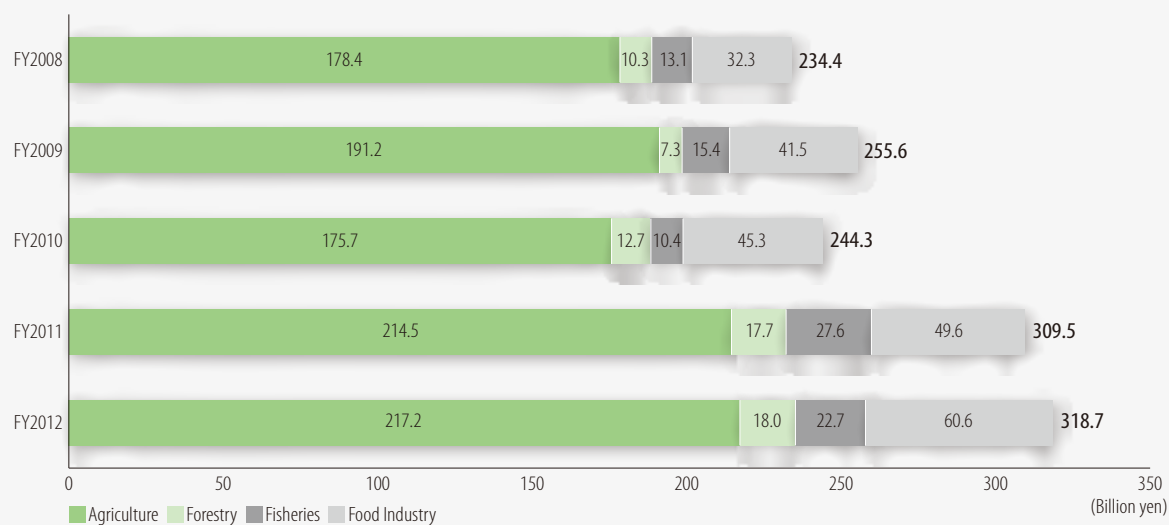
2. Loans comprise General Loans and Environmental Health Business Loans.

3. Figures in parentheses denote percentage shares.

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

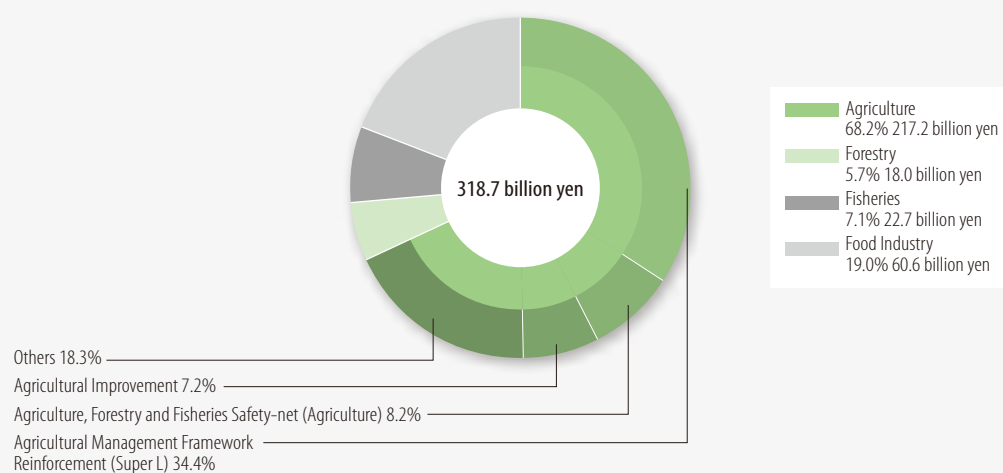
1 Changes in Annual Loan Operations



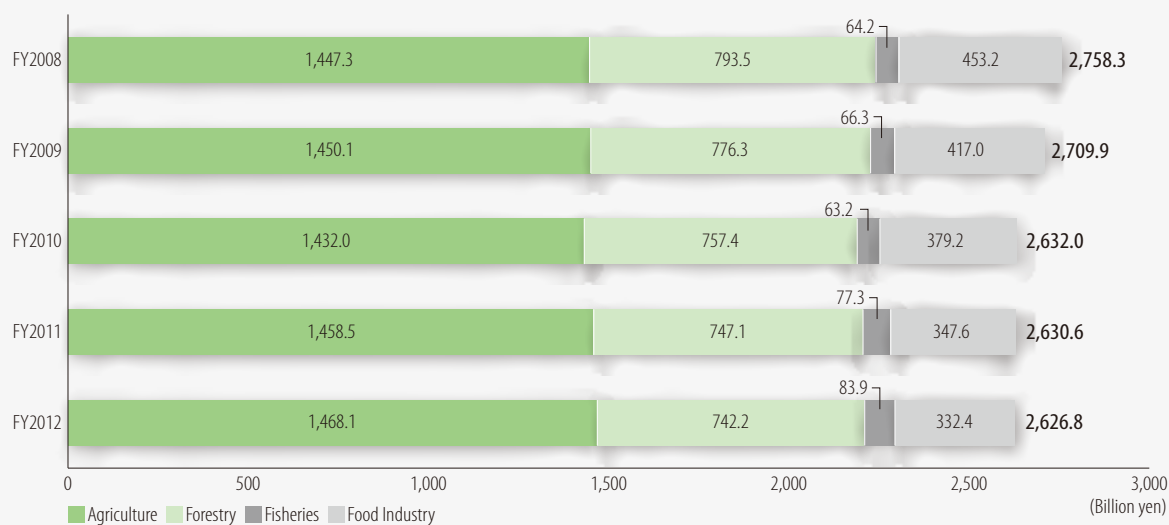
Note: Figures up to September 2008 are based on data from the former Agriculture, Forestry and Fisheries Finance Corporation.

2 Breakdown of Loans

▼ Amount (FY2012)

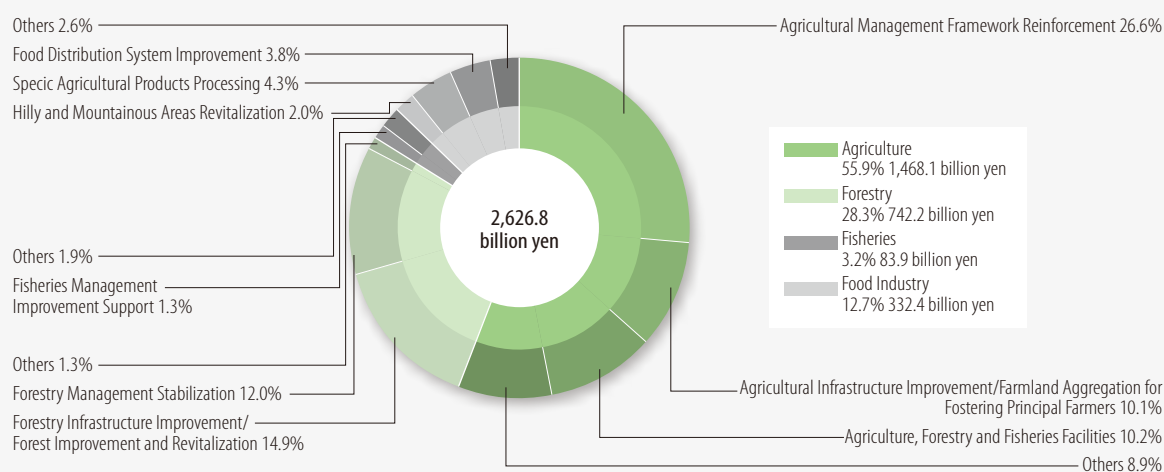


3 Changes in Outstanding Loans

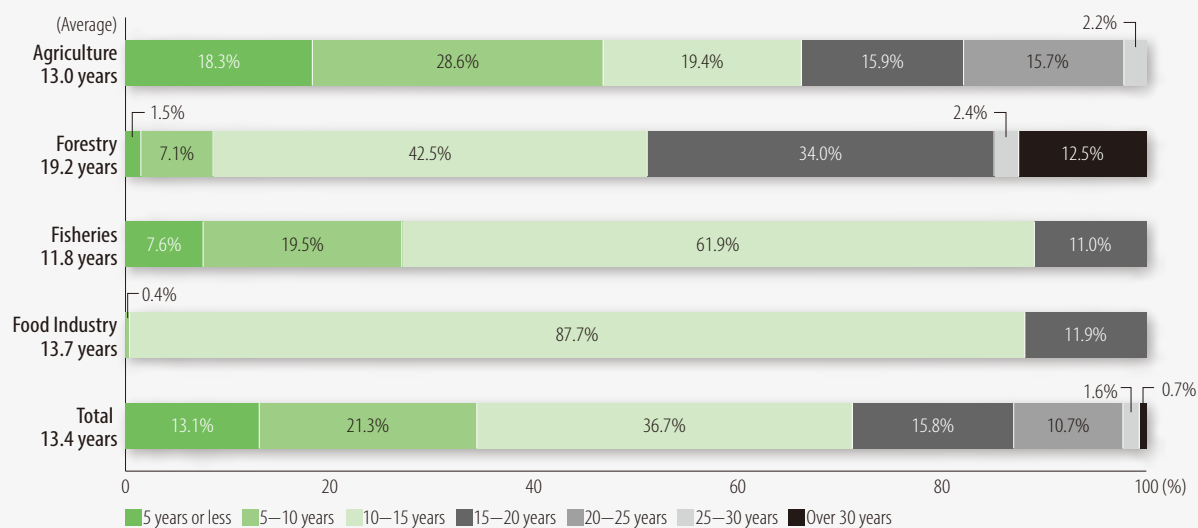


4 Breakdown of Outstanding Loans by Sector and Use

▼ Amount (FY2012)



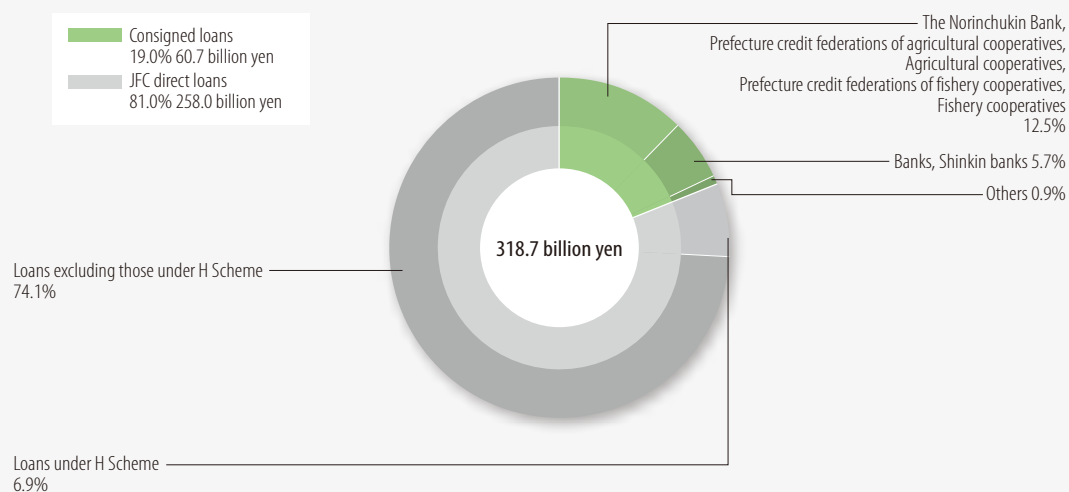
5 Loans by Repayment Period (FY2012)



Note: Figures are calculated by amount of loans contracted.

6 Loans by Commissioned Financial Institutions

Amount (FY2012)

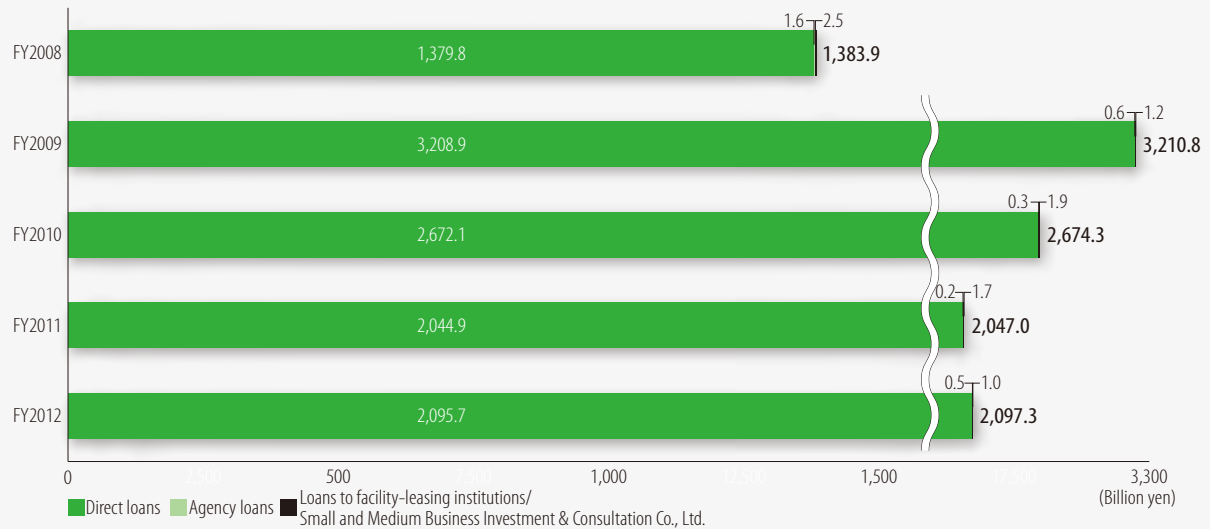


Note: H Scheme refers to a loan system through consignment of part of administration works for JFC's direct loans to agricultural cooperatives, banks, Shinkin banks, etc.

Small and Medium Enterprise (SME) Unit

I. Loan Programs

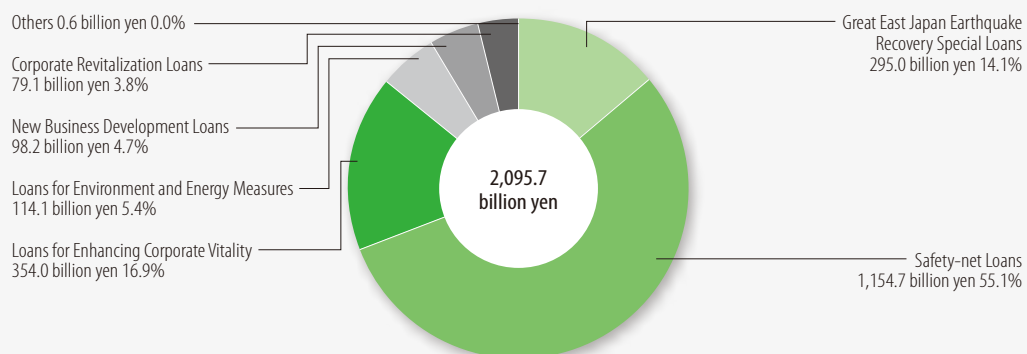
1 Changes in Loan Operations



Note: Figures up to September 2008 are based on data from the former Japan Finance Corporation for Small and Medium Enterprise.

2 Breakdown of Loans by Scheme

▼ Amount (FY2012)



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



4 Breakdown of Outstanding Loans by Industry

(Unit: billion yen)

	FY2008	FY2009	FY2010	FY2011	FY2012
Manufacturing	2,748.9 (48.9)	3,007.3 (48.7)	3,137.1 (48.8)	3,132.8 (48.7)	3,132.3 (48.5)
Construction	296.1 (5.3)	328.1 (5.3)	329.9 (5.1)	327.0 (5.1)	320.3 (5.0)
Wholesale & retail	896.3 (15.9)	1,025.4 (16.6)	1,089.0 (16.9)	1,098.8 (17.1)	1,097.9 (17.0)
Transport & telecommunications	481.7 (8.6)	540.0 (8.8)	568.9 (8.8)	580.8 (9.0)	591.6 (9.2)
Services	649.7 (11.5)	654.7 (10.6)	686.8 (10.7)	697.2 (10.8)	685.6 (10.6)
Others	554.1 (9.8)	615.1 (10.0)	616.4 (9.6)	595.3 (9.3)	625.0 (9.7)
Total	5,626.8 (100.0)	6,170.6 (100.0)	6,428.3 (100.0)	6,432.2 (100.0)	6,453.0 (100.0)

Notes: 1. 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.

2. Figures in parentheses denote percentage shares.

5 Breakdown of Outstanding Loans by Use

(Unit: billion yen)

	FY2008	FY2009	FY2010	FY2011	FY2012
Operating funds	2,618.7 (46.5)	3,600.9 (58.4)	4,043.3 (62.9)	4,221.4 (65.6)	4,199.0 (65.1)
Facility funds	3,008.0 (53.5)	2,569.7 (41.6)	2,385.0 (37.1)	2,210.7 (34.4)	2,254.0 (34.9)
Total	5,626.8 (100.0)	6,170.6 (100.0)	6,428.3 (100.0)	6,432.2 (100.0)	6,453.0 (100.0)

Notes: 1. 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.

2. Figures in parentheses denote percentage shares.

6 Number of Client Companies

(Unit: number of companies)

	FY2008	FY2009	FY2010	FY2011	FY2012
Client companies	44,519	46,139	46,330	46,599	47,282

Note: Figures cover only companies with direct loans.

7 Average Outstanding Loans per Company

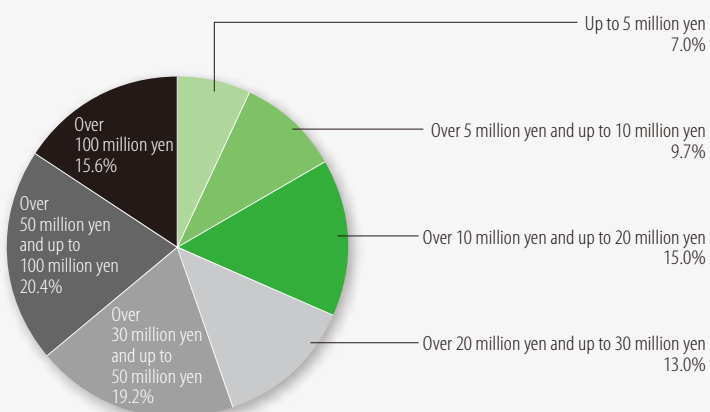
(Unit: million yen)

	FY2008	FY2009	FY2010	FY2011	FY2012
Average outstanding loans per company	124	132	137	137	135

Note: Figures cover only companies with direct loans.

8 Loans by Credit Amount

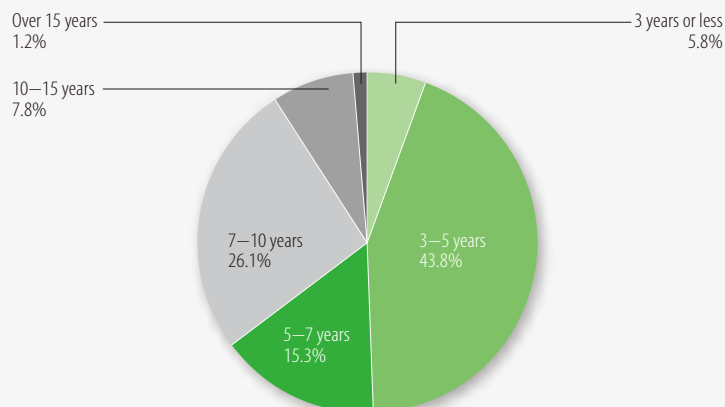
▼ Loan Percentage Breakdown (FY2012)



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

9 Loans by Repayment Period

▼ Loan Percentage Breakdown (FY2012)



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

II. Credit Insurance Programs

(Unit: billion yen)

Items	FY2010	FY2011	FY2012
Acceptance of insurance and loans			
Small Business Credit Insurance	13,439.9	11,131.3	9,366.2
Loans to CGCs	—	—	—
Special Insurance for Midsize Enterprises	—	—	—
Outstanding amounts of insurance and loans			
Small Business Credit Insurance	35,657.7	34,913.6	32,471.0
Loans to CGCs	—	—	—
Special Insurance for Midsize Enterprises	0.1	0.1	0
Machinery Credit Insurance ^(Note)	43.0	19.8	6.2

Note: With respect to the Machinery Credit Insurance, JFC pays insurance money and collects recoveries based on insurance contracts 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	FY2010	FY2011	FY2012
Total loan principal amount			
Purchase-type ^(Note 1)	3.3	—	—
Guarantee-type ^(Note 2)	—	—	—
Outstanding amounts of trust beneficiary rights and guaranteed liabilities ^(Note 3)			
Purchase-type (outstanding amount of trust beneficiary rights)	1.4	1.1	0.3
Guarantee-type (outstanding amount of guaranteed liabilities)	0.2	0.1	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.

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	FY2012
Two-step loans	1,430.1	3,869.3	405.2	1,153.4	733.7
Loans, etc.	1,130.3	3,529.4	405.2	1,153.4	733.7
Commercial paper (CP) acquisitions	299.8	339.8	—	—	—
Loss compensation	345.1	1,811.9	1,893.3	1,739.8	1,470.2
Loans, etc.	345.1	1,781.9	1,893.3	1,739.8	1,470.2
Commercial paper (CP) acquisitions	—	—	—	—	—
Equity participations	—	30.0	—	—	—
Interest subsidies	—	—	0.3	2.4	7.8

Notes: 1. The figures of the two-step loans refer to the amount of loans provided by JFC to the designated financial institutions (Development Bank of Japan Inc. and The Shoko Chukin Bank, Ltd.) through March 2013.

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 2013, with loss compensation underwritten by JFC for the incurred losses by May 10, 2013.

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 2013, 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 2012. 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	FY2012
Two-step loans	20.0	1.3	7.8

Notes: 1. Operations to Facilitate Specific Businesses Promotion commenced on August 16, 2010.

2. The figures for two-step loans refer to the amount of loans provided by JFC to the designated financial institution (Development Bank of Japan Inc.) through March 2013.

Results of Operations to Facilitate Business Restructuring Promotion, etc.

(Unit: billion yen)

	FY2011	FY2012
Two-step loans	—	25.0

Notes: 1. Operations to Facilitate Business Restructuring Promotion, etc. commenced on July 1, 2011.

2. The figures for two-step loans refer to the amount of loans provided by JFC to the designated financial institution (Development Bank of Japan Inc.) through March 2013.

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, 2013)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	4,083,438	Borrowed money	16,904,622
Cash	72	Borrowings	16,904,622
Due from banks	4,083,366	Bonds payable	2,359,261
Securities	270,922	Entrusted funds	36,498
Government bonds	268,054	Reserve for insurance policy liabilities	1,622,928
Corporate bonds	465	Other liabilities	43,769
Stocks	2,030	Accrued expenses	24,311
Other securities	372	Unearned revenue	6,613
Loans and bills discounted	21,232,320	Lease obligations	3,565
Loans on deeds	21,232,320	Other	9,279
Other assets	63,667	Provision for bonuses	3,913
Prepaid expenses	4,192	Provision for directors' bonuses	16
Accrued income	26,910	Provision for retirement benefits	196,918
Agency accounts receivable	2,392	Provision for directors' retirement benefits	105
Other	30,171	Reserve for compensation losses	65,512
Property, plant and equipment	204,458	Acceptances and guarantees	3,126
Buildings	57,015	Total liabilities	21,236,672
Land	143,472	Net assets	
Lease assets	2,099	Capital stock	3,455,015
Construction in progress	777	Capital surplus	2,178,432
Other	1,093	Special reserve for administrative improvement funds	181,500
Intangible assets	14,885	Legal capital surplus	1,996,932
Software	3,587	Retained earnings	(1,448,974)
Lease assets	1,272	Legal retained earnings	2,655
Other	10,025	Other retained earnings	(1,451,630)
Customers' liabilities for acceptances and guarantees	3,126	Retained earnings brought forward	(1,451,630)
Allowance for loan losses	(451,674)	Total shareholders' equity	4,184,472
		Total net assets	4,184,472
Total assets	25,421,145	Total liabilities and net assets	25,421,145

Statement of Operations (Year ended March 31, 2013)

(Millions of yen)

Ordinary income	665,597
Interest income	340,552
Interest on loans and discounts	335,800
Interest and dividends on securities	1,168
Interest on receivables under resale agreements	16
Interest on deposits with banks	3,566
Other interest income	0
Fees and commissions	3,566
Fees and commissions on compensation security contract	3,525
Other fees and commissions	41
Insurance premiums and other	268,432
Insurance premiums	146,345
Receipts of burden charges under the Responsibility-sharing System	17,742
Reversal of reserve for insurance policy liabilities	104,343
Receipts from the national budget	46,333
Receipts from general account of the national budget	46,313
Receipts from special account of the national budget	20
Other income	6,712
Recoveries of written-off claims	2,387
Gain on sales of stocks and other securities	0
Other	4,324
Ordinary expenses	951,453
Interest expenses	156,085
Interest on call money	153
Interest on borrowings and rediscounts	127,759
Interest on bonds	25,199
Other interest expenses	2,973
Fees and commissions payments	16,549
Expense on compensation security contract	11,091
Other fees and commissions	5,457
Expenses on insurance claims and other	495,694
Expenses on insurance claims	615,973
Recoveries of insurance claims	(120,278)
Other ordinary expenses	8,660
Loss on devaluation of bonds	16
Amortization of bond issuance cost	812
Interest subsidies	7,827
Other	4
General and administrative expenses	112,906
Other expenses	161,557
Provision of allowance for loan losses	128,746
Provision of reserve for compensation losses	14,981
Written-off of loans	12,731
Losses on devaluation of stocks and other securities	39
Other	5,058
Ordinary loss	285,856
Extraordinary income	634
Gain on disposal of noncurrent assets	634
Extraordinary losses	1,046
Loss on disposal of noncurrent assets	369
Impairment loss	676
Net loss	286,268

Statement of Changes in Net Assets (Year ended March 31, 2013)

(Millions of yen)

Shareholders' equity		Total retained earnings	
Capital stock		Balance at the beginning of current period	
Balance at the beginning of current period	3,075,709		(1,464,063)
Changes of items during the period		Changes of items during the period	
Issuance of new shares	379,306	Reversal of legal capital surplus (Deficit disposition)	301,357
Total changes of items during the period	379,306	Net income (loss)	(286,268)
Balance at the end of current period	3,455,015	Total changes of items during the period	15,088
Capital surplus		Balance at the end of current period	(1,448,974)
Special reserve for administrative improvement funds		Total shareholders' equity	
Balance at the beginning of current period	181,500	Balance at the beginning of current period	3,847,885
Changes of items during the period		Changes of items during the period	
Total changes of items during the period	—	Issuance of new shares	622,856
Balance at the end of current period	181,500	Net income (loss)	(286,268)
Legal capital surplus		Total changes of items during the period	336,587
Balance at the beginning of current period	2,054,739	Balance at the end of current period	4,184,472
Changes of items during the period		Total net assets	
Issuance of new shares	243,550	Balance at the beginning of current period	3,847,885
Reversal of legal capital surplus (Deficit disposition)	(301,357)	Changes of items during the period	
Total changes of items during the period	(57,807)	Issuance of new shares	622,856
Balance at the end of current period	1,996,932	Net income (loss)	(286,268)
Total capital surplus		Total changes of items during the period	336,587
Balance at the beginning of current period	2,236,239	Balance at the end of current period	4,184,472
Changes of items during the period			
Issuance of new shares	243,550		
Reversal of legal capital surplus (Deficit disposition)	(301,357)		
Total changes of items during the period	(57,807)		
Balance at the end of current period	2,178,432		
Retained earnings			
Legal retained earnings			
Balance at the beginning of current period	2,655		
Changes of items during the period			
Total changes of items during the period	—		
Balance at the end of current period	2,655		
Other retained earnings			
Retained earnings brought forward			
Balance at the beginning of current period	(1,466,719)		
Changes of items during the period			
Reversal of legal capital surplus (Deficit disposition)	301,357		
Net income (loss)	(286,268)		
Total changes of items during the period	15,088		
Balance at the end of current period	(1,451,630)		

Notes to Financial Statements > Japan Finance Corporation

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method) based on the moving average method. Investments in affiliates are carried at cost based on the moving average method. As a rule, available-for-sale securities are stated at fair value based on market prices on the closing date. However, 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) 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

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)

Japan Finance Corporation (JFC) has applied the depreciation method based on the revised Corporation Tax Law (Law No. 34 of 1965) to tangible fixed assets newly booked on or after April 1, 2012 beginning with the fiscal year ended March 31, 2013, following the revision of the Corporation Tax Law.

The effect of this application on income is immaterial.

(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 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.

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.

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 ¥355,407 million.

Write-offs are 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) 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 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.

(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.

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on a) enhancement of disclosure, and b) a revision to determination of projected retirement benefit obligations and current service cost.

(ii) Scheduled date of application

JFC is scheduled to apply above a) from the financial statements concerning the end of the fiscal year starting on April 1, 2013 and above b) from the beginning of the fiscal year starting on April 1, 2014.

(iii) Effect of application of this accounting standard

The effect of the application of this accounting standard is currently under consideration.

2. Equity securities of affiliates

Equity securities of affiliates is ¥2,030 million.

3. Loans

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

(Millions of yen)

	As of March 31, 2013		
	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)
Bankrupt loans	25,295	19,973	16,619
Non-accrual loans	147,286	72,968	557,793
Loans with interest or principal repayments more than three months in arrears	97	2,304	—
Restructured loans	555,662	27,603	71,292
Total	728,342	122,849	645,705

(Note) The description of the following four accounts, Securitization Support Programs (Purchase-type operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. are omitted since there are no balance in these accounts.

- "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".
- 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, 2013 is ¥164,109 million.

4. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for bonds totaling ¥2,359,261 million.

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥14,353 million.

6. Contingent liabilities

JFC has joint and several liabilities pertaining to the following bonds issued by JFC succeeded to by Japan Bank for International Co-operation (JBIC). Pursuant to paragraph 2, Article 17 of the Supplementary Provisions to JBIC Act, JFC has pledged its assets as general collateral for the joint and several liabilities.

FILP Agency Bonds	¥170,000 million
Foreign-currency-denominated government-guaranteed bonds	¥892,905 million

7. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (87,852 contracts)	2,757,556
Reserve for compensation	65,512
Net amount	2,692,044

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 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).

9. Impairment losses

Impairment loss is recognized for the following assets:

Region	Purpose of use	Type	Impairment loss (Millions of yen)
Tokyo metropolitan area	Idle assets: 4 items	Land, buildings, other tangible fixed assets	0
Other	Idle assets: 31 items	Land, buildings	676

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

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

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

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

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

Ordinary income–Other income–Other: ¥0 million

11. Issued shares

For the fiscal year ended March 31, 2013, 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	9,751,486,407,741	622,856,000,000	—	10,374,342,407,741

(Note) Increase is due to the issuance of 622,856,000,000 shares.

12. Transfer of JBIC Operations and Financial Operations for Facilitating Realignment of United States Forces in Japan

The Japan Bank for International Cooperation was established on April 1, 2012 based on JBIC Act, and JFC's JBIC Operations and Financial Operations for Facilitating Realignment of United States Forces in Japan were transferred to JBIC effective the same day. At the same time, JFC's capital and reserves pertaining to JBIC Operations and to Financial Operations for Facilitating Realignment of U.S. Forces in Japan at the end of the previous fiscal year were reduced.

As a result, the continuity between the balance at the end of the previous fiscal year and the balance at the beginning of the current fiscal year on the Statement of Changes in Net Assets has been lost, and the balance at the beginning of the current fiscal year was deducted from ¥1,291,000 million in capital stock, ¥772,007 million in legal retained earnings, ¥52,573 million in retained earnings brought forward, ¥824,580 million in total retained earnings, ¥2,115,580 million in total shareholders' equity, –¥1,825 million in valuation difference on available-for-sale securities, ¥181,089 million in deferred gains or losses on hedges, ¥179,263 million in total valuation and translation adjustments, and ¥2,294,844 million in total net assets.

13. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to 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, 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.

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 guarantee of securitized financial products. For this operation account, JFC identifies and evaluates credit risk by taking steps for appropriate screening and monitoring of loans and implements the necessary management to steadily put in place measures aimed at reducing credit costs. However, future economic trends in Japan and overseas, which may lead to a deterioration in creditworthiness, and a fluctuation in the value of the real estate-collateral and other unexpected events could cause losses for this account as a result of bad debts and uncollectable claims.

(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 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.

g. 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, 2013 will cause the fair value after netting of the financial assets and financial liabilities held in this account

to increase by ¥13,160 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 ¥13,902 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that 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, 2013 will cause the fair value after netting of the financial assets and financial liabilities held in this account to decrease by ¥2,274 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 ¥1,327 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 decision on financing and other related matters 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 conducting fact finding surveys from a variety of view points, including the business environment in which the company is placed, in addition to determining 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 proprietary credit scoring model based on analysis of transaction data collected over the years for borrowers and a credit rating system that assesses the creditworthiness of borrowers based on qualitative analysis through fact finding surveys and other methods have been developed for these operations and have been used in the formulation of lending policy and in the screening process.

(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. First stage assessments of borrower classification 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.

The results of the assessments are used in providing the allowance for loan losses, taking into account the amount expected to be recovered through the disposal of collateral and the execution of guarantees, the actual rate of loan losses and other factors.

(iv) Quantification of credit risk

In the quantification of credit risk in financing operations, we conduct statistical analysis based on credit ratings and other factors to quantify and monitor the overall risk of the portfolio, and we advance our studies by using this monitoring in controlling credit risk.

(v) Credit risk management for securitization support operations

In the securitization support operations, we use our proprietary scoring model which was developed based on the analysis of transaction data collected over the years for SMEs, and external models such as the 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 arrears and bankruptcy status of the guarantee in addition to submission of financial data and other materials by the guarantee.

(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 measurement and analysis of maturity ladder, duration, VaR and BPV, and conduct proper risk management by attempting to reduce interest rate risk through such means as 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, 2013 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥30,333 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 ¥32,848 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 our proprietary scoring model developed based on analysis of transaction data collected over a number of years for SMEs, and external models such as 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, 2013 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥88 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 ¥429 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. 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.

g. 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, 2013, 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 the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	4,083,438	4,083,787	348
(2) Securities			
Held to maturity debt securities	268,204	269,447	1,242
(3) Loans and bills discounted	21,116,796		
Allowance for loan losses ^(*)	(401,753)		
	20,715,043	21,442,240	727,196
Total assets	25,066,686	25,795,474	728,787
(1) Borrowings	16,763,007	17,091,834	328,827
(2) Bonds payable	2,359,261	2,411,436	52,175
Total liabilities	19,122,268	19,503,271	381,002

(*) General allowance for loan losses and specific allowance for loans 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) 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.

Notes for securities by purpose of holding are found in "14. Market Value of Securities."

(3) Loans and bills discounted

Loans are calculated as follows.

a. Account for Micro Business and Individual Operations

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, substantially bankrupt loans, potentially bankrupt loans and performing loans that require monitoring 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. 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 of loans 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 of loans 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) and Account for Credit Insurance Programs

Not applicable.

- e. Account for Operations to Facilitate Crisis Responses and 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 have a fixed interest rate, and 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) 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: ¥2,757,556 million

Compensation loss reserve: ¥65,512 million

- (Note 3) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

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

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Unlisted stocks ^{(*)1}	2,030
2) Corporate bonds (specified asset-backed securities) ^{(*)2}	315
3) Other securities (trust beneficiary securities) ^{(*)2}	372
4) Loans on deeds (subordinated capital loans) ^{(*)3}	115,523
5) Borrowings from general account of the national budget ^{(*)4}	131,300
6) Borrowings from the FILP special account (investment account) of the national budget ^{(*)5}	10,314
Total	259,856

(*)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 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.

(*)4 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.

(*)5 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}	4,083,366	—	—	—	—	—
Securities ^{(*)2}						
Held-to-maturity debt securities	247,108	41	20,983	—	—	—
Loans and bills discounted ^{(*)2}	4,160,742	7,333,769	4,405,285	2,150,092	1,482,632	1,351,109
Total	8,491,217	7,333,811	4,426,268	2,150,092	1,482,632	1,351,109

(*)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 ¥348,688 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 (*)	3,793,322	6,307,916	3,305,748	1,445,318	1,156,070	764,945
Bonds payable	656,000	853,000	496,000	160,000	85,000	110,000
Total	4,449,322	7,160,916	3,801,748	1,605,318	1,241,070	874,945

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

14. Market value of securities

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

The market value of securities at March 31, 2013 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	21,069	22,311	1,242
Securities whose fair value does not exceed their carrying amount	Japanese government bonds	246,984	246,984	—
	Corporate bonds	150	150	—
	Subtotal	247,135	247,135	—
Total		268,204	269,447	1,242

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

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

(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	592,320	592,320	—

(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	315
Others	
Unlisted Japanese securities	372
Total	688

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

15. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act.

16. Retirement benefits

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

(a) The funded status of the pension plans

	March 31, 2013 (Millions of yen)
Projected benefit obligations (A)	(305,063)
Fair value of plan assets (B)	70,409
Unfunded pension obligations (C)=(A)+(B)	(234,653)
Unrecognized prior service costs (D)	(2,962)
Actuarial unrecognized difference (E)	40,697
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(196,918)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)–(G)	(196,918)

(b) Component of pension cost

	March 31, 2013 (Millions of yen)
Service cost	6,740
Interest cost	5,163
Expected return on plan assets	(1,258)
Amortization of prior service cost accounted for as expense	(392)
Actuarial differences accounted for as expense	448
Other costs	—
Net pensions cost	10,701

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

(c) Principal assumptions

	March 31, 2013
Discount rate	1.0%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Terms to amortize unrecognized prior service costs	10 years
Terms to amortize actuarial unrecognized differences	10 years

17. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥1,791 million
Loss of investment in affiliates (equity method)	¥2 million

18. Related party transactions

Related party transactions in the fiscal year ended March 31, 2013 are as follows:

(a) Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	97.85 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	574,557	—	—
				Receipts from general account of the national budget	11,491	—	—
				Receipt of funds ^(Note iv)	3,755,599	Borrowings	16,711,154
				Repayment of borrowing	3,797,498		
				Payment of interest on borrowings	130,730	Accrued expenses	18,517
				Deposit of funds ^(Note v)	8,640,400	Due from banks	3,073,000
				Refund of funds	8,804,300		
				Guarantee for corporate bonds ^(Note vi)	1,502,311	—	—

(Notes)

- (i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:
 - Ministry of Health, Labor and Welfare (Minister of Health, Labor and Welfare) 0.03%
 - Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries) 0.15%
 - Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry) 1.97%
- (ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:
 - Ministry of Agriculture, Forestry and Fisheries
 - Underwriting of capital increase ¥7,699 million
 - Ministry of Economy, Trade and Industry
 - Underwriting of capital increase ¥40,600 million
 - Ministry of Health, Labor and Welfare
 - Receipts from the national budget ¥1,564 million
 - Ministry of Agriculture, Forestry and Fisheries
 - Receipts from the national budget ¥15,294 million
 - Ministry of Economy, Trade and Industry
 - Receipts from the national budget ¥67 million
 - Agency for Natural Resources and Energy
 - Receipts from the national budget ¥6 million
 - Small and Medium Enterprise Agency
 - Receipts from the national budget ¥17,908 million
 - Ministry of Agriculture, Forestry and Fisheries
 - Repayment of borrowed money ¥9,646 million
- (iii) The underwriting of capital increase represents the increase in capital through shareholder allocation by JFC at an allocation amount of ¥1 per share.
- (iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.
- (v) Deposit of funds is the deposit for the FILP and the interest rates applicable under the FILP are applied.
- (vi) No guarantee fee has been paid for the guarantee of bonds.
- (vii) Figures in the table above do not include consumption taxes.

(b) Transactions with fellow subsidiaries and affiliates' subsidiaries

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	1,062,905 (Notes i and iii)	—	—
					1,085,000 (Notes ii and iii)	—	—

(Notes)

- (i) Pursuant to item 2 paragraph 1, Article 17 of the Supplementary Provisions to the JBIC Act, JFC has joint and several liability for bonds issued by JFC and succeeded to by JBIC. Pursuant to paragraph 2, Article 17 of the Supplementary Provisions, JFC has pledged its assets as general collateral for the joint and several liabilities.
- (ii) Pursuant to paragraph 1, Article 46-2 of the Supplementary Provisions to the JFC Act, JBIC has joint and several liability for bonds issued by JFC that JFC will redeem. Pursuant to paragraph 2, Article 46-2 of the Supplementary Provisions, JBIC's assets have been pledged as general collateral for the joint and several liabilities.
- (iii) There are no transactions recorded under income or expenses related to the joint and several liabilities.
- (iv) Figures in the table above do not include consumption taxes.

19. Per share information

Net assets per share	¥0.40
Net loss per share	¥0.02

20. Subsequent events

On April 1, 2013, JFC obtained approval from the Ministry of Health, Labor and Welfare for exemption from the obligation to pay benefits related to future services of employees under the entrusted management portion of the Employees Pension Fund.

JFC plans to recognize the income and loss and extinguish the retirement benefit obligation relating to the entrusted management portion on the date of approval for the return of the entrusted management portion of the Employees Pension Fund related to past services of employees.

JFC is currently calculating the impact on income, which is yet to be determined.

Balance Sheet (as of March 31, 2013)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	57,586	Borrowed money	5,543,374
Cash	67	Borrowings	5,543,374
Due from banks	57,518	Bonds payable	829,874
Loans and bills discounted	7,001,783	Other liabilities	14,501
Loans on deeds	7,001,783	Accrued expenses	7,742
Other assets	14,230	Lease obligations	1,771
Prepaid expenses	1,148	Other	4,986
Accrued income	7,663	Provision for bonuses	2,414
Agency accounts receivable	1,367	Provision for directors' bonuses	5
Other	4,051	Provision for retirement benefits	122,917
Property, plant and equipment	99,604	Provision for directors' retirement benefits	44
Buildings	28,412	Total liabilities	6,513,132
Land	68,694	Net assets	
Lease assets	1,276	Capital stock	949,207
Construction in progress	724	Capital surplus	181,500
Other	496	Special reserve for administrative improvement funds	181,500
Intangible assets	6,546	Retained earnings	(620,071)
Software	1,759	Other retained earnings	(620,071)
Lease assets	386	Retained earnings brought forward	(620,071)
Other	4,400	Total shareholders' equity	510,635
Allowance for loan losses	(155,983)	Total net assets	510,635
Total assets	7,023,768	Total liabilities and net assets	7,023,768

Statement of Operations (Year ended March 31, 2013)

(Millions of yen)

Ordinary income	159,123
Interest income	141,501
Interest on loans and discounts	141,492
Interest on receivables under resale agreements	3
Interest on deposits with banks	5
Other interest income	0
Fees and commissions	4
Other fees and commissions	4
Receipts from the national budget	16,598
Receipts from general account of the national budget	16,598
Receipts from special account of the national budget	0
Other income	1,018
Recoveries of written-off claims	113
Other	905
Ordinary expenses	160,203
Interest expenses	33,055
Interest on call money	38
Interest on borrowings and rediscounts	25,919
Interest on bonds	7,098
Other interest expenses	0
Fees and commissions payments	921
Other fees and commissions	921
Other ordinary expenses	359
Amortization of bond issuance cost	359
General and administrative expenses	66,752
Other expenses	59,114
Provision of allowance for loan losses	49,237
Written-off of loans	9,490
Other	385
Ordinary loss	1,079
Extraordinary income	633
Gain on disposal of noncurrent assets	633
Extraordinary losses	920
Loss on disposal of noncurrent assets	243
Impairment loss	676
Net loss	1,366

Statement of Changes in Net Assets (Year ended March 31, 2013)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the beginning of current period	884,893
Changes of items during the period	
Issuance of new shares	64,314
Total changes of items during the period	64,314
Balance at the end of current period	949,207
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	(618,705)
Changes of items during the period	
Net income (loss)	(1,366)
Total changes of items during the period	(1,366)
Balance at the end of current period	(620,071)
Total retained earnings	
Balance at the beginning of current period	(618,705)
Changes of items during the period	
Net income (loss)	(1,366)
Total changes of items during the period	(1,366)
Balance at the end of current period	(620,071)
Total shareholders' equity	
Balance at the beginning of current period	447,687
Changes of items during the period	
Issuance of new shares	64,314
Net income (loss)	(1,366)
Total changes of items during the period	62,947
Balance at the end of current period	510,635
Total net assets	
Balance at the beginning of current period	447,687
Changes of items during the period	
Issuance of new shares	64,314
Net income (loss)	(1,366)
Total changes of items during the period	62,947
Balance at the end of current period	510,635

Notes to Financial Statements > Account for Micro Business and Individual Operations

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

As a rule, available-for-sale securities are stated at fair value based on market prices on the closing date.

(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

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)

Japan Finance Corporation (JFC) has applied the depreciation method based on the revised Corporation Tax Law (Law No. 34 of 1965) to tangible fixed assets newly booked on or after April 1, 2012 beginning with the fiscal year ended March 31, 2013, following the revision of the Corporation Tax Law.

The effect of this application on income is immaterial.

(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.

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 ¥230,826 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.

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on a) enhancement of disclosure, and b) a revision to determination of projected retirement benefit obligations and current service cost.

(ii) Scheduled date of application

JFC is scheduled to apply above a) from the financial statements concerning the end of the fiscal year starting on April 1, 2013 and above b) from the beginning of the fiscal year starting on April 1, 2014.

(iii) Effect of application of this accounting standard

The effect of the application of this accounting standard is currently under consideration.

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, 2013 Account for Micro Business and Individual Operations
Bankrupt loans	25,295
Non-accrual loans	147,286
Loans with interest or principal repayments more than three months in arrears	97
Restructured loans	555,662
Total	728,342

(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, 2013 is ¥16,039 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 ¥829,874 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥9,581 million.

5. Contingent liabilities

The Account for Micro Business and Individual Operations has joint and several liabilities pertaining to the following bonds issued by JFC succeeded to by Japan Bank for International Cooperation (JBIC). Pursuant to paragraph 2, Article 17 of the Supplementary Provisions to JBIC Act, the Account for Micro Business and Individual Operations has pledged its assets as general collateral for the joint and several liabilities.

FILP Agency Bonds	¥170,000 million
Foreign-currency-denominated government-guaranteed bonds	¥892,905 million

6. Restriction in dividend distribution

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

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

^{*1} Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 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).

7. Impairment losses

Impairment loss is recognized for the following assets:

Region	Purpose of use	Type	Impairment loss (Millions of yen)
Tokyo metropolitan area	Idle assets: 3 items	Land	0
Other	Idle assets: 30 items	Land, buildings	676

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

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

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

8. Issued shares

For the fiscal year ended March 31, 2013 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	1,066,393,000,000	64,314,000,000	—	1,130,707,000,000

(Note) Increases is due to the issuance of 64,314,000,000 shares.

9. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to 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, 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, 2013 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥13,160 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 ¥13,902 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that 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, 2013, 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 the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	57,586	57,586	—
(2) Loans and bills discounted	7,001,707		
Allowance for loan losses ^(*)	(155,802)		
	6,845,905	7,011,123	165,217
Total assets	6,903,492	7,068,709	165,217
(1) Borrowings	5,412,061	5,448,521	36,460
(2) Bonds payable	829,874	839,785	9,910
Total liabilities	6,241,935	6,288,306	46,371

(*) 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, with the exception of subordinated capital loans, have a fixed interest rate and fair value is calculated for all loans other than bankrupt loans, substantially bankrupt loans, potentially bankrupt loans and performing loans that require monitoring 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.

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 of loans 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 loan.

(2) Bonds payable

Market value is used for fair value of bonds.

(Note 2) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

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

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Loans on deeds (subordinated capital loans) ^{(*)1}	76
2) Borrowings from general account of the national budget ^{(*)2}	131,300
3) Borrowings from the FILP special account (investment account) of the national budget ^{(*)3}	13
Total	131,389

(*)1) 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 cannot 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.

(*)2) 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.

(*)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 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}	57,518	—	—	—	—	—
Loans and bill discounted ^{(*)2}	1,570,245	2,605,572	1,549,161	642,134	303,708	158,292
Total	1,627,764	2,605,572	1,549,161	642,134	303,708	158,292

(*)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 ¥172,667 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 ^(*)	1,725,734	2,397,924	1,015,224	159,412	97,379	16,400
Bonds payable	280,000	350,000	140,000	50,000	10,000	—
Total	2,005,734	2,747,924	1,155,224	209,412	107,379	16,400

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

10. Market value of securities

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

The market value of securities at March 31, 2013 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	20,000	20,000	—

11. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act.

12. Retirement benefits

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

(a) The funded status of the pension plans

	March 31, 2013 (Millions of yen)
Projected benefit obligations (A)	(188,682)
Fair value of plan assets (B)	43,249
Unfunded pension obligations (C)=(A)+(B)	(145,433)
Unrecognized prior service costs (D)	(1,725)
Actuarial unrecognized difference (E)	24,240
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(122,917)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(122,917)

(b) Component of pension cost

	March 31, 2013 (Millions of yen)
Service cost	4,182
Interest cost	3,212
Expected return on plan assets	(772)
Amortization of prior service cost accounted for as expense	(217)
Actuarial differences accounted for as expense	224
Other costs	—
Net pensions cost	6,629

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

(c) Principal assumptions

	March 31, 2013
(1)Discount rate	1.0%
(2)Expected rate of return on plan assets	2.0%
(3)Method of attributing the projected benefits to periods of services	Straight-line basis
(4)Terms to amortize unrecognized prior service costs	10 years
(5)Terms to amortize actuarial unrecognized differences	10 years

13. Related party transactions

Related party transactions in the fiscal year ended March 31, 2013 are as follows:

(a) Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	99.72 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	64,314	—	—
				Receipts from general account of the national budget	11,434	—	—
				Receipt of funds ^(Note iv)	1,814,000	Borrowings	5,412,074
				Repayment of borrowing	1,858,088		
				Payment of interest on borrowings	25,919	Accrued expenses	5,866
				Guarantee for corporate bonds ^(Note v)	499,874	—	—

(Notes)

- (i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:
 - Ministry of Health, Labor and Welfare (Minister of Health, Labor and Welfare) 0.28%
- (ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:
 - Ministry of Health, Labor and Welfare Ministry
 - Receipts from the national budget ¥1,564 million
 - Agency for Natural Resources and Energy
 - Receipts from the national budget ¥0 million
 - Small and Medium Enterprise Agency
 - Receipts from the national budget ¥3,600 million
- (iii) The underwriting of capital increase represents the increase in capital through shareholder allocation by JFC at an allocation amount of ¥1 per share.
- (iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.
- (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)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	1,062,905 (Notes i and iii)	—	—
					300,000 (Notes ii and iii)	—	—

(Notes)

- (i) Pursuant to item 2 paragraph 1, Article 17 of the Supplementary Provisions to the JBIC Act, JFC has joint and several liability for bonds issued by JFC and succeeded to by JBIC. As JFC, rather than the individual operations accounts within JFC, is responsible overall for the said joint and several liability, the total joint and several liability of JFC is shown. Pursuant to paragraph 2, Article 17 of the Supplementary Provisions, the Account for Micro Business and Individual Operations has pledged its assets as general collateral for the joint and several liabilities.
- (ii) Pursuant to paragraph 1, Article 46-2 of the Supplementary Provisions to the JFC Act, JBIC has joint and several liability for bonds issued by JFC that the Account for Micro Business and Individual Operations will redeem. Pursuant to paragraph 2, Article 46-2 of the Supplementary Provisions, JBIC's assets have been pledged as general collateral for the joint and several liabilities.
- (iii) There are no transactions recorded under income or expenses related to the joint and several liabilities.
- (iv) Figures in the table above do not include consumption taxes.

14. Per share information

Net assets per share	¥0.45
Net loss per share	¥0.00

15. Subsequent events

On April 1, 2013, JFC obtained approval from the Ministry of Health, Labor and Welfare for exemption from the obligation to pay benefits related to future services of employees under the entrusted management portion of the Employees Pension Fund.

JFC plans to recognize the income and loss and extinguish the retirement benefit obligation relating to the entrusted management portion on the date of approval for the return of the entrusted management portion of the Employees Pension Fund related to past services of employees.

JFC is currently calculating the impact on income, which is yet to be determined.

Balance Sheet (as of March 31, 2013)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	30,556	Borrowed money	1,963,887
Cash	1	Borrowings	1,963,887
Due from banks	30,554	Bonds payable	199,949
Securities	2,030	Entrusted funds	36,498
Stocks	2,030	Other liabilities	10,258
Loans and bills discounted	2,531,463	Accrued expenses	7,425
Loans on deeds	2,531,463	Unearned revenue	2
Other assets	15,701	Lease obligations	180
Prepaid expenses	946	Other	2,648
Accrued income	12,946	Provision for bonuses	485
Agency accounts receivable	1,025	Provision for directors' bonuses	5
Other	783	Provision for retirement benefits	23,352
Property, plant and equipment	34,612	Provision for directors' retirement benefits	26
Buildings	9,292	Acceptances and guarantees	1,151
Land	24,987	Total liabilities	2,235,614
Lease assets	156	Net assets	
Other	176	Capital stock	363,122
Intangible assets	3,030	Retained earnings	2,655
Software	783	Legal retained earnings	2,655
Lease assets	15	Total shareholders' equity	365,777
Other	2,231		
Customers' liabilities for acceptances and guarantees	1,151		
Allowance for loan losses	(17,151)	Total net assets	365,777
Total assets	2,601,392	Total liabilities and net assets	2,601,392

Statement of Operations (Year ended March 31, 2013)

(Millions of yen)

Ordinary income	63,928
Interest income	46,052
Interest on loans and discounts	46,033
Interest on receivables under resale agreements	4
Interest on deposits with banks	14
Other interest income	0
Fees and commissions	13
Other fees and commissions	13
Receipts from the national budget	15,256
Receipts from general account of the national budget	15,242
Receipts from special account of the national budget	13
Other income	2,606
Recoveries of written-off claims	2,106
Other	499
Ordinary expenses	63,882
Interest expenses	39,091
Interest on call money	1
Interest on borrowings and rediscounts	32,208
Interest on bonds	3,908
Other interest expenses	2,973
Fees and commissions payments	4,431
Other fees and commissions	4,431
Other ordinary expenses	85
Amortization of bond issuance cost	85
General and administrative expenses	15,293
Other expenses	4,980
Provision of allowance for loan losses	4,843
Written-off of loans	123
Other	13
Ordinary profit	46
Extraordinary losses	46
Loss on disposal of noncurrent assets	46
Impairment loss	0
Net income	—

Statement of Changes in Net Assets (Year ended March 31, 2013)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the beginning of current period	341,863
Changes of items during the period	
Issuance of new shares	21,259
Total changes of items during the period	21,259
Balance at the end of current period	363,122
Retained earnings	
Legal retained earnings	
Balance at the beginning of current period	2,655
Changes of items during the period	
Total changes of items during the period	—
Balance at the end of current period	2,655
Other retained earnings	
Retained earnings brought forward	
Balance at the beginning of current period	—
Changes of items during the period	
Net income (loss)	—
Total changes of items during the period	—
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	344,518
Changes of items during the period	
Issuance of new shares	21,259
Net income (loss)	—
Total changes of items during the period	21,259
Balance at the end of current period	365,777
Total net assets	
Balance at the beginning of current period	344,518
Changes of items during the period	
Issuance of new shares	21,259
Net income (loss)	—
Total changes of items during the period	21,259
Balance at the end of current period	365,777

Notes to Financial Statements > Account for Agriculture, Forestry, Fisheries and Food Business Operations

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Investment in affiliates are carried at cost based on the moving average method. As a rule, available-for-securities are stated at fair value based on market prices on the closing date.

(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

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)

Japan Finance Corporation (JFC) has applied the depreciation method based on the revised Corporation Tax Law (Law No. 34 of 1965) to tangible fixed assets newly booked on or after April 1, 2012 beginning with the fiscal year ended March 31, 2013, following the revision of the Corporation Tax Law.

The effect of this application on income is immaterial.

(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.

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 ¥14,742 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.

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on a) enhancement of disclosure, and b) a revision to determination of projected retirement benefit obligations and current service cost.

(ii) Scheduled date of application

JFC is scheduled to apply above a) from the financial statements concerning the end of the fiscal year starting on April 1, 2013 and above b) from the beginning of the fiscal year starting on April 1, 2014.

(iii) Effect of application of this accounting standard

The effect of the application of this accounting standard is currently under consideration.

2. Equity securities of or investment in affiliates

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

3. Loans

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

(Millions of yen)

	As of March 31, 2013 Account for Agriculture, Forestry, Fisheries and Food Business Operations
Bankrupt loans	19,973
Non-accrual loans	72,968
Loans with interest or principal repayments more than three months in arrears	2,304
Restructured loans	27,603
Total	122,849

(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, 2013 is ¥80,808 million.

4. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes Agriculture, Forestry, Fisheries and Food Business Operating Account bonds issued to a total amount of ¥199,949 million).

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥1,309 million.

6. Contingent liabilities

The Account for Agriculture, Forestry, Fisheries and Food Business Operations has joint and several liabilities pertaining to the following bonds issued by JFC succeeded to by Japan Bank for International Cooperation (JBIC). Pursuant to paragraph 2, Article 17 of the Supplementary Provisions to JBIC Act, the Account for Agriculture, Forestry, Fisheries and Food Business Operations has pledged its assets as general collateral for the joint and several liabilities.

FILP Agency Bonds	¥170,000 million
Foreign-currency-denominated government-guaranteed bonds	¥892,905 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 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).

8. Impairment losses

Impairment loss is recognized for the following assets:

Region	Purpose of use	Type	Impairment loss (Millions of yen)
Other	Idle assets: 1 item	Land	0

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, 2013 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	341,863,000,000	21,259,000,000	—	363,122,000,000

(Note) Increases is due to the issuance of 21,259,000,000 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 public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to 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, 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, 2013 will cause the fair value after netting of the financial assets and financial liabilities held in this account to decrease by ¥2,274 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 ¥1,327 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, 2013, 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 the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	30,556	30,556	—
(2) Loans and bills discounted	2,531,463		
Allowance for loan losses ^(*)	(17,129)		
	2,514,333	2,721,964	207,630
Total assets	2,544,889	2,752,520	207,630
(1) Borrowings	1,963,887	2,084,776	120,888
(2) Bonds payable	199,949	218,068	18,119
(3) Entrusted funds	36,498	32,135	(4,363)
Total liabilities	2,200,336	2,334,981	134,645

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

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

Assets

(1) Cash and due from banks

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

(2) Loans and bills discounted

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

Liabilities

(1) Borrowings

Borrowings 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) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

(Millions of yen)

Classification	Carrying amount on the 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}	30,554	—	—	—	—	—
Loans and bills discounted ^{(*)2}	249,253	455,096	362,436	297,476	349,694	720,296
Total	279,807	455,096	362,436	297,476	349,694	720,296

(*)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 ¥97,209 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	155,596	334,993	338,917	280,771	319,523	534,084
Bonds payable	26,000	13,000	26,000	—	25,000	110,000
Entrusted funds	—	—	105	960	3,573	31,858
Total	181,596	347,993	365,023	281,732	348,097	675,943

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, 2013 is as follows:

1. Equity securities of or investment in subsidiaries and affiliates

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

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

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

2. Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount does not exceed acquisition cost	Others	1,120	1,120	—

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.

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, 2013 (Millions of yen)
Projected benefit obligations (A)	(36,245)
Fair value of plan assets (B)	8,447
Unfunded pension obligations (C)=(A)+(B)	(27,797)
Unrecognized prior service costs (D)	(169)
Actuarial unrecognized difference (E)	4,614
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(23,352)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)–(G)	(23,352)

(b) Component of pension cost

	March 31, 2013 (Millions of yen)
Service cost	830
Interest cost	617
Expected return on plan assets	(152)
Amortization of prior service cost accounted for as expense	(21)
Actuarial differences accounted for as expense	32
Other costs	—
Net pensions cost	1,306

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

(c) Principal assumptions

	March 31, 2013
Discount rate	1.0%
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)	¥1,791 million
Profit or Loss of Investment in affiliates (equity method)	¥2 million

16. Related party transactions

Related party transactions in the fiscal year ended March 31, 2013 are as follows:

(a) Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	96.05 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	14,407	—	—
				Receipt of funds ^(Note iv)	180,000	Borrowings	1,901,719
				Repayment of borrowing	215,101		
				Payment of interest on borrowings	35,180	Accrued expenses	5,716
				Deposit of funds ^(Note v)	6,500	Due from banks	6,500
				Refund of funds	6,500		
				Guarantee for corporate bonds ^(Note vi)	12,993	—	—

(Notes)

- (i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:
 - Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries) 3.95 %
- (ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:
 - Ministry of Agriculture, Forestry and Fisheries
 - Underwriting of capital increase ¥6,852 million
 - Ministry of Agriculture, Forestry and Fisheries
 - Receipts from the national budget ¥15,256 million
 - Ministry of Agriculture, Forestry and Fisheries
 - Repayment of borrowed money ¥9,646 million
- (iii) The underwriting of capital increase represents the increase in capital through shareholder allocation by JFC at an allocation amount of ¥1 per share.
- (iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.
- (v) Deposit of funds is the deposit for the FILP and the interest rates applicable under the FILP are applied.
- (vi) No guarantee fee has been paid for the guarantee of bonds.
- (vii) Figures in the table above do not include consumption taxes.

(b) Transactions with fellow subsidiaries and affiliates' subsidiaries

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder (corporates) holding the majority of voting rights	Independent administrative agency Agriculture, Forestry and Fisheries Credit Fund	—	Acceptance of trusted fund	Receipts of entrust funds ^(Note i)	880	Entrusted fund	36,498
				Repayment of entrusted fund	1,397		
	JBIC	—	Relation of joint and several liability	Joint and several liability	1,062,905 ^(Notes ii and iv)	—	—
					60,000 ^(Notes iii and iv)	—	—

(Notes)

- (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) Pursuant to item 2 paragraph 1, Article 17 of the Supplementary Provisions to the JBIC Act, JFC has joint and several liability for bonds issued by JFC and succeeded to by JBIC. As JFC, rather than the individual operations accounts within JFC, is responsible overall for the said joint and several liability, the total joint and several liability of JFC is shown. Pursuant to paragraph 2, Article 17 of the Supplementary Provisions, the Account for Agriculture, Forestry, Fisheries and Food Business Operations has pledged its assets as general collateral for the joint and several liabilities.
- (iii) Pursuant to paragraph 1, Article 46-2 of the Supplementary Provisions to the JFC Act, JBIC has joint and several liability for bonds issued by JFC that the Account for Agriculture, Forestry, Fisheries and Food Business Operations will redeem. Pursuant to paragraph 2, Article 46-2 of the Supplementary Provisions, JBIC's assets have been pledged as general collateral for the joint and several liabilities.
- (iv) There are no transactions recorded under income or expenses related to the joint and several liabilities.
- (v) 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

On April 1, 2013, JFC obtained approval from the Ministry of Health, Labor and Welfare for exemption from the obligation to pay benefits related to future services of employees under the entrusted management portion of the Employees Pension Fund.

JFC plans to recognize the income and loss and extinguish the retirement benefit obligation relating to the entrusted management portion on the date of approval for the return of the entrusted management portion of the Employees Pension Fund related to past services of employees.

JFC is currently calculating the impact on income, which is yet to be determined.

Balance Sheet (as of March 31, 2013)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	64,555	Borrowed money	3,981,130
Cash	2	Borrowings	3,981,130
Due from banks	64,553	Bonds payable	1,329,436
Securities	515	Other liabilities	10,310
Corporate bonds	150	Accrued expenses	7,757
Other securities	365	Unearned revenue	8
Loans and bills discounted	6,282,844	Lease obligations	1,141
Loans on deeds	6,282,844	Other	1,402
Other assets	7,262	Provision for bonuses	841
Prepaid expenses	1,060	Provision for directors' bonuses	4
Accrued income	4,454	Provision for retirement benefits	41,183
Other	1,748	Provision for directors' retirement benefits	24
Property, plant and equipment	50,104	Acceptances and guarantees	1,212
Buildings	13,448	Total liabilities	5,364,144
Land	35,821	Net assets	
Lease assets	440	Capital stock	1,222,585
Construction in progress	53	Retained earnings	(454,815)
Other	340	Other retained earnings	(454,815)
Intangible assets	3,936	Retained earnings brought forward	(454,815)
Software	929	Total shareholders' equity	767,769
Lease assets	646		
Other	2,359		
Customers' liabilities for acceptances and guarantees	1,212		
Allowance for loan losses	(278,517)	Total net assets	767,769
Total assets	6,131,914	Total liabilities and net assets	6,131,914

Statement of Operations (Year ended March 31, 2013)

(Millions of yen)

Ordinary income	118,992
Interest income	103,363
Interest on loans and discounts	103,092
Interest and dividends on securities	258
Interest on receivables under resale agreements	5
Interest on deposits with banks	6
Fees and commissions	10
Other fees and commissions	10
Receipts from the national budget	13,803
Receipts from general account of the national budget	13,797
Receipts from special account of the national budget	6
Other income	1,814
Recoveries of written-off claims	166
Gain on sales of stocks and other securities	0
Other	1,646
Ordinary expenses	144,032
Interest expenses	38,756
Interest on call money	113
Interest on borrowings and rediscounts	24,449
Interest on bonds	14,193
Fees and commissions payments	91
Other fees and commissions	91
Other ordinary expenses	384
Loss on devaluation of bonds	16
Amortization of bond issuance cost	367
Other	1
General and administrative expenses	25,921
Other expenses	78,878
Provision of allowance for loan losses	74,683
Written-off of loans	3,116
Losses on devaluation of stocks and other securities	37
Other	1,041
Ordinary loss	25,040
Extraordinary income	0
Gain on disposal of noncurrent assets	0
Extraordinary losses	58
Loss on disposal of noncurrent assets	58
Impairment loss	0
Net loss	25,098

Statement of Changes in Net Assets (Year ended March 31, 2013)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the beginning of current period	1,039,985
Changes of items during the period	
Issuance of new shares	182,600
Total changes of items during the period	182,600
Balance at the end of current period	1,222,585
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the beginning of current period	(429,717)
Changes of items during the period	
Net income (loss)	(25,098)
Total changes of items during the period	(25,098)
Balance at the end of current period	(454,815)
Total retained earnings	
Balance at the beginning of current period	(429,717)
Changes of items during the period	
Net income (loss)	(25,098)
Total changes of items during the period	(25,098)
Balance at the end of current period	(454,815)
Total shareholders' equity	
Balance at the beginning of current period	610,267
Changes of items during the period	
Issuance of new shares	182,600
Net income (loss)	(25,098)
Total changes of items during the period	157,501
Balance at the end of current period	767,769
Total net assets	
Balance at the beginning of current period	610,267
Changes of items during the period	
Issuance of new shares	182,600
Net income (loss)	(25,098)
Total changes of items during the period	157,501
Balance at the end of current period	767,769

Notes to Financial Statements > Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

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

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)

Japan Finance Corporation (JFC) has applied the depreciation method based on the revised Corporation Tax Law (Law No. 34 of 1965) to tangible fixed assets newly booked on or after April 1, 2012 beginning with the fiscal year ended March 31, 2013, following the revision of the Corporation Tax Law.

The effect of this application on income is immaterial.

(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.

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 ¥109,838 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.

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on a) enhancement of disclosure, and b) a revision to determination of projected retirement benefit obligations and current service cost.

(ii) Scheduled date of application

JFC is scheduled to apply above a) from the financial statements concerning the end of the fiscal year starting on April 1, 2013 and above b) from the beginning of the fiscal year starting on April 1, 2014.

(iii) Effect of application of this accounting standard

The effect of the application of this accounting standard is currently under consideration.

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, 2013 Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)
Bankrupt loans	16,619
Non-accrual loans	557,793
Loans with interest or principal repayments more than three months in arrears	—
Restructured loans	71,292
Total	645,705

(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, 2013 is ¥67,260 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 ¥1,329,436 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥2,781 million.

5. Contingent liabilities

The Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation) has joint and several liabilities pertaining to the following bonds issued by JFC succeeded to by Japan Bank for International Cooperation (JBIC). Pursuant to paragraph 2, Article 17 of the Supplementary Provisions to JBIC Act, The Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation) has pledged its assets as general collateral for the joint and several liabilities.

FILP Agency Bonds	¥170,000 million
Foreign-currency-denominated government-guaranteed bonds	¥892,905 million

6. Restriction in dividend distribution

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

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

*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 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).

7. Impairment losses

Impairment loss is recognized for the following assets:

Region	Purpose of use	Type	Impairment loss (Millions of yen)
Tokyo metropolitan area	Idle assets: 1 item	Buildings, other tangible fixed assets	0

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.

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.

8. Issued shares

For the fiscal year ended March 31, 2013 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	1,039,985,000,000	182,600,000,000	—	1,222,585,000,000

(Note) Increases is due to the issuance of 182,600,000,000 shares.

9. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to 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, 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 guarantee of securitized financial products. For this operation account, JFC identifies and evaluates credit risk by taking steps for appropriate screening and monitoring of loans and implements the necessary management to steadily put in place measures aimed at reducing credit costs. However, future economic trends in Japan and overseas, which may lead to a deterioration in creditworthiness, and a fluctuation in the value of the real estate-collateral and other unexpected events could cause losses for this account as a result of bad debts and uncollectable claims.

(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 decision on financing and other related matters 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 conducting fact finding surveys from a variety of view points, including the business environment in which the company is placed, in addition to determining 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 proprietary credit scoring model based on analysis of transaction data collected over the years for borrowers and a credit rating system that assesses the creditworthiness of borrowers based on qualitative analysis through fact finding surveys and other methods have been developed for these operations and have been used in the formulation of lending policy and in the screening process.

(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.

First stage assessments of borrower classification 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.

The results of the assessments are used in providing the allowance for loan losses, taking into account the amount expected to be recovered through the disposal of collateral and the execution of guarantees, the actual rate of loan losses and other factors.

(iv) Quantification of credit risk

In the quantification of credit risk in financing operations, we conduct statistical analysis based on credit ratings and other factors to quantify and monitor the overall risk of the portfolio, and we advance our studies by using this monitoring in controlling credit risk.

(v) Credit risk management for securitization support operations

In the securitization support operations, we use our proprietary scoring model which was developed based on the analysis of transaction data collected over the years for SMEs, and external models such as the 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 arrears and bankruptcy status of the guarantee in addition to submission of financial data and other materials by the guarantee.

(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 measurement and analysis of maturity ladder, duration, VaR and BPV, and conduct proper risk management by attempting to reduce interest rate risk through such means as 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, 2013 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥30,333 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 ¥32,848 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, 2013, 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 the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	64,555	64,555	—
(2) Securities			
Held to maturity debt securities	150	150	—
(3) Loans and bills discounted	6,167,396		
Allowance for loan losses ^(*)	(228,821)		
	5,938,575	6,192,326	253,751
Total assets	6,003,281	6,257,032	253,751
(1) Borrowings	3,970,830	4,023,526	52,696
(2) Bonds payable	1,329,436	1,353,583	24,146
Total liabilities	5,300,266	5,377,109	76,842

(*) 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 "10. 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.

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 of loans 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) The carrying amounts on the balance sheet of 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 the balance sheet
1) Other securities (trust beneficiary securities) ^{(*)1}	365
2) Loans on deeds (subordinated capital loans) ^{(*)2}	115,447
3) Borrowings from the FILP special account (investment account) of the national budget ^{(*)3}	10,300
Total	126,114

(*)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}	64,553	—	—	—	—	—
Securities ^{(*)2} Held-to-maturity debt securities	108	41	—	—	—	—
Loans and bill discounted ^{(*)2}	1,445,473	2,242,757	1,348,695	571,546	337,501	258,059
Total	1,510,135	2,242,799	1,348,695	571,546	337,501	258,059

(*)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 ¥78,810 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	1,016,222	1,544,654	806,614	366,200	247,440	—
Bonds payable	350,000	490,000	330,000	110,000	50,000	—
Total	1,366,222	2,034,654	1,136,614	476,200	297,440	—

10. Market value of securities

The market value of securities at March 31, 2013 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	150	150	—

(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	365

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

11. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act.

12. Retirement benefits

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

(a) The funded status of the pension plans

	March 31, 2013 (Millions of yen)
Projected benefit obligations (A)	(65,330)
Fair value of plan assets (B)	15,224
Unfunded pension obligations (C)=(A)+(B)	(50,105)
Unrecognized prior service costs (D)	(940)
Actuarial unrecognized difference (E)	9,863
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(41,183)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(41,183)

(b) Component of pension cost

	March 31, 2013 (Millions of yen)
Service cost	1,421
Interest cost	1,086
Expected return on plan assets	(271)
Amortization of prior service cost accounted for as expense	(134)
Actuarial differences accounted for as expense	175
Other costs	—
Net pensions cost	2,276

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

(c) Principal assumptions

	March 31, 2013
Discount rate	1.0%
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

13. Related party transactions

Related party transactions in the fiscal year ended March 31, 2013 are as follows:

(a) Transactions with parent company and major shareholder companies

(Millions of yen)							
Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	92.77 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	155,800	—	—
				Receipt of funds ^(Note iv)	995,000	Borrowings	3,981,130
				Repayment of borrowing	958,377		
				Payment of interest on borrowings	24,449	Accrued expenses	5,570
				Guarantee for corporate bonds ^(Note v)	989,443	—	—

(Notes)

- (i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:
 - Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry) 7.23%
- (ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:
 - Ministry of Economy, Trade and Industry
 - Underwriting of capital increase ¥26,800 million
 - Agency for Natural Resources and Energy
 - Receipts from the national budget ¥6 million
 - Small and Medium Enterprise Agency
 - Receipts from the national budget ¥13,797 million
- (iii) The underwriting of capital increase represents the increase in capital through shareholder allocation by JFC at an allocation amount of ¥1 per share.
- (iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.
- (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)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	1,062,905 (Notes i and iii)	—	—
					725,000 (Notes ii and iii)	—	—

(Notes)

- (i) Pursuant to item 2 paragraph 1, Article 17 of the Supplementary Provisions to the JBIC Act, JFC has joint and several liability for bonds issued by JFC and succeeded to by JBIC. As JFC, rather than the individual operations accounts within JFC, is responsible overall for the said joint and several liability, the total joint and several liability of JFC is shown. Pursuant to paragraph 2, Article 17 of the Supplementary Provisions, the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation) has pledged its assets as general collateral for the joint and several liabilities.
- (ii) Pursuant to paragraph 1, Article 46-2 of the Supplementary Provisions to the JFC Act, JBIC has joint and several liability for bonds issued by JFC that the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation) will redeem. Pursuant to paragraph 2, Article 46-2 of the Supplementary Provisions, JBIC's assets have been pledged as general collateral for the joint and several liabilities.
- (iii) There are no transactions recorded under income or expenses related to the joint and several liabilities.
- (iv) Figures in the table above do not include consumption taxes.

14. Per share information

Net assets per share	¥0.62
Net loss per share	¥0.02

15. Subsequent events

On April 1, 2013, JFC obtained approval from the Ministry of Health, Labor and Welfare for exemption from the obligation to pay benefits related to future services of employees under the entrusted management portion of the Employees Pension Fund.

JFC plans to recognize the income and loss and extinguish the retirement benefit obligation relating to the entrusted management portion on the date of approval for the return of the entrusted management portion of the Employees Pension Fund related to past services of employees.

JFC is currently calculating the impact on income, which is yet to be determined.

Balance Sheet (as of March 31, 2013)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	2,779	Other liabilities	0
Cash	0	Accrued expenses	0
Due from banks	2,779	Other	0
Securities	21,391	Provision for bonuses	0
Government bonds	21,069	Provision for directors' bonuses	0
Corporate bonds	315	Provision for retirement benefits	16
Other securities	7	Provision for directors' retirement benefits	0
Other assets	16	Acceptances and guarantees	763
Accrued income	10	Total liabilities	780
Other	5	Net assets	
Customers' liabilities for acceptances and guarantees	763	Capital stock	24,476
Allowance for loan losses	(21)	Retained earnings	(326)
		Other retained earnings	(326)
		Retained earnings brought forward	(326)
		Total shareholders' equity	24,149
		Total net assets	24,149
Total assets	24,930	Total liabilities and net assets	24,930

Statement of Operations (Year ended March 31, 2013)

(Millions of yen)

Ordinary income	471
Interest income	406
Interest and dividends on securities	404
Interest on receivables under resale agreements	0
Interest on deposits with banks	1
Fees and commissions	12
Other fees and commissions	12
Other income	52
Reversal of allowance for loan losses	18
Other	34
Ordinary expenses	60
Fees and commissions payments	12
Other fees and commissions	12
Other ordinary expenses	2
Other	2
General and administrative expenses	42
Other expenses	2
Losses on devaluation of stocks and other securities	2
Ordinary profit	411
Net income	411

Statement of Changes in Net Assets (Year ended March 31, 2013)

(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	(737)
Changes of items during the period	
Net income (loss)	411
Total changes of items during the period	411
Balance at the end of current period	(326)
Total retained earnings	
Balance at the beginning of current period	(737)
Changes of items during the period	
Net income (loss)	411
Total changes of items during the period	411
Balance at the end of current period	(326)
Total shareholders' equity	
Balance at the beginning of current period	23,738
Changes of items during the period	
Net income (loss)	411
Total changes of items during the period	411
Balance at the end of current period	24,149
Total net assets	
Balance at the beginning of current period	23,738
Changes of items during the period	
Net income (loss)	411
Total changes of items during the period	411
Balance at the end of current period	24,149

Notes to Financial Statements > Account for Securitization Support Programs (Purchase-type Operation)

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method) based on the moving average method. As a rule, available-for-sale securities are stated at fair value based on market prices on the closing date. 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) 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.

(ii) Provision for bonuses

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

(iii) Provision for directors' bonuses

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

(iv) Provision for retirement benefits

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

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

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

(v) Provision for directors' retirement benefits

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

(d) Consumption and other taxes

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

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on a) enhancement of disclosure, and b) a revision to determination of projected retirement benefit obligations and current service cost.

(ii) Scheduled date of application

JFC is scheduled to apply above a) from the financial statements concerning the end of the fiscal year starting on April 1, 2013 and above b) from the beginning of the fiscal year starting on April 1, 2014.

(iii) Effect of application of this accounting standard

The effect of the application of this accounting standard is currently under consideration.

2. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for all bonds issued by JFC. No Securitization Support Programs (Purchase-type Operation) account bonds have been issued.

3. Contingent liabilities

The Account for Securitization Programs (Purchase-type Operation) has joint and several liabilities pertaining to the following bonds issued by JFC succeeded to by Japan Bank for International Cooperation (JBIC). Pursuant to paragraph 2, Article 17 of the Supplementary Provisions to JBIC Act, the Account for Securitization Programs (Purchase-type Operations) has pledged its assets as general collateral for the joint and several liabilities.

FILP Agency Bonds	¥170,000 million
Foreign-currency-denominated government-guaranteed bonds	¥892,905 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 operations² 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 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).

5. Issued shares

For the fiscal year ended March 31, 2013, 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 public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to 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, 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 our proprietary scoring model developed based on analysis of transaction data collected over a number of years for SMEs, and external models such as 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, 2013 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥ 88 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 ¥ 429 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, 2013, 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 the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	2,779	2,779	—
(2) Securities			
Held to maturity debt securities	21,069	22,311	1,242
Total assets	23,849	25,091	1,242

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

Assets

(1) Cash and due from banks

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

(2) Securities

Market value is used for securities.

Notes for securities by purpose of holding are found in "7" Market Value of Securities".

(Note 2) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows. They are not included in "Assets, (2) Securities".

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Corporate bonds (specified asset-backed securities) ^{(*)1}	315
2) Other securities (trust beneficiary securities) ^{(*)1}	7
3) Credit default swap (CDS) ^{(*)2}	—
Total	322

(*)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 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 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 ^(*)	2,779	—	—	—	—	—
Securities Held to maturity debt securities	—	—	20,983	—	—	—
Total	2,779	—	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, 2013 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	21,069	22,311	1,242

(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	2,200	2,200	—

(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	315
Others Unlisted Japanese securities	7
Total	322

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, 2013 (Millions of yen)
Projected benefit obligations (A)	(31)
Fair value of plan assets (B)	5
Unfunded pension obligations (C)=(A)+(B)	(25)
Unrecognized prior service costs (D)	(1)
Actuarial unrecognized difference (E)	11
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(16)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(16)

(b) Component of pension cost

	March 31, 2013 (Millions of yen)
Service cost	1
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	2

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

(c) Principal assumptions

	March 31, 2013
Discount rate	1.0%
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, 2013 are as follows:

Transactions with fellow subsidiaries and affiliates' subsidiaries

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	1,062,905 (Notes i and ii)	—	—

(Notes)

- (i) Pursuant to item 2 paragraph 1, Article 17 of the Supplementary Provisions to the JBIC Act, JFC has joint and several liability for bonds issued by JFC and succeeded to by JBIC. As JFC, rather than the individual operations accounts within JFC, is responsible overall for the said joint and several liability, the total joint and several liability of JFC is shown. Pursuant to paragraph 2, Article 17 of the Supplementary Provisions, the Account for Securitization Support Programs (Purchase-type Operation) has pledged its assets as general collateral for the joint and several liabilities.
- (ii) There are no transactions recorded under income or expenses related to the joint and several liabilities.
- (iii) Figures in the table above do not include consumption taxes.

11. Per share information

Net assets per share ¥0.98
Net income per share ¥0.01

12. Subsequent events

On April 1, 2013, JFC obtained approval from the Ministry of Health, Labor and Welfare for exemption from the obligation to pay benefits related to future services of employees under the entrusted management portion of the Employees Pension Fund.

JFC plans to recognize the income and loss and extinguish the retirement benefit obligation relating to the entrusted management portion on the date of approval for the return of the entrusted management portion of the Employees Pension Fund related to past services of employees.

JFC is currently calculating the impact on income, which is yet to be determined.

Balance Sheet (as of March 31, 2013)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	3,352,121	Reserve for insurance policy liabilities	1,622,928
Cash	0	Other liabilities	1,441
Due from banks	3,352,121	Accrued expenses	20
Other assets	25,758	Lease obligations	470
Prepaid expenses	1,037	Other	950
Accrued income	412	Provision for bonuses	162
Other	24,308	Provision for directors' bonuses	0
Property, plant and equipment	20,135	Provision for retirement benefits	9,233
Buildings	5,862	Provision for directors' retirement benefits	9
Land	13,968	Total liabilities	1,633,777
Lease assets	224	Net assets	
Other	80	Capital surplus	1,996,932
Intangible assets	1,269	Legal capital surplus	1,996,932
Software	17	Retained earnings	(231,423)
Lease assets	223	Other retained earnings	(231,423)
Other	1,028	Retained earnings brought forward	(231,423)
		Total shareholders' equity	1,765,508
		Total net assets	1,765,508
Total assets	3,399,285	Total liabilities and net assets	3,399,285

Statement of Operations (Year ended March 31, 2013)

(Millions of yen)

Ordinary income	272,914
Interest income	3,305
Interest on deposits with banks	3,305
Insurance premiums and other	268,432
Insurance premiums	146,345
Receipts of burden charges under the Responsibility-sharing System	17,742
Reversal of reserve for insurance policy liabilities	104,343
Other income	1,176
Other	1,176
Ordinary expenses	504,316
Expenses on insurance claims and other	495,694
Expenses on insurance claims	615,973
Recoveries of insurance claims	(120,278)
General and administrative expenses	5,173
Other expenses	3,448
Other	3,448
Ordinary loss	231,402
Extraordinary losses	21
Loss on disposal of noncurrent assets	21
Net loss	231,423

Statement of Changes in Net Assets (Year ended March 31, 2013)

(Millions of yen)

Shareholders' equity	
Capital surplus	
Legal capital surplus	
Balance at the beginning of current period	2,054,739
Changes of items during the period	
Issuance of new shares	243,550
Reversal of legal capital surplus (Deficit disposition)	(301,357)
Total changes of items during the period	(57,807)
Balance at the end of current period	1,996,932
Total capital surplus	
Balance at the beginning of current period	2,054,739
Changes of items during the period	
Issuance of new shares	243,550
Reversal of legal capital surplus (Deficit disposition)	(301,357)
Total changes of items during the period	(57,807)
Balance at the end of current period	1,996,932
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the beginning of current period	(301,357)
Changes of items during the period	
Reversal of legal capital surplus (Deficit disposition)	301,357
Net income (loss)	(231,423)
Total changes of items during the period	69,933
Balance at the end of current period	(231,423)
Total retained earnings	
Balance at the beginning of current period	(301,357)
Changes of items during the period	
Reversal of legal capital surplus (Deficit disposition)	301,357
Net income (loss)	(231,423)
Total changes of items during the period	69,933
Balance at the end of current period	(231,423)
Total shareholders' equity	
Balance at the beginning of current period	1,753,382
Changes of items during the period	
Issuance of new shares	243,550
Net income (loss)	(231,423)
Total changes of items during the period	12,126
Balance at the end of current period	1,765,508
Total net assets	
Balance at the beginning of current period	1,753,382
Changes of items during the period	
Issuance of new shares	243,550
Net income (loss)	(231,423)
Total changes of items during the period	12,126
Balance at the end of current period	1,765,508

Notes to Financial Statements > Account for Credit Insurance Programs

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: 5 years to 50 years

Other: 2 years to 15 years

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)

Japan Finance Corporation (JFC) has applied the depreciation method based on the revised Corporation Tax Law (Law No. 34 of 1965) to tangible fixed assets newly booked on or after April 1, 2012 beginning with the fiscal year ended March 31, 2013, following the revision of the Corporation Tax Law.

The effect of this application on income is immaterial.

(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.

(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.

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on a) enhancement of disclosure, and b) a revision to determination of projected retirement benefit obligations and current service cost.

(ii) Scheduled date of application

JFC is scheduled to apply above a) from the financial statements concerning the end of the fiscal year starting on April 1, 2013 and above b) from the beginning of the fiscal year starting on April 1, 2014.

(iii) Effect of application of this accounting standard

The effect of the application of this accounting standard is currently under consideration.

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 ¥680 million.

4. Contingent liabilities

The Account for Credit Insurance Program has joint and several liabilities pertaining to the following bonds issued by JFC succeeded to by Japan Bank for International Cooperation (JBIC). Pursuant to paragraph 2, Article 17 of the Supplementary Provisions to JBIC Act, The Account for Credit Insurance Program has pledged its assets as general collateral for the joint and several liabilities.

FILP Agency Bonds	¥170,000 million
Foreign-currency-denominated government-guaranteed bonds	¥892,905 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 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).

6. Other expenses

Other expenses include refund of insurance premiums ¥3,415 million.

7. Issued shares

For the fiscal year ended March 31, 2013, 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	5,203,277,407,741	243,550,000,000	—	5,446,827,407,741

(Note) Increases is due to the issuance of 243,550,000,000 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 public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to 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, 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, 2013, and the related fair value, and difference is as follows.

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
Cash and due from banks	3,352,121	3,352,470	348

(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 ^(*)	3,352,121	—	—	—	—	—

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

9. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act.

10. Retirement benefits

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

(a) The funded status of the pension plans

	March 31, 2013 (Millions of yen)
Projected benefit obligations (A)	(14,410)
Fair value of plan assets (B)	3,417
Unfunded pension obligations (C)=(A)+(B)	(10,993)
Unrecognized prior service costs (D)	(123)
Actuarial unrecognized difference (E)	1,882
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(9,233)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(9,233)

(b) Component of pension cost

	March 31, 2013 (Millions of yen)
Service cost	291
Interest cost	242
Expected return on plan assets	(60)
Amortization of prior service cost accounted for as expense	(17)
Actuarial differences accounted for as expense	13
Other costs	—
Net pensions cost	468

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

(c) Principal assumptions

	March 31, 2013
Discount rate	1.0%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Terms to amortize unrecognized prior service costs	10 years
Terms to amortize actuarial unrecognized differences	10 years

11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2013 are as follows:

(a) Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder	Ministry of Finance (Minister of Finance)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note i)	243,550	—	—
				Deposit of funds ^(Note ii)	8,633,900	Due from banks	3,066,500
				Refund of funds	8,797,800		

(Notes)

- (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.

(b) Transactions with fellow subsidiaries and affiliates' subsidiaries

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	1,062,905 (Notes i and ii)	—	—

(Notes)

- (i) Pursuant to item 2 paragraph 1, Article 17 of the Supplementary Provisions to the JBIC Act, JFC has joint and several liability for bonds issued by JFC and succeeded to by JBIC. As JFC, rather than the individual operations accounts within JFC, is responsible overall for the said joint and several liability, the total joint and several liability of JFC is shown. Pursuant to paragraph 2, Article 17 of the Supplementary Provisions, the Account for Credit Insurance Program has pledged its assets as general collateral for the joint and several liabilities.
- (ii) There are no transactions recorded under income or expenses related to the joint and several liabilities.
- (iii) Figures in the table above do not include consumption taxes.

12. Per share information

Net assets per share	¥0.32
Net loss per share	¥0.04

13. Subsequent events

On April 1, 2013, JFC obtained approval from the Ministry of Health, Labor and Welfare for exemption from the obligation to pay benefits related to future services of employees under the entrusted management portion of the Employees Pension Fund.

JFC plans to recognize the income and loss and extinguish the retirement benefit obligation relating to the entrusted management portion on the date of approval for the return of the entrusted management portion of the Employees Pension Fund related to past services of employees.

JFC is currently calculating the impact on income, which is yet to be determined.

Balance Sheet (as of March 31, 2013)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	575,531	Borrowed money	5,362,094
Due from banks	575,531	Borrowings	5,362,094
Securities	246,984	Other liabilities	7,947
Government bonds	246,984	Accrued expenses	1,267
Loans and bills discounted	5,362,094	Unearned revenue	6,601
Loans on deeds	5,362,094	Lease obligations	0
Other assets	1,385	Other	77
Prepaid expenses	0	Provision for bonuses	5
Accrued income	1,326	Provision for directors' bonuses	0
Other	59	Provision for retirement benefits	139
Property, plant and equipment	0	Provision for directors' retirement benefits	0
Lease assets	0	Reserve for compensation losses	65,512
Intangible assets	94	Total liabilities	5,435,698
Software	90	Net assets	
Lease assets	0	Capital stock	895,358
Other	3	Retained earnings	(144,966)
		Other retained earnings	(144,966)
		Retained earnings brought forward	(144,966)
		Total shareholders' equity	750,391
		Total net assets	750,391
Total assets	6,186,090	Total liabilities and net assets	6,186,090

Statement of Operations (Year ended March 31, 2013)

(Millions of yen)

Ordinary income	50,465
Interest income	45,701
Interest on loans and discounts	44,960
Interest and dividends on securities	505
Interest on receivables under resale agreements	2
Interest on deposits with banks	232
Fees and commissions	3,525
Fees and commissions on compensation security contract	3,525
Receipts from the national budget	606
Receipts from the general account of the national budget	606
Other income	633
Other	633
Ordinary expenses	79,247
Interest expenses	44,960
Interest on borrowings and rediscounts	44,960
Fees and commissions payments	11,091
Expense on compensation security contract	11,091
Other ordinary expenses	7,827
Interest subsidies	7,827
General and administrative expenses	216
Other expenses	15,150
Provision of reserve for compensation losses	14,981
Other	168
Ordinary loss	28,781
Net loss	28,781

Statement of Changes in Net Assets (Year ended March 31, 2013)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the beginning of current period	784,253
Changes of items during the period	
Issuance of new shares	111,105
Total changes of items during the period	111,105
Balance at the end of current period	895,358
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the beginning of current period	(116,184)
Changes of items during the period	
Net income (loss)	(28,781)
Total changes of items during the period	(28,781)
Balance at the end of current period	(144,966)
Total retained earnings	
Balance at the beginning of current period	(116,184)
Changes of items during the period	
Net income (loss)	(28,781)
Total changes of items during the period	(28,781)
Balance at the end of current period	(144,966)
Total shareholders' equity	
Balance at the beginning of current period	668,068
Changes of items during the period	
Issuance of new shares	111,105
Net income (loss)	(28,781)
Total changes of items during the period	82,323
Balance at the end of current period	750,391
Total net assets	
Balance at the beginning of current period	668,068
Changes of items during the period	
Issuance of new shares	111,105
Net income (loss)	(28,781)
Total changes of items during the period	82,323
Balance at the end of current period	750,391

Notes to Financial Statements > Account for Operations to Facilitate Crisis Responses

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method) based on the moving average method. As a rule, available-for-sale securities are stated at fair value based on market prices on the closing date.

(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.

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

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on a) enhancement of disclosure, and b) a revision to determination of projected retirement benefit obligations and current service cost.

(ii) Scheduled date of application

JFC is scheduled to apply above a) from the financial statements concerning the end of the fiscal year starting on April 1, 2013 and above b) from the beginning of the fiscal year starting on April 1, 2014.

(iii) Effect of application of this accounting standard

The effect of the application of this accounting standard is currently under consideration.

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, 2013.

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

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

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

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

3. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for all bonds issued by JFC. No Operations to Facilitate Crisis Responses account bonds have been issued.

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥0 million.

5. Contingent liabilities

The Account for Operations to Facilitate Crisis Responses has joint and several liabilities pertaining to the following bonds issued by JFC succeeded to by Japan Bank for International Cooperation (JBIC). Pursuant to paragraph 2, Article 17 of the Supplementary Provisions to JBIC Act, the Account for Operations to Facilitate Crisis Responses has pledged its assets as general collateral for the joint and several liabilities.

FILP Agency Bonds ¥170,000 million

Foreign-currency-denominated government-guaranteed bonds ¥892,905 million

6. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (87,852 contracts)	2,757,556
Reserve for compensation	65,512
Net amount	2,692,044

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 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).

8. Issued shares

For the fiscal year ended March 31, 2013, 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	784,253,000,000	111,105,000,000	—	895,358,000,000

(Note) Increase is due to the issuance of 111,105,000,000 shares.

9. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to 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, 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, 2013, and the related fair value, and difference is as follows.

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	575,531	575,531	—
(2) Securities			
Held to maturity debt securities	246,984	246,984	—
(3) Loans and bills discounted	5,362,094	5,461,889	99,795
Total assets	6,184,610	6,284,405	99,795
Borrowings	5,362,094	5,479,832	117,738
Total liabilities	5,362,094	5,479,832	117,738

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

Assets

(1) Cash and due from banks

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

(2) Securities

For corporate bonds in the Account for Operations to Facilitate Crisis Responses, the carrying amount is used as fair value because fair value approximates the carrying amount.

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

(3) Loans and bills discounted

All loans have a fixed interest rate and fair value is calculated by discounting the principal and interest by the interest rate estimated from the market yield of bonds issued by the borrower based on the type of borrower and period of loan.

Liabilities

Borrowings

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

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

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

Balance of compensation underwritten: ¥2,757,556 million

Compensation loss reserve: ¥65,512 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 ^(*)	575,531	—	—	—	—	—
Securities						
Held-to-maturity debt securities	247,000	—	—	—	—	—
Loans and bills discounted	893,270	2,020,292	1,131,027	625,491	479,213	212,801
Total	1,715,801	2,020,292	1,131,027	625,491	479,213	212,801

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

(Note 4) Redemption schedule for 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	893,270	2,020,292	1,131,027	625,491	479,213	212,801

10. 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, 2013 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	246,984	246,984	—

(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	569,000	569,000	—

11. Deferred tax accounting

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

12. Retirement benefits

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

(a) The funded status of the pension plans

	March 31, 2013 (Millions of yen)
Projected benefit obligations (A)	(240)
Fair value of plan assets (B)	42
Unfunded pension obligations (C)=(A)+(B)	(197)
Unrecognized prior service costs (D)	(1)
Actuarial unrecognized difference (E)	60
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(139)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)–(G)	(139)

(b) Component of pension cost

	March 31, 2013 (Millions of yen)
Service cost	7
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, 2013
Discount rate	1.0%
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

13. Related party transactions

Related party transactions in the fiscal year ended March 31, 2013 are as follows:

(a) Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	86.96 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	96,458	—	—
				Receipts from general account of the national budget	56	—	—
				Receipt of funds ^(Note iv)	733,764	Borrowings	5,362,094
				Repayment of borrowings	765,931		
				Payment of interest on borrowings	44,960	Accrued expenses	1,267
	Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry)	12.90 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	13,800	—	—

(Notes)

- (i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) and Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry) is as follows:
 - Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries) 0.14%
- (ii) Transactions with the ministries and agencies other than Ministry of Finance and Ministry of Economy, Trade and Industry are as follows:
 - Ministry of Agriculture, Forestry and Fisheries
 - Underwriting of capital increase ¥847 million
 - Ministry of Agriculture, Forestry and Fisheries
 - Receipts from the national budget ¥37 million
 - Small and Medium Enterprise Agency
 - Receipts from the national budget ¥511 million
- (iii) The underwriting of capital increase represents the increase in capital through shareholder allocation by JFC at an allocation amount of ¥1 per share.
- (iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.
- (v) Figures in the table above do not include consumption taxes.

(b) Transactions with fellow subsidiaries and affiliates' subsidiaries

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	1,062,905 (Notes i and ii)	—	—

(Notes)

- (i) Pursuant to item 2 paragraph 1, Article 17 of the Supplementary Provisions to the JBIC Act, JFC has joint and several liability for bonds issued by JFC and succeeded to by JBIC. As JFC, rather than the individual operations accounts within JFC, is responsible overall for the said joint and several liability, the total joint and several liability of JFC is shown. Pursuant to paragraph 2, Article 17 of the Supplementary Provisions, the Account for Operations to Facilitate Crisis Responses has pledged its assets as general collateral for the joint and several liabilities.
- (ii) There are no transactions recorded under income or expenses related to the joint and several liabilities.
- (iii) Figures in the table above do not include consumption taxes.

14. Per share information

Net assets per share	¥0.83
Net loss per share	¥0.03

15. Subsequent events

On April 1, 2013, JFC obtained approval from the Ministry of Health, Labor and Welfare for exemption from the obligation to pay benefits related to future services of employees under the entrusted management portion of the Employees Pension Fund.

JFC plans to recognize the income and loss and extinguish the retirement benefit obligation relating to the entrusted management portion on the date of approval for the return of the entrusted management portion of the Employees Pension Fund related to past services of employees.

JFC is currently calculating the impact on income, which is yet to be determined.

Balance Sheet (as of March 31, 2013)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	306	Borrowed money	54,135
Due from banks	306	Borrowings	54,135
Loans and bills discounted	54,135	Other liabilities	128
Loans on deeds	54,135	Accrued expenses	96
Other assets	130	Lease obligations	0
Prepaid expenses	0	Other	31
Accrued income	96	Provision for bonuses	3
Other	33	Provision for directors' bonuses	0
Property, plant and equipment	0	Provision for retirement benefits	75
Lease assets	0	Provision for directors' retirement benefits	0
Intangible assets	9	Total liabilities	54,342
Software	7	Net assets	
Lease assets	0	Capital stock	267
Other	1	Retained earnings	(27)
		Other retained earnings	(27)
		Retained earnings brought forward	(27)
		Total shareholders' equity	239
		Total net assets	239
Total assets	54,581	Total liabilities and net assets	54,581

Statement of Operations (Year ended March 31, 2013)

(Millions of yen)

Ordinary income	289
Interest income	221
Interest on loans and discounts	221
Interest on deposits with banks	0
Receipts from the national budget	67
Receipts from general account of the national budget	67
Other income	0
Other	0
Ordinary expenses	299
Interest expenses	221
Interest on borrowings and rediscounts	221
General and administrative expenses	77
Ordinary loss	9
Net loss	9

Statement of Changes in Net Assets (Year ended March 31, 2013)

(Millions of yen)

Shareholders' equity	
Capital stock	
Balance at the beginning of current period	239
Changes of items during the period	
Issuance of new shares	28
Total changes of items during the period	28
Balance at the end of current period	267
Retained earnings	
Other retained earnings	
Retained earnings brought forward	
Balance at the beginning of current period	(17)
Changes of items during the period	
Net income (loss)	(9)
Total changes of items during the period	(9)
Balance at the end of current period	(27)
Total retained earnings	
Balance at the beginning of current period	(17)
Changes of items during the period	
Net income (loss)	(9)
Total changes of items during the period	(9)
Balance at the end of current period	(27)
Total shareholders' equity	
Balance at the beginning of current period	221
Changes of items during the period	
Issuance of new shares	28
Net income (loss)	(9)
Total changes of items during the period	18
Balance at the end of current period	239
Total net assets	
Balance at the beginning of current period	221
Changes of items during the period	
Issuance of new shares	28
Net income (loss)	(9)
Total changes of items during the period	18
Balance at the end of current period	239

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.

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

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on a) enhancement of disclosure, and b) a revision to determination of projected retirement benefit obligations and current service cost.

(ii) Scheduled date of application

JFC is scheduled to apply above a) from the financial statements concerning the end of the fiscal year starting on April 1, 2013 and above b) from the beginning of the fiscal year starting on April 1, 2014.

(iii) Effect of application of this accounting standard

The effect of the application of this accounting standard is currently under consideration.

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, 2013.

"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. Contingent liabilities

The Account for Operations to Facilitate Specific Businesses Promotion, etc. has joint and several liabilities pertaining to the following bonds issued by JFC succeeded to by Japan Bank for International Cooperation (JBIC). Pursuant to paragraph 2, Article 17 of the Supplementary Provisions to JBIC Act, the Account for Operations to Facilitate Specific Businesses Promotion, etc. has pledged its assets as general collateral for the joint and several liabilities.

FILP Agency Bonds	¥170,000 million
Foreign-currency-denominated government-guaranteed bonds	¥892,905 million

6. Restriction in dividend distribution

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

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

^{*1} Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 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).

7. Issued shares

For the fiscal year ended March 31, 2013, 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	239,000,000	28,000,000	—	267,000,000

(Note) Increases is due to the issuance of 28,000,000 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 public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to 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, 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, 2013, and the related fair value, and difference is as follows.

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	306	306	—
(2) Loans and bills discounted	54,135	54,936	801
Total assets	54,441	55,243	801
Borrowings	54,135	55,177	1,042
Total liabilities	54,135	55,177	1,042

(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 ^(*)	306	—	—	—	—	—
Loans and bills discounted	2,500	10,051	13,965	13,444	12,515	1,660
Total	2,806	10,051	13,965	13,444	12,515	1,660

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

(Note 3) Redemption schedule for borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	2,500	10,051	13,965	13,444	12,515	1,660

9. Deferred tax accounting

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

10. Retirement benefits

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

(a) The funded status of the pension plans

	March 31, 2013 (Millions of yen)
Projected benefit obligations (A)	(122)
Fair value of plan assets (B)	21
Unfunded pension obligations (C)=(A)+(B)	(101)
Unrecognized prior service costs (D)	(0)
Actuarial unrecognized difference (E)	25
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(75)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)-(G)	(75)

(b) Component of pension cost

	March 31, 2013 (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, 2013
Discount rate	1.0%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Terms to amortize unrecognized prior service costs	10 years
Terms to amortize actuarial unrecognized differences	10 years

11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2013 are as follows:

(a) Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Note i)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note ii)	28	—	—
				Receipt of funds ^(Note iii)	32,835	Borrowings	54,135
				Payment of interest on borrowings	221	Accrued expenses	96

(Notes)

- (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 ¥67 million
- (ii) The underwriting of capital increase represents the increase in capital through shareholder allocation by JFC at an allocation amount of ¥1 per share.
- (iii) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.
- (iv) Figures in the table above do not include consumption taxes.

(b) Transactions with fellow subsidiaries and affiliates' subsidiaries

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2013
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	1,062,905 (Notes i and ii)	—	—

(Notes)

- (i) Pursuant to item 2 paragraph 1, Article 17 of the Supplementary Provisions to the JBIC Act, JFC has joint and several liability for bonds issued by JFC and succeeded to by JBIC. As JFC, rather than the individual operations accounts within JFC, is responsible overall for the said joint and several liability, the total joint and several liability of JFC is shown. Pursuant to paragraph 2, Article 17 of the Supplementary Provisions, the Account for Operations to Facilitate Specific Businesses Promotion, etc. has pledged its assets as general collateral for the joint and several liabilities.
- (ii) There are no transactions recorded under income or expenses related to the joint and several liabilities.
- (iii) Figures in the table above do not include consumption taxes.

12. Per share information

Net assets per share	¥0.89
Net loss per share	¥0.03

13. Subsequent events

On April 1, 2013, JFC obtained approval from the Ministry of Health, Labor and Welfare for exemption from the obligation to pay benefits related to future services of employees under the entrusted management portion of the Employees Pension Fund.

JFC plans to recognize the income and loss and extinguish the retirement benefit obligation relating to the entrusted management portion on the date of approval for the return of the entrusted management portion of the Employees Pension Fund related to past services of employees.

JFC is currently calculating the impact on income, which is yet to be determined.

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)

	Micro Business and Individual Unit (Account for Micro Business and Individual Operations)	Agriculture, Forestry, Fisheries and Food Business Unit (Account for Agriculture, Forestry, Fisheries and Food Business Operations)	Small and Medium Enterprise (SME) Unit (Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation))	Total
Bankrupt loans	25,295	19,973	16,619	61,887
Non-accrual loans	147,286	72,968	557,793	778,049
Loans with interest or principal repayments more than three months in arrears	97	2,304	—	2,402
Restructured loans	555,662	27,603	71,292	654,558
Total	728,342	122,849	645,705	1,496,898
Total of risk-monitored loans/outstanding loans (%)	10.40	4.85	10.28	9.46

(Definitions)

- "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".

▼ Claims Disclosed under the Financial Reconstruction Law

(Millions of yen)

	Micro Business and Individual Unit (Account for Micro Business and Individual Operations)	Agriculture, Forestry, Fisheries and Food Business Unit (Account for Agriculture, Forestry, Fisheries and Food Business Operations)	Small and Medium Enterprise (SME) Unit (Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation))	Total
Bankrupt or de facto bankrupt	90,105	26,248	47,227	163,581
Doubtful	83,084	66,737	527,318	677,140
Special attention	555,760	29,907	71,292	656,961
Subtotal (1)	728,949	122,894	645,838	1,497,682
Normal	6,281,105	2,422,708	5,642,877	14,346,692
Total (2)	7,010,055	2,545,602	6,288,954	15,844,613
(1/2) (%)	10.40	4.83	10.27	9.45

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. SME Unit 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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