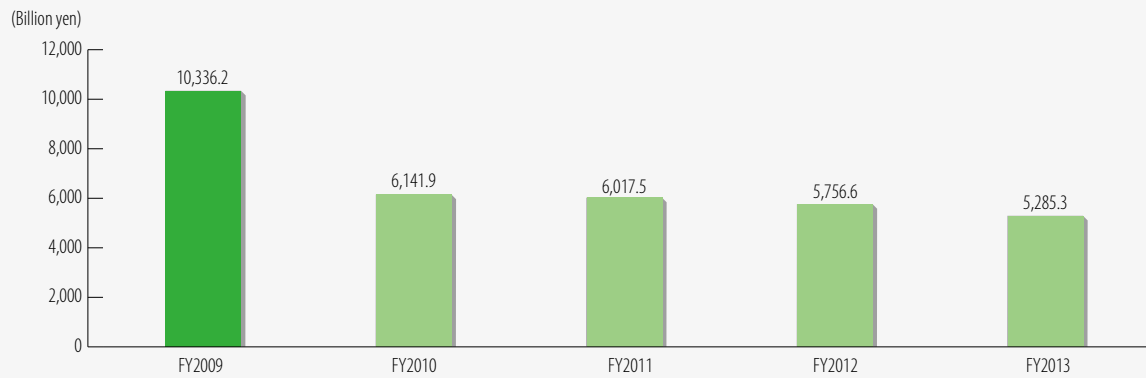

Data

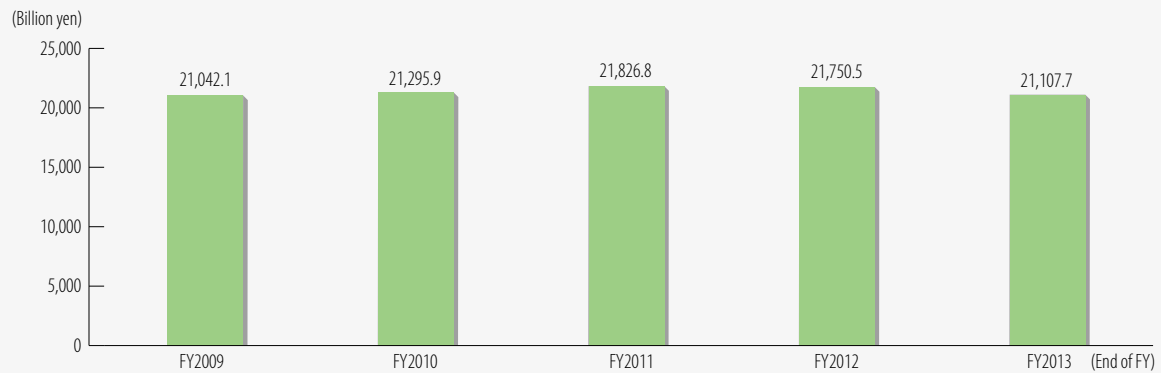
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Japan Finance Corporation

1 Changes in Annual Loan Operations

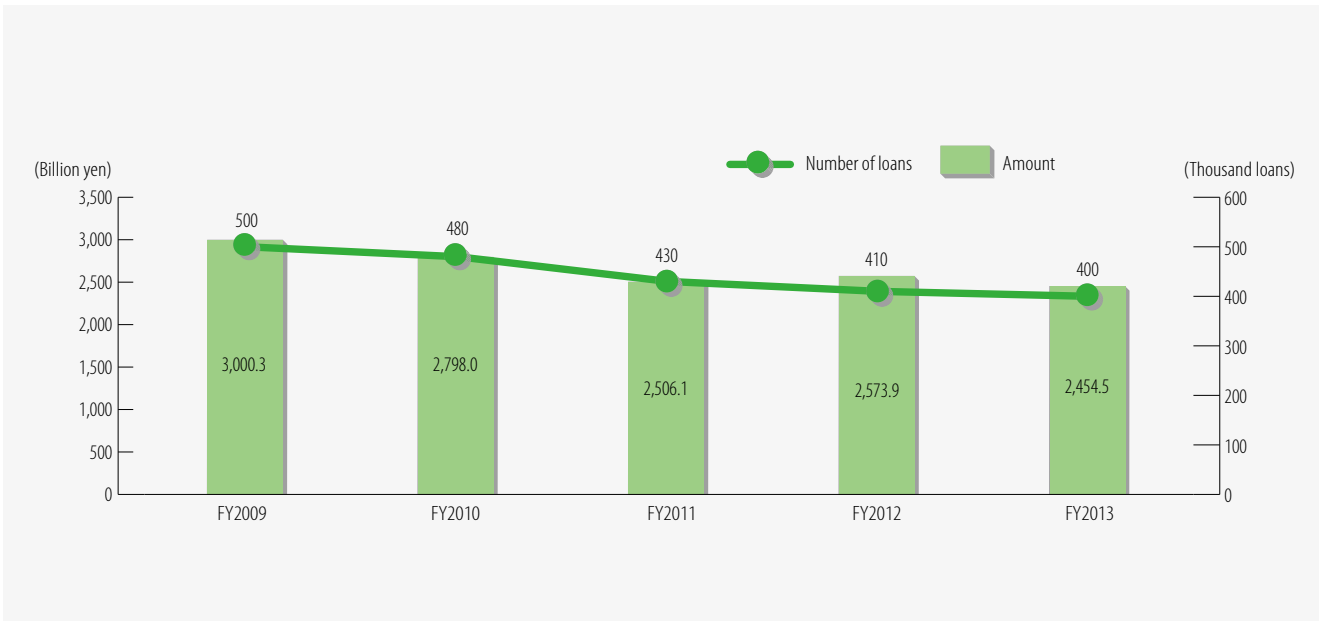


2 Changes in Outstanding Loans



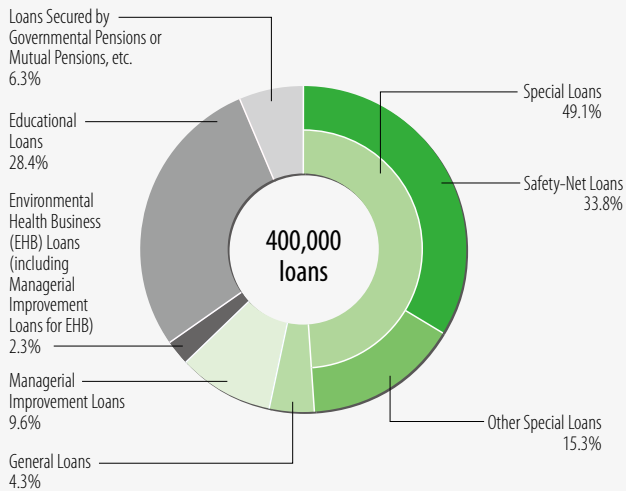
Micro Business and Individual Unit

1 Changes in Annual Loan Operations

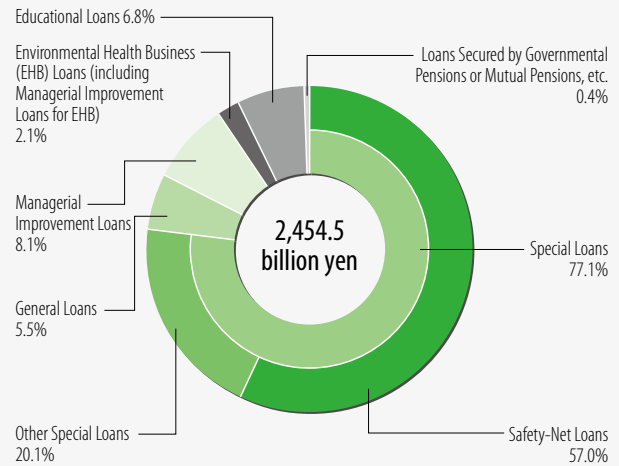


2 Breakdown of Loans by Scheme

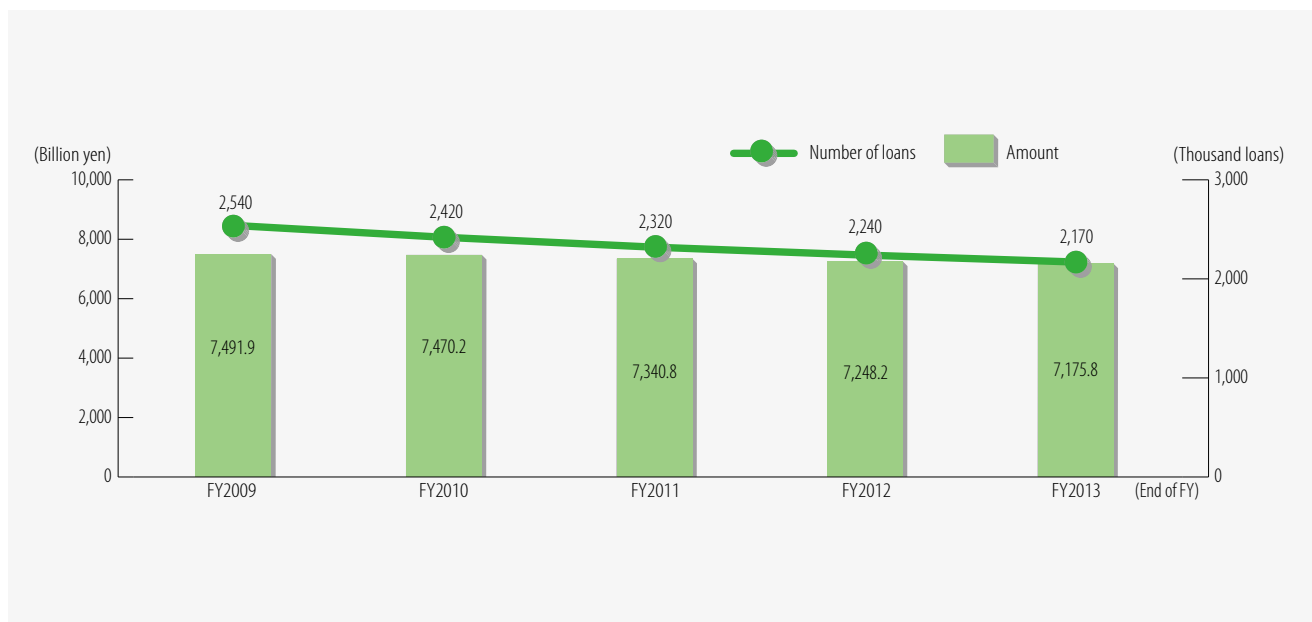
▼ Number of Loans (FY2013)



▼ Total Amount of Loans (FY2013)



3 Changes in Outstanding Loans



4 Breakdown of Business Loans Outstanding by Industry

(Unit: billion yen, %)

	FY2009	FY2010	FY2011	FY2012	FY2013
Manufacturing	799.6 (12.2)	795.6 (12.2)	782.4 (12.1)	764.7 (12.0)	725.7 (11.5)
Wholesale & retail	1,572.2 (24.1)	1,591.6 (24.3)	1,582.5 (24.5)	1,561.2 (24.4)	1,515.6 (24.0)
Restaurants & hotels	579.0 (8.9)	569.6 (8.7)	556.3 (8.6)	537.8 (8.4)	519.9 (8.2)
Services	1,370.4 (21.0)	1,413.9 (21.6)	1,417.7 (22.0)	1,430.4 (22.4)	1,432.9 (22.7)
Construction	1,019.5 (15.6)	1,025.2 (15.7)	997.1 (15.5)	968.4 (15.2)	932.0 (14.7)
Others	1,189.8 (18.2)	1,145.6 (17.5)	1,113.4 (17.3)	1,122.9 (17.6)	1,193.3 (18.9)
Total	6,530.8 (100.0)	6,541.7 (100.0)	6,449.5 (100.0)	6,385.5 (100.0)	6,319.7 (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, %)

	FY2009	FY2010	FY2011	FY2012	FY2013
Restaurant-related services	233.8 (47.6)	207.9 (47.0)	183.2 (46.4)	165.9 (46.6)	150.9 (46.7)
Hotels	104.9 (21.4)	95.2 (21.5)	85.5 (21.6)	73.5 (20.7)	62.9 (19.5)
Beauty parlors	69.9 (14.2)	65.5 (14.8)	61.1 (15.5)	58.7 (16.5)	57.5 (17.8)
Barbershops	37.7 (7.7)	33.3 (7.5)	29.1 (7.4)	25.6 (7.2)	23.2 (7.2)
Public baths	25.6 (5.2)	23.1 (5.2)	20.6 (5.2)	18.1 (5.1)	15.7 (4.9)
Laundries	12.0 (2.5)	10.8 (2.4)	9.8 (2.5)	8.9 (2.5)	8.2 (2.5)
Meat shops	3.3 (0.7)	3.0 (0.7)	3.5 (0.9)	3.1 (0.9)	2.5 (0.8)
Entertainment facilities	2.4 (0.5)	2.3 (0.5)	1.8 (0.5)	1.5 (0.4)	1.3 (0.4)
Others	1.2 (0.3)	1.2 (0.3)	0.3 (0.1)	0.2 (0.1)	0.2 (0.1)
Total	491.2 (100.0)	442.7 (100.0)	395.2 (100.0)	355.9 (100.0)	322.9 (100.0)

Note: Figures in parentheses denote percentage shares.

6 Breakdown of Outstanding Loans by Use

(Unit: billion yen, %)

	FY2009	FY2010	FY2011	FY2012	FY2013
Operating funds	3,999.8 (61.2)	4,292.9 (65.6)	4,381.5 (67.9)	4,347.8 (68.1)	4,186.7 (66.2)
Facility funds	2,531.0 (38.8)	2,248.7 (34.4)	2,067.9 (32.1)	2,037.6 (31.9)	2,132.9 (33.8)
Total	6,530.8 (100.0)	6,541.7 (100.0)	6,449.5 (100.0)	6,385.5 (100.0)	6,319.7 (100.0)

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

2. Figures in parentheses denote percentage shares.

7 Number of Client Companies

(Unit: number of companies)

	FY2009	FY2010	FY2011	FY2012	FY2013
Client Companies	1,084,043	1,030,910	989,697	958,282	930,171

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

8 Average Loan Balance per Business

(Unit: thousand yen)

	FY2009	FY2010	FY2011	FY2012	FY2013
Average loan balance per business	6,024	6,345	6,516	6,663	6,794

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

9 Educational Loans Outstanding, etc.

(Unit: billion yen)

	FY2009	FY2010	FY2011	FY2012	FY2013
Educational Loans	932.6	903.5	869.4	843.7	840.3
Loans Secured by Governmental Pensions and Mutual Pensions, etc.	27.5	24.3	21.3	18.5	15.5

10 Breakdown of Loans by Credit Amount

(Unit: number of loans, %)

	FY2009	FY2010	FY2011	FY2012	FY2013
Up to 3 million yen	106,525 (31.2)	105,367 (33.1)	91,472 (32.8)	91,091 (33.0)	83,880 (31.5)
Over 3 million yen and up to 5 million yen	66,327 (19.4)	61,391 (19.3)	54,851 (19.7)	51,811 (18.8)	52,504 (19.7)
Over 5 million yen and up to 8 million yen	51,267 (15.0)	44,721 (14.0)	38,434 (13.8)	37,587 (13.6)	37,128 (14.0)
Over 8 million yen	117,463 (34.4)	106,862 (33.6)	94,022 (33.7)	95,513 (34.6)	92,526 (34.8)
Total	341,582 (100.0)	318,341 (100.0)	278,779 (100.0)	276,002 (100.0)	266,038 (100.0)

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

2. Figures in parentheses denote percentage shares.

11 Breakdown of Loans by Number of Employees of Borrowers

(Unit: number of loans, %)

	FY2009	FY2010	FY2011	FY2012	FY2013
4 or less	221,528 (64.8)	209,917 (65.9)	184,596 (66.2)	183,363 (66.4)	180,939 (68.0)
5-9	73,039 (21.4)	67,046 (21.1)	58,213 (20.9)	57,805 (20.9)	53,690 (20.2)
10-19	30,985 (9.1)	27,353 (8.6)	23,832 (8.5)	23,251 (8.4)	21,132 (7.9)
20 or more	16,008 (4.7)	14,010 (4.4)	12,132 (4.4)	11,575 (4.2)	10,272 (3.9)
Total	341,560 (100.0)	318,326 (100.0)	278,773 (100.0)	275,994 (100.0)	266,033 (100.0)

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

2. Figures in parentheses denote percentage shares.

12 Breakdown of Loans by Type of Collateral

(Unit: number of loans, %)

	FY2009	FY2010	FY2011	FY2012	FY2013	
No-collateral	267,088 (78.3)	245,023 (77.0)	215,024 (77.2)	204,363 (74.1)	202,413 (76.1)	
Collateral	Real estate (including partial collateral)	74,105 (21.7)	73,038 (23.0)	63,559 (22.8)	71,463 (25.9)	63,481 (23.9)
	Securities	37 (0.0)	32 (0.0)	26 (0.0)	29 (0.0)	25 (0.0)
	Credit Guarantee Corporations (CGCs)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
	Others	1 (0.0)	1 (0.0)	1 (0.0)	0 (0.0)	0 (0.0)
Total	341,231 (100.0)	318,094 (100.0)	278,610 (100.0)	275,855 (100.0)	265,919 (100.0)	

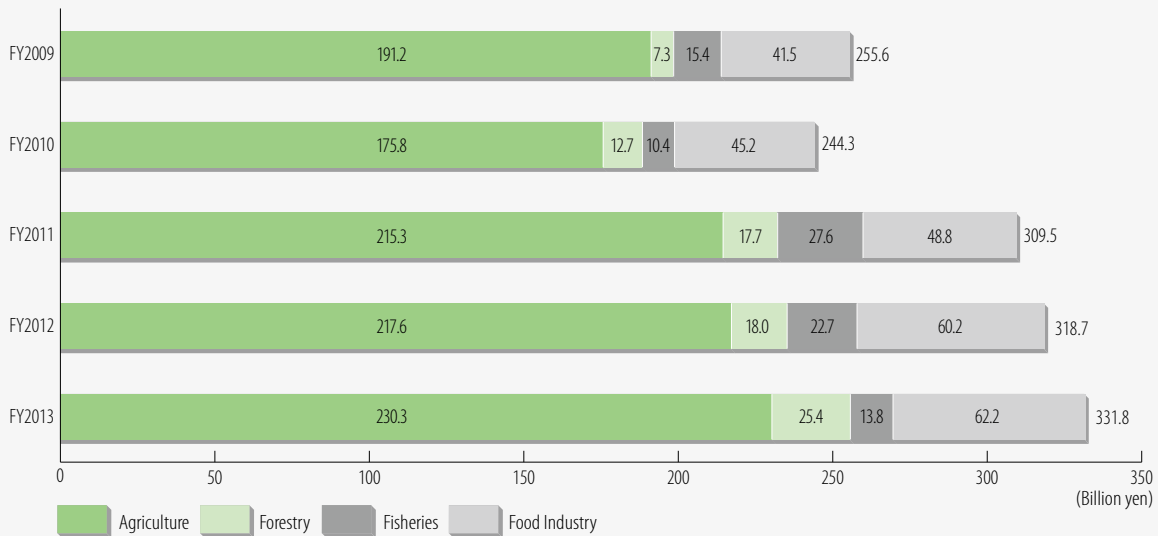
Notes: 1. Loans comprise General Loans and Environmental Health Business Loans.

2. Figures in parentheses denote percentage of shares.

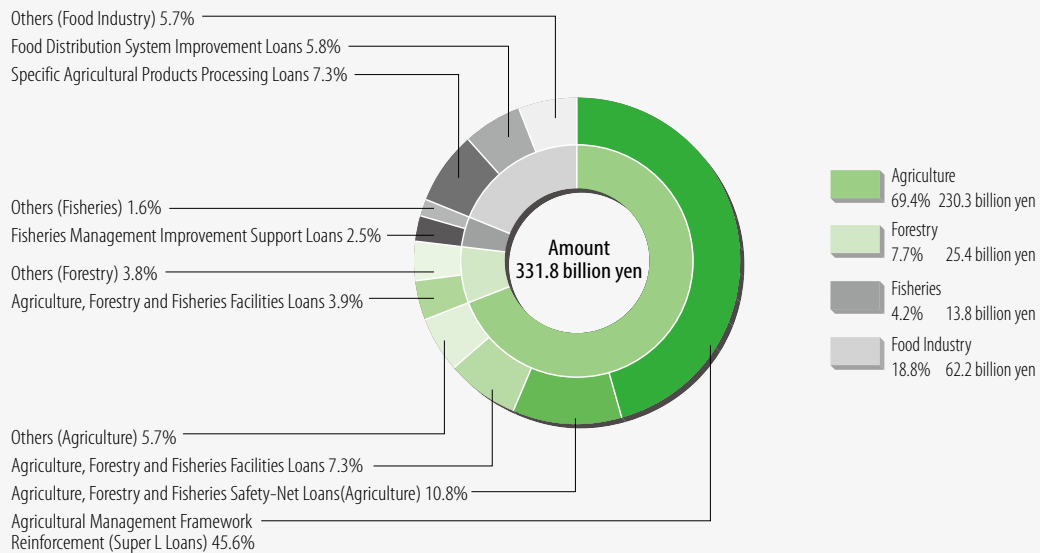
3. Partial collateral refers to real estate or other collateral whose estimated values do not reach amounts borrowed. Partial collateral of "Securities," "Credit Guarantee Corporations" and "Others" are included in "Real estate."

Agriculture, Forestry, Fisheries and Food Business Unit

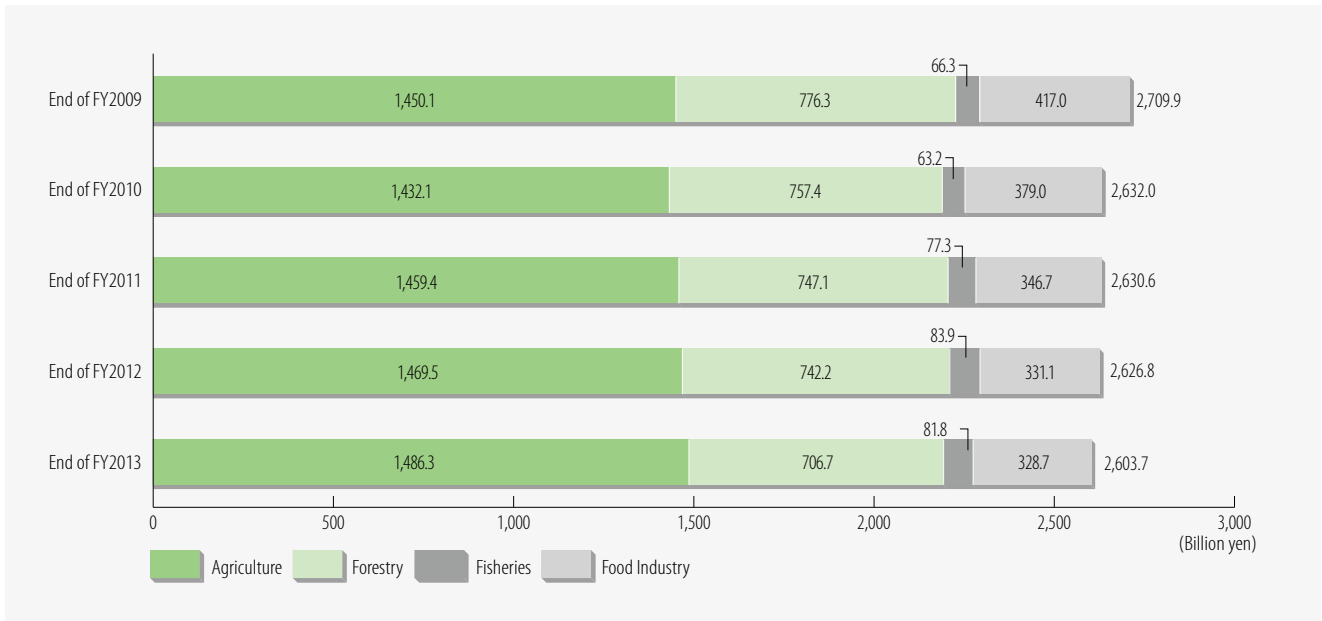
1 Changes in Annual Loan Operations



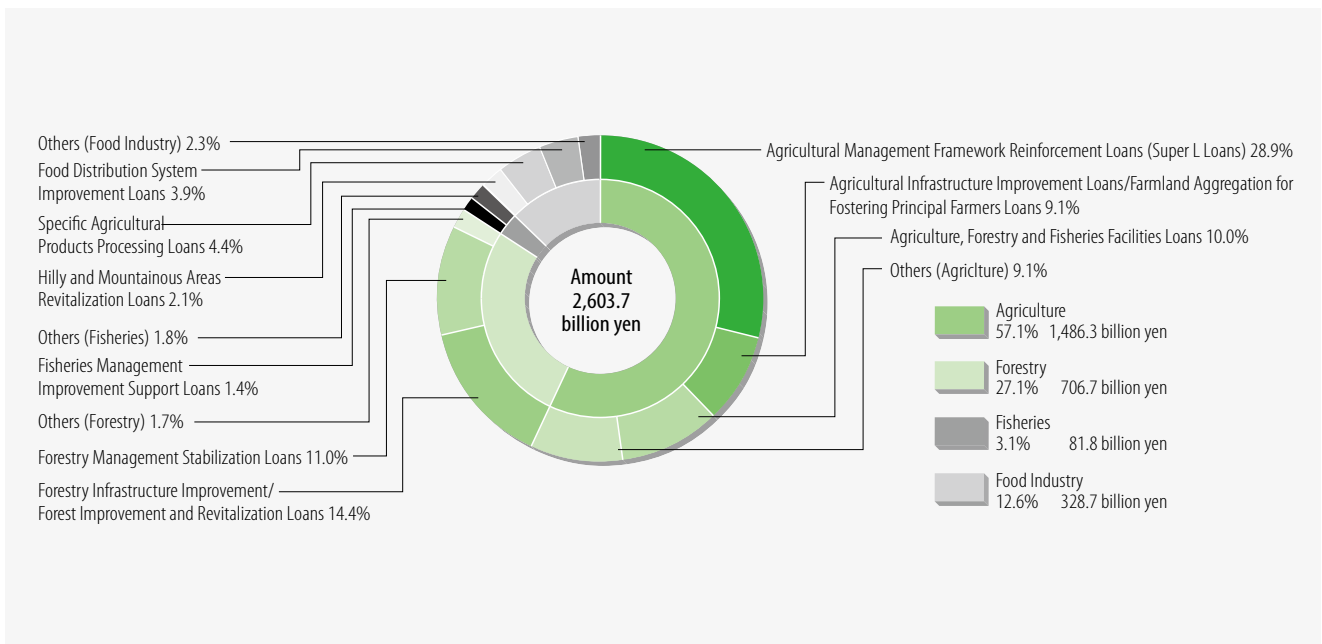
2 Breakdown of Loans by Scheme (FY2013)



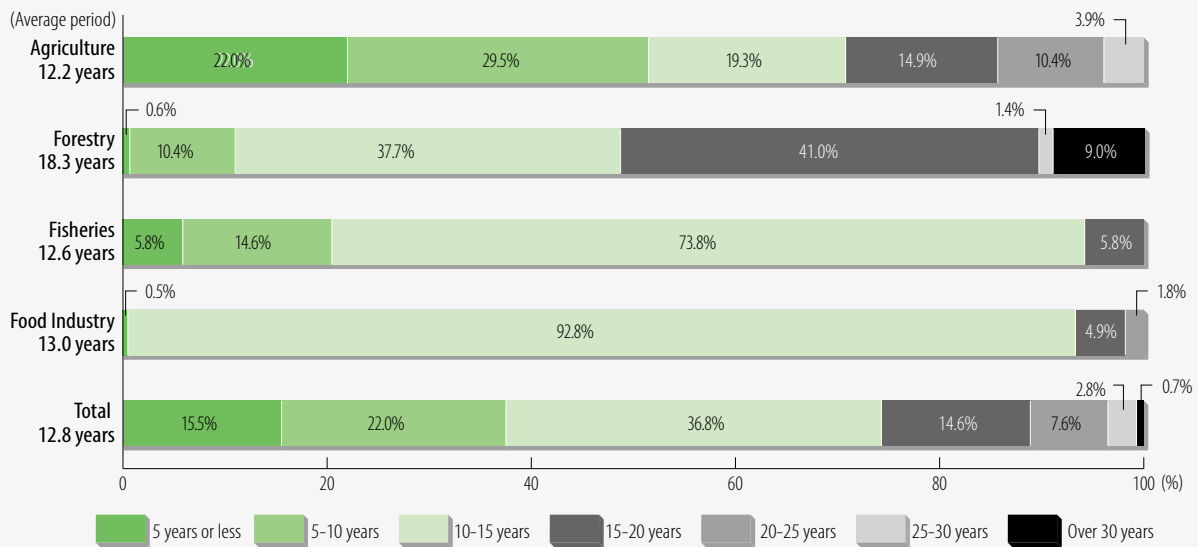
3 Changes in Outstanding Loans



4 Breakdown of Outstanding Loans by Sector and Use (End of FY2013)

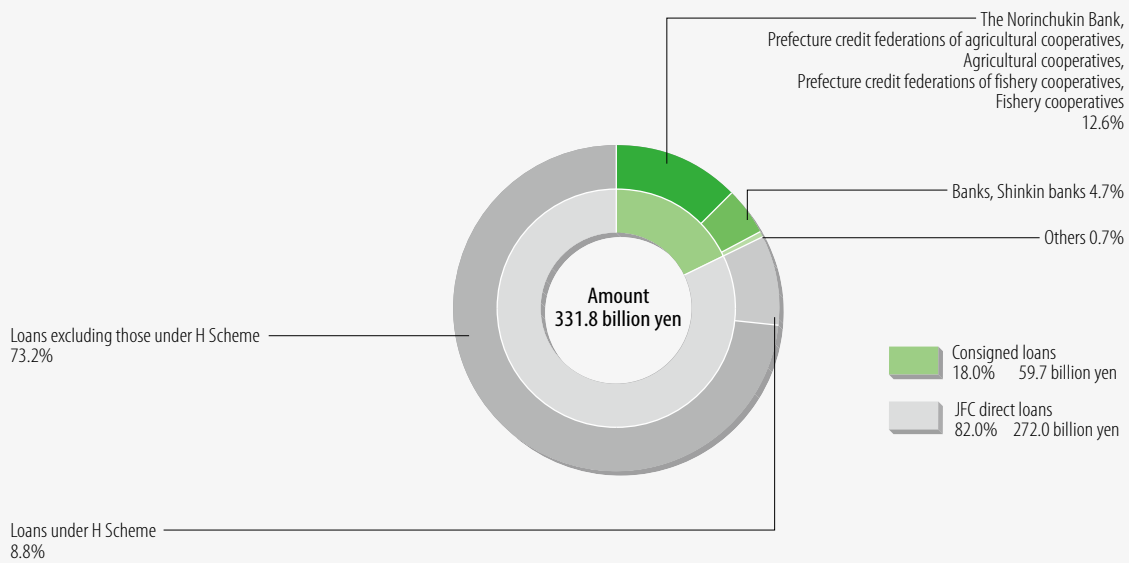


5 Loans by Repayment Period (FY2013)



Note: Figures are calculated by amount of loans contracted.

6 Loans by Commissioned Financial Institutions (FY2013)

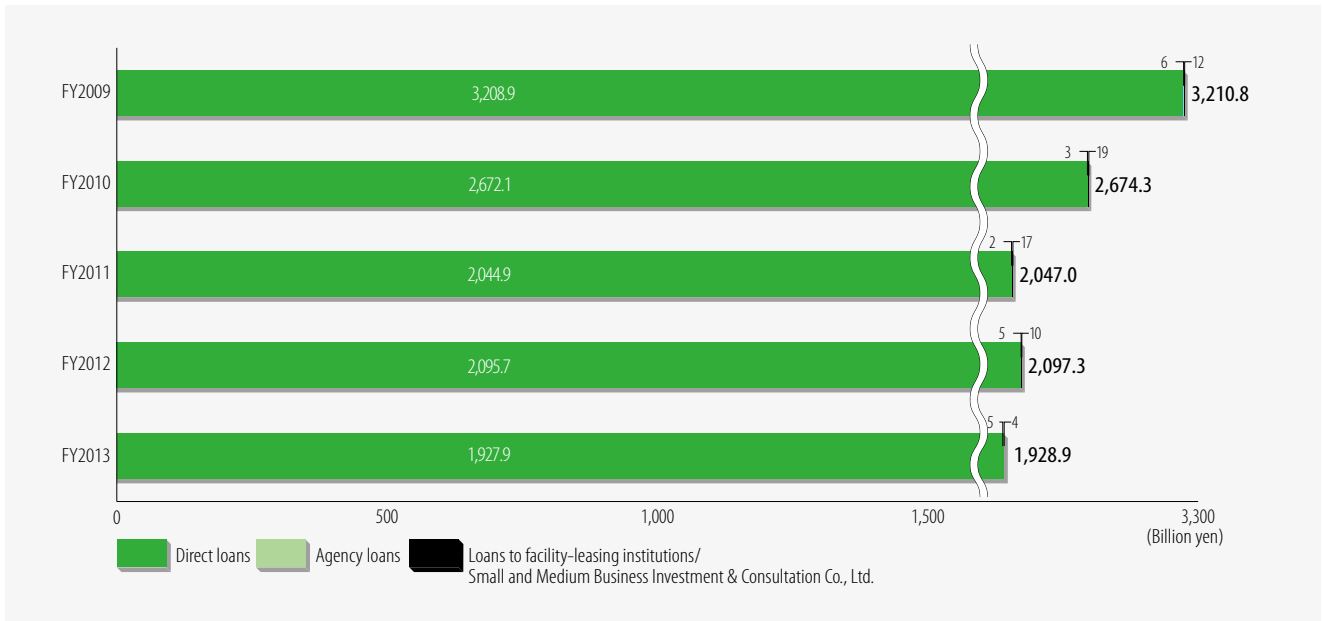


Note: H Scheme refers to a loan system through consignment of part of administration works for JFC's direct loans to agricultural cooperatives, banks, Shinkin banks, etc.

Small and Medium Enterprise (SME) Unit

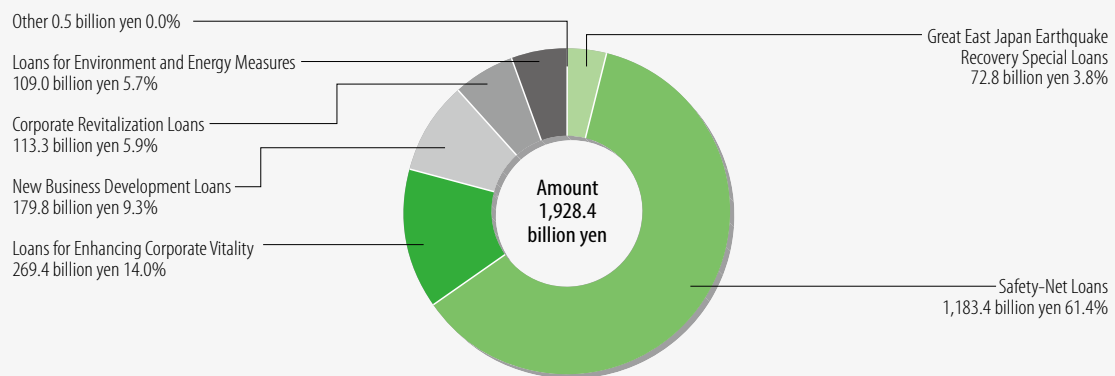
I. Loan Programs

1 Changes in Annual Loan Operations



2 Breakdown of Loans by Scheme

▼ Amount (FY2013)



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,%)

	FY2009	FY2010	FY2011	FY2012	FY2013
Manufacturing	3,007.3 (48.7)	3,137.1 (48.8)	3,132.8 (48.7)	3,132.3 (48.5)	3,039.9 (47.9)
Construction	328.1 (5.3)	329.9 (5.1)	327.0 (5.1)	320.3 (5.0)	305.3 (4.8)
Wholesale & retail	1,025.4 (16.6)	1,089.0 (16.9)	1,098.8 (17.1)	1,097.9 (17.0)	1,084.8 (17.1)
Transport & telecommunications	540.0 (8.8)	568.9 (8.8)	580.8 (9.0)	591.6 (9.2)	578.0 (9.1)
Services	654.7 (10.6)	686.8 (10.7)	697.2 (10.8)	685.6 (10.6)	674.0 (10.6)
Others	615.1 (10.0)	616.4 (9.6)	595.3 (9.3)	625.0 (9.7)	667.2 (10.5)
Total	6,170.6 (100.0)	6,428.3 (100.0)	6,432.2 (100.0)	6,453.0 (100.0)	6,349.5 (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,%)

	FY2009	FY2010	FY2011	FY2012	FY2013
Operating funds	3,600.9 (58.4)	4,043.3 (62.9)	4,221.4 (65.6)	4,199.0 (65.1)	4,117.7 (64.9)
Facility funds	2,569.7 (41.6)	2,385.0 (37.1)	2,210.7 (34.4)	2,254.0 (34.9)	2,231.7 (35.1)
Total	6,170.6 (100.0)	6,428.3 (100.0)	6,432.2 (100.0)	6,453.0 (100.0)	6,349.5 (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)

	FY2009	FY2010	FY2011	FY2012	FY2013
Client companies	46,139	46,330	46,599	47,282	47,213

Note: Figures cover only companies with direct loans.

7 Average Loan Balance per Business

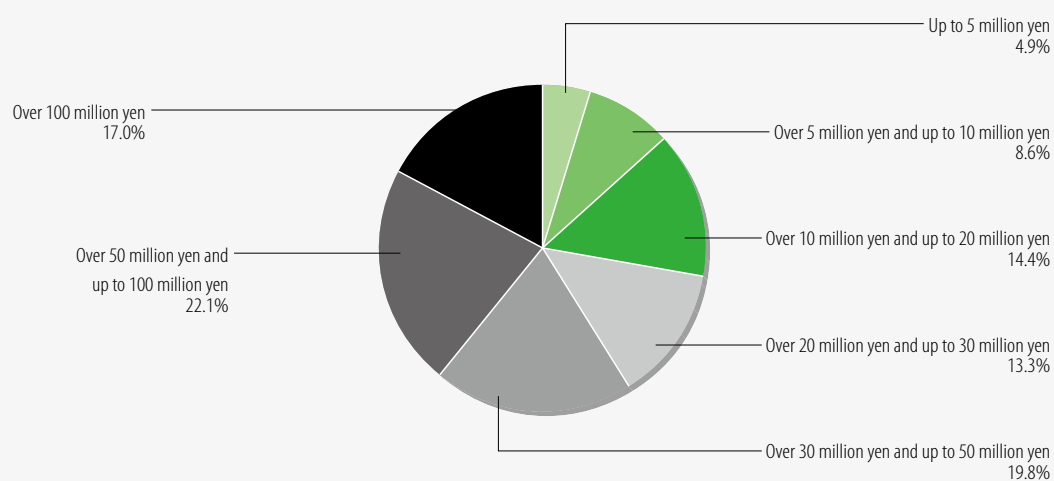
(Unit: million yen)

	FY2009	FY2010	FY2011	FY2012	FY2013
Average loan balance per business	132	137	137	135	134

Note: Figures cover only companies with direct loans.

8 Loans by Credit Amount

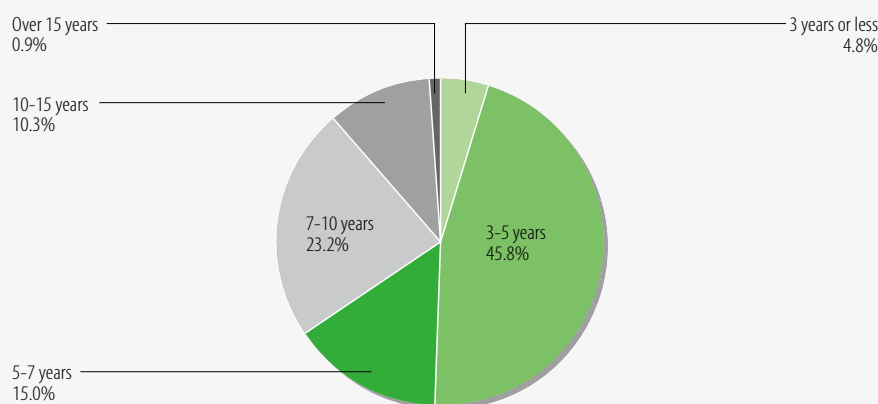
▼ Loan Percentage Breakdown (FY2013)



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

9 Loans by Repayment Period

▼ Loan Percentage Breakdown (FY2013)



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

II. Credit Insurance Programs

(Unit: billion yen)

Items	FY2009	FY2010	FY2011	FY2012	FY2013
Acceptance of insurance and loans					
Small Business Credit Insurance	16,116.4	13,439.9	11,131.3	9,366.2	8,984.4
Loans to CGCs	—	—	—	—	—
Special Insurance for Midsize Enterprises	—	—	—	—	—
Outstanding amounts of insurance and loans					
Small Business Credit Insurance	36,368.0	35,657.7	34,913.6	32,471.0	30,105.5
Loans to CGCs	—	—	—	—	—
Special Insurance for Midsize Enterprises	0.1	0.1	0.1	0.0	0.0
Machinery Credit Insurance ^(Note)	111.3	43.0	19.8	6.2	3.1

(Note) Excluding insurance that had been accepted up to the end of March 2003, the SME Unit currently pays on insurance money and receives recoveries based on insurance contracts that are already in force.

III. Securitization Support Programs

(Unit: billion yen)

Items	FY2009	FY2010	FY2011	FY2012	FY2013
Total loan principal amount					
Purchase-type ^(Note 1)	—	3.3	—	—	—
Guarantee-type ^(Note 2)	—	—	—	—	—
Outstanding amounts of trust beneficiary rights and guaranteed liabilities					
Purchase-type (outstanding amount of trust beneficiary rights)	2.8	1.4	1.1	0.3	—
Guarantee-type (outstanding amount of guaranteed liabilities)	16.5	0.2	0.1	0.1	0.1
Standby Letter of Credit Program ^(Note 4) (outstanding amount of guaranteed liabilities)	—	—	—	1.0	2.0

(Note 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.

(Note 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.

(Note 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.

(Note 4) Standby Letter of Credit Program refers to the operations of debt guarantee which are deemed to be operations prescribed in Article 11-1-2 of the Japan Finance Corporation Act as well as Item 4 on the Schedule II thereof by The SME Business Capabilities Enhancement Support Act.

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	FY2013
Two-step loans	1,430.1	3,869.3	405.2	1,153.4	733.7	559.3
Loans, etc.	1,130.3	3,529.4	405.2	1,153.4	733.7	559.3
Commercial paper (CP) acquisitions	299.8	339.8	—	—	—	—
Loss compensation	345.1	1,811.9	1,893.3	1,739.8	1,470.2	1,409.3
Loans, etc.	345.1	1,781.9	1,893.3	1,739.8	1,470.2	1,409.3
Commercial paper (CP) acquisitions	—	—	—	—	—	—
Equity participations	—	30.0	—	—	—	—
Interest subsidies	—	—	0.3	2.4	7.8	10.9

Notes:1. The figures for the two-step loans refer to the amounts of loans JFC provided to the designated financial institutions (Development Bank of Japan Inc. and The Shoko Chukin Bank, Ltd.) through the end of March 2014.

2. With respect to loss compensation, the figures for loans, etc. represent the amounts of loans provided by designated financial institutions through the end of March 2014, with loss compensation underwritten by JFC for losses incurred until May 10, 2014. Equity participation figures (pertaining to the Act on Special Measures for Industrial Revitalization) are the amount of equity investments made by 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 designated financial institutions for loans, etc. provided by the designated financial institutions through the end of September 2013. (Disbursements pertaining to the period from October 1 each year to March 31 of the following year are made by June 10, while those pertaining to the period from April 1 to September 30 are made by December 10.)

Results of Operations to Facilitate Specific Businesses Promotion

(Unit: billion yen)

	FY2010	FY2011	FY2012	FY2013
Two-step loans	20.0	1.3	7.8	10.6

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 2014.

Results of Operations to Facilitate Business Restructuring Promotion

(Unit: billion yen)

	FY2011	FY2012	FY2013
Two-step loans	—	25.0	—

Notes:1. Operations to Facilitate Business Restructuring Promotion commenced on January 20, 2014.

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 2014. (The figures before the start of Operations to Facilitate Business Restructuring Promotion are of loans issued under Operations to Facilitate Business Restructuring Promotion, etc., in accordance with the Act on Special Measures for Industrial Revitalization and Innovation (Law No. 131 of 1999) that was abolished with the Industrial Competitiveness Enhancement Act on January 20, 2014).

Financial Statements and Notes

Japan Finance Corporation

The balance sheet, statement of operations, statement of changes in net assets, and notes to the non-consolidated financial statements of JFC and each operating account were prepared in Japanese in accordance with Article 42 of the Japan Finance Corporation Act as well as Article 435 Paragraph 2 of the Companies Act, and audited by Ernst & Young ShinNihon LLC in accordance with Article 42 of the Japan Finance Corporation Act as well as Article 436 Paragraph 2 Item 1 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, 2014)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	3,732,555	Borrowed money	16,397,195
Cash	79	Borrowings	16,397,195
Due from banks	3,732,476	Bonds payable	2,058,498
Securities	460,156	Entrusted funds	31,490
Government bonds	458,020	Reserve for insurance policy liabilities	1,371,312
Corporate bonds	105	Other liabilities	41,706
Stocks	2,030	Accrued expenses	20,373
Loans and bills discounted	20,660,457	Unearned revenue	6,515
Loans on deeds	20,660,457	Lease obligations	2,304
Other assets	59,557	Other	12,513
Prepaid expenses	2,001	Provision for bonuses	4,369
Accrued income	25,291	Provision for directors' bonuses	20
Agency accounts receivable	2,050	Provision for retirement benefits	199,313
Other	30,213	Provision for directors' retirement benefits	81
Property, plant and equipment	199,448	Reserve for compensation losses	37,938
Buildings	53,889	Acceptances and guarantees	3,741
Land	142,249	Total liabilities	20,145,668
Lease assets	1,553	Net assets	
Construction in progress	743	Capital stock	3,709,538
Other	1,012	Capital surplus	2,051,708
Intangible assets	14,859	Special reserve for administrative improvement funds	181,500
Software	8,328	Legal capital surplus	1,870,208
Lease assets	620	Retained earnings	(1,253,487)
Other	5,910	Legal retained earnings	2,655
Customers' liabilities for acceptances and guarantees	3,741	Other retained earnings	(1,256,143)
Allowance for loan losses	(477,349)	Retained earnings brought forward	(1,256,143)
		Total shareholders' equity	4,507,759
		Total net assets	4,507,759
Total assets	24,653,427	Total liabilities and net assets	24,653,427

Statement of Operations (Year ended March 31, 2014)

(Millions of yen)

Ordinary income	788,255
Interest income	321,355
Interest on loans and discounts	317,274
Interest and dividends on securities	748
Interest on receivables under resale agreements	14
Interest on deposits with banks	3,054
Other interest income	263
Fees and commissions	3,714
Fees and commissions on compensation security contract	3,675
Other fees and commissions	38
Insurance premiums and other	411,844
Insurance premiums	143,243
Receipts of burden charges under the Responsibility-sharing System	16,983
Reversal of reserve for insurance policy liabilities	251,616
Receipts from the national budget	43,065
Receipts from general account of the national budget	43,036
Receipts from special account of the national budget	28
Other income	8,276
Gain on reversal of allowance for indemnity	69
Recoveries of written-off claims	3,030
Gain on sales of stocks and other securities	31
Other	5,145
Ordinary expenses	824,072
Interest expenses	132,882
Interest on call money	107
Interest on borrowings and rediscounts	112,744
Interest on bonds	19,767
Other interest expenses	262
Fees and commissions payments	16,288
Expense on compensation security contract	11,385
Other fees and commissions	4,902
Expenses on insurance claims and other	419,688
Expenses on insurance claims	537,092
Recoveries of insurance claims	(117,404)
Other ordinary expenses	11,663
Amortization of bond issuance cost	738
Interest subsidies	10,925
General and administrative expenses	112,875
Other expenses	130,674
Provision of allowance for loan losses	109,137
Written-off of loans	15,387
Other	6,150
Ordinary loss	35,817
Extraordinary income	927
Gain on disposal of noncurrent assets	927
Extraordinary losses	1,047
Loss on disposal of noncurrent assets	904
Impairment loss	142
Net loss	35,936

Statement of Changes in Net Assets (Year ended March 31, 2014)

(Millions of yen)

	Shareholders' equity								Total net assets
	Capital stock	Capital surplus			Retained earnings			Total share- holders' equity	
		Special reserve for administra- tive improve- ment funds	Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings		
					Retained earnings brought forward				
Balance at the beginning of current period	3,455,015	181,500	1,996,932	2,178,432	2,655	(1,451,630)	(1,448,974)	4,184,472	4,184,472
Changes of items during the period									
Issuance of new shares	254,523		104,700	104,700				359,223	359,223
Reversal of legal capital surplus (Deficit disposition)			(231,423)	(231,423)		231,423	231,423		
Net income (loss)						(35,936)	(35,936)	(35,936)	(35,936)
Total changes of items during the period	254,523	—	(126,723)	(126,723)	—	195,487	195,487	323,286	323,286
Balance at the end of current period	3,709,538	181,500	1,870,208	2,051,708	2,655	(1,256,143)	(1,253,487)	4,507,759	4,507,759

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

(ii) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by Japan Finance Corporation (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 ¥314,950 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. In calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Unrecognized prior service costs and unrecognized actuarial differences are calculated as follows:

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.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

The amount to be returned (minimum reserve) under the substitutable portion of the Welfare Pension Fund, as measured on the end of the fiscal year in review, is 43,407 million yen, and, assuming payment of said amount to be returned (minimum reserve) is conducted on the end of the fiscal year under review, the estimated gain generated if Item 46 of the Accounting Standards for Retirement Benefits (Guidance on Accounting Standards No. 25, May 17, 2012; hereinafter “Guidance on Retirement Benefits”) is applied will be 77,126 million yen.

(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.

Change in Presentation Method

Accounting Standard for Retirement Benefits

The Accounting Standard for Retirement Benefits (Guidance on Accounting Standards No. 26, May 17, 2012, hereinafter “Retirement Benefit Accounting Standards”) and Guidance on Retirement Benefits (hereinafter “Retirement Benefit Accounting Standards, etc.”) have been applied (excluding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Retirement Benefit Accounting Standards Item No. 67) from the end of the fiscal year in review, and the presentation method for retirement benefits-related notes has been changed.

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on revised determination of projected retirement benefit obligations and current service cost and enhanced information disclosure.

(ii) Scheduled date of application

JFC is scheduled to apply above revised determination of projected retirement benefit obligations and current service cost 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, 2014		
	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	17,863	793	13,054
Non-accrual loans	138,922	69,291	563,517
Loans with interest or principal repayments more than three months in arrears	66	1,474	16
Restructured loans	525,598	18,114	83,618
Total	682,452	89,674	660,205

(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.

(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, 1965), 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, 2014 is ¥133,278 million.

4. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for bonds totaling ¥2,058,498 million.

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥19,227 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 (Act No.39, 2011), 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 ¥977,740 million

7. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (102,364 contracts)	2,793,332
Reserve for compensation	37,938
Net amount	2,755,394

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	—	—	—
Other	Idle assets: 20 items	Land, buildings	142

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, 2014, 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	10,374,342,407,741	359,223,000,000	—	10,733,565,407,741

(Note) Increase is due to the issuance of 359,223,000,000 shares.

12. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a 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 in order to strengthen their industrial 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, (4) Partial guarantee of loan claims for private sector financial institutions and guarantee of securitized financial products, and (5) Acquisition of shares or equity held by SMEs. 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 of borrowers, 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, businesses restructuring promotion, etc. operations, and business restructuring promotion operations. The associated credit risk consists of risk of losses arising from uncollectable claims due to deterioration in creditworthiness of the designated financial institution.

(b) Market risk

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

(c) Liquidity risk

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

(3) Risk management structure for financial instruments

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

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

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

a. Micro Business and Individual Operations

The risk management structure of these operations is described below.

(a) Credit risk management

For these operations, JFC has a structure to manage the credit risk of loans through (i) individual credit management, (ii) asset self assessment, and (iii) quantification of credit risk in accordance with regulations concerning financing operations and claims management operations, and management regulations concerning credit risk. This credit risk management is conducted by the Credit Analysis 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 Department, 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, 2014 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥12,756 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 ¥13,746 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 Analysis 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, 2014 will cause the fair value after netting of the financial assets and financial liabilities held in this account to decrease by ¥4,478 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to increase by ¥663 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-type arrangement has 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 and adjusting the borrowing period.

(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, 2014 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥29,489 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 ¥30,702 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, 2014 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥72 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 ¥320 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, 2014, 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	3,732,555	3,733,417	861
(2) Securities			
Held-to-maturity debt securities	458,126	459,054	928
(3) Loans and bills discounted	20,435,982		
Allowance for loan losses (*)	(397,398)		
	20,038,584	20,729,653	691,069
Total assets	24,229,266	24,922,125	692,858
(1) Borrowings	16,252,159	16,513,171	261,012
(2) Bonds payable	2,058,498	2,096,506	38,008
Total liabilities	18,310,657	18,609,677	299,020

(*) 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 current price 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 "13. 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 except some capital-related subordinated loans have a fixed interest rate and fair value is calculated for each borrower's status 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: ¥2,793,332 million

Compensation loss reserve: ¥37,938 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) Loans on deeds (subordinated capital loans) ^{(*)2}	224,474
3) Borrowings from general account of the national budget ^{(*)3}	131,300
4) Borrowings from the FILP special account (investment account) of the national budget ^{(*)4}	13,736
Total	371,541

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

(*)2) For 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 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.

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

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

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks ^{(*)1}	3,687,476	45,000	—	—	—	—
Securities ^{(*)2} Held-to-maturity debt securities	437,086	21,002	0	—	—	—
Loans and bills discounted ^{(*)2}	4,298,522	7,053,848	4,153,045	2,020,755	1,496,322	1,340,883
Total	8,423,085	7,119,851	4,153,045	2,020,755	1,496,322	1,340,883

(*)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 ¥297,079 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 ^(*)	3,950,550	5,857,746	3,290,591	1,396,833	1,076,927	693,245
Bonds payable	518,000	821,000	340,000	150,000	130,000	100,000
Total	4,468,550	6,678,746	3,630,591	1,546,833	1,206,927	793,245

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

13. 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, 2014 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	21,047	21,976	928
	Japanese government bonds	436,972	436,972	—
Securities whose fair value does not exceed their carrying amount	Corporate bonds	105	105	—
	Subtotal	437,078	437,078	—
	Total	458,126	459,054	928

(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	636,140	636,140	—

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

	Carrying amount on the balance sheet (Millions of yen)
Stocks	0

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

14. Deferred tax accounting

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

15. Retirement benefits

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

Although the JFC welfare pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plain assets in accordance with the projected benefit obligations ratio.

Under the welfare pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

Defined benefits plan

(1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	305,063 million yen
Service cost	5,975
Interest cost	2,970
Financing from employees	384
Actuarial difference	3,806
Payment of retirement benefits	(12,158)
Prior service cost	(7,899)
Other	—
Closing balance of projected benefit obligations	<u>298,143</u>

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	70,409 million yen
Expected return on plan assets	1,408
Actuarial difference	7,122
Financing from employer	3,112
Financing from employees	384
Payment of retirement benefits	(7,058)
Other	—
Closing balance of fair value of plan assets	<u>75,378</u>

(3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	210,704 million yen
Fair value of plan assets	<u>(75,378)</u>
	135,326
Projected benefit obligations of unfunded plan	<u>87,438</u>
Unfunded pension obligations	222,764
Actuarial unrecognized difference	(33,130)
Unrecognized prior service cost	<u>9,679</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>199,313</u>
Provision for retirement benefits	199,313
Prepaid pension cost	<u>—</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>199,313</u>

(4) Net pensions cost and breakdown of included items

Service cost	5,975 million yen
Interest cost	2,970
Expected return on plan assets	(1,408)
Amount of actuarial difference accounted for as expense	4,251
Amortization of prior service cost accounted for as expense	(1,182)
Other	<u>—</u>
Net pensions cost related to defined benefits plan	<u>10,606</u>

(5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.

Shares	45%
Debentures	40%
General account	11%
Cash and deposits	<u>4%</u>
Total	<u>100%</u>

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

(6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	1.0%
2) Long-term expected rate of return on plan assets	2.0%

16. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥1,807 million
Profit on investment in affiliates (equity method)	¥15 million

17. Related party transactions

Related party transactions in the fiscal year ended March 31, 2014 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, 2014
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	97.21(Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	282,232	—	—
				Receipts from general account of the national budget	10,034	—	—
				Receipt of funds ^(Note iv)	3,656,562	Borrowings	16,214,058
				Repayment of borrowing	4,153,657		
				Payment of interest on borrowings	113,004	Accrued expenses	15,541
				Deposit of funds ^(Note v)	8,536,700	Due from banks	2,844,800
				Refund of funds	8,764,900		
				Guarantee for corporate bonds ^(Note vi)	1,194,542	—	—

(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)	0.21%
-Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry)	2.55%

(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	¥7,491 million
-Ministry of Economy, Trade and Industry	
Underwriting of capital increase	¥69,500 million
-Ministry of Health, Labor and Welfare	
Receipts from the national budget	¥1,527 million
-Ministry of Agriculture, Forestry and Fisheries	
Receipts from the national budget	¥12,880 million
-Ministry of Economy, Trade and Industry	
Receipts from the national budget	¥76 million
-Agency for Natural Resources and Energy	
Receipts from the national budget	¥4 million
-Small and Medium Enterprise Agency	
Receipts from the national budget	¥18,541 million
-Ministry of Agriculture, Forestry and Fisheries	
Repayment of borrowed money	¥10,331 million

(iii) The underwriting of capital increase represents the increase in capital 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, 2014
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	1,147,740 (Notes i and iii)	—	—
					780,000 (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.

18. Per share information

Net assets per share	¥0.41
Net loss per share	¥0.0

19. Subsequent events

Common stock offering

The Board of Directors of JFC resolved on May 20, 2014 to issue new shares as of June 13, 2014, with underwriting by the Ministry of Finance (Minister of Finance) and the Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries).

Overview of issuance of new shares

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

(Unit: yen)

Type and number of shares	5,777,000,000 shares of common stock
Issue price	1 per share
Total issue amount	5,777,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	0 per share
Total amount of incorporated into Capital stock	5,777,000,000
Total amount of incorporated into Legal capital surplus	0
Payment date	June 13, 2014
Purpose of use	Uses related to effective unsecured and unguaranteed loans of the Agricultural Employment Fund for Youth, Etc. and the Fisheries Management Improvement Support Loan; and uses related to effective unsecured and unguaranteed loans of Great East Japan Earthquake disaster recovery and restoration-related funds.

- (ii) Account for Credit Insurance Programs

(Unit: yen)

Type and number of shares	58,700,000,000 shares of common stock
Issue price	1 per share
Total issue amount	58,700,000,000
Amount incorporated into Capital stock	0 per share
Amount incorporated into Legal capital surplus	1 per share
Total amount of incorporated into Capital stock	0
Total amount of incorporated into Legal capital surplus	58,700,000,000
Payment date	June 13, 2014
Purpose of use	Augmentation of insurance platforms and stable system management

- (iii) Account for Operations to Facilitate Crisis Responses

(Unit: yen)

Type and number of shares	68,000,000 shares of common stock
Issue price	1 per share
Total issue amount	68,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	0 per share
Total amount of incorporated into Capital stock	68,000,000
Total amount of incorporated into Legal capital surplus	0
Payment date	June 13, 2014
Purpose of use	Act as resource for credit insurance underwriting

Balance Sheet (as of March 31, 2014)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	41,514	Borrowed money	5,483,081
Cash	75	Borrowings	5,483,081
Due from banks	41,438	Bonds payable	744,944
Loans and bills discounted	6,959,776	Other liabilities	12,938
Loans on deeds	6,959,776	Accrued expenses	6,259
Other assets	13,612	Lease obligations	1,143
Prepaid expenses	467	Other	5,535
Accrued income	7,525	Provision for bonuses	2,688
Agency accounts receivable	1,329	Provision for directors' bonuses	6
Other	4,290	Provision for retirement benefits	124,054
Property, plant and equipment	96,721	Provision for directors' retirement benefits	38
Buildings	27,128	Total liabilities	6,367,752
Land	67,472	Net assets	
Lease assets	865	Capital stock	1,030,573
Construction in progress	742	Capital surplus	181,500
Other	512	Special reserve for administrative improvement funds	181,500
Intangible assets	6,409	Retained earnings	(612,208)
Software	4,103	Other retained earnings	(612,208)
Lease assets	205	Retained earnings brought forward	(612,208)
Other	2,100	Total shareholders' equity	599,864
Allowance for loan losses	(150,416)	Total net assets	599,864
Total assets	6,967,617	Total liabilities and net assets	6,967,617

Statement of Operations (Year ended March 31, 2014)

(Millions of yen)

Ordinary income	152,799
Interest income	135,580
Interest on loans and discounts	135,570
Interest on receivables under resale agreements	3
Interest on deposits with banks	5
Other interest income	0
Fees and commissions	2
Other fees and commissions	2
Receipts from the national budget	15,204
Receipts from general account of the national budget	15,204
Receipts from special account of the national budget	0
Other income	2,012
Recoveries of written-off claims	246
Other	1,766
Ordinary expenses	145,395
Interest expenses	25,691
Interest on call money	41
Interest on borrowings and rediscounts	20,445
Interest on bonds	5,203
Fees and commissions payments	831
Other fees and commissions	831
Other ordinary expenses	312
Amortization of bond issuance cost	312
General and administrative expenses	66,864
Other expenses	51,695
Provision of allowance for loan losses	38,689
Written-off of loans	11,693
Other	1,312
Ordinary profit	7,404
Extraordinary income	927
Gain on disposal of noncurrent assets	927
Extraordinary losses	468
Loss on disposal of noncurrent assets	353
Impairment loss	115
Net income	7,863

Statement of Changes in Net Assets (Year ended March 31, 2014)

(Millions of yen)

	Shareholders' equity						Total net assets
	Capital stock	Capital surplus		Retained earnings		Total share- holders' equity	
		Special reserve for administra- tive improve- ment funds	Total capital surplus	Other retained earnings	Total retained earnings		
				Retained earnings brought forward			
Balance at the beginning of current period	949,207	181,500	181,500	(620,071)	(620,071)	510,635	510,635
Changes of items during the period							
Issuance of new shares	81,366					81,366	81,366
Net income (loss)				7,863	7,863	7,863	7,863
Total changes of items during the period	81,366	—	—	7,863	7,863	89,229	89,229
Balance at the end of current period	1,030,573	181,500	181,500	(612,208)	(612,208)	599,864	599,864

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Depreciation basis for fixed assets

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

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

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

Buildings: 2 years to 50 years

Other: 2 years to 20 years

(ii) Intangible assets (except for lease assets)

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

(iii) Lease assets

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

(b) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

(c) Accounting policy for reserves

(i) Allowance for loan losses

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

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

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

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

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments which 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 ¥196,009 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. In calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Unrecognized prior service costs and unrecognized actuarial differences are calculated as follows:

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.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

The amount to be returned (minimum reserve) under the substitutable portion of the Welfare Pension Fund, as measured on the end of the fiscal year in review, is 26,558 million yen, and, assuming payment of said amount to be returned (minimum reserve) is conducted on the end of the fiscal year under review, the estimated gain generated if Item 46 of the Accounting Standards for Retirement Benefits (Guidance on Accounting Standards No. 25, May 17, 2012; hereinafter "Guidance on Retirement Benefits") is applied will be 46,987 million yen.

(v) Provision for directors' retirement benefits

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

(d) Consumption and other taxes

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

Change in Presentation Method

Accounting Standard for Retirement Benefits

The Accounting Standard for Retirement Benefits (Guidance on Accounting Standards No. 26, May 17, 2012, hereinafter "Retirement Benefit Accounting Standards") and Guidance on Retirement Benefits (hereinafter "Retirement Benefit Accounting Standards, etc.") have been applied (excluding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Retirement Benefit Accounting Standards Item No. 67) from the end of the fiscal year in review, and the presentation method for retirement benefits-related notes has been changed.

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on revised determination of projected retirement benefit obligations and current service cost and enhanced information disclosure.

(ii) Scheduled date of application

JFC is scheduled to apply above revised determination of projected retirement benefit obligations and current service cost 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, 2014 Account for Micro Business and Individual Operations
Bankrupt loans	17,863
Non-accrual loans	138,922
Loans with interest or principal repayments more than three months in arrears	66
Restructured loans	525,598
Total	682,452

(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, 1965), 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, 2014 is ¥20,435 million.

3. Assets pledged as collateral

Pursuant to Article 52 (Act No.57, 2007) 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 ¥744,944 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥11,939 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 (Act No.39, 2011), 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	¥977,740 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	—	—	—
Other	Idle assets: 19 items	Land, buildings	115

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, 2014 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	1,130,707,000,000	81,366,000,000	—	1,212,073,000,000

(Note) Increase is due to the issuance of 81,366,000,000 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 Analysis 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 Department, 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, 2014 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥12,756 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 ¥13,746 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, 2014, 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	41,514	41,514	—
(2) Loans and bills discounted Allowance for loan losses ^(*)	6,957,857 (149,783)		
	6,808,074	6,979,612	171,538
Total assets	6,849,588	7,021,126	171,538
(1) Borrowings	5,351,771	5,378,633	26,862
(2) Bonds payable	744,944	750,225	5,280
Total liabilities	6,096,715	6,128,858	32,143

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

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

Assets

(1) Cash and due from banks

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

(2) Loans and bills discounted

All loans, 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}	1,918
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}	10
Total	133,228

(*)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}	41,438	—	—	—	—	—
Loans and bill discounted ^{(*)2}	1,552,354	2,548,529	1,517,765	641,846	340,034	202,424
Total	1,593,793	2,548,529	1,517,765	641,846	340,034	202,424

(*)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 ¥156,821 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 ^(*)	1,727,826	2,193,564	1,072,144	226,186	110,461	21,600
Bonds payable	275,000	295,000	110,000	45,000	20,000	—
Total	2,002,826	2,488,564	1,182,144	271,186	130,461	21,600

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

10. Deferred tax accounting

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

11. Retirement benefits

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

Although the JFC welfare pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plain assets in accordance with the projected benefit obligations ratio.

Under the welfare pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

Defined benefits plan

(1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	188,682 million yen
Service cost	3,597
Interest cost	1,838
Financing from employees	234
Actuarial difference	2,344
Payment of retirement benefits	(7,494)
Prior service cost	(4,805)
Other	(10)
Closing balance of projected benefit obligations	<u>184,386</u>

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	43,249 million yen
Expected return on plan assets	864
Actuarial difference	4,343
Financing from employer	1,901
Financing from employees	234
Payment of retirement benefits	(4,149)
Other	(3)
Closing balance of fair value of plan assets	<u>46,440</u>

(3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	129,815 million yen
Fair value of plan assets	<u>(46,440)</u>
	83,374
Projected benefit obligations of unfunded plan	<u>54,571</u>
Unfunded pension obligations	137,946
Actuarial unrecognized difference	(19,724)
Unrecognized prior service cost	<u>5,832</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>124,054</u>
Provision for retirement benefits	124,054
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>124,054</u>

(4) Net pensions cost and breakdown of included items

Service cost	3,597 million yen
Interest cost	1,838
Expected return on plan assets	(864)
Amount of actuarial difference accounted for as expense	2,517
Amortization of prior service cost accounted for as expense	(698)
Other	—
Net pensions cost related to defined benefits plan	<u>6,390</u>

(5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.

Shares	45%
Debentures	40%
General account	11%
Cash and deposits	<u>4%</u>
Total	<u>100%</u>

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and

forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

(6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

- | | |
|---|------|
| 1) Discount rate | 1.0% |
| 2) Long-term expected rate of return on plan assets | 2.0% |

12. Related party transactions

Related party transactions in the fiscal year ended March 31, 2014 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, 2014
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	99.74 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	81,366	—	—
				Receipts from general account of the national budget	9,970	—	—
				Receipt of funds ^(Note iv)	1,821,000	Borrowings	5,351,781
				Repayment of borrowing	1,881,293		
				Payment of interest on borrowings	20,445	Accrued expenses	4,734
				Guarantee for corporate bonds ^(Note v)	434,944	—	—

(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) 0.26%

(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 ¥1,527 million

-Agency for Natural Resources and Energy

Receipts from the national budget ¥0 million

-Small and Medium Enterprise Agency

Receipts from the national budget ¥3,706 million

(iii) The underwriting of capital increase represents the increase in capital 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, 2014
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	1,147,740 (Notes i and iii)	—	—
					140,000 (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.

13. Per share information

Net assets per share	¥0.49
Net income per share	¥0.00

14. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2014)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	49,077	Borrowed money	1,977,960
Cash	1	Borrowings	1,977,960
Due from banks	49,075	Bonds payable	183,960
Securities	2,030	Entrusted funds	31,490
Stocks	2,030	Other liabilities	13,370
Loans and bills discounted	2,524,111	Accrued expenses	7,010
Loans on deeds	2,524,111	Unearned revenue	3
Other assets	14,169	Lease obligations	344
Prepaid expenses	438	Other	6,011
Accrued income	12,026	Provision for bonuses	536
Agency accounts receivable	721	Provision for directors' bonuses	6
Other	982	Provision for retirement benefits	23,677
Property, plant and equipment	33,984	Provision for directors' retirement benefits	25
Buildings	8,598	Acceptances and guarantees	1,565
Land	24,987	Total liabilities	2,232,593
Lease assets	257	Net assets	
Other	140	Capital stock	373,811
Intangible assets	2,586	Retained earnings	2,655
Software	2,413	Legal retained earnings	2,655
Lease assets	68	Total shareholders' equity	376,466
Other	104		
Customers' liabilities for acceptances and guarantees	1,565		
Allowance for loan losses	(18,463)	Total net assets	376,466
Total assets	2,609,060	Total liabilities and net assets	2,609,060

Statement of Operations (Year ended March 31, 2014)

(Millions of yen)

Ordinary income	58,769
Interest income	42,823
Interest on loans and discounts	42,809
Interest on receivables under resale agreements	4
Interest on deposits with banks	9
Other interest income	0
Fees and commissions	18
Other fees and commissions	18
Receipts from the national budget	12,837
Receipts from general account of the national budget	12,813
Receipts from special account of the national budget	23
Other income	3,090
Recoveries of written-off claims	2,468
Other	621
Ordinary expenses	58,198
Interest expenses	33,437
Interest on call money	1
Interest on borrowings and rediscounts	29,671
Interest on bonds	3,764
Fees and commissions payments	3,964
Other fees and commissions	3,964
Other ordinary expenses	39
Amortization of bond issuance cost	39
General and administrative expenses	15,066
Other expenses	5,691
Provision of allowance for loan losses	5,349
Written-off of loans	215
Other	127
Ordinary profit	570
Extraordinary losses	570
Loss on disposal of noncurrent assets	543
Impairment loss	27
Net income	—

Statement of Changes in Net Assets (Year ended March 31, 2014)

(Millions of yen)

	Shareholders' equity					Total net assets
	Capital stock	Retained earnings			Total shareholders' equity	
		Legal retained earnings	Other retained earnings	Total retained earnings		
			Retained earnings brought forward			
Balance at the beginning of current period	363,122	2,655	—	2,655	365,777	365,777
Changes of items during the period						
Issuance of new shares	10,689				10,689	10,689
Net income (loss)			—	—	—	—
Total changes of items during the period	10,689	—	—	—	10,689	10,689
Balance at the end of current period	373,811	2,655	—	2,655	376,466	376,466

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

(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 ¥12,961 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. In calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Unrecognized prior service costs and unrecognized actuarial differences are calculated as follows:

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.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

The amount to be returned (minimum reserve) under the substitutable portion of the Welfare Pension Fund, as measured on the end of the fiscal year in review, is 5,358 million yen, and, assuming payment of said amount to be returned (minimum reserve) is conducted on the end of the fiscal year under review, the estimated gain generated if Item 46 of the Accounting Standards for Retirement Benefits (Guidance on Accounting Standards No. 25, May 17, 2012; hereinafter "Guidance on Retirement Benefits") is applied will be 9,389 million yen.

(v) Provision for directors' retirement benefits

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

(f) Consumption and other taxes

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

Change in Presentation Method

Accounting Standard for Retirement Benefits

The Accounting Standard for Retirement Benefits (Guidance on Accounting Standards No. 26, May 17, 2012, hereinafter "Retirement Benefit Accounting Standards") and Guidance on Retirement Benefits (hereinafter "Retirement Benefit Accounting Standards, etc.") have been applied (excluding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Retirement Benefit Accounting Standards Item No. 67) from the end of the fiscal year in review, and the presentation method for retirement benefits-related notes has been changed.

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on revised determination of projected retirement benefit obligations and current service cost and enhanced information disclosure.

(ii) Scheduled date of application

JFC is scheduled to apply above revised determination of projected retirement benefit obligations and current service cost 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, 2014 Account for Agriculture, Forestry, Fisheries and Food Business Operations
Bankrupt loans	793
Non-accrual loans	69,291
Loans with interest or principal repayments more than three months in arrears	1,474
Restructured loans	18,114
Total	89,674

(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, 1965), 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, 2014 is ¥66,781 million.

4. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), 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 ¥183,960 million).

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥2,003 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 (Act No.39, 2011), 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	¥977,740 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)
Tokyo metropolitan area	—	—	—
Other	Idle assets:1 item	Buildings	27

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, 2014 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	363,122,000,000	10,689,000,000	—	373,811,000,000

(Note) Increase is due to the issuance of 10,689,000,000 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 Analysis Division, 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, 2014 will cause the fair value after netting of the financial assets and financial liabilities held in this account to decrease by ¥4,478 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to increase by ¥663 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, 2014, 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	49,077	49,077	—
(2) Loans and bills discounted Allowance for loan losses ^(*)	2,521,809 (17,760)		
	2,504,049	2,677,524	173,474
Total assets	2,553,126	2,726,601	173,474
(1) Borrowings	1,977,960	2,082,242	104,282
(2) Bonds payable	183,960	200,666	16,705
(3) Entrusted funds	31,490	27,668	(3,822)
Total liabilities	2,193,411	2,310,576	117,165

(*) 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 except some capital-related subordinated loans have a fixed interest rate and fair value is calculated for each borrower's status 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
1) Unlisted stocks ^{(*)1}	2,030
2) Loans on deeds (subordinated capital loans) ^{(*)2}	2,301
Total	4,331

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

(*)2) For loans on deeds (subordinated capital loans) to which the challenge-oriented capital lending scheme for new sectors, etc. has been applied, under this scheme the interest rate is not determined at the time of lending but is applied according to the results of determination of success, based on the annual business performance of debtors. As such, due to inability to rationally estimate cash flow, and the recognized extreme difficulty of assessing market price, these loans on deeds are not subject to market price disclosure.

(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 ^(*)	49,075	—	—	—	—	—
Loans and bills discounted ^(**)	259,651	460,706	371,637	309,246	352,882	699,107
Total	308,727	460,706	371,637	309,246	352,882	699,107

(*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 ¥70,880 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	163,556	355,001	342,103	271,074	328,837	517,386
Bonds payable	13,000	26,000	—	—	45,000	100,000
Entrusted funds	—	—	—	543	2,893	28,053
Total	176,556	381,001	342,103	271,617	376,731	645,440

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, 2014 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	10,340	10,340	—

13. Deferred tax accounting

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

14. Retirement benefits

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

Although the JFC welfare pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plain assets in accordance with the projected benefit obligations ratio.

Under the welfare pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

Defined benefits plan

(1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	36,245 million yen
Service cost	719
Interest cost	353
Financing from employees	46
Actuarial difference	297
Payment of retirement benefits	(1,513)
Prior service cost	(899)
Other	(0)
Closing balance of projected benefit obligations	<u>35,248</u>

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	8,447 million yen
Expected return on plan assets	168
Actuarial difference	926
Financing from employer	380
Financing from employees	46
Payment of retirement benefits	(947)
Other	(1)
Closing balance of fair value of plan assets	<u>9,020</u>

(3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	25,215 million yen
Fair value of plan assets	<u>(9,020)</u>
	16,194
Projected benefit obligations of unfunded plan	<u>10,032</u>
Unfunded pension obligations	26,227
Actuarial unrecognized difference	(3,507)
Unrecognized prior service cost	957
Net amount of liabilities and assets recorded on the balance sheet	<u>23,677</u>
Provision for retirement benefits	23,677
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>23,677</u>

(4) Net pensions cost and breakdown of included items

Service cost	719 million yen
Interest cost	353
Expected return on plan assets	(168)
Amount of actuarial difference accounted for as expense	477
Amortization of prior service cost accounted for as expense	(111)
Other	—
Net pensions cost related to defined benefits plan	<u>1,270</u>

(5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.

Shares	45%
Debentures	40%
General account	11%
Cash and deposits	4%
Total	<u>100%</u>

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

(6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	1.0%
2) Long-term expected rate of return on plan assets	2.0%

15. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥1,807 million
Profit on Investment in affiliates (equity method)	¥15 million

16. Related party transactions

Related party transactions in the fiscal year ended March 31, 2014 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, 2014
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	94.16 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	3,198	—	—
				Receipt of funds ^(Note iv)	180,000	Borrowings	1,926,123
				Repayment of borrowing	155,596		
				Payment of interest on borrowings	29,669	Accrued expenses	5,415
				Deposit of funds ^(Note v)	13,000	—	—
				Refund of funds	19,500	—	—

(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) 5.84 %

(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 ¥7,491 million

-Ministry of Agriculture, Forestry and Fisheries
Receipts from the national budget ¥12,837 million

-Ministry of Agriculture, Forestry and Fisheries
Repayment of borrowed money ¥10,331 million

(iii) The underwriting of capital increase represents the increase in capital 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) 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, 2014
Principal shareholder (corporates) holding the majority of voting rights	Independent administrative agency Agriculture, Forestry and Fisheries Credit Fund	—	Acceptance of trusted fund	Receipts of entrusted funds ^(Note i)	580	Entrusted fund	31,490
				Repayment of entrusted fund	5,587		
	JBIC	—	Relation of joint and several liability	Joint and several liability	1,147,740 ^(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 (Act No.51, 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	¥1.0
Net income per share	¥0.0

18. Subsequent events

Common stock offering

The Board of Directors of JFC resolved on May 20, 2014 to issue new shares as of June 13, 2014, with underwriting by the Ministry of Finance (Minister of Finance) and the Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries).

Overview of issuance of new shares

(Unit: yen)

Type and number of shares	5,777,000,000 shares of common stock
Issue price	1 per share
Total issue amount	5,777,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	0 per share
Total amount of incorporated into Capital stock	5,777,000,000
Total amount of incorporated into Legal capital surplus	0
Payment date	June 13, 2014
Purpose of use	Uses related to effective unsecured and unguaranteed loans of the Agricultural Employment Fund for Youth, Etc. and the Fisheries Management Improvement Support Loan; and uses related to effective unsecured and unguaranteed loans of Great East Japan Earthquake disaster recovery and restoration-related funds.

Balance Sheet (as of March 31, 2014)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	65,924	Borrowed money	3,962,294
Cash	2	Borrowings	3,962,294
Due from banks	65,921	Bonds payable	1,129,593
Securities	105	Other liabilities	7,253
Corporate bonds	105	Accrued expenses	5,834
Stocks	0	Unearned revenue	21
Loans and bills discounted	6,202,711	Lease obligations	404
Loans on deeds	6,202,711	Other	993
Other assets	6,605	Provision for bonuses	952
Prepaid expenses	431	Provision for directors' bonuses	5
Accrued income	3,977	Provision for retirement benefits	41,755
Other	2,195	Provision for directors' retirement benefits	8
Property, plant and equipment	49,055	Acceptances and guarantees	2,176
Buildings	12,705	Total liabilities	5,144,039
Land	35,821	Net assets	
Lease assets	230	Capital stock	1,347,985
Construction in progress	0	Retained earnings	(469,398)
Other	296	Other retained earnings	(469,398)
Intangible assets	4,516	Retained earnings brought forward	(469,398)
Software	1,534	Total shareholders' equity	878,586
Lease assets	154		
Other	2,828		
Customers' liabilities for acceptances and guarantees	2,176		
Allowance for loan losses	(308,468)	Total net assets	878,586
Total assets	6,022,626	Total liabilities and net assets	6,022,626

Statement of Operations (Year ended March 31, 2014)

(Millions of yen)

Ordinary income	114,051
Interest income	97,724
Interest on loans and discounts	97,606
Interest and dividends on securities	104
Interest on receivables under resale agreements	5
Interest on deposits with banks	6
Other interest income	0
Fees and commissions	13
Other fees and commissions	13
Receipts from the national budget	14,343
Receipts from general account of the national budget	14,338
Receipts from special account of the national budget	4
Other income	1,969
Recoveries of written-off claims	315
Gain on sales of stocks and other securities	31
Other	1,623
Ordinary expenses	128,627
Interest expenses	32,204
Interest on call money	65
Interest on borrowings and rediscounts	21,340
Interest on bonds	10,798
Fees and commissions payments	100
Other fees and commissions	100
Other ordinary expenses	386
Amortization of bond issuance cost	386
General and administrative expenses	26,342
Other expenses	69,593
Provision of allowance for loan losses	65,119
Written-off of loans	3,478
Other	995
Ordinary loss	14,576
Extraordinary losses	6
Loss on disposal of noncurrent assets	6
Net loss	14,582

Statement of Changes in Net Assets (Year ended March 31, 2014)

(Millions of yen)

	Shareholders' equity				Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	
		Other retained earnings	Total retained earnings		
	Retained earnings brought forward				
Balance at the beginning of current period	1,222,585	(454,815)	(454,815)	767,769	767,769
Changes of items during the period					
Issuance of new shares	125,400			125,400	125,400
Net income (loss)		(14,582)	(14,582)	(14,582)	(14,582)
Total changes of items during the period	125,400	(14,582)	(14,582)	110,817	110,817
Balance at the end of current period	1,347,985	(469,398)	(469,398)	878,586	878,586

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

(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 ¥105,979 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. In calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Unrecognized prior service costs and unrecognized actuarial differences are calculated as follows:

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.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

The amount to be returned (minimum reserve) under the substitutable portion of the Welfare Pension Fund, as measured on the end of the fiscal year in review, is 9,319 million yen, and, assuming payment of said amount to be returned (minimum reserve) is conducted on the end of the fiscal year under review, the estimated gain generated if Item 46 of the Accounting Standards for Retirement Benefits (Guidance on Accounting Standards No. 25, May 17, 2012; hereinafter "Guidance on Retirement Benefits") is applied will be 16,751 million yen.

(v) Provision for directors' retirement benefits

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

(f) Consumption and other taxes

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

Change in Presentation Method

Accounting Standard for Retirement Benefits

The Accounting Standard for Retirement Benefits (Guidance on Accounting Standards No. 26, May 17, 2012, hereinafter "Retirement Benefit Accounting Standards") and Guidance on Retirement Benefits (hereinafter "Retirement Benefit Accounting Standards, etc.") have been applied (excluding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Retirement Benefit Accounting Standards Item No. 67) from the end of the fiscal year in review, and the presentation method for retirement benefits-related notes has been changed.

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on revised determination of projected retirement benefit obligations and current service cost and enhanced information disclosure.

(ii) Scheduled date of application

JFC is scheduled to apply above revised determination of projected retirement benefit obligations and current service cost 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, 2014 Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)
Bankrupt loans	13,054
Non-accrual loans	563,517
Loans with interest or principal repayments more than three months in arrears	16
Restructured loans	83,618
Total	660,205

(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, 1965), 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, 2014 is ¥46,061 million.

3. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), 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 ¥1,129,593 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥4,051 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 (Act No.39, 2011), 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	¥977,740 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, 2014 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	1,222,585,000,000	125,400,000,000	—	1,347,985,000,000

(Note) Increase is due to the issuance of 125,400,000,000 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 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, (4) Partial guarantee of loan claims for private sector financial institutions and guarantee of securitized financial products, and (5) Acquisition of shares or equity held by SMEs. 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 of borrowers, 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-type arrangement has 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 and adjusting the borrowing period.

(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, 2014 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥29,489 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 ¥30,702 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, 2014, 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	65,924	65,924	—
(2) Securities			
Held-to-maturity debt securities	105	105	—
(3) Loans and bills discounted	5,982,456		
Allowance for loan losses ^(*)	(229,854)		
	5,752,601	6,023,315	270,713
Total assets	5,818,631	6,089,345	270,713
(1) Borrowings	3,948,569	3,988,171	39,602
(2) Bonds payable	1,129,593	1,145,615	16,021
Total liabilities	5,078,162	5,133,786	55,623

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

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

Assets

(1) Cash and due from banks

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

(2) Securities

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

Notes for securities by purpose of holding are found in "9. Market Value of Securities".

(3) Loans and bills discounted

All loans, with the exception of subordinated capital loans, have a fixed interest rate and fair value is calculated for all loans other than bankruptcy loans and substantially bankruptcy loans by discounting the risk-adjusted principal and interest by the risk free rate (the standard Japanese government bond rate) based on the type of borrower.

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) Unlisted stocks ^(*)	0
2) Loans on deeds (subordinated capital loans) ^(*)	220,254
3) Borrowings from the FILP special account (investment account) of the national budget ^(*)	13,725
Total	233,980

(*)1) Since unlisted stocks have no market value, it is extremely difficult to ascertain their current price. Thus, they are not subject to current price disclosure.

(*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)	65,921	—	—	—	—	—
Securities ^(*2)	86	18	0	—	—	—
Held-to-maturity debt securities						
Loans and bill discounted ^(*2)	1,477,252	2,190,694	1,259,807	538,718	381,766	285,093
Total	1,543,260	2,190,712	1,259,808	538,718	381,766	285,093

(*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 ¥69,377 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	1,049,904	1,455,261	872,509	368,630	215,990	—
Bonds payable	230,000	500,000	230,000	105,000	65,000	—
Total	1,279,904	1,955,261	1,102,509	473,630	280,990	—

9. Market value of securities

The market value of securities at March 31, 2014 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	105	105	—

(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)
Stocks	0

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

10. Deferred tax accounting

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

11. Retirement benefits

JFC has a defined benefit pension plan comprising of a welfare pension fund plan and a lump-sum severance indemnity plan. Although the JFC welfare pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plain assets in accordance with the projected benefit obligations ratio.

Under the welfare pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

Defined benefits plan

(1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	65,330 million yen
Service cost	1,379
Interest cost	632
Financing from employees	87
Actuarial difference	1,061
Payment of retirement benefits	(2,682)
Prior service cost	(1,838)
Other	(134)
Closing balance of projected benefit obligations	<u>63,835</u>

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	15,224 million yen
Expected return on plan assets	304
Actuarial difference	1,498
Financing from employer	694
Financing from employees	87
Payment of retirement benefits	(1,623)
Other	(22)
Closing balance of fair value of plan assets	<u>16,163</u>

(3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	45,181 million yen
Fair value of plan assets	<u>(16,163)</u>
	29,017
Projected benefit obligations of unfunded plan	<u>18,654</u>
Unfunded pension obligations	47,672
Actuarial unrecognized difference	(8,377)
Unrecognized prior service cost	2,460
Net amount of liabilities and assets recorded on the balance sheet	<u>41,755</u>
Provision for retirement benefits	<u>41,755</u>
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>41,755</u>

(4) Net pensions cost and breakdown of included items

Service cost	1,379 million yen
Interest cost	632
Expected return on plan assets	(304)
Amount of actuarial difference accounted for as expense	1,048
Amortization of prior service cost accounted for as expense	(318)
Other	—
Net pensions cost related to defined benefits plan	<u>2,437</u>

(5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.

Shares	45%
Debentures	40%
General account	11%
Cash and deposits	4%
Total	<u>100%</u>

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

(6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	1.0%
2) Long-term expected rate of return on plan assets	2.0%

12. Related party transactions

Related party transactions in the fiscal year ended March 31, 2014 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, 2014
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	90.2 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	81,900	—	—
				Receipt of funds ^(Note iv)	1,085,500	Borrowings	3,962,294
				Repayment of borrowing	1,104,336		
				Payment of interest on borrowings	21,340	Accrued expenses	4,146
				Guarantee for corporate bonds ^(Note v)	759,597	—	—

(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) 9.8%
- (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 ¥43,500 million
-Agency for Natural Resources and Energy
Receipts from the national budget ¥4 million
-Small and Medium Enterprise Agency
Receipts from the national budget ¥14,338 million
- (iii) The underwriting of capital increase represents the increase in capital 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, 2014
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	1,147,740 ^(Notes i and iii)	—	—
					580,000 ^(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.

13. Per share information

Net assets per share	¥0.65
Net loss per share	¥0.01

14. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2014)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	3,457	Other liabilities	0
Cash	0	Accrued expenses	0
Due from banks	3,457	Other	0
Securities	21,047	Provision for bonuses	0
Government bonds	21,047	Provision for directors' bonuses	0
Other assets	10	Provision for retirement benefits	18
Accrued income	10	Provision for directors' retirement benefits	0
Other	0	Total liabilities	19
		Net assets	
		Capital stock	24,476
		Retained earnings	20
		Other retained earnings	20
		Retained earnings brought forward	20
		Total shareholders' equity	24,496
		Total net assets	24,496
Total assets	24,516	Total liabilities and net assets	24,516

Statement of Operations (Year ended March 31, 2014)

(Millions of yen)

Ordinary income	385
Interest income	346
Interest and dividends on securities	344
Interest on deposits with banks	2
Fees and commissions	4
Other fees and commissions	4
Other income	35
Reversal of allowance for loan losses	21
Other	13
Ordinary expenses	38
Fees and commissions payments	6
Other fees and commissions	6
Other ordinary expenses	0
Amortization of bond issuance cost	0
General and administrative expenses	32
Ordinary profit	346
Net income	346

Statement of Changes in Net Assets (Year ended March 31, 2014)

(Millions of yen)

	Shareholders' equity				Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	
		Other retained earnings	Total retained earnings		
	Retained earnings brought forward				
Balance at the beginning of current period	24,476	(326)	(326)	24,149	24,149
Changes of items during the period					
Net income (loss)		346	346	346	346
Total changes of items during the period	—	346	346	346	346
Balance at the end of current period	24,476	20	20	24,496	24,496

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. In calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Unrecognized prior service costs and unrecognized actuarial differences are calculated as follows:

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.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

The amount to be returned (minimum reserve) under the substitutable portion of the Welfare Pension Fund, as measured on the end of the fiscal year in review, is 1 million yen, and, assuming payment of said amount to be returned (minimum reserve) is conducted on the end of the fiscal year under review, the estimated gain generated if Item 46 of the Accounting Standards for Retirement Benefits (Guidance on Accounting Standards No. 25, May 17, 2012; hereinafter "Guidance on Retirement Benefits") is applied will be 4 million yen.

(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.

Change in Presentation Method

Accounting Standard for Retirement Benefits

The Accounting Standard for Retirement Benefits (Guidance on Accounting Standards No. 26, May 17, 2012, hereinafter "Retirement Benefit Accounting Standards") and Guidance on Retirement Benefits (hereinafter "Retirement Benefit Accounting Standards, etc.") have been applied (excluding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Retirement Benefit Accounting Standards Item No. 67) from the end of the fiscal year in review, and the presentation method for retirement benefits-related notes has been changed.

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on revised determination of projected retirement benefit obligations and current service cost and enhanced information disclosure.

(ii) Scheduled date of application

JFC is scheduled to apply above revised determination of projected retirement benefit obligations and current service cost 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 (Act No.57, 2007), 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 (Act No.39, 2011), 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 ¥977,740 million

4. Restriction in dividend distribution

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

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

*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 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, 2014, 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, 2014 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥ 72 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 ¥ 320 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, 2014, 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	3,457	3,457	—
(2) Securities			
Held-to-maturity debt securities	21,047	21,976	928
Total assets	24,505	25,433	928

(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) 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 (*)	3,457	—	—	—	—	—
Securities						
Held-to-maturity debt securities	—	20,983	—	—	—	—
Total	3,457	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" on the balance sheet, transferable deposits in "Due from banks" are also included.

The market value of securities at March 31, 2014 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	21,047	21,976	928

(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	2,800	2,800	—

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. Although the JFC welfare pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plain assets in accordance with the projected benefit obligations ratio.

Under the welfare pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

Defined benefits plan

(1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	31 million yen
Service cost	1
Interest cost	0
Financing from employees	0
Actuarial difference	(1)
Payment of retirement benefits	(0)
Prior service cost	(1)
Other	(0)
Closing balance of projected benefit obligations	<u>30</u>

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	5 million yen
Expected return on plan assets	0
Actuarial difference	(0)
Financing from employer	0
Financing from employees	0
Payment of retirement benefits	—
Other	(0)
Closing balance of fair value of plan assets	<u>5</u>

(3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	16 million yen
Fair value of plan assets	<u>(5)</u>
	10
Projected benefit obligations of unfunded plan	<u>13</u>
Unfunded pension obligations	24
Actuarial unrecognized difference	(9)
Unrecognized prior service cost	<u>3</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>18</u>
Provision for retirement benefits	<u>18</u>
Prepaid pension cost	<u>—</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>18</u>

(4) Net pensions cost and breakdown of included items

Service cost	1 million yen
Interest cost	0
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	1
Amortization of prior service cost accounted for as expense	(0)
Other	—
Net pensions cost related to defined benefits plan	<u>2</u>

(5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.

Shares	45%
Debentures	40%
General account	11%
Cash and deposits	<u>4%</u>
Total	<u>100%</u>

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

(6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	1.0%
2) Long-term expected rate of return on plan assets	2.0%

10. Related party transactions

Related party transactions in the fiscal year ended March 31, 2014 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, 2014
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	1,147,740 (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 ¥1.00

Net income per share ¥0.01

12. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2014)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	3,193,645	Reserve for insurance policy liabilities	1,371,312
Cash	0	Other liabilities	1,444
Due from banks	3,193,645	Accrued expenses	23
Other assets	24,908	Lease obligations	410
Prepaid expenses	663	Other	1,010
Accrued income	450	Provision for bonuses	182
Other	23,794	Provision for directors' bonuses	1
Property, plant and equipment	19,685	Provision for retirement benefits	9,590
Buildings	5,456	Provision for directors' retirement benefits	8
Land	13,968	Total liabilities	1,382,539
Lease assets	198	Net assets	
Other	62	Capital surplus	1,870,208
Intangible assets	1,280	Legal capital surplus	1,870,208
Software	210	Retained earnings	(13,229)
Lease assets	192	Other retained earnings	(13,229)
Other	876	Retained earnings brought forward	(13,229)
		Total shareholders' equity	1,856,979
		Total net assets	1,856,979
Total assets	3,239,518	Total liabilities and net assets	3,239,518

Statement of Operations (Year ended March 31, 2014)

(Millions of yen)

Ordinary income	415,098
Interest income	2,597
Interest on receivables under resale agreements	1
Interest on deposits with banks	2,596
Insurance premiums and other	411,844
Insurance premiums	143,243
Receipts of burden charges under the Responsibility-sharing System	16,983
Reversal of reserve for insurance policy liabilities	251,616
Other income	657
Other	657
Ordinary expenses	428,327
Expenses on insurance claims and other	419,688
Expenses on insurance claims	537,092
Recoveries of insurance claims	(117,404)
General and administrative expenses	5,063
Other expenses	3,575
Other	3,575
Ordinary loss	13,228
Extraordinary losses	0
Loss on disposal of noncurrent assets	0
Net loss	13,229

Statement of Changes in Net Assets (Year ended March 31, 2014)

(Millions of yen)

	Shareholders' equity					Total net assets
	Capital surplus		Retained earnings		Total shareholders' equity	
	Legal capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings		
Balance at the beginning of current period	1,996,932	1,996,932	(231,423)	(231,423)	1,765,508	1,765,508
Changes of items during the period						
Issuance of new shares	104,700	104,700			104,700	104,700
Reversal of legal capital surplus (Deficit disposition)	(231,423)	(231,423)	231,423	231,423		
Net income (loss)			(13,229)	(13,229)	(13,229)	(13,229)
Total changes of items during the period	(126,723)	(126,723)	218,194	218,194	91,470	91,470
Balance at the end of current period	1,870,208	1,870,208	(13,229)	(13,229)	1,856,979	1,856,979

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

In principle, JFC values securities according to the market value method based on closing date market value and other factors.

(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: 5 years to 50 years

Other: 2 years to 15 years

(ii) Intangible assets (except for lease assets)

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

(iii) Lease assets

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

(c) Accounting policy for reserves

(i) Allowance for loan losses

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

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments, which 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. In calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Unrecognized prior service costs and unrecognized actuarial differences are calculated as follows:

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.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

The amount to be returned (minimum reserve) under the substitutable portion of the Welfare Pension Fund, as measured on the end of the fiscal year in review, is 2,145 million yen, and, assuming payment of said amount to be returned (minimum reserve) is conducted on the end of the fiscal year under review, the estimated gain generated if Item 46 of the Accounting Standards for Retirement Benefits (Guidance on Accounting Standards No. 25, May 17, 2012; hereinafter "Guidance on Retirement Benefits") is applied will be 3,931 million yen.

(v) Provision for directors' retirement benefits

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

(d) Accounting policies for reserve for insurance policy liabilities

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

(i) **Policy reserve**

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

(ii) **Outstanding claims reserve**

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

(e) **Consumption and other taxes**

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

Change in Presentation Method

Accounting Standard for Retirement Benefits

The Accounting Standard for Retirement Benefits (Guidance on Accounting Standards No. 26, May 17, 2012, hereinafter "Retirement Benefit Accounting Standards") and Guidance on Retirement Benefits (hereinafter "Retirement Benefit Accounting Standards, etc.") have been applied (excluding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Retirement Benefit Accounting Standards Item No. 67) from the end of the fiscal year in review, and the presentation method for retirement benefits-related notes has been changed.

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits

(i) **Overview**

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on revised determination of projected retirement benefit obligations and current service cost and enhanced information disclosure.

(ii) **Scheduled date of application**

JFC is scheduled to apply above revised determination of projected retirement benefit obligations and current service cost 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 (Act No.57, 2007), 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 ¥1,232 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 (Act No. 39, 2011), 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 ¥977,740 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 ¥3,548 million.

7. Issued shares

For the fiscal year ended March 31, 2014, 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	5,446,827,407,741	104,700,000,000	—	5,551,527,407,741

(Note) Increase is due to the issuance of 104,700,000,000 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, 2014, 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	3,193,645	3,194,507	861

(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, current price 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 (*)	3,148,645	45,000	—	—	—	—

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

9. Market value of securities

Negotiable certificates of deposit within "Due from banks" on the balance sheet are included.

Other securities (as of March 31, 2014)

	Type	Amount recorded on balance sheet (million yen)	Acquisition cost (million yen)	Difference (million yen)
Items for which amount recorded on the balance sheet does not exceed acquisition cost	Other	246,000	246,000	—

10. Deferred tax accounting

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

11. Retirement benefits

JFC has a defined benefit pension plan comprising of a welfare pension fund plan and a lump-sum severance indemnity plan. Although the JFC welfare pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plain assets in accordance with the projected benefit obligations ratio.

Under the welfare pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

Defined benefits plan

(1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	14,410 million yen
Service cost	266
Interest cost	142
Financing from employees	15
Actuarial difference	108
Payment of retirement benefits	(468)
Prior service cost	(329)
Other	159
Closing balance of projected benefit obligations	<u>14,305</u>

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	3,417 million yen
Expected return on plan assets	68
Actuarial difference	362
Financing from employer	128
Financing from employees	15
Payment of retirement benefits	(338)
Other	29
Closing balance of fair value of plan assets	<u>3,685</u>

(3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	10,301 million yen
Fair value of plan assets	<u>(3,685)</u>
	6,616
Projected benefit obligations of unfunded plan	<u>4,003</u>
Unfunded pension obligations	10,619
Actuarial unrecognized difference	(1,431)
Unrecognized prior service cost	402
Net amount of liabilities and assets recorded on the balance sheet	<u>9,590</u>
Provision for retirement benefits	9,590
Prepaid pension cost	<u>—</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>9,590</u>

(4) Net pensions cost and breakdown of included items

Service cost	266 million yen
Interest cost	142
Expected return on plan assets	(68)
Amount of actuarial difference accounted for as expense	196
Amortization of prior service cost accounted for as expense	(50)
Other	—
Net pensions cost related to defined benefits plan	<u>486</u>

(5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.

Shares	45%
Debentures	40%
General account	11%
Cash and deposits	4%
Total	<u>100%</u>

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

- (6) Items related to actuarial calculation bases
 Major actuarial calculation bases at the end of the fiscal year in review
- | | |
|---|------|
| 1) Discount rate | 1.0% |
| 2) Long-term expected rate of return on plan assets | 2.0% |

12. Related party transactions

Related party transactions in the fiscal year ended March 31, 2014 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, 2014
Principal shareholder	Ministry of Finance (Minister of Finance)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note i)	104,700	—	—
				Deposit of funds ^(Note ii)	8,523,700	Due from banks	2,844,800
				Refund of funds	8,745,400		

(Notes)

- (i) The underwriting of capital increase represents the increase in capital 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, 2014
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	1,147,740 (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.

13. Per share information

Net assets per share	¥0.33
Net loss per share	¥0.00

14. Subsequent events

Common stock offering

The Board of Directors of JFC resolved on May 20, 2014 to issue new shares as of June 13, 2014, with underwriting by the Ministry of Finance (Minister of Finance).

Overview of issuance of new shares

(Unit: yen)

Type and number of shares	58,700,000,000 shares of common stock
Issue price	1 per share
Total issue amount	58,700,000,000
Amount incorporated into Capital stock	0 per share
Amount incorporated into Legal capital surplus	1 per share
Total amount of incorporated into Capital stock	0
Total amount of incorporated into Legal capital surplus	58,700,000,000
Payment date	June 13, 2014
Purpose of use	Augmentation of insurance platforms and stable system management

Balance Sheet (as of March 31, 2014)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	378,625	Borrowed money	4,911,541
Due from banks	378,625	Borrowings	4,911,541
Securities	436,972	Other liabilities	7,636
Government bonds	436,972	Accrued expenses	1,109
Loans and bills discounted	4,911,541	Unearned revenue	6,489
Loans on deeds	4,911,541	Lease obligations	0
Other assets	1,191	Other	35
Prepaid expenses	0	Provision for bonuses	5
Accrued income	1,165	Provision for directors' bonuses	0
Other	26	Provision for retirement benefits	141
Property, plant and equipment	0	Provision for directors' retirement benefits	0
Lease assets	0	Reserve for compensation losses	37,938
Intangible assets	60	Total liabilities	4,957,262
Software	60	Net assets	
Lease assets	0	Capital stock	932,426
Other	0	Retained earnings	(161,295)
		Other retained earnings	(161,295)
		Retained earnings brought forward	(161,295)
		Total shareholders' equity	771,130
		Total net assets	771,130
Total assets	5,728,392	Total liabilities and net assets	5,728,392

Statement of Operations (Year ended March 31, 2014)

(Millions of yen)

Ordinary income	47,522
Interest income	41,923
Interest on loans and discounts	40,927
Interest and dividends on securities	299
Interest on receivables under resale agreements	0
Interest on deposits with banks	433
Other interest income	262
Fees and commissions	3,675
Fees and commissions on compensation security contract	3,675
Receipts from the national budget	603
Receipts from general account of the national budget	603
Other income	1,319
Gain on reversal of allowance for indemnity	69
Other	1,250
Ordinary expenses	63,852
Interest expenses	41,189
Interest on borrowings and rediscounts	40,927
Other interest expenses	262
Fees and commissions payments	11,385
Expense on compensation security contract	11,385
Other ordinary expenses	10,925
Interest subsidies	10,925
General and administrative expenses	212
Other expenses	139
Other	139
Ordinary loss	16,329
Net loss	16,329

Statement of Changes in Net Assets (Year ended March 31, 2014)

(Millions of yen)

	Shareholders' equity				Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	
		Other retained earnings	Total retained earnings		
		Retained earnings brought forward			
Balance at the beginning of current period	895,358	(144,966)	(144,966)	750,391	750,391
Changes of items during the period					
Issuance of new shares	37,068			37,068	37,068
Net income (loss)		(16,329)	(16,329)	(16,329)	(16,329)
Total changes of items during the period	37,068	(16,329)	(16,329)	20,738	20,738
Balance at the end of current period	932,426	(161,295)	(161,295)	771,130	771,130

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. In calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Unrecognized prior service costs and unrecognized actuarial differences are calculated as follows:

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.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

The amount to be returned (minimum reserve) under the substitutable portion of the Welfare Pension Fund, as measured on the end of the fiscal year in review, is 15 million yen, and assuming payment of said amount to be returned (minimum reserve) is conducted on the end of the fiscal year under review, the estimated gain generated if Item 46 of the Accounting Standards for Retirement Benefits (Guidance on Accounting Standards No. 25, May 17, 2012; hereinafter "Guidance on Retirement Benefits") is applied will be 39 million yen.

(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.

Change in Presentation Method

Accounting Standard for Retirement Benefits

The Accounting Standard for Retirement Benefits (Guidance on Accounting Standards No. 26, May 17, 2012, hereinafter "Retirement Benefit Accounting Standards") and Guidance on Retirement Benefits (hereinafter "Retirement Benefit Accounting Standards, etc.") have been applied (excluding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Retirement Benefit Accounting Standards Item No. 67) from the end of the fiscal year in review, and the presentation method for retirement benefits-related notes has been changed.

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on revised determination of projected retirement benefit obligations and current service cost and enhanced information disclosure.

(ii) Scheduled date of application

JFC is scheduled to apply above revised determination of projected retirement benefit obligations and current service cost 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, 2014.

"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, 1965), 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 (Act No.57, 2007), 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 (Act No.39, 2011), 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 ¥977,740 million

6. Amount of compensation security contract

	(Millions of yen)
The total amount of compensation outstanding (102,364 contracts)	2,793,332
Reserve for compensation	37,938
Net amount	2,755,394

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, 2014, 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	895,358,000,000	37,068,000,000	—	932,426,000,000

(Note) Increase is due to the issuance of 37,068,000,000 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, 2014, 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	378,625	378,625	—
(2) Securities			
Held-to-maturity debt securities	436,972	436,972	—
(3) Loans and bills discounted	4,911,541	4,986,189	74,648
Total assets	5,727,139	5,801,787	74,648
Borrowings	4,911,541	5,000,841	89,300
Total liabilities	4,911,541	5,000,841	89,300

(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: ¥2,793,332 million

Compensation loss reserve: ¥37,938 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 (*)	378,625	—	—	—	—	—
Securities						
Held-to-maturity debt securities	437,000	—	—	—	—	—
Loans and bills discounted	1,005,853	1,840,196	988,076	516,731	412,112	148,573
Total	1,821,478	1,840,196	988,076	516,731	412,112	148,573

(*) 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	1,005,853	1,840,196	988,076	516,731	412,112	148,573

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, 2014 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	436,972	436,972	—

(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	377,000	377,000	—

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. Although the JFC welfare pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plain assets in accordance with the projected benefit obligations ratio.

Under the welfare pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

Defined benefits plan

(1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	240 million yen
Service cost	7
Interest cost	2
Financing from employees	0
Actuarial difference	(4)
Payment of retirement benefits	—
Prior service cost	(15)
Other	(9)
Closing balance of projected benefit obligations	<u>221</u>

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	42 million yen
Expected return on plan assets	0
Actuarial difference	(5)
Financing from employer	3
Financing from employees	0
Payment of retirement benefits	—
Other	(1)
Closing balance of fair value of plan assets	<u>41</u>

(3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	115 million yen
Fair value of plan assets	<u>(41)</u>
	74
Projected benefit obligations of unfunded plan	<u>105</u>
Unfunded pension obligations	179
Actuarial unrecognized difference	(54)
Unrecognized prior service cost	15
Net amount of liabilities and assets recognized on the balance sheet	<u>141</u>
Provision for retirement benefits	141
Prepaid pension cost	—
Net amount of liabilities and assets recognized on the balance sheet	<u>141</u>

(4) Net pensions cost and breakdown of included items

Service cost	7 million yen
Interest cost	2
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	6
Amortization of prior service cost accounted for as expense	(1)
Other	—
Net pensions cost related to defined benefits plan	<u>13</u>

(5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.

Shares	45%
Debentures	40%
General account	11%
Cash and deposits	4%
Total	<u>100%</u>

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

(6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	1.0%
2) Long-term expected rate of return on plan assets	2.0%

13. Related party transactions

Related party transactions in the fiscal year ended March 31, 2014 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, 2014
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	84.69 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	11,068	—	—
				Receipts from general account of the national budget	64	—	—
				Receipt of funds ^(Note iv)	559,379	Borrowings	4,911,541
				Repayment of borrowings	1,009,932		
				Payment of interest on borrowings	41,189	Accrued expenses	1,109
	Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry) (Notes i and ii)	15.18 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	26,000	—	—

(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) 0.13%

(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

Receipts from the national budget ¥42 million

- Small and Medium Enterprise Agency

Receipts from the national budget ¥496 million

(iii) The underwriting of capital increase represents the increase in capital 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, 2014
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	1,147,740 (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 ¥0.82

Net loss per share ¥0.01

15. Subsequent events

Common stock offering

The Board of Directors of JFC resolved on May 20, 2014 to issue new shares as of June 13, 2014, with underwriting by the Ministry of Finance (Minister of Finance).

Overview of issuance of new shares

(Unit: yen)

Type and number of shares	68,000,000 shares of common stock
Issue price	1 per share
Total issue amount	68,000,000
Amount incorporated into Capital stock	1 per share
Amount incorporated into Legal capital surplus	0 per share
Total amount of incorporated into Capital stock	68,000,000
Total amount of incorporated into Legal capital surplus	0
Payment date	June 13, 2014
Purpose of use	Act as resource for credit insurance underwriting

Balance Sheet (as of March 31, 2014)

(Millions of yen)

Assets		Liabilities	
Cash and due from banks	311	Borrowed money	62,318
Due from banks	311	Borrowings	62,318
Loans and bills discounted	62,318	Other liabilities	191
Loans on deeds	62,318	Accrued expenses	135
Other assets	186	Lease obligations	0
Accrued income	135	Other	55
Other	50	Provision for bonuses	2
Property, plant and equipment	0	Provision for directors' bonuses	0
Lease assets	0	Provision for retirement benefits	76
Intangible assets	7	Provision for directors' retirement benefits	0
Software	7	Total liabilities	62,588
Lease assets	0	Net assets	
Other	0	Capital stock	267
		Retained earnings	(32)
		Other retained earnings	(32)
		Retained earnings brought forward	(32)
		Total shareholders' equity	234
		Total net assets	234
Total assets	62,822	Total liabilities and net assets	62,822

Statement of Operations (Year ended March 31, 2014)

(Millions of yen)

Ordinary income	436
Interest income	360
Interest on loans and discounts	359
Interest on deposits with banks	0
Receipts from the national budget	76
Receipts from general account of the national budget	76
Other income	0
Other	0
Ordinary expenses	441
Interest expenses	359
Interest on borrowings and rediscounts	359
General and administrative expenses	81
Ordinary loss	5
Net loss	5

Statement of Changes in Net Assets (Year ended March 31, 2014)

(Millions of yen)

	Shareholders' equity				Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	
		Other retained earnings	Total retained earnings		
		Retained earnings brought forward			
Balance at the beginning of current period	267	(27)	(27)	239	239
Changes of items during the period					
Net income (loss)		(5)	(5)	(5)	(5)
Total changes of items during the period	—	(5)	(5)	(5)	(5)
Balance at the end of current period	267	(32)	(32)	234	234

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. In calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Unrecognized prior service costs and unrecognized actuarial differences are calculated as follows:

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.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

The amount to be returned (minimum reserve) under the substitutable portion of the Welfare Pension Fund, as measured on the end of the fiscal year in review, is 7 million yen, and, assuming payment of said amount to be returned (minimum reserve) is conducted on the end of the fiscal year under review, the estimated gain generated if Item 46 of the Accounting Standards for Retirement Benefits (Guidance on Accounting Standards No. 25, May 17, 2012; hereinafter "Guidance on Retirement Benefits") is applied will be 22 million yen.

(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.

Change in Presentation Method

Accounting Standard for Retirement Benefits

The Accounting Standard for Retirement Benefits (Guidance on Accounting Standards No. 26, May 17, 2012, hereinafter "Retirement Benefit Accounting Standards") and Guidance on Retirement Benefits (hereinafter "Retirement Benefit Accounting Standards, etc.") have been applied (excluding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Retirement Benefit Accounting Standards Item No. 67) from the end of the fiscal year in review, and the presentation method for retirement benefits-related notes has been changed.

Issued but not yet adopted accounting standard and others

Accounting Standard for Retirement Benefits

(i) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on revised determination of projected retirement benefit obligations and current service cost and enhanced information disclosure.

(ii) Scheduled date of application

JFC is scheduled to apply above revised determination of projected retirement benefit obligations and current service cost 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, 2014.

"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, 1965), 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 (Act No.57, 2007), 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 (Act No.39, 2011), 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	¥977,740 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, 2014, 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	267,000,000	—	—	267,000,000

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 in order to strengthen their industrial 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 business promotion operations, business restructuring promotion, etc. operations, and business restructuring promotion operations. The associated credit risk consists of risk of losses arising from uncollectable claims due to deterioration in credit-worthiness 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, 2014, 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	311	311	—
(2) Loans and bills discounted	62,318	63,011	693
Total assets	62,629	63,322	693
Borrowings	62,318	63,282	964
Total liabilities	62,318	63,282	964

(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 (*)	311	—	—	—	—	—
Loans and bills discounted	3,411	13,723	15,759	14,212	9,527	5,686
Total	3,722	13,723	15,759	14,212	9,527	5,686

(*) 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	3,411	13,723	15,759	14,212	9,527	5,686

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.

Although the JFC welfare pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plain assets in accordance with the projected benefit obligations ratio.

Under the welfare pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

With regard to the substitutable portion of the welfare pension fund, on April 1, 2013, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

Defined benefits plan

(1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	122 million yen
Service cost	3
Interest cost	1
Financing from employees	0
Actuarial difference	0
Payment of retirement benefits	—
Prior service cost	(8)
Other	(4)
Closing balance of projected benefit obligations	<u>115</u>

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	21 million yen
Expected return on plan assets	0
Actuarial difference	(2)
Financing from employer	2
Financing from employees	0
Payment of retirement benefits	—
Other	(0)
Closing balance of fair value of plan assets	<u>21</u>

(3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	58 million yen
Fair value of plan assets	<u>(21)</u>
	37
Projected benefit obligations of unfunded plan	<u>56</u>
Unfunded pension obligations	94
Actuarial unrecognized difference	(26)
Unrecognized prior service cost	<u>8</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>76</u>
Provision for retirement benefits	76
Prepaid pension cost	<u>—</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>76</u>

(4) Net pensions cost and breakdown of included items

Service cost	3 million yen
Interest cost	1
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	2
Amortization of prior service cost accounted for as expense	(0)
Other	<u>—</u>
Net pensions cost related to defined benefits plan	<u>6</u>

(5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.

Shares	45%
Debentures	40%
General account	11%
Cash and deposits	<u>4%</u>
Total	<u>100%</u>

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

(6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	1.0%
2) Long-term expected rate of return on plan assets	2.0%

11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2014 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, 2014
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Note i)	100 (Direct)	Administration for policy based financing	Receipt of funds ^(Note ii)	10,683	Borrowings	62,318
				Repayment of borrowings	2,500		
				Payment of interest on borrowings	359	Accrued expenses	135

(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 ¥76 million

(ii) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.

(iii) 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, 2014
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	1,147,740 (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 ¥0.87

Net loss per share ¥0.01

13. Subsequent events

Not applicable.

Reference Information

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	17,863	793	13,054	31,710
Non-accrual loans	138,922	69,291	563,517	771,731
Loans with interest or principal repayments more than three months in arrears	66	1,474	16	1,558
Restructured loans	525,598	18,114	83,618	627,331
Total	682,452	89,674	660,205	1,432,332
Total of risk-monitored loans/outstanding loans (%)	9.81	3.55	10.64	9.13

(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	71,800	3,880	37,414	113,096
Doubtful	85,555	66,268	539,242	691,066
Special attention	525,665	19,589	83,634	628,889
Subtotal (1)	683,022	89,738	660,291	1,433,052
Normal	6,284,851	2,448,004	5,548,721	14,281,577
Total (2)	6,967,874	2,537,742	6,209,208	15,714,826
(1/2) (%)	9.80	3.54	10.63	9.12

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 and three Units' 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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