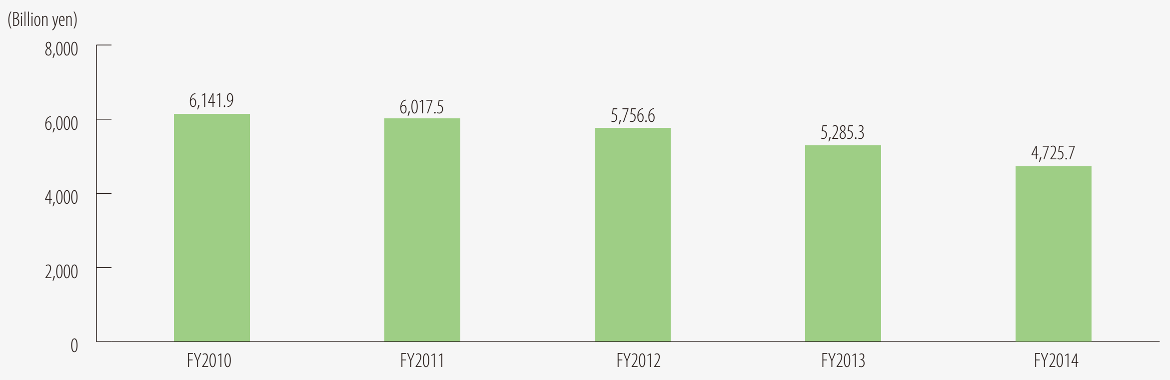
# Data

# Operational Performances

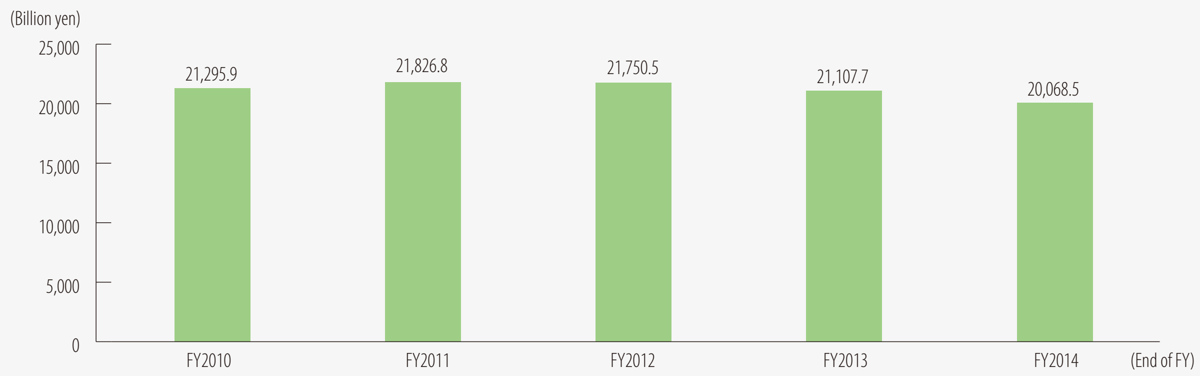
## Japan Finance Corporation



### 1 Changes in Annual Loan Operations

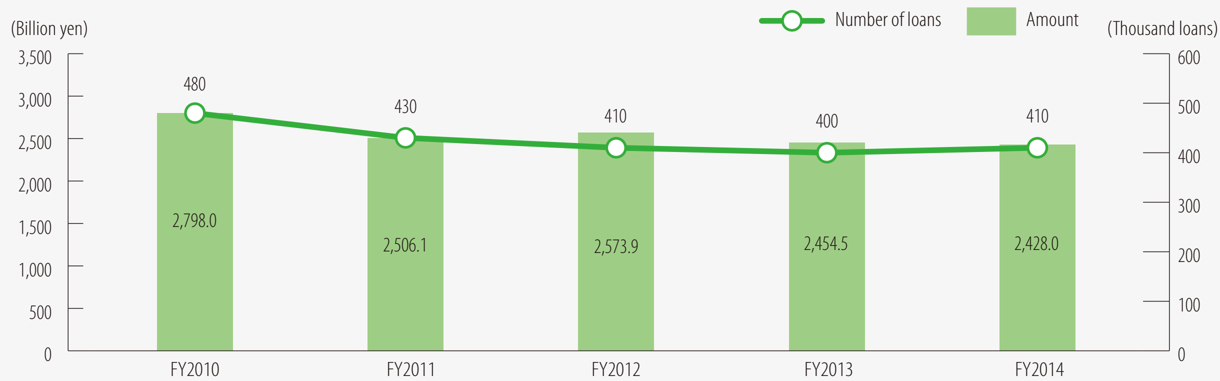



### 2 Changes in Outstanding Loans



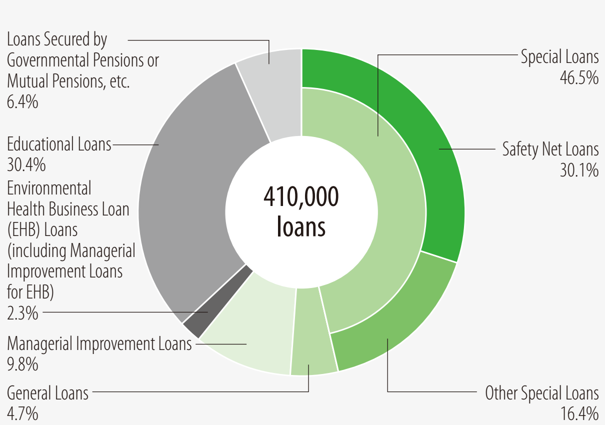
## Micro Business and Individual Unit

### 1 Changes in Annual Loan Operations

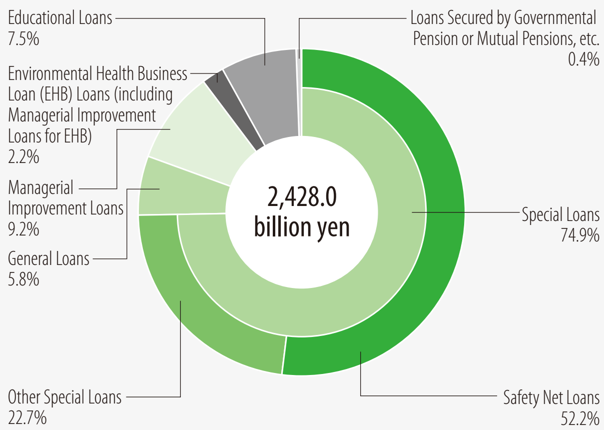



### 2 Breakdown of Loans by Scheme

**Number of Loans** (FY2014)




**Total Amount of Loans** (FY2014)

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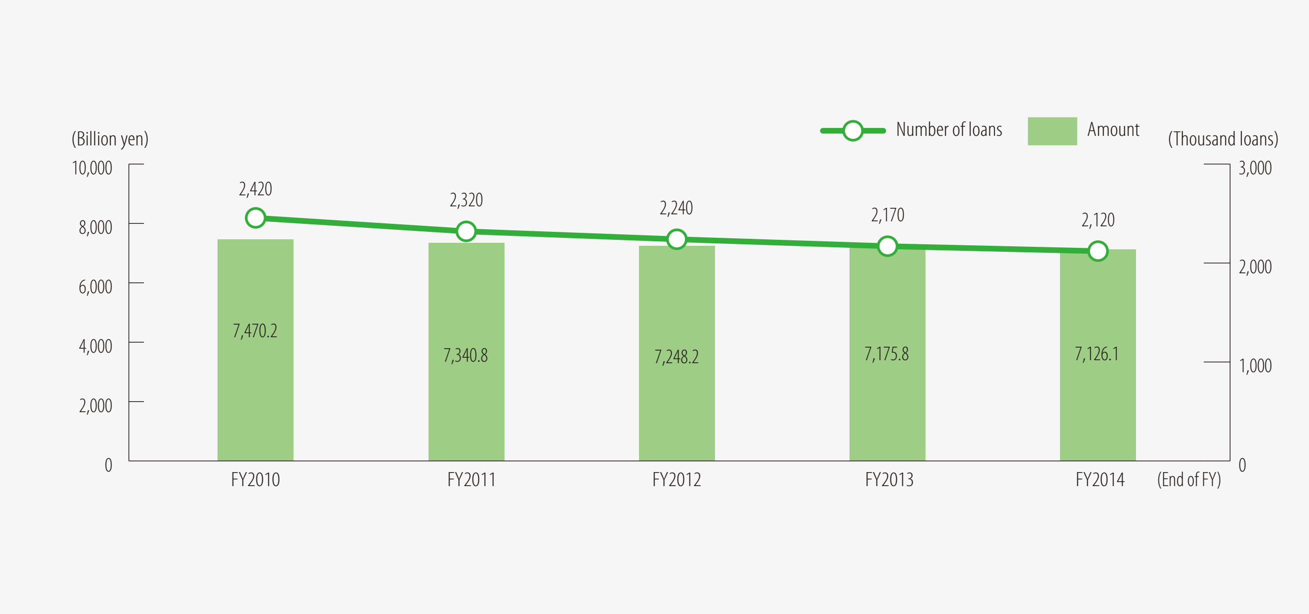
## 3 Changes in Outstanding Loans






## 4 Breakdown of Business Loans Outstanding by Industry

(Unit: billion yen, %)

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Manufacturing | 795.6 (12.2) | 782.4 (12.1) | 764.7 (12.0) | 725.7 (11.5) | 679.2 (10.9) |
| Wholesale & retail | 1,591.6 (24.3) | 1,582.5 (24.5) | 1,561.2 (24.4) | 1,515.6 (24.0) | 1,449.0 (23.2) |
| Restaurants & hotels | 569.6 (8.7) | 556.3 (8.6) | 537.8 (8.4) | 519.9 (8.2) | 504.7 (8.1) |
| Services | 1,413.9 (21.6) | 1,417.7 (22.0) | 1,430.4 (22.4) | 1,432.9 (22.7) | 1,413.5 (22.6) |
| Construction | 1,025.2 (15.7) | 997.1 (15.5) | 968.4 (15.2) | 932.0 (14.7) | 899.3 (14.4) |
| Others | 1,145.6 (17.5) | 1,113.4 (17.3) | 1,122.9 (17.6) | 1,193.3 (18.9) | 1,304.0 (20.9) |
| Total | 6,541.7 (100.0) | 6,449.5 (100.0) | 6,385.5 (100.0) | 6,319.7 (100.0) | 6,249.9 (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, %)

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Restaurant-related services | 207.9<br>(47.0) | 183.2<br>(46.4) | 165.9<br>(46.6) | 150.9<br>(46.7) | 141.0<br>(47.3) |
| Beauty parlors | 65.5<br>(14.8) | 61.1<br>(15.5) | 58.7<br>(16.5) | 57.5<br>(17.8) | 56.0<br>(18.8) |
| Hotels | 95.2<br>(21.5) | 85.5<br>(21.6) | 73.5<br>(20.7) | 62.9<br>(19.5) | 55.4<br>(18.6) |
| Barbershops | 33.3<br>(7.5) | 29.1<br>(7.4) | 25.6<br>(7.2) | 23.2<br>(7.2) | 20.8<br>(7.0) |
| Public baths | 23.1<br>(5.2) | 20.6<br>(5.2) | 18.1<br>(5.1) | 15.7<br>(4.9) | 13.6<br>(4.6) |
| Laundries | 10.8<br>(2.4) | 9.8<br>(2.5) | 8.9<br>(2.5) | 8.2<br>(2.5) | 7.6<br>(2.6) |
| Meat shops | 3.0<br>(0.7) | 3.5<br>(0.9) | 3.1<br>(0.9) | 2.5<br>(0.8) | 2.3<br>(0.8) |
| Entertainment facilities | 2.3<br>(0.5) | 1.8<br>(0.5) | 1.5<br>(0.4) | 1.3<br>(0.4) | 1.0<br>(0.4) |
| Others | 1.2<br>(0.3) | 0.3<br>(0.1) | 0.2<br>(0.1) | 0.2<br>(0.1) | 0.2<br>(0.1) |
| Total | 442.7<br>(100.0) | 395.2<br>(100.0) | 355.9<br>(100.0) | 322.9<br>(100.0) | 298.4<br>(100.0) |

Note: Figures in parentheses denote percentage shares.

## 6 Breakdown of Outstanding Loans by Use

(Unit: billion yen, %)

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Operating funds | 4,292.9<br>(65.6) | 4,381.5<br>(67.9) | 4,347.8<br>(68.1) | 4,186.7<br>(66.2) | 3,993.3<br>(63.9) |
| Facility funds | 2,248.7<br>(34.4) | 2,067.9<br>(32.1) | 2,037.6<br>(31.9) | 2,132.9<br>(33.8) | 2,256.6<br>(36.1) |
| Total | 6,541.7<br>(100.0) | 6,449.5<br>(100.0) | 6,385.5<br>(100.0) | 6,319.7<br>(100.0) | 6,249.9<br>(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)

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Client Companies | 1,030,910 | 989,697 | 958,282 | 930,171 | 903,287 |

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

## 8 Average Loan Balance per Business

(Unit: thousand yen)

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Average loan balance per business | 6,345 | 6,516 | 6,663 | 6,794 | 6,919 |

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

## 9 Educational Loans Outstanding, etc.

(Unit: billion yen)

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Educational Loans | 903.5 | 869.4 | 843.7 | 840.3 | 862.1 |
| Loans Secured by Governmental Pensions and Mutual Pensions, etc. | 24.3 | 21.3 | 18.5 | 15.5 | 13.8 |

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## 10 Breakdown of Loans by Credit Amount

(Unit: number of loans, %)

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Up to 3 million yen | 105,367 (33.1) | 91,472 (32.8) | 91,091 (33.0) | 83,880 (31.5) | 80,459 (31.0) |
| Over 3 million yen and up to 5 million yen | 61,391 (19.3) | 54,851 (19.7) | 51,811 (18.8) | 52,504 (19.7) | 50,479 (19.4) |
| Over 5 million yen and up to 8 million yen | 44,721 (14.0) | 38,434 (13.8) | 37,587 (13.6) | 37,128 (14.0) | 36,235 (13.9) |
| Over 8 million yen | 106,862 (33.6) | 94,022 (33.7) | 95,513 (34.6) | 92,526 (34.8) | 92,616 (35.7) |
| Total | 318,341 (100.0) | 278,779 (100.0) | 276,002 (100.0) | 266,038 (100.0) | 259,789 (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, %)

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| 4 or less | 209,917 (65.9) | 184,596 (66.2) | 183,363 (66.4) | 180,939 (68.0) | 181,952 (70.0) |
| 5–9 | 67,046 (21.1) | 58,213 (20.9) | 57,805 (20.9) | 53,690 (20.2) | 49,478 (19.0) |
| 10–19 | 27,353 (8.6) | 23,832 (8.5) | 23,251 (8.4) | 21,132 (7.9) | 19,092 (7.3) |
| 20 or more | 14,010 (4.4) | 12,132 (4.4) | 11,575 (4.2) | 10,272 (3.9) | 9,261 (3.6) |
| Total | 318,326 (100.0) | 278,773 (100.0) | 275,994 (100.0) | 266,033 (100.0) | 259,783 (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, %)

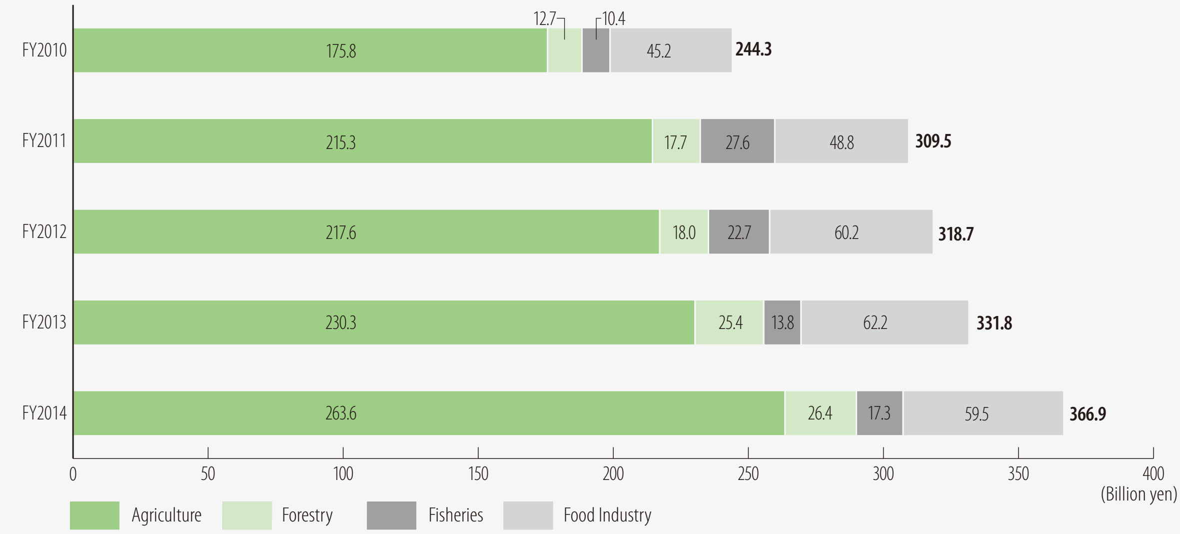
| | | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|---|
| No-collateral | | 245,023 (77.0) | 215,024 (77.2) | 204,363 (74.1) | 202,413 (76.1) | 200,430 (77.2) |
| Collateral | Real estate (including partial collateral) | 73,038 (23.0) | 63,559 (22.8) | 71,463 (25.9) | 63,481 (23.9) | 59,231 (22.8) |
| | Securities | 32 (0.0) | 26 (0.0) | 29 (0.0) | 25 (0.0) | 22 (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) | 0 (0.0) | 0 (0.0) | 0 (0.0) |
| Total | | 318,094 (100.0) | 278,610 (100.0) | 275,855 (100.0) | 265,919 (100.0) | 259,683 (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".

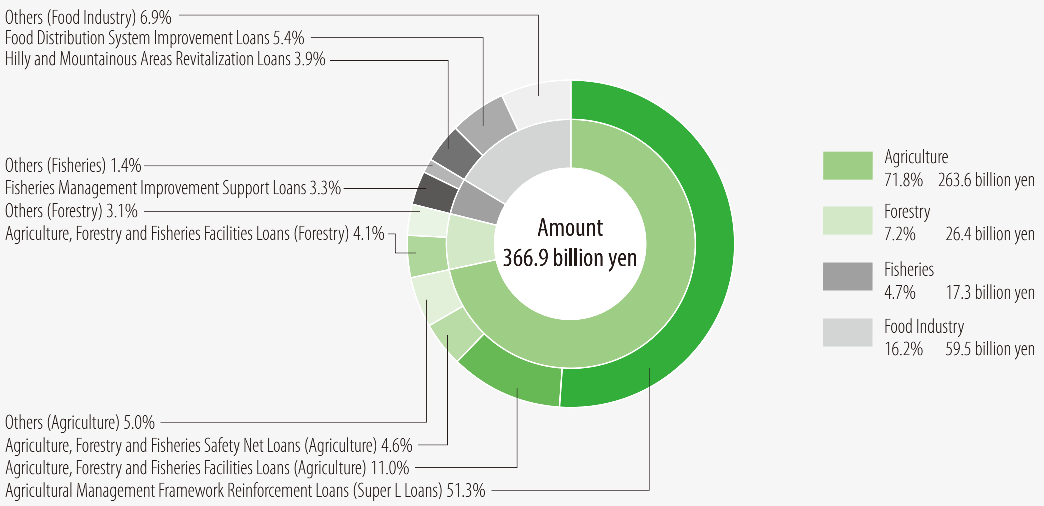
Data

# Agriculture, Forestry, Fisheries and Food Business Unit

## 1 Changes in Annual Loan Operations




## 2 Breakdown of Loans by Scheme (FY2014)

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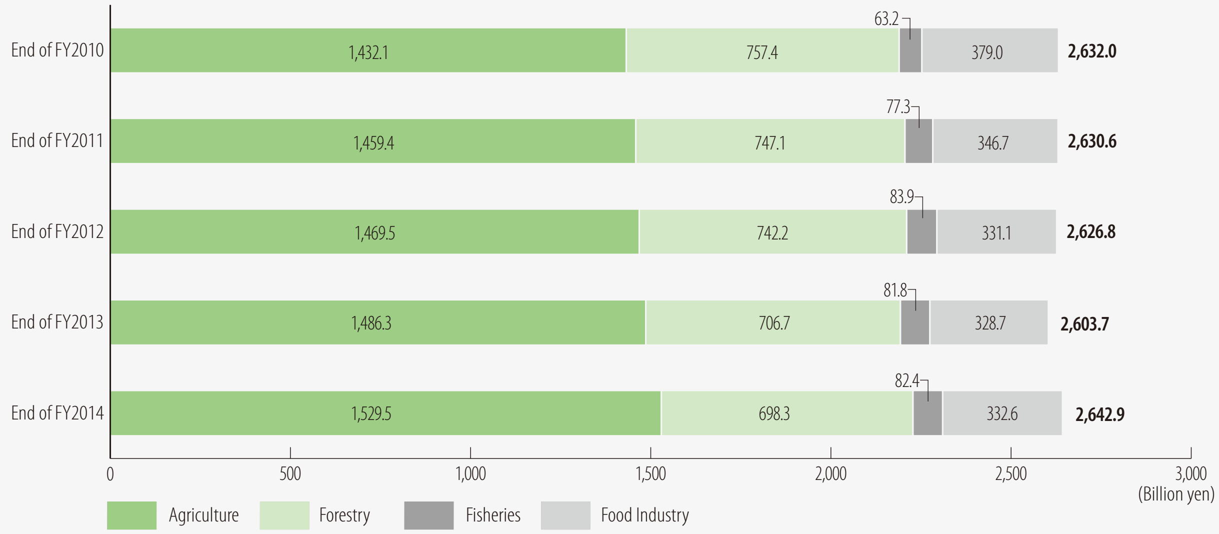
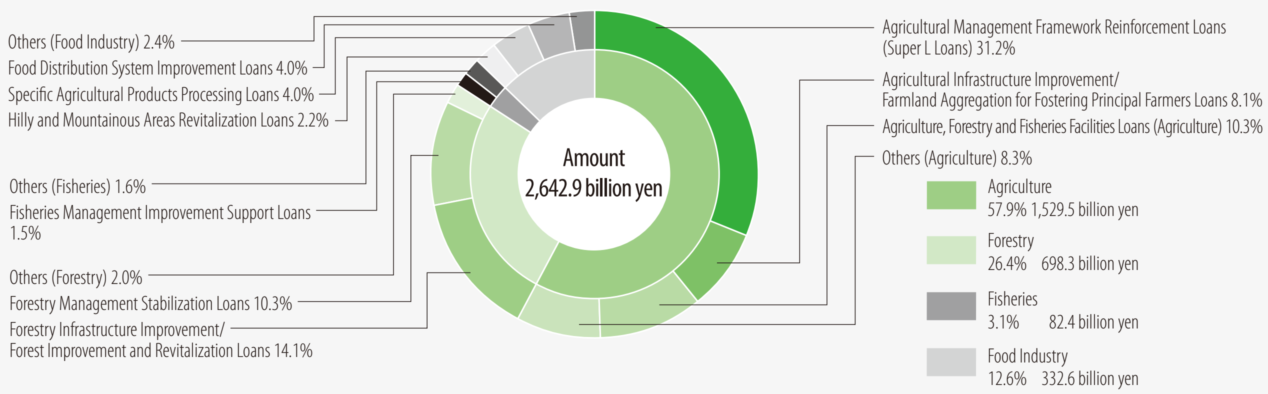
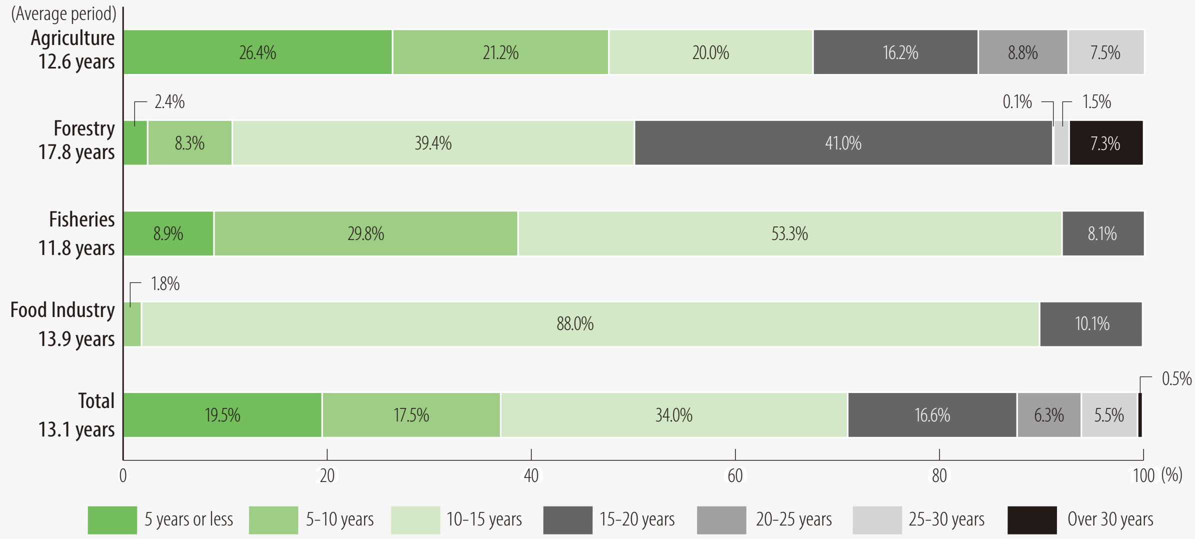
## 3 Changes in Outstanding Loans




## 4 Breakdown of Outstanding Loans by Sector and Use (End of FY2014)

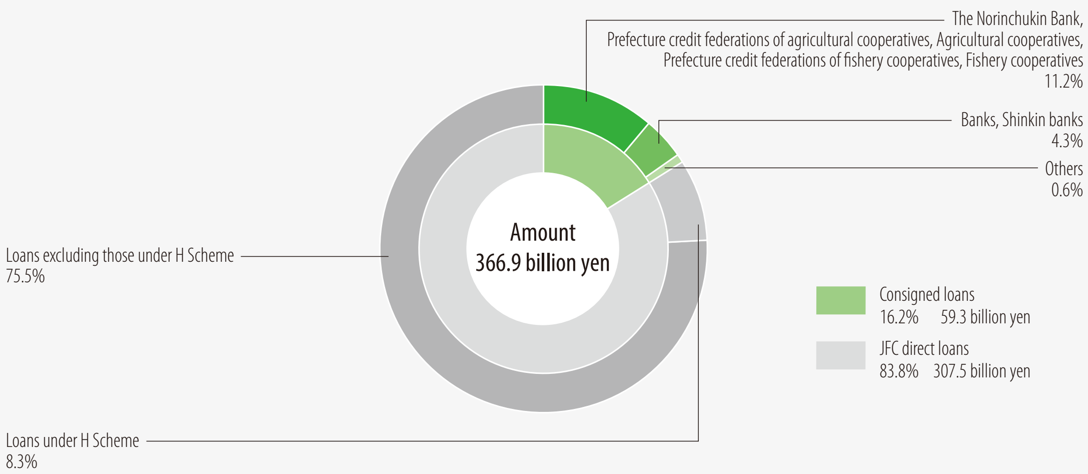


## 5 Loans by Repayment Period (FY2014)




Note: Aggregated by loan amount

## 6 Loans by Commissioned Financial Institutions (FY2014)




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.

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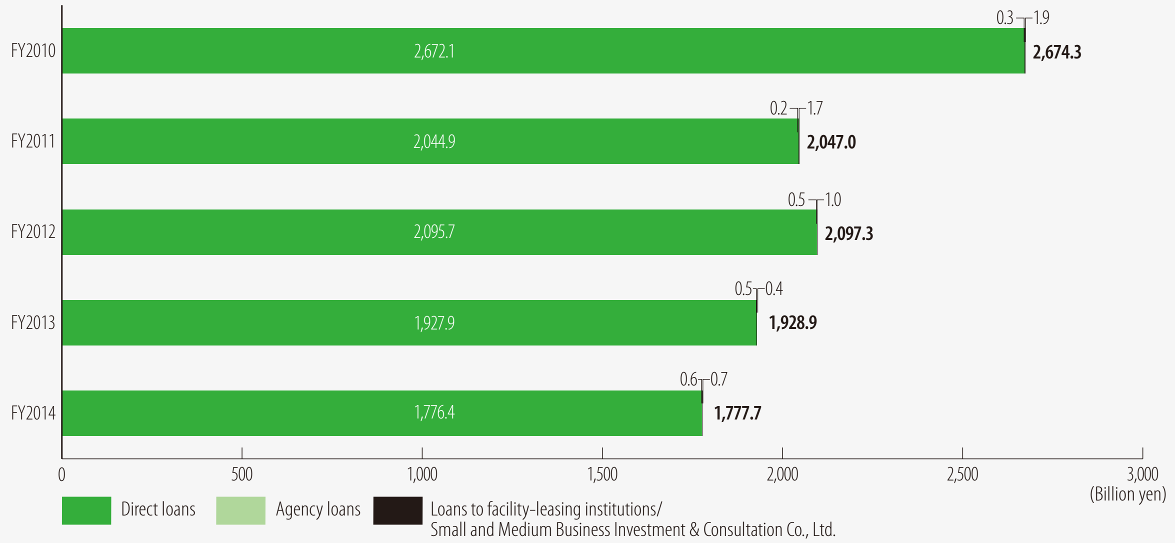
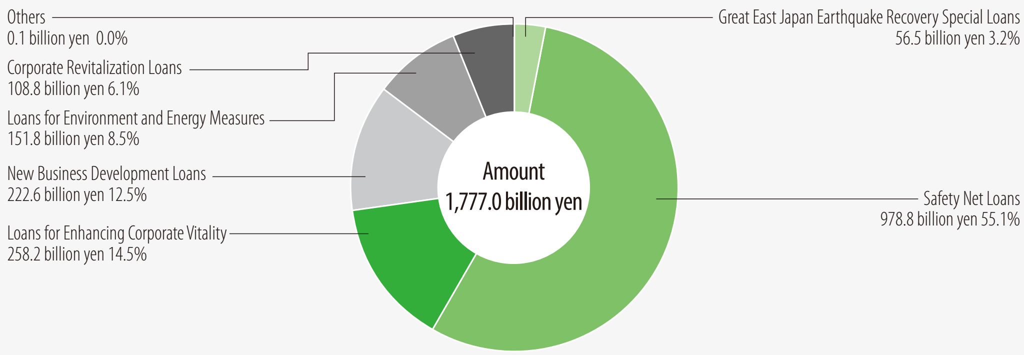
# I. Loan Programs

## 1 Changes in Annual Loan Operations



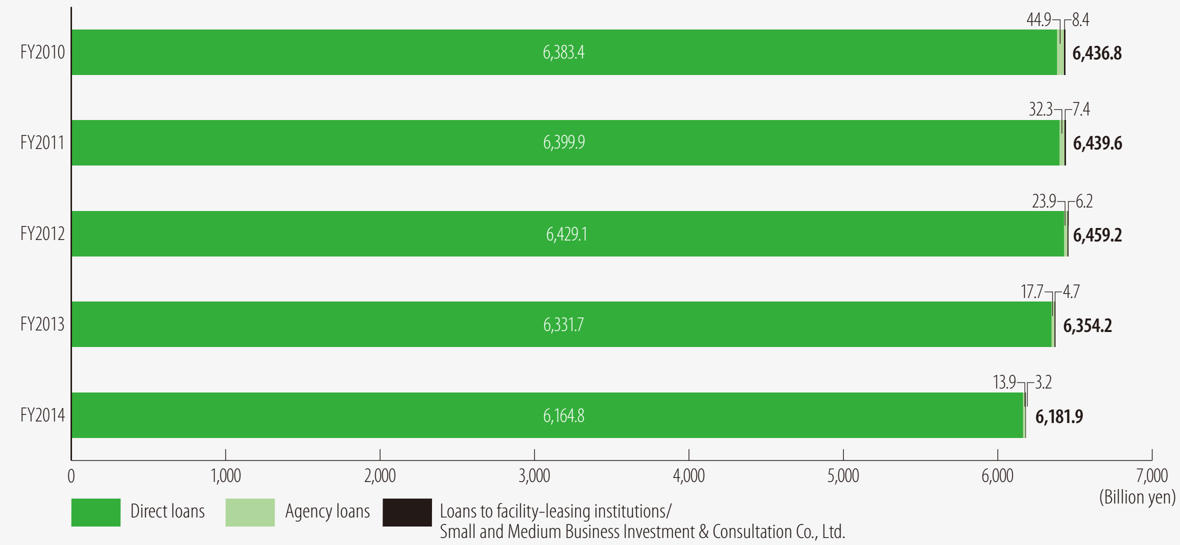

## 2 Breakdown of Loans by Scheme

▼ **Amount** (FY2014)




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,%)

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Manufacturing | 3,137.1<br>(48.8) | 3,132.8<br>(48.7) | 3,132.3<br>(48.5) | 3,039.9<br>(47.9) | 2,901.5<br>(47.0) |
| Construction | 329.9<br>(5.1) | 327.0<br>(5.1) | 320.3<br>(5.0) | 305.3<br>(4.8) | 293.7<br>(4.8) |
| Wholesale & retail | 1,089.0<br>(16.9) | 1,098.8<br>(17.1) | 1,097.9<br>(17.0) | 1,084.8<br>(17.1) | 1,027.1<br>(16.6) |
| Transport & telecommunications | 568.9<br>(8.8) | 580.8<br>(9.0) | 591.6<br>(9.2) | 578.0<br>(9.1) | 564.3<br>(9.1) |
| Services | 686.8<br>(10.7) | 697.2<br>(10.8) | 685.6<br>(10.6) | 674.0<br>(10.6) | 651.6<br>(10.5) |
| Others | 616.4<br>(9.6) | 595.3<br>(9.3) | 625.0<br>(9.7) | 667.2<br>(10.5) | 740.2<br>(12.0) |
| Total | 6,428.3<br>(100.0) | 6,432.2<br>(100.0) | 6,453.0<br>(100.0) | 6,349.5<br>(100.0) | 6,178.7<br>(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,%)

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Operating funds | 4,043.3<br>(62.9) | 4,221.4<br>(65.6) | 4,199.0<br>(65.1) | 4,117.7<br>(64.9) | 3,913.8<br>(63.3) |
| Facility funds | 2,385.0<br>(37.1) | 2,210.7<br>(34.4) | 2,254.0<br>(34.9) | 2,231.7<br>(35.1) | 2,264.9<br>(36.7) |
| Total | 6,428.3<br>(100.0) | 6,432.2<br>(100.0) | 6,453.0<br>(100.0) | 6,349.5<br>(100.0) | 6,178.7<br>(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)

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Client companies | 46,330 | 46,599 | 47,282 | 47,213 | 46,583 |

Note: Figures cover only companies with direct loans.

## 7 Average Loan Balance per Business

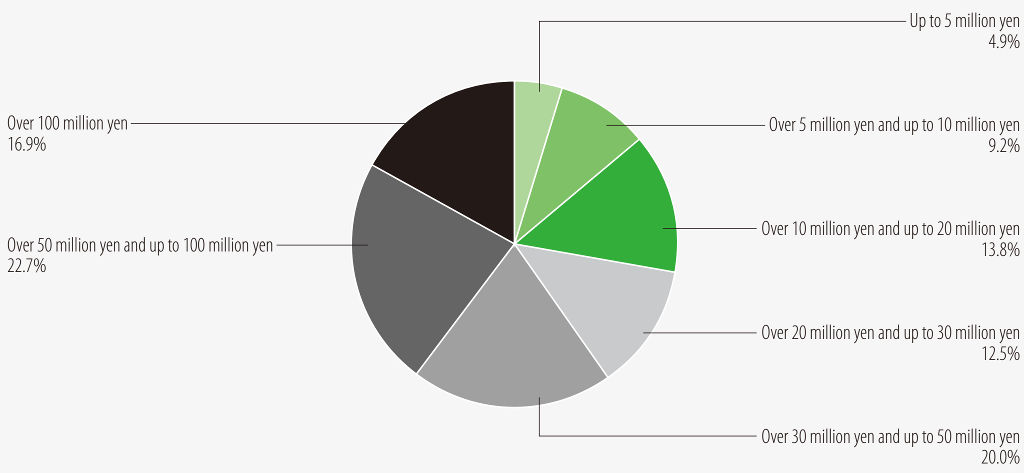
(Unit: million yen)

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Average loan balance per business | 137 | 137 | 135 | 134 | 132 |

Note: Figures cover only companies with direct loans.

## 8 Loans by Credit Amount

### ▼ Loan Percentage Breakdown (FY2014)




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

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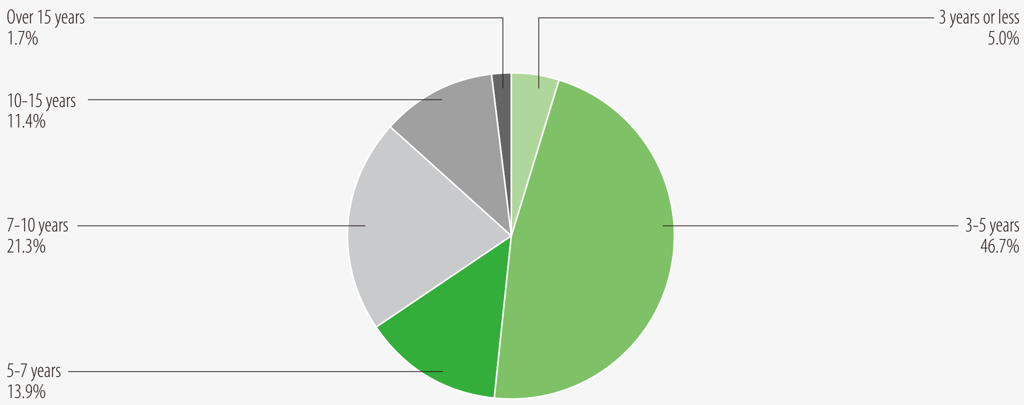
## 9 Loans by Repayment Period

### ▼ Loan Percentage Breakdown (FY2014)




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



# II. Credit Insurance Programs

(Unit: billion yen)

| Items | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Acceptance of insurance and loans | | | | | |
| Small Business Credit Insurance | 13,439.9 | 11,131.3 | 9,366.2 | 8,984.4 | 8,485.9 |
| Loans to CGCs | – | – | – | – | – |
| Special Insurance for Midsize Enterprises | – | – | – | – | – |
| Outstanding amounts of insurance and loans | | | | | |
| Small Business Credit Insurance | 35,657.7 | 34,913.6 | 32,471.0 | 30,105.5 | 27,970.2 |
| Loans to CGCs | – | – | – | – | – |
| Special Insurance for Midsize Enterprises | 0.1 | 0.1 | 0.0 | 0.0 | 0 |
| Machinery Credit Insurance (Note) | 43.0 | 19.8 | 6.2 | 3.1 | 1.6 |

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 | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Total loan principal amount | | | | | |
| Purchase-type (Note 1) | 3.3 | – | – | – | – |
| Guarantee-type (Note 2) | – | – | – | – | – |
| Outstanding amounts of trust beneficiary rights (Note 3) and guaranteed liabilities | | | | | |
| Purchase-type (outstanding amount of trust beneficiary rights) | 1.4 | 1.1 | 0.3 | – | – |
| Guarantee-type (outstanding amount of guaranteed liabilities) | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Standby Letter of Credit Program (Note 4) (outstanding amount of guaranteed liabilities) | – | – | 1.0 | 2.0 | 3.9 |

Notes: 1. Purchase-type refers to operations prescribed in Article 11-1-2 of the Japan Finance Corporation Act as well as Items 3, 5, 7 and 8 on the Schedule II thereof.
2. Guarantee-type refers to operations prescribed in Article 11-1-2 of the Japan Finance Corporation Act as well as Items 4 and 6 on the Schedule II thereof.
3. Outstanding amounts of trust beneficiary rights refer to subordinated amounts acquired by JFC out of trust beneficiary rights and asset-backed securities regarding the purchase-type securitization support programs.
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 | FY2014 |
|---|---|---|---|---|---|---|---|---|
| Two-step loans | | 1,430.1 | 3,869.3 | 405.2 | 1,153.4 | 733.7 | 559.3 | 130.0 |
| | Loans, etc. | 1,130.3 | 3,529.4 | 405.2 | 1,153.4 | 733.7 | 559.3 | 130.0 |
| | 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 | 1,234.2 |
| | Loans, etc. | 345.1 | 1,781.9 | 1,893.3 | 1,739.8 | 1,470.2 | 1,409.3 | 1,234.2 |
| | Commercial paper (CP) acquisitions | — | — | — | — | — | — | — |
| | Equity participations | — | 30.0 | — | — | — | — | — |
| Interest subsidies | | — | — | 0.3 | 2.4 | 7.8 | 10.9 | 12.4 |

Notes:1. The figures of 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 2015.

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 2015, with loss compensation underwritten by JFC for losses incurred until May 10, 2015.
Equity participation figures (pertaining to the Act on Special Measures for Industrial Revitalization) are the amounts of equity investments made by the designated financial institutions through the end of March 2013, with loss compensation underwritten by JFC.

3. The figures for interest subsidies represent the amounts of interest subsidies JFC provided to designated financial institutions for loans, etc. provided by the designated financial institutions through the end of September 2014. (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.)

Data

## Results of Operations to Facilitate Specific Businesses Promotion

(Unit: billion yen)

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Two-step loans | 20.0 | 1.3 | 7.8 | 10.6 | 2.9 |

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 2015.

## Results of Operations to Facilitate Business Restructuring Promotion

(Unit: billion yen)

| | FY2011 | FY2012 | FY2013 | FY 2014 |
|---|---|---|---|---|
| Two-step loans | — | 25.0 | — | 20.0 |

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 2015. (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 Item1 of the Companies Act.
Financial statements and notes in English were prepared based on these audited financial statements and notes in Japanese.

### **Balance Sheet** (as of March 31, 2015)

(Millions of yen)

| Items | Amount | Items | Amount |
|---|---|---|---|
| Assets | | Liabilities | |
| **Cash and due from banks** | **4,095,015** | **Borrowed money** | **15,428,632** |
| Cash | 38 | Borrowings | 15,428,632 |
| Due from banks | 4,094,977 | **Bonds payable** | **1,865,652** |
| **Securities** | **23,143** | **Entrusted funds** | **30,562** |
| Government bonds | 21,026 | **Reserve for insurance policy liabilities** | **1,480,020** |
| Corporate bonds | 54 | **Other liabilities** | **36,579** |
| Stocks | 2,030 | Accrued expenses | 17,529 |
| Other securities | 32 | Unearned revenue | 5,912 |
| **Loans and bills discounted** | **19,648,688** | Lease obligations | 2,475 |
| Loans on deeds | 19,648,688 | Other | 10,662 |
| **Other assets** | **50,610** | **Provision for bonuses** | **4,659** |
| Prepaid expenses | 1,217 | **Provision for directors' bonuses** | **21** |
| Accrued income | 23,817 | **Provision for retirement benefits** | **95,969** |
| Agency accounts receivable | 1,866 | **Provision for directors' retirement benefits** | **60** |
| Other | 23,708 | **Reserve for compensation losses** | **32,934** |
| **Property, plant and equipment** | **196,930** | **Acceptances and guarantees** | **6,540** |
| Buildings | 51,501 | Total liabilities | 18,981,634 |
| Land | 141,748 | Net assets | |
| Lease assets | 1,634 | **Capital stock** | **3,855,086** |
| Construction in progress | 838 | **Capital surplus** | **2,147,279** |
| Other | 1,206 | Special reserve for administrative improvement funds | 181,500 |
| **Intangible assets** | **18,882** | Legal capital surplus | 1,965,779 |
| Software | 17,557 | **Retained earnings** | **(1,375,058)** |
| Lease assets | 666 | Legal retained earnings | 2,666 |
| Other | 658 | Other retained earnings | (1,377,724) |
| **Customers' liabilities for acceptances and guarantees** | **6,540** | Retained earnings brought forward | (1,377,724) |
| **Allowance for loan losses** | **(430,869)** | Total shareholders' equity | 4,627,306 |
| | | Total net assets | 4,627,306 |
| Total assets | 23,608,940 | Total liabilities and net assets | 23,608,940 |

Data

## Statement of Operations (Year ended March 31, 2015)

(Millions of yen)

| Items | Amount |
|---|---|
| **Ordinary income** | **503,386** |
| Interest income | 303,820 |
| Interest on loans and discounts | 300,294 |
| Interest and dividends on securities | 413 |
| Interest on receivables under resale agreements | 7 |
| Interest on deposits with banks | 3,104 |
| Other interest income | 0 |
| Fees and commissions | 3,585 |
| Fees and commissions on compensation security contract | 3,534 |
| Other fees and commissions | 50 |
| Insurance premiums and other | 151,331 |
| Insurance premiums | 140,655 |
| Receipts of burden charges under the Responsibility-sharing System | 10,676 |
| Receipts from the national budget | 36,433 |
| Receipts from general account of the national budget | 36,402 |
| Receipts from special account of the national budget | 30 |
| Other income | 8,215 |
| Gain on reversal of allowance for indemnity | 645 |
| Recoveries of written-off claims | 1,764 |
| Gain on sales of stocks and other securities | 7 |
| Other | 5,798 |
| **Ordinary expenses** | **717,478** |
| Interest expenses | 114,509 |
| Interest on call money | 92 |
| Interest on borrowings and rediscounts | 99,288 |
| Interest on bonds | 15,128 |
| Fees and commissions payments | 13,257 |
| Expense on compensation security contract | 8,995 |
| Other fees and commissions | 4,262 |
| Expenses on insurance claims and other | 426,246 |
| Expenses on insurance claims | 426,180 |
| Recoveries of insurance claims | (108,642) |
| Provision of reserve for insurance policy liabilities | 108,708 |
| Other ordinary expenses | 13,071 |
| Amortization of bond issuance cost | 586 |
| Interest subsidies | 12,484 |
| General and administrative expenses | 115,412 |
| Other expenses | 34,981 |
| Provision of allowance for loan losses | 12,731 |
| Written-off of loans | 16,785 |
| Other | 5,464 |
| **Ordinary loss** | **214,092** |
| **Extraordinary income** | **80,782** |
| Gain on disposal of noncurrent assets | 150 |
| Gain on transfer of benefit obligation relating to employees' pension fund | 80,632 |
| **Extraordinary losses** | **1,480** |
| Loss on disposal of noncurrent assets | 1,262 |
| Impairment loss | 217 |
| **Net loss** | **134,789** |

## Statement of Changes in Net Assets (Year ended March 31, 2015)

(Millions of yen)

| | Shareholders' equity | | | | | | | | Total net assets |
|---|---|---|---|---|---|---|---|---|---|
| | Capital stock | Capital surplus | | | Retained earnings | | | Total share-holders' equity | |
| | | Special reserve for administrative improvement funds | Legal capital surplus | Total capital surplus | Legal retained earnings | Other retained earnings<br>Retained earnings brought forward | Total retained earnings | | |
| Balance at the beginning 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 |
| Changes of items during the period | | | | | | | | | |
| Issuance of new shares | 145,548 | | 108,800 | 108,800 | | | | 254,348 | 254,348 |
| Provision of legal retained earnings | | | | | 10 | (10) | — | — | — |
| Payment to the national treasury | | | | | | (10) | (10) | (10) | (10) |
| Reversal of legal capital surplus (Deficit disposition) | | | (13,229) | (13,229) | | 13,229 | 13,229 | — | — |
| Net income (loss) | | | | | | (134,789) | (134,789) | (134,789) | (134,789) |
| Total changes of items during the period | 145,548 | — | 95,570 | 95,570 | 10 | (121,581) | (121,570) | 119,547 | 119,547 |
| Balance at the end of current period | 3,855,086 | 181,500 | 1,965,779 | 2,147,279 | 2,666 | (1,377,724) | (1,375,058) | 4,627,306 | 4,627,306 |

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 ¥265,412 million.

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

#### (ii) Reserve for compensation losses

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

(iii) Provision for bonuses

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

(iv) Provision for directors' bonuses

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

(v) Provision for retirement benefits

The "provision for retirement benefits" represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end. In addition, 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. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition 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 time 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 at the time of occurrence.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds.

The financial impact of the profit and loss in the fiscal year was ¥80,632 million, which was listed as extraordinary income.

(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 Accounting Policies

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 Standard Accounting Application Guidelines for Retirement Benefits (Corporate Accounting Application Guidelines No.25, March, 26, 2015. hereinafter, " Guidance on Retirement Benefits ")(hereinafter, "Retirement Benefits Accounting Standards, etc.") regarding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Guidance on Retirement Benefits Item No. 67 have been applied from the fiscal year.

The method of determining the discount rate was changed from a discount rate based on the number of years that was approximate to the average remaining employment period of employees to a single weighted average discount rate that reflects the expected payment period and the amount of the expected retirement benefit payment period for each employee.

The application of the Retirement Benefit Accounting Standards, etc. is in accordance with the transitional provisions stated in Retirement Benefit Accounting Standards Item No. 37, but this has no effect on the beginning of provision for retirement benefits and retained earnings, and profit and loss for the fiscal year.

In addition, the amount of net assets per share and the current net loss per share for the fiscal year are likewise not affected.

## Change in Accounting Estimate

Change in estimate reserve for insurance policy liabilities

For reserve for insurance policy liabilities, along with the data accumulation of insurance liability balance which enabled more precise estimation and the change of calculation method based on amended Article 9 of the Ministerial Ordinance Concerning Accounting for JFC on April 1, 2015, the estimate is changed from the end of this fiscal year.

Due to this change, ordinary loss and net loss increased ¥336,275 million in this fiscal year.

## 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, 2015 | | |
|---|---|---|---|
| | 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 | 15,448 | 1,172 | 9,137 |
| Non-accrual loans | 134,954 | 61,980 | 550,166 |
| Loans with interest or principal repayments more than three months in arrears | 101 | 1,247 | — |
| Restructured loans | 495,049 | 22,262 | 88,912 |
| Total | 645,553 | 86,662 | 648,216 |

(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, 2015 is ¥155,241 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 ¥1,865,652 million.

## 5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥19,245 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 Cooperation (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 | ¥120,000 million |
| Foreign-currency-denominated government-guaranteed bonds | ¥992,227 million |

## 7. Amount of compensation security contract

(Millions of yen)

| | |
|---|---|
| The total amount of compensation outstanding (106,087 contracts) | 2,669,136 |
| Reserve for compensation | 32,934 |
| Net amount | 2,636,201 |

## 8. Restriction in dividend distribution

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

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

*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No.38, 2010).

*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No.38, 2010).

## 9. Impairment losses

Impairment loss is recognized for the following assets:

| Region | Purpose of use | Type | Impairment loss (Millions of yen) |
|---|---|---|---|
| Tokyo metropolitan area | Idle assets: 2 items | Land, buildings | 14 |
| Other | Idle assets: 14 items | Land, buildings | 203 |

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, 2015, 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 | 10,733,565,407,741 | 254,348,000,000 | — | 10,987,913,407,741 |

(Note) Increase is due to the issuance of 254,348,000,000 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), 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 of SMEs that have debt in the form of loans from JFC for the purpose of reducing qualifying debt. 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. In addition, no securitized instruments were owned at the end of this fiscal year.

(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. In addition, no bonds were issued at the end of the fiscal year.

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 constructed for these operations, and this model has been used for screening procedures and to monitor credit portfolios. The reliability of this credit 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, 2015 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥13,844 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 ¥13,103 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 the Revitalization Support 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, 2015 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥2,168 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥1,651 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, 2015 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥37,527 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 ¥34,990 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, 2015 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥215 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 ¥213 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, 2015, and the related fair value and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine are not included in the following chart (refer to Note 3).

(Millions of yen)

| | Amount on the Balance Sheet | Fair value | Difference |
|---|---|---|---|
| (1) Cash and due from banks | 4,095,015 | 4,096,821 | 1,806 |
| (2) Securities | | | |
| Held-to-maturity debt securities | 21,080 | 21,724 | 643 |
| Other securities | 9 | 9 | — |
| (3) Loans and bills discounted | 19,357,921 | | |
| Allowance for loan losses (*) | (332,445) | | |
| | 19,025,476 | 19,782,392 | 756,915 |
| Total assets | 23,141,581 | 23,900,947 | 759,365 |
| (1) Borrowings | 15,278,671 | 15,547,395 | 268,724 |
| (2) Bonds payable | 1,865,652 | 1,903,690 | 38,037 |
| Total liabilities | 17,144,323 | 17,451,085 | 306,761 |

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

Data

(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), the carrying amount is used as fair value because fair value approximates the carrying amount. Partnership assets that could be assessed at fair value were measured at fair value, and the amount corresponding to equity holding was listed as the fair value of the partnership investments.

Notes for securities by purpose of holding are found in "13. Fair 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: ¥2,669,136 million

Compensation loss reserve: ¥32,934 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) Partnership investments (*2) | 23 |
| 3) Loans on deeds (subordinated capital loans) (*3) | 290,766 |
| 4) Borrowings from general account of the national budget (*4) | 131,300 |
| 5) Borrowings from the FILP special account (investment account) of the national budget (*5) | 18,660 |
| Total | 442,781 |

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

(*2) For partnership assets composed of unlisted stocks that do not have quoted market prices available and for which fair value is extremely difficult to be determined fair values are not stated.

(*3) For loans on deed (subordinated capital loans) under the Provision Scheme for Challenge Support and Capital Enhancement or other schemes, fair values are not stated because it is recognized that fair value is extremely difficult to be determined. This is because future cash flow can not be reasonably estimated due to its particular scheme that applicable interest rates are determined by every year's business performance of the debtor, instead of being determined at the time of loan execution.

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

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

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

(Millions of yen)

| | Maturities within one year | Maturities after one year but within three years | Maturities after three years but within five years | Maturities after five years but within seven years | Maturities after seven years but within ten years | Maturities after ten years |
|---|---|---|---|---|---|---|
| Due from banks (*1) | 3,024,277 | 1,070,700 | — | — | — | — |
| Securities<br>Held-to-maturity debt securities | 38 | 21,000 | — | — | — | — |
| Loans and bills discounted (*2) | 4,326,417 | 6,416,862 | 3,831,921 | 1,971,738 | 1,490,742 | 1,347,473 |
| Total | 7,350,732 | 7,508,562 | 3,831,921 | 1,971,738 | 1,490,742 | 1,347,473 |

(*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 ¥263,532 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 (*) | 3,797,924 | 5,355,737 | 3,175,513 | 1,369,712 | 994,924 | 603,518 |
| Bonds payable | 475,000 | 741,000 | 290,000 | 110,000 | 160,000 | 90,000 |
| Total | 4,272,924 | 6,096,737 | 3,465,513 | 1,479,712 | 1,154,924 | 693,518 |

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

## 13. Fair 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 fair value of securities at March 31, 2015 is as follows:

### (a) Trading securities

Not applicable.

Data

(b) Held-to-maturity debt securities with fair 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 | 21,026 | 21,669 | 643 |
| Securities whose fair value does not exceed their carrying amount | Corporate bonds | 54 | 54 | — |
| Total | | 21,080 | 21,724 | 643 |

(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 | 1,298,579 | 1,298,581 | 2 |

(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 |
| Others | 23 |
| Total | 23 |

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 corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate 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 plan assets in accordance with the projected benefit obligations ratio.

Under the corporate 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 October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds. In addition, on October 1, 2014 JFC discontinued the welfare pension fund plan and replaced it with the defined benefit corporate pension plan and the defined contribution pension plan.

Defined benefits plan

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

| | | |
|---|---|---|
| Opening balance of projected benefit obligations | 298,143 | million yen |
| Service cost | 5,561 | |
| Interest cost | 2,458 | |
| Financing from employees | 201 | |
| Actuarial difference | 622 | |
| Payment of retirement benefits | (10,923) | |
| Prior service cost | (9,760) | |
| Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund | (88,258) | |
| Other | — | |
| Closing balance of projected benefit obligations | 198,045 | |

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

| | | |
|---|---|---|
| Opening balance of fair value of plan assets | 75,378 | million yen |
| Expected return on plan assets | 1,527 | |
| Actuarial difference | 3,896 | |
| Financing from employer | 25,905 | |
| Financing from employees | 201 | |
| Payment of retirement benefits | (6,120) | |
| Other | — | |
| Closing balance of fair value of plan assets | 100,789 | |

(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 | 116,136 | million yen |
| Fair value of plan assets | (100,789) | |
| | 15,347 | |
| Projected benefit obligations of unfunded plan | 81,908 | |
| Unfunded pension obligations | 97,255 | |
| Actuarial unrecognized difference | (12,517) | |
| Unrecognized prior service cost | 11,232 | |
| Net amount of liabilities and assets recorded on the balance sheet | 95,969 | |
| Provision for retirement benefits | 95,969 | |
| Prepaid pension cost | — | |
| Net amount of liabilities and assets recorded on the balance sheet | 95,969 | |

(4) Net pensions cost and breakdown of included items

| | | |
|---|---|---|
| Service cost | 5,561 | million yen |
| Interest cost | 2,458 | |
| Expected return on plan assets | (1,527) | |
| Amount of actuarial difference accounted for as expense | 2,997 | |
| Amortization of prior service cost accounted for as expense | (1,493) | |
| Other | — | |
| Net pensions cost related to defined benefits plan | 7,997 | |

(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 | 13% |
| Debentures | 38% |
| General account | 8% |
| Cash and deposits | 41% |
| Total | 100% |

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% |

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥185 million.

## 16. Profit and loss on equity method

| | |
|---|---|
| Investment in affiliates | ¥2,030 million |
| Investment in affiliates (equity method) | ¥1,833 million |
| Profit on investment in affiliates (equity method) | ¥26 million |

Data

## 17. Related party transactions

Related party transactions in the fiscal year ended March 31, 2015 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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder | Ministry of Finance (Minister of Finance)(Notes i and ii) | 97.22(Direct) | Administration for policy based financing | Underwriting of capital increase(Note iii) | 248,836 | — | — |
| | | | | Receipts from general account of the national budget | 10,261 | — | — |
| | | | | Receipt of funds(Note iv) | 3,096,903 | Borrowings | 15,253,893 |
| | | | | Repayment of borrowing | 4,057,067 | | |
| | | | | Payment of interest on borrowings | 99,285 | Accrued expenses | 13,733 |
| | | | | Deposit of funds(Note v) | 6,491,600 | Due from banks | 2,547,800 |
| | | | | Refund of funds | 6,788,600 | | |
| | | | | Guarantee for corporate bonds(Note vi) | 1,089,690 | — | — |

(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) 0.26%

-Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry) 2.49%

(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 ¥5,512 million

-Ministry of Health, Labor and Welfare

Receipts from the national budget ¥1,498 million

-Ministry of Agriculture, Forestry and Fisheries

Receipts from the national budget ¥6,371 million

-Ministry of Economy, Trade and Industry

Receipts from the national budget ¥77 million

-Agency for Natural Resources and Energy

Receipts from the national budget ¥4 million

-Small and Medium Enterprise Agency

Receipts from the national budget ¥18,220 million

-Ministry of Agriculture, Forestry and Fisheries

Repayment of borrowed money ¥8,398 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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder (corporates) holding the majority of voting rights | JBIC | — | Relation of joint and several liability | Joint and several liability | 1,112,227 (Notes i and iii) | — | — |
| | | | | | 710,000 (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 | ¥0.42 |
| Net loss per share | ¥0.01 |

## 19. Subsequent events

Not applicable.

# Account for Micro Business and Individual Operations

## Balance Sheet (as of March 31, 2015)

(Millions of yen)

| Items | Amount | Items | Amount |
|---|---|---|---|
| Assets | | Liabilities | |
| Cash and due from banks | 38,832 | Borrowed money | 5,520,178 |
| Cash | 34 | Borrowings | 5,520,178 |
| Due from banks | 38,798 | Bonds payable | 679,980 |
| Loans and bills discounted | 6,951,202 | Other liabilities | 12,232 |
| Loans on deeds | 6,951,202 | Accrued expenses | 5,311 |
| Other assets | 12,979 | Lease obligations | 1,466 |
| Prepaid expenses | 270 | Other | 5,455 |
| Accrued income | 7,271 | Provision for bonuses | 2,868 |
| Agency accounts receivable | 1,337 | Provision for directors' bonuses | 7 |
| Other | 4,099 | Provision for retirement benefits | 60,794 |
| Property, plant and equipment | 95,863 | Provision for directors' retirement benefits | 20 |
| Buildings | 26,461 | Total liabilities | 6,276,080 |
| Land | 66,971 | Net assets | |
| Lease assets | 1,011 | Capital stock | 1,052,076 |
| Construction in progress | 751 | Capital surplus | 181,500 |
| Other | 666 | Special reserve for administrative improvement funds | 181,500 |
| Intangible assets | 10,688 | Retained earnings | (532,774) |
| Software | 10,073 | Other retained earnings | (532,774) |
| Lease assets | 347 | Retained earnings brought forward | (532,774) |
| Other | 268 | Total shareholders' equity | 700,801 |
| Allowance for loan losses | (132,683) | Total net assets | 700,801 |
| Total assets | 6,976,882 | Total liabilities and net assets | 6,976,882 |

## **Statement of Operations** (Year ended March 31, 2015)

(Millions of yen)

| Items | Amount |
|---|---|
| **Ordinary income** | **150,814** |
| Interest income | 132,146 |
| Interest on loans and discounts | 132,139 |
| Interest on receivables under resale agreements | 3 |
| Interest on deposits with banks | 3 |
| Other interest income | 0 |
| Fees and commissions | 0 |
| Other fees and commissions | 0 |
| Receipts from the national budget | 15,817 |
| Receipts from general account of the national budget | 15,817 |
| Receipts from special account of the national budget | 0 |
| Other income | 2,849 |
| Recoveries of written-off claims | 323 |
| Other | 2,525 |
| **Ordinary expenses** | **119,775** |
| Interest expenses | 20,635 |
| Interest on call money | 47 |
| Interest on borrowings and rediscounts | 16,934 |
| Interest on bonds | 3,653 |
| Fees and commissions payments | 745 |
| Other fees and commissions | 745 |
| Other ordinary expenses | 328 |
| Amortization of bond issuance cost | 328 |
| General and administrative expenses | 69,116 |
| Other expenses | 28,949 |
| Provision of allowance for loan losses | 13,631 |
| Written-off of loans | 14,354 |
| Other | 963 |
| **Ordinary profit** | **31,038** |
| **Extraordinary income** | **49,363** |
| Gain on disposal of noncurrent assets | 149 |
| Gain on transfer of benefit obligation relating to employees' pension fund | 49,214 |
| **Extraordinary losses** | **968** |
| Loss on disposal of noncurrent assets | 750 |
| Impairment loss | 217 |
| **Net income** | **79,433** |

Data

## Statement of Changes in Net Assets (Year ended March 31, 2015)

(Millions of yen)

| | Shareholders' equity | | | | | | Total net assets |
|---|---|---|---|---|---|---|---|
| | Capital stock | Capital surplus | | Retained earnings | | Total share-holders' equity | |
| | | Special reserve for administrative improvement funds | Total capital surplus | Other retained earnings: Retained earnings brought forward | Total retained earnings | | |
| Balance at the beginning of current period | 1,030,573 | 181,500 | 181,500 | (612,208) | (612,208) | 599,864 | 599,864 |
| Changes of items during the period | | | | | | | |
| Issuance of new shares | 21,503 | | | | | 21,503 | 21,503 |
| Net income (loss) | | | | 79,433 | 79,433 | 79,433 | 79,433 |
| Total changes of items during the period | 21,503 | — | — | 79,433 | 79,433 | 100,936 | 100,936 |
| Balance at the end of current period | 1,052,076 | 181,500 | 181,500 | (532,774) | (532,774) | 700,801 | 700,801 |

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 ¥157,490 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 addition, 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.

Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition 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 time 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 at the time of occurrence.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds.

The financial impact of the profit and loss in the fiscal year was ¥49,214 million, which was listed as extraordinary income.

(v) Provision for directors' retirement benefits

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

### (d) Consumption and other taxes

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

### Change in Accounting Policies

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 Standard Accounting Application Guidelines for Retirement Benefits (Corporate Accounting Application Guidelines No.25, March, 26, 2015. hereinafter, " Guidance on Retirement Benefits ")(hereinafter, "Retirement Benefits Accounting Standards, etc.") regarding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Guidance on Retirement Benefits Item No. 67 have been applied from the fiscal year.

The method of determining the discount rate was changed from a discount rate based on the number of years that was approximate to the average remaining employment period of employees to a single weighted average discount rate that reflects the expected payment period and the amount of the expected retirement benefit payment period for each employee.

The application of the Retirement Benefit Accounting Standards, etc. is in accordance with the transitional provisions stated in Retirement Benefit Accounting Standards Item No. 37, but this has no effect on the beginning of provision for retirement benefits and retained earnings, and profit and loss for the fiscal year.

In addition, the amount of net assets per share and the current net income per share for the fiscal year are likewise not affected.

## 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, 2015<br>Account for Micro Business and Individual Operations |
|---|---|
| Bankrupt loans | 15,448 |
| Non-accrual loans | 134,954 |
| Loans with interest or principal repayments more than three months in arrears | 101 |
| Restructured loans | 495,049 |
| Total | 645,553 |

(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, 2015 is ¥17,769 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 ¥679,980 million).

## 4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥11,170 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 | ¥120,000 million |
| Foreign-currency-denominated government-guaranteed bonds | ¥992,227 million |

## 6. Restriction in dividend distribution

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

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

*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No.38, 2010).
*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No.38, 2010).

## 7. Impairment losses

Impairment loss is recognized for the following assets:

| Region | Purpose of use | Type | Impairment loss (Millions of yen) |
|---|---|---|---|
| Tokyo metropolitan area | Idle assets: 2 items | Land, buildings | 14 |
| Other | Idle assets: 13 items | Land, buildings | 203 |

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, 2015 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 | 1,212,073,000,000 | 21,503,000,000 | — | 1,233,576,000,000 |

(Note) Increases is due to the issuance of 21,503,000,000 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 constructed for these operations and this model has been used for screening procedures and to monitor credit portfolios. The reliability of this credit 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, 2015 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥13,844 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 ¥13,103 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, 2015, 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 | 38,832 | 38,832 | — |
| (2) Loans and bills discounted | 6,946,989 | | |
| Allowance for loan losses (*) | (131,202) | | |
| | 6,815,786 | 7,001,129 | 185,343 |
| Total assets | 6,854,619 | 7,039,962 | 185,343 |
| (1) Borrowings | 5,388,871 | 5,416,899 | 28,028 |
| (2) Bonds payable | 679,980 | 683,585 | 3,605 |
| Total liabilities | 6,068,851 | 6,100,485 | 31,634 |

(*) 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 mon-



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itoring 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) | 4,213 |
| 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) | 7 |
| Total | 135,520 |

(*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) | 38,798 | — | — | — | — | — |
| Loans and bill discounted (*2) | 1,515,981 | 2,488,574 | 1,493,249 | 666,633 | 389,019 | 247,303 |
| Total | 1,554,780 | 2,488,574 | 1,493,249 | 666,633 | 389,019 | 247,303 |

(*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 ¥150,439 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 (*) | 1,577,504 | 2,224,808 | 1,150,333 | 279,119 | 131,813 | 25,300 |
| Bonds payable | 215,000 | 290,000 | 95,000 | 50,000 | 30,000 | — |
| Total | 1,792,504 | 2,514,808 | 1,245,333 | 329,119 | 161,813 | 25,300 |

(*) In borrowings, ¥131,300million 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 corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate 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 plan assets in accordance with the projected benefit obligations ratio.

Under the corporate 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 October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds. In addition, on October 1, 2014 JFC discontinued the welfare pension fund plan and replaced it with the defined benefit corporate pension plan and the defined contribution pension plan.

Defined benefits plan

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

| | | |
|---|---|---|
| Opening balance of projected benefit obligations | 184,386 | million yen |
| Service cost | 3,346 | |
| Interest cost | 1,528 | |
| Financing from employees | 123 | |
| Actuarial difference | 946 | |
| Payment of retirement benefits | (6,465) | |
| Prior service cost | (6,048) | |
| Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund | (54,284) | |
| Other | 1 | |
| Closing balance of projected benefit obligations | 123,532 | |

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

| | | |
|---|---|---|
| Opening balance of fair value of plan assets | 46,440 | million yen |
| Expected return on plan assets | 941 | |
| Actuarial difference | 2,473 | |
| Financing from employer | 15,977 | |
| Financing from employees | 123 | |
| Payment of retirement benefits | (3,629) | |
| Other | 0 | |
| Closing balance of fair value of plan assets | 62,327 | |

(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 | 71,817 | million yen |
| Fair value of plan assets | (62,327) | |
| | 9,490 | |
| Projected benefit obligations of unfunded plan | 51,715 | |
| Unfunded pension obligations | 61,205 | |
| Actuarial unrecognized difference | (7,309) | |
| Unrecognized prior service cost | 6,898 | |
| Net amount of liabilities and assets recorded on the balance sheet | 60,794 | |
| Provision for retirement benefits | 60,794 | |
| Prepaid pension cost | — | |
| Net amount of liabilities and assets recorded on the balance sheet | 60,794 | |

(4) Net pensions cost and breakdown of included items

| | | |
|---|---|---|
| Service cost | 3,346 | million yen |
| Interest cost | 1,528 | |
| Expected return on plan assets | (941) | |
| Amount of actuarial difference accounted for as expense | 1,731 | |
| Amortization of prior service cost accounted for as expense | (898) | |
| Other | — | |
| Net pensions cost related to defined benefits plan | 4,766 | |

(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 | 13% |
| Debentures | 38% |
| General account | 8% |
| Cash and deposits | 41% |
| Total | 100% |

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% |

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥114 million.

## 12. Related party transactions

Related party transactions in the fiscal year ended March 31, 2015 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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder | Ministry of Finance (Minister of Finance) [Notes i and ii] | 99.75 (Direct) | Administration for policy based financing | Underwriting of capital increase[Note iii] | 21,503 | — | — |
| | | | | Receipts from general account of the national budget | 10,193 | — | — |
| | | | | Receipt of funds[Note iv] | 1,838,000 | Borrowings | 5,388,878 |
| | | | | Repayment of borrowing | 1,800,903 | | |
| | | | | Payment of interest on borrowings | 16,933 | Accrued expenses | 4,135 |
| | | | | Guarantee for corporate bonds[Note v] | 389,980 | — | — |

(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) 0.25%

(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 ¥1,498 million
-Agency for Natural Resources and Energy
Receipts from the national budget ¥0 million
-Small and Medium Enterprise Agency
Receipts from the national budget ¥4,125 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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder (corporates) holding the majority of voting rights | JBIC | — | Relation of joint and several liability | Joint and several liability | 1,112,227 (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 ¥0.56

Net income per share ¥0.06

## 14. Subsequent events

Not applicable.

# Account for Agriculture, Forestry, Fisheries and Food Business Operations

## Balance Sheet (as of March 31, 2015)

(Millions of yen)

| Items | Amount | Items | Amount |
|---|---|---|---|
| Assets | | Liabilities | |
| Cash and due from banks | 53,041 | Borrowed money | 2,015,005 |
| Cash | 1 | Borrowings | 2,015,005 |
| Due from banks | 53,039 | Bonds payable | 190,964 |
| Securities | 2,062 | Entrusted funds | 30,562 |
| Stocks | 2,030 | Other liabilities | 10,613 |
| Other securities | 32 | Accrued expenses | 6,476 |
| Loans and bills discounted | 2,562,758 | Unearned revenue | 6 |
| Loans on deeds | 2,562,758 | Lease obligations | 263 |
| Other assets | 12,946 | Other | 3,865 |
| Prepaid expenses | 265 | Provision for bonuses | 562 |
| Accrued income | 11,272 | Provision for directors' bonuses | 7 |
| Agency accounts receivable | 529 | Provision for retirement benefits | 10,971 |
| Other | 879 | Provision for directors' retirement benefits | 25 |
| Property, plant and equipment | 33,378 | Acceptances and guarantees | 2,426 |
| Buildings | 8,051 | Total liabilities | 2,261,138 |
| Land | 24,987 | Net assets | |
| Lease assets | 197 | Capital stock | 381,588 |
| Other | 141 | Retained earnings | 2,655 |
| Intangible assets | 2,254 | Legal retained earnings | 2,655 |
| Software | 2,103 | Total shareholders' equity | 384,243 |
| Lease assets | 50 | | |
| Other | 100 | | |
| Customers' liabilities for acceptances and guarantees | 2,426 | | |
| Allowance for loan losses | (23,484) | Total net assets | 384,243 |
| Total assets | 2,645,382 | Total liabilities and net assets | 2,645,382 |

Data

## Statement of Operations (Year ended March 31, 2015)

(Millions of yen)

| Items | Amount |
|---|---|
| **Ordinary income** | **47,313** |
| Interest income | 39,329 |
| Interest on loans and discounts | 39,312 |
| Interest on receivables under resale agreements | 2 |
| Interest on deposits with banks | 14 |
| Other interest income | 0 |
| Fees and commissions | 27 |
| Other fees and commissions | 27 |
| Receipts from the national budget | 6,326 |
| Receipts from general account of the national budget | 6,300 |
| Receipts from special account of the national budget | 26 |
| Other income | 1,629 |
| Recoveries of written-off claims | 1,239 |
| Other | 390 |
| **Ordinary expenses** | **57,064** |
| Interest expenses | 31,910 |
| Interest on call money | 3 |
| Interest on borrowings and rediscounts | 28,475 |
| Interest on bonds | 3,432 |
| Fees and commissions payments | 3,430 |
| Other fees and commissions | 3,430 |
| Other ordinary expenses | 44 |
| Amortization of bond issuance cost | 44 |
| General and administrative expenses | 15,079 |
| Other expenses | 6,598 |
| Provision of allowance for loan losses | 6,272 |
| Written-off of loans | 117 |
| Other | 208 |
| **Ordinary loss** | **9,750** |
| **Extraordinary income** | **9,763** |
| Gain on transfer of benefit obligation relating to employees' pension fund | 9,763 |
| **Extraordinary losses** | **13** |
| Loss on disposal of noncurrent assets | 12 |
| Impairment loss | 0 |
| **Net income** | — |

Data

## Statement of Changes in Net Assets (Year ended March 31, 2015)

(Millions of yen)

| | Shareholders' equity | | | | | Total net assets |
|---|---|---|---|---|---|---|
| | Capital stock | Retained earnings | | | Total shareholders' equity | |
| | | Legal retained earnings | Other retained earnings: Retained earnings brought forward | Total retained earnings | | |
| Balance at the beginning of current period | 373,811 | 2,655 | — | 2,655 | 376,466 | 376,466 |
| Changes of items during the period | | | | | | |
| Issuance of new shares | 7,777 | | | | 7,777 | 7,777 |
| Net income (loss) | | | — | — | — | — |
| Total changes of items during the period | 7,777 | — | — | — | 7,777 | 7,777 |
| Balance at the end of current period | 381,588 | 2,655 | — | 2,655 | 384,243 | 384,243 |

Data

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 ¥11,413 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 addition, 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.

Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition 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 time 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 at the time of occurrence.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds.

The financial impact of the profit and loss in the fiscal year was ¥9,763 million, which was listed as extraordinary income.

(v) Provision for directors' retirement benefits

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

### (f) Consumption and other taxes

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

### Change in Accounting Policies

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 Standard Accounting Application Guidelines for Retirement Benefits (Corporate Accounting Application Guidelines No.25, March, 26, 2015. hereinafter, " Guidance on Retirement Benefits ")(hereinafter, "Retirement Benefits Accounting Standards, etc.") regarding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Guidance on Retirement Benefits Item No. 67 have been applied from the fiscal year.

The method of determining the discount rate was changed from a discount rate based on the number of years that was approximate to the average remaining employment period of employees to a single weighted average discount rate that reflects the expected payment period and the amount of the expected retirement benefit payment period for each employee.

The application of the Retirement Benefit Accounting Standards, etc. is in accordance with the transitional provisions stated in Retirement Benefit Accounting Standards Item No. 37, but this has no effect on the beginning of provision for retirement benefits and retained earnings, and profit and loss for the fiscal year.

In addition, the amount of net assets per share and the current net income per share for the fiscal year are likewise not affected.

## 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, 2015<br>Account for Agriculture, Forestry, Fisheries and Food Business Operations |
|---|---|
| Bankrupt loans | 1,172 |
| Non-accrual loans | 61,980 |
| Loans with interest or principal repayments more than three months in arrears | 1,247 |
| Restructured loans | 22,262 |
| Total | 86,662 |

(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, 2015 is ¥68,851 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 ¥190,964 million).

## 5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥2,651 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 | ¥120,000 million |
| Foreign-currency-denominated government-guaranteed bonds | ¥992,227 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 | Land | 0 |

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

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

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

## 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, 2015 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 | 373,811,000,000 | 7,777,000,000 | — | 381,588,000,000 |

(Note) Increase is due to the issuance of 7,777,000,000 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 Department and the Revitalization Support Department, and internal inspections by the auditing department.

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

(iv) Quantification of credit risk

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

(b) Market risk management

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

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

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

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2015 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥2,168 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥1,651 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, 2015, 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 | 53,041 | 53,041 | — |
| (2) Securities | | | |
| Other securities | 9 | 9 | — |
| (3) Loans and bills discounted | 2,560,404 | | |
| Allowance for loan losses (*) | (22,648) | | |
| | 2,537,755 | 2,737,623 | 199,868 |
| Total assets | 2,590,806 | 2,790,674 | 199,868 |
| (1) Borrowings | 2,015,005 | 2,137,145 | 122,140 |
| (2) Bonds payable | 190,964 | 212,539 | 21,574 |
| (3) Entrusted funds | 30,562 | 28,264 | (2,297) |
| Total liabilities | 2,236,532 | 2,377,949 | 141,416 |

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

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

Assets

(1) Cash and due from banks

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

(2) Securities

Partnership assets that could be assessed at fair value were measured at fair value, and the amount corresponding to equity holding was listed as the fair value of the partnership investments.

(3) 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) Partnership investments (*2) | 23 |
| 3) Loans on deeds (subordinated capital loans) (*3) | 2,353 |
| Total | 4,406 |

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

(*2) For partnership assets composed of unlisted stocks that do not have quoted market prices available and for which fair value is extremely difficult to be determined fair values are not stated.

(*3) 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 (*1) | 53,039 | — | — | — | — | — |
| Loans and bills discounted (*2) | 265,401 | 491,118 | 385,982 | 318,428 | 350,646 | 686,967 |
| Total | 318,441 | 491,118 | 385,982 | 318,428 | 350,646 | 686,967 |

(*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 ¥64,213 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 | 172,767 | 384,537 | 352,593 | 284,925 | 365,667 | 454,512 |
| Bonds payable | — | 46,000 | — | — | 55,000 | 90,000 |
| Entrusted funds | — | — | 22 | 923 | 3,433 | 26,183 |
| Total | 172,767 | 430,537 | 352,615 | 285,849 | 424,101 | 570,696 |

## 12. Fair value of securities

In addition to "Stocks" and "Other securities", on the balance sheet, transferable deposits in "Due from banks" are also included. The fair value of securities at March 31, 2015 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 | 12,279 | 12,281 | 2 |

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

| | Carrying amount on the balance sheet (Millions of yen) |
|---|---|
| Others | 23 |

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

## 13. Deferred tax accounting

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

## 14. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate 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 plan assets in accordance with the projected benefit obligations ratio.

Under the corporate 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 October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds. In addition, on October 1, 2014 JFC discontinued the welfare pension fund plan and replaced it with the defined benefit corporate pension plan and the defined contribution pension plan.

Defined benefits plan

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

| | | |
|---|---|---|
| Opening balance of projected benefit obligations | 35,248 | million yen |
| Service cost | 664 | |
| Interest cost | 290 | |
| Financing from employees | 24 | |
| Actuarial difference | 73 | |
| Payment of retirement benefits | (1,512) | |
| Prior service cost | (1,136) | |
| Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund | (10,486) | |
| Other | — | |
| Closing balance of projected benefit obligations | 23,165 | |

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

| | | |
|---|---|---|
| Opening balance of fair value of plan assets | 9,020 | million yen |
| Expected return on plan assets | 182 | |
| Actuarial difference | 402 | |
| Financing from employer | 3,185 | |
| Financing from employees | 24 | |
| Payment of retirement benefits | (816) | |
| Other | — | |
| Closing balance of fair value of plan assets | 11,998 | |

(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 | 13,825 | million yen |
| Fair value of plan assets | (11,998) | |
| | 1,827 | |
| Projected benefit obligations of unfunded plan | 9,339 | |
| Unfunded pension obligations | 11,166 | |
| Actuarial unrecognized difference | (1,376) | |
| Unrecognized prior service cost | 1,180 | |
| Net amount of liabilities and assets recorded on the balance sheet | 10,971 | |
| Provision for retirement benefits | 10,971 | |
| Prepaid pension cost | — | |
| Net amount of liabilities and assets recorded on the balance sheet | 10,971 | |

(4) Net pensions cost and breakdown of included items

| | | |
|---|---|---|
| Service cost | 664 | million yen |
| Interest cost | 290 | |
| Expected return on plan assets | (182) | |
| Amount of actuarial difference accounted for as expense | 314 | |
| Amortization of prior service cost accounted for as expense | (148) | |
| Other | — | |
| Net pensions cost related to defined benefits plan | 938 | |

(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 | 13% |
| Debentures | 38% |
| General account | 8% |
| Cash and deposits | 41% |
| Total | 100% |

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% |

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥22 million.

## 15. Profit and loss on equity method

| | |
|---|---|
| Investment in affiliates | ¥2,030 million |
| Investment in affiliates (equity method) | ¥1,833 million |
| Profit on Investment in affiliates (equity method) | ¥26 million |

## 16. Related party transactions

Related party transactions in the fiscal year ended March 31, 2015 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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder | Ministry of Finance (Minister of Finance)(Notes i and ii) | 92.83 (Direct) | Administration for policy based financing | Underwriting of capital increase (Note iii) | 2,265 | — | — |
| | | | | Receipt of funds (Note iv) | 209,000 | Borrowings | 1,971,566 |
| | | | | Repayment of borrowing | 163,556 | | |
| | | | | Payment of interest on borrowings | 28,473 | Accrued expenses | 5,033 |

(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) 7.17%

(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 ¥5,512 million
-Ministry of Agriculture, Forestry and Fisheries
Receipts from the national budget ¥6,326 million
-Ministry of Agriculture, Forestry and Fisheries
Repayment of borrowed money ¥8,398 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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder (corporates) holding the majority of voting rights | Independent administrative agency Agriculture, Forestry and Fisheries Credit Fund | — | Acceptance of trusted fund | Receipts of entrust funds(Note i) | 320 | Entrusted fund | 30,562 |
| | | | | Repayment of entrusted fund | 1,248 | | |
| | JBIC | — | Relation of joint and several liability | Joint and several liability | 1,112,227 (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

Not applicable.

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

## Balance Sheet (as of March 31, 2015)

(Millions of yen)

| Items | Amount | Items | Amount |
|---|---|---|---|
| Assets | | Liabilities | |
| Cash and due from banks | 43,566 | Borrowed money | 3,775,950 |
| Cash | 2 | Borrowings | 3,775,950 |
| Due from banks | 43,563 | Bonds payable | 994,707 |
| Securities | 54 | Other liabilities | 6,244 |
| Corporate bonds | 54 | Accrued expenses | 4,665 |
| Stocks | 0 | Unearned revenue | 29 |
| Loans and bills discounted | 6,017,230 | Lease obligations | 497 |
| Loans on deeds | 6,017,230 | Other | 1,052 |
| Other assets | 6,385 | Provision for bonuses | 1,032 |
| Prepaid expenses | 252 | Provision for directors' bonuses | 5 |
| Accrued income | 3,796 | Provision for retirement benefits | 19,673 |
| Other | 2,336 | Provision for directors' retirement benefits | 13 |
| Property, plant and equipment | 48,442 | Acceptances and guarantees | 4,114 |
| Buildings | 11,893 | Total liabilities | 4,801,741 |
| Land | 35,821 | Net assets | |
| Lease assets | 291 | Capital stock | 1,439,285 |
| Construction in progress | 87 | Retained earnings | (392,148) |
| Other | 348 | Other retained earnings | (392,148) |
| Intangible assets | 3,785 | Retained earnings brought forward | (392,148) |
| Software | 3,332 | Total shareholders' equity | 1,047,136 |
| Lease assets | 173 | | |
| Other | 280 | | |
| Customers' liabilities for acceptances and guarantees | 4,114 | | |
| Allowance for loan losses | (274,700) | Total net assets | 1,047,136 |
| Total assets | 5,848,878 | Total liabilities and net assets | 5,848,878 |

## **Statement of Operations** (Year ended March 31, 2015)

(Millions of yen)

| Items | Amount |
|---|---|
| **Ordinary income** | **116,011** |
| Interest income | 93,471 |
| Interest on loans and discounts | 93,457 |
| Interest and dividends on securities | 1 |
| Interest on receivables under resale agreements | 1 |
| Interest on deposits with banks | 11 |
| Other interest income | 0 |
| Fees and commissions | 22 |
| Other fees and commissions | 22 |
| Receipts from the national budget | 13,733 |
| Receipts from general account of the national budget | 13,729 |
| Receipts from special account of the national budget | 4 |
| Other income | 8,784 |
| Reversal of allowance for loan losses | 7,172 |
| Recoveries of written-off claims | 200 |
| Gain on sales of stocks and other securities | 7 |
| Other | 1,403 |
| **Ordinary expenses** | **55,945** |
| Interest expenses | 26,577 |
| Interest on call money | 41 |
| Interest on borrowings and rediscounts | 18,492 |
| Interest on bonds | 8,042 |
| Fees and commissions payments | 86 |
| Other fees and commissions | 86 |
| Other ordinary expenses | 212 |
| Amortization of bond issuance cost | 212 |
| General and administrative expenses | 26,195 |
| Other expenses | 2,873 |
| Written-off of loans | 2,313 |
| Other | 559 |
| **Ordinary profit** | **60,066** |
| **Extraordinary income** | **17,596** |
| Gain on disposal of noncurrent assets | 0 |
| Gain on transfer of benefit obligation relating to employees' pension fund | 17,596 |
| **Extraordinary losses** | **413** |
| Loss on disposal of noncurrent assets | 413 |
| **Net income** | **77,249** |

Data

## Statement of Changes in Net Assets (Year ended March 31, 2015)

(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 | 1,347,985 | (469,398) | (469,398) | 878,586 | 878,586 |
| Changes of items during the period | | | | | |
| Issuance of new shares | 91,300 | | | 91,300 | 91,300 |
| Net income (loss) | | 77,249 | 77,249 | 77,249 | 77,249 |
| Total changes of items during the period | 91,300 | 77,249 | 77,249 | 168,549 | 168,549 |
| Balance at the end of current period | 1,439,285 | (392,148) | (392,148) | 1,047,136 | 1,047,136 |

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 ¥96,507 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 addition, 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. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition 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 time 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 at the time of occurrence.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds.

The financial impact of the profit and loss in the fiscal year was ¥17,596 million, which was listed as extraordinary income.

(v) Provision for directors' retirement benefits

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

### (f) Consumption and other taxes

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

### Change in Accounting Policies

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 Standard Accounting Application Guidelines for Retirement Benefits (Corporate Accounting Application Guidelines No.25, March, 26, 2015. hereinafter, " Guidance on Retirement Benefits ")(hereinafter, "Retirement Benefits Accounting Standards, etc.") regarding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Guidance on Retirement Benefits Item No. 67 have been applied from the fiscal year.

The method of determining the discount rate was changed from a discount rate based on the number of years that was approximate to the average remaining employment period of employees to a single weighted average discount rate that reflects the expected payment period and the amount of the expected retirement benefit payment period for each employee.

The application of the Retirement Benefit Accounting Standards, etc. is in accordance with the transitional provisions stated in Retirement Benefit Accounting Standards Item No. 37, but this has no effect on the beginning of provision for retirement benefits and retained earnings, and profit and loss for the fiscal year.

In addition, the amount of net assets per share and the current net income per share for the fiscal year are likewise not affected.

## 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, 2015<br>Account for SME Loan Programs and Securitization Support Programs<br>(Guarantee-type Operation) |
|---|---|
| Bankrupt loans | 9,137 |
| Non-accrual loans | 550,166 |
| Loans with interest or principal repayments more than three months in arrears | — |
| Restructured loans | 88,912 |
| Total | 648,216 |

(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, 2015 is ¥68,621 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 ¥994,707 million).

## 4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥4,073 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 | ¥120,000 million |
| Foreign-currency-denominated government-guaranteed bonds | ¥992,227 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, 2015 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 | 1,347,985,000,000 | 91,300,000,000 | — | 1,439,285,000,000 |

(Note) Increases is due to the issuance of 91,300,000,000 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 of SMEs that have debt in the form of loans from JFC for the purpose of reducing qualifying debt. 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, 2015 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥37,527 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 ¥34,990 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, 2015, 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 | 43,566 | 43,566 | — |
| (2) Securities | | | |
| Held-to-maturity debt securities | 54 | 54 | — |
| (3) Loans and bills discounted | 5,733,030 | | |
| Allowance for loan losses (*) | (178,593) | | |
| | 5,554,436 | 5,856,097 | 301,660 |
| Total assets | 5,598,057 | 5,899,717 | 301,660 |
| (1) Borrowings | 3,757,297 | 3,794,293 | 36,996 |
| (2) Bonds payable | 994,707 | 1,007,565 | 12,857 |
| Total liabilities | 4,752,004 | 4,801,858 | 49,853 |

(*) 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. Fair 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 (*1) | 0 |
| 2) Loans on deeds (subordinated capital loans) (*2) | 284,200 |
| 3) Borrowings from the FILP special account (investment account) of the national budget (*3) | 18,653 |
| Total | 302,853 |

(*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) | 43,563 | — | — | — | — | — |
| Securities (*2) Held-to-maturity debt securities | 38 | 16 | — | — | — | — |
| Loans and bill discounted (*2) | 1,470,751 | 2,115,332 | 1,136,339 | 521,347 | 435,082 | 289,495 |
| Total | 1,514,353 | 2,115,349 | 1,136,339 | 521,347 | 435,082 | 289,495 |

(*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 ¥48,879 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 | 973,369 | 1,424,554 | 856,237 | 340,340 | 181,450 | — |
| Bonds payable | 260,000 | 405,000 | 195,000 | 60,000 | 75,000 | — |
| Total | 1,233,369 | 1,829,554 | 1,051,237 | 400,340 | 256,450 | — |

Data

## 9. Fair value of securities

The fair value of securities at March 31, 2015 is as follows:

### (a) Held-to-maturity debt securities with fair 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 | 54 | 54 | — |

### (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 corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate 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 plan assets in accordance with the projected benefit obligations ratio.

Under the corporate 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 October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds. In addition, on October 1, 2014 JFC discontinued the welfare pension fund plan and replaced it with the defined benefit corporate pension plan and the defined contribution pension plan.

Defined benefits plan

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

| | |
|---|---|
| Opening balance of projected benefit obligations | 63,835 million yen |
| Service cost | 1,302 |
| Interest cost | 523 |
| Financing from employees | 46 |
| Actuarial difference | (358) |
| Payment of retirement benefits | (2,493) |
| Prior service cost | (2,135) |
| Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund | (19,114) |
| Other | 394 |
| Closing balance of projected benefit obligations | 42,000 |

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

| | |
|---|---|
| Opening balance of fair value of plan assets | 16,163 million yen |
| Expected return on plan assets | 329 |
| Actuarial difference | 722 |
| Financing from employer | 5,615 |
| Financing from employees | 46 |
| Payment of retirement benefits | (1,379) |
| Other | 78 |
| Closing balance of fair value of plan assets | 21,574 |

(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 | 24,860 million yen |
| Fair value of plan assets | (21,574) |
| | 3,285 |
| Projected benefit obligations of unfunded plan | 17,140 |
| Unfunded pension obligations | 20,425 |
| Actuarial unrecognized difference | (3,406) |
| Unrecognized prior service cost | 2,654 |
| Net amount of liabilities and assets recorded on the balance sheet | 19,673 |
| Provision for retirement benefits | 19,673 |
| Prepaid pension cost | — |
| Net amount of liabilities and assets recorded on the balance sheet | 19,673 |

(4) Net pensions cost and breakdown of included items

| | |
|---|---|
| Service cost | 1,302 million yen |
| Interest cost | 523 |
| Expected return on plan assets | (329) |
| Amount of actuarial difference accounted for as expense | 808 |
| Amortization of prior service cost accounted for as expense | (378) |
| Other | — |
| Net pensions cost related to defined benefits plan | 1,926 |

(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 | 13% |
| Debentures | 38% |
| General account | 8% |
| Cash and deposits | 41% |
| Total | 100% |

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% |

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥41 million.

## 12. Related party transactions

Related party transactions in the fiscal year ended March 31, 2015 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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder | Ministry of Finance (Minister of Finance)(Notes i and ii) | 90.8 (Direct) | Administration for policy based financing | Underwriting of capital increase(Note iii) | 91,300 | — | — |
| | | | | Receipt of funds(Note iv) | 897,000 | Borrowings | 3,775,950 |
| | | | | Repayment of borrowing | 1,083,344 | | |
| | | | | Payment of interest on borrowings | 18,492 | Accrued expenses | 3,515 |
| | | | | Guarantee for corporate bonds(Note v) | 699,710 | — | — |

(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) 9.2%

(ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:
-Agency for Natural Resources and Energy
Receipts from the national budget ¥4 million
-Small and Medium Enterprise Agency
Receipts from the national budget ¥13,729 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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder (corporates) holding the majority of voting rights | JBIC | — | Relation of joint and several liability | Joint and several liability | 1,112,227 (Notes i and iii) | — | — |
| | | | | | 510,000 (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 ¥0.72
Net income per share ¥0.05

## 14. Subsequent events

Not applicable.

# Account for Securitization Support Programs (Purchase-type Operation)

## Balance Sheet (as of March 31, 2015)

(Millions of yen)

| Items | Amount | Items | Amount |
|---|---|---|---|
| Assets | | Liabilities | |
| Cash and due from banks | 3,777 | Other liabilities | 16 |
| Cash | 0 | Accrued expenses | 0 |
| Due from banks | 3,777 | Other | 16 |
| Securities | 21,026 | Provision for bonuses | 1 |
| Government bonds | 21,026 | Provision for directors' bonuses | 0 |
| Other assets | 36 | Provision for retirement benefits | 21 |
| Accrued income | 10 | Provision for directors' retirement benefits | 0 |
| Other | 25 | Total liabilities | 40 |
| Prepaid pension cost | 6 | Net assets | |
| | | Capital stock | 24,476 |
| | | Retained earnings | 330 |
| | | Legal retained earnings | 10 |
| | | Other retained earnings | 320 |
| | | Retained earnings brought forward | 320 |
| | | Total shareholders' equity | 24,806 |
| | | Total net assets | 24,806 |
| Total assets | 24,846 | Total liabilities and net assets | 24,846 |

## Statement of Operations (Year ended March 31, 2015)

(Millions of yen)

| Items | Amount |
|---|---|
| **Ordinary income** | **355** |
| Interest income | 337 |
| Interest and dividends on securities | 335 |
| Interest on deposits with banks | 2 |
| Other income | 17 |
| Other | 17 |
| **Ordinary expenses** | **42** |
| Fees and commissions payments | 0 |
| Other fees and commissions | 0 |
| Other ordinary expenses | 0 |
| Amortization of bond issuance cost | 0 |
| General and administrative expenses | 41 |
| **Ordinary profit** | **313** |
| **Extraordinary income** | **6** |
| Gain on transfer of benefit obligation relating to employees' pension fund | 6 |
| **Net income** | **320** |

## Statement of Changes in Net Assets (Year ended March 31, 2015)

(Millions of yen)

| | Shareholders' equity | | | | | Total net assets |
|---|---|---|---|---|---|---|
| | Capital stock | Retained earnings | | | Total shareholders' equity | |
| | | Legal retained earning | Other retained earnings | Total retained earnings | | |
| | | | Retained earnings brought forward | | | |
| Balance at the beginning of current period | 24,476 | — | 20 | 20 | 24,496 | 24,496 |
| Changes of items during the period | | | | | | |
| Provision of legal retained earnings | | 10 | (10) | — | — | — |
| Payment to the national treasury | | | (10) | (10) | (10) | (10) |
| Net income (loss) | | | 320 | 320 | 320 | 320 |
| Total changes of items during the period | — | 10 | 299 | 309 | 309 | 309 |
| Balance at the end of current period | 24,476 | 10 | 320 | 330 | 24,806 | 24,806 |

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) 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" (including prepaid pension cost) 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 addition, 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. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition 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 time 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 at the time of occurrence.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds.

The financial impact of the profit and loss in the fiscal year was ¥6 million, which was listed as extraordinary income.

(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.

### Change in Accounting Policies

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 Standard Accounting Application Guidelines for Retirement Benefits (Corporate Accounting Application Guidelines No.25, March, 26, 2015. hereinafter, " Guidance on Retirement Benefits ")(hereinafter, "Retirement Benefits Accounting Standards, etc.") regarding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Guidance on Retirement Benefits Item No. 67 have been applied from the fiscal year.

The method of determining the discount rate was changed from a discount rate based on the number of years that was approximate to the average remaining employment period of employees to a single weighted average discount rate that reflects the expected payment period and the amount of the expected retirement benefit payment period for each employee.

The application of the Retirement Benefit Accounting Standards, etc. is in accordance with the transitional provisions stated in Retirement Benefit Accounting Standards Item No. 37, but this has no effect on the beginning of provision for retirement benefits and retained earnings, and profit and loss for the fiscal year.

In addition, the amount of net assets per share and the current net income per share for the fiscal year are likewise not affected.

## 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 Support 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 Support Programs (Purchase-type Operations) has pledged its assets as general collateral for the joint and several liabilities.

| | |
|---|---|
| FILP Agency Bonds | ¥120,000 million |
| Foreign-currency-denominated government-guaranteed bonds | ¥992,227 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, 2015, 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 grant-

Data

ed and the resulting drop in value of securitized instruments owned. In addition, no securitized instruments were owned at the end of this fiscal year.

(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. In addition, no bonds were issued at the end of the fiscal year.

(3) Risk management structure for financial instruments

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

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

The risk management structure for these operations is described below.

Data

(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, 2015 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥ 215 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 ¥ 213 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, 2015, 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 | 3,777 | 3,777 | — |
| (2) Securities | | | |
| Held-to-maturity debt securities | 21,026 | 21,669 | 643 |
| Total assets | 24,804 | 25,447 | 643 |

(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. Fair 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 (*) | 3,777 | — | — | — | — | — |
| Securities<br>Held-to-maturity debt securities | — | 20,983 | — | — | — | — |
| Total | 3,777 | 20,983 | — | — | — | — |

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

## 7. Fair value of securities

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

The fair value of securities at March 31, 2015 is as follows:

### (a) Held-to-maturity debt securities with fair 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 | 21,026 | 21,669 | 643 |

### (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 | 3,300 | 3,300 | — |

## 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 corporate welfare pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate 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 plan assets in accordance with the projected benefit obligations ratio.

Under the corporate 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 October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds. In addition, on October 1, 2014 JFC discontinued the welfare pension fund plan and replaced it with the defined benefit corporate pension plan and the defined contribution pension plan.

Data

Defined benefits plan

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

| | |
|---|---|
| Opening balance of projected benefit obligations | 30 million yen |
| Service cost | 1 |
| Interest cost | 0 |
| Financing from employees | 0 |
| Actuarial difference | (0) |
| Payment of retirement benefits | — |
| Prior service cost | (3) |
| Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund | (9) |
| Other | 10 |
| Closing balance of projected benefit obligations | 28 |

(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 | (7) |
| Financing from employer | 7 |
| Financing from employees | 0 |
| Payment of retirement benefits | — |
| Other | 1 |
| Closing balance of fair value of plan assets | 7 |

(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 | 8 million yen |
| Fair value of plan assets | (7) |
| | 1 |
| Projected benefit obligations of unfunded plan | 19 |
| Unfunded pension obligations | 20 |
| Actuarial unrecognized difference | (10) |
| Unrecognized prior service cost | 4 |
| Net amount of liabilities and assets recorded on the balance sheet | 14 |
| Provision for retirement benefits | 21 |
| Prepaid pension cost | (6) |
| Net amount of liabilities and assets recorded on the balance sheet | 14 |

(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 | 0 |
| Amortization of prior service cost accounted for as expense | (0) |
| Other | — |
| Net pensions cost related to defined benefits plan | 2 |

(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 | 13% |
| Debentures | 38% |
| General account | 8% |
| Cash and deposits | 41% |
| Total | 100% |

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%

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥0 million.

## 10. Related party transactions

Related party transactions in the fiscal year ended March 31, 2015 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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder (corporates) holding the majority of voting rights | JBIC | — | Relation of joint and several liability | Joint and several liability | 1,112,227 (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 ¥1.01

Net income per share ¥0.01

## 12. Subsequent events

Not applicable.

Data

# Account for Credit Insurance Programs

## Balance Sheet (as of March 31, 2015)

(Millions of yen)

| Items | Amount | Items | Amount |
|---|---|---|---|
| Assets | | Liabilities | |
| Cash and due from banks | 3,135,604 | Reserve for insurance policy liabilities | 1,480,020 |
| Cash | 0 | Other liabilities | 1,698 |
| Due from banks | 3,135,604 | Accrued expenses | 24 |
| Other assets | 18,283 | Lease obligations | 246 |
| Prepaid expenses | 429 | Other | 1,427 |
| Accrued income | 319 | Provision for bonuses | 185 |
| Other | 17,534 | Provision for directors' bonuses | 1 |
| Property, plant and equipment | 19,245 | Provision for retirement benefits | 4,399 |
| Buildings | 5,095 | Provision for directors' retirement benefits | 1 |
| Land | 13,968 | Total liabilities | 1,486,306 |
| Lease assets | 132 | Net assets | |
| Other | 49 | Capital surplus | 1,965,779 |
| Intangible assets | 2,057 | Legal capital surplus | 1,965,779 |
| Software | 1,953 | Retained earnings | (276,895) |
| Lease assets | 95 | Other retained earnings | (276,895) |
| Other | 9 | Retained earnings brought forward | (276,895) |
| | | Total shareholders' equity | 1,688,884 |
| | | Total net assets | 1,688,884 |
| Total assets | 3,175,190 | Total liabilities and net assets | 3,175,190 |

## **Statement of Operations** (Year ended March 31, 2015)

(Millions of yen)

| Items | Amount |
|---|---|
| **Ordinary income** | **154,255** |
| Interest income | 2,530 |
| Interest on deposits with banks | 2,530 |
| Insurance premiums and other | 151,331 |
| Insurance premiums | 140,655 |
| Receipts of burden charges under the Responsibility-sharing System | 10,676 |
| Other income | 393 |
| Other | 393 |
| **Ordinary expenses** | **435,090** |
| Expenses on insurance claims and other | 426,246 |
| Expenses on insurance claims | 426,180 |
| Recoveries of insurance claims | (108,642) |
| Provision of reserve for insurance policy liabilities | 108,708 |
| General and administrative expenses | 5,303 |
| Other expenses | 3,541 |
| Other | 3,541 |
| **Ordinary loss** | **280,834** |
| **Extraordinary income** | **3,992** |
| Gain on disposal of noncurrent assets | 0 |
| Gain on transfer of benefit obligation relating to employees' pension fund | 3,991 |
| **Extraordinary losses** | **52** |
| Loss on disposal of noncurrent assets | 52 |
| **Net loss** | **276,895** |

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## Statement of Changes in Net Assets (Year ended March 31, 2015)

(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 | 1,870,208 | 1,870,208 | (13,229) | (13,229) | 1,856,979 | 1,856,979 |
| Changes of items during the period | | | | | | |
| Issuance of new shares | 108,800 | 108,800 | | | 108,800 | 108,800 |
| Reversal of legal capital surplus (Deficit disposition) | (13,229) | (13,229) | 13,229 | 13,229 | — | — |
| Net income (loss) | | | (276,895) | (276,895) | (276,895) | (276,895) |
| Total changes of items during the period | 95,570 | 95,570 | (263,665) | (263,665) | (168,095) | (168,095) |
| Balance at the end of current period | 1,965,779 | 1,965,779 | (276,895) | (276,895) | 1,688,884 | 1,688,884 |

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 addition, 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. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition 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 time 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 at the time of occurrence.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds.

The financial impact of the profit and loss in the fiscal year was ¥3,991 million, which was listed as extraordinary income.

#### (v) Provision for directors' retirement benefits

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

### (d) Accounting policies for reserve for insurance policy liabilities

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

#### (i) Policy reserve

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

(ii) Outstanding claims reserve

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

(e) Consumption and other taxes

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

Change in Accounting Policies

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 Standard Accounting Application Guidelines for Retirement Benefits (Corporate Accounting Application Guidelines No.25, March, 26, 2015. hereinafter, " Guidance on Retirement Benefits ")(hereinafter, "Retirement Benefits Accounting Standards, etc.") regarding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Guidance on Retirement Benefits Item No. 67 have been applied from the fiscal year.

The method of determining the discount rate was changed from a discount rate based on the number of years that was approximate to the average remaining employment period of employees to a single weighted average discount rate that reflects the expected payment period and the amount of the expected retirement benefit payment period for each employee.

The application of the Retirement Benefit Accounting Standards, etc. is in accordance with the transitional provisions stated in Retirement Benefit Accounting Standards Item No. 37, but this has no effect on the beginning of provision for retirement benefits and retained earnings, and profit and loss for the fiscal year.

In addition, the amount of net assets per share and the current net loss per share for the fiscal year are likewise not affected.

Change in Accounting Estimate

Change in estimate reserve for insurance policy liabilities

For reserve for insurance policy liabilities, along with the data accumulation of insurance liability balance which enabled more precise estimation and the change of calculation method based on amended Article 9 of the Ministerial Ordinance Concerning Accounting for JFC on April 1, 2015, the estimate is changed from the end of this fiscal year.

Due to this change, ordinary loss and net loss increased ¥336,275 million in this fiscal year.

## 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 ¥1,348 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 | ¥120,000 million |
| Foreign-currency-denominated government-guaranteed bonds | ¥992,227 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 ¥3,514 million.

## 7. Issued shares

For the fiscal year ended March 31, 2015, 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 | 5,551,527,407,741 | 108,800,000,000 | — | 5,660,327,407,741 |

(Note) Increase is due to the issuance of 108,800,000,000 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, 2015, 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 | 3,135,604 | 3,137,410 | 1,806 |

(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 (*) | 2,064,904 | 1,070,700 | — | — | — | — |

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

## 9. Fair value of securities

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

Other securities (as of March 31, 2015)

| | Type | Amount recorded on balance sheet (millions of yen) | Acquisition cost (millions of yen) | Difference (millions of yen) |
|---|---|---|---|---|
| Items for which amount recorded on the balance sheet does not exceed acquisition cost | Other | 467,000 | 467,000 | — |

## 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 corporate welfare pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate 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 plan assets in accordance with the projected benefit obligations ratio.

Under the corporate 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 October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds. In addition, on October 1, 2014 JFC discontinued the welfare pension fund plan and replaced it with the defined benefit corporate pension plan and the defined contribution pension plan.

Defined benefits plan

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

| | | |
|---|---|---|
| Opening balance of projected benefit obligations | 14,305 | million yen |
| Service cost | 236 | |
| Interest cost | 113 | |
| Financing from employees | 8 | |
| Actuarial difference | (33) | |
| Payment of retirement benefits | (451) | |
| Prior service cost | (413) | |
| Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund | (4,284) | |
| Other | (393) | |
| Closing balance of projected benefit obligations | 9,085 | |

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

| | | |
|---|---|---|
| Opening balance of fair value of plan assets | 3,685 | million yen |
| Expected return on plan assets | 73 | |
| Actuarial difference | 348 | |
| Financing from employer | 1,072 | |
| Financing from employees | 8 | |
| Payment of retirement benefits | (294) | |
| Other | (75) | |
| Closing balance of fair value of plan assets | 4,817 | |

(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 | 5,551 | million yen |
| Fair value of plan assets | (4,817) | |
| | 733 | |
| Projected benefit obligations of unfunded plan | 3,534 | |
| Unfunded pension obligations | 4,268 | |
| Actuarial unrecognized difference | (340) | |
| Unrecognized prior service cost | 471 | |
| Net amount of liabilities and assets recorded on the balance sheet | 4,399 | |
| Provision for retirement benefits | 4,399 | |
| Prepaid pension cost | — | |
| Net amount of liabilities and assets recorded on the balance sheet | 4,399 | |

(4) Net pensions cost and breakdown of included items

| | | |
|---|---|---|
| Service cost | 236 | million yen |
| Interest cost | 113 | |
| Expected return on plan assets | (73) | |
| Amount of actuarial difference accounted for as expense | 135 | |
| Amortization of prior service cost accounted for as expense | (63) | |
| Other | — | |
| Net pensions cost related to defined benefits plan | 347 | |

(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 | 13% |
| Debentures | 38% |
| General account | 8% |
| Cash and deposits | 41% |
| Total | 100% |

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.

Data

(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%

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥7 million.

## 12. Related party transactions

Related party transactions in the fiscal year ended March 31, 2015 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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder | Ministry of Finance (Minister of Finance) | 100 (Direct) | Administration for policy based financing | Underwriting of capital increase(Note i) | 108,800 | — | — |
| | | | | Deposit of funds(Note ii) | 6,491,600 | Due from banks | 2,547,800 |
| | | | | Refund of funds | 6,788,600 | | |

(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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder (corporates) holding the majority of voting rights | JBIC | — | Relation of joint and several liability | Joint and several liability | 1,112,227 (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 ¥0.29

Net loss per share ¥0.04

## 14. Subsequent events

Not applicable.

Data

# Account for Operations to Facilitate Crisis Responses

## Balance Sheet (as of March 31, 2015)

(Millions of yen)

| Items | Amount | Items | Amount |
|---|---|---|---|
| Assets | | Liabilities | |
| Cash and due from banks | 819,920 | Borrowed money | 4,035,688 |
| Due from banks | 819,920 | Borrowings | 4,035,688 |
| Loans and bills discounted | 4,035,688 | Other liabilities | 6,855 |
| Loans on deeds | 4,035,688 | Accrued expenses | 897 |
| Other assets | 1,071 | Unearned revenue | 5,876 |
| Accrued income | 993 | Lease obligations | 0 |
| Other | 77 | Other | 80 |
| Property, plant and equipment | 0 | Provision for bonuses | 6 |
| Lease assets | 0 | Provision for directors' bonuses | 0 |
| Intangible assets | 71 | Provision for retirement benefits | 108 |
| Software | 71 | Provision for directors' retirement benefits | 0 |
| Lease assets | 0 | Reserve for compensation losses | 32,934 |
| Other | 0 | Total liabilities | 4,075,592 |
| Prepaid pension cost | 29 | Net assets | |
| | | Capital stock | 957,394 |
| | | Retained earnings | (176,205) |
| | | Other retained earnings | (176,205) |
| | | Retained earnings brought forward | (176,205) |
| | | Total shareholders' equity | 781,188 |
| | | Total net assets | 781,188 |
| Total assets | 4,856,781 | Total liabilities and net assets | 4,856,781 |

## Statement of Operations (Year ended March 31, 2015)

(Millions of yen)

| Items | Amount |
|---|---|
| **Ordinary income** | **41,924** |
| Interest income | 35,590 |
| Interest on loans and discounts | 34,971 |
| Interest and dividends on securities | 76 |
| Interest on deposits with banks | 542 |
| Fees and commissions | 3,534 |
| Fees and commissions on compensation security contract | 3,534 |
| Receipts from the national budget | 478 |
| Receipts from general account of the national budget | 478 |
| Other income | 2,322 |
| Gain on reversal of allowance for indemnity | 645 |
| Other | 1,676 |
| **Ordinary expenses** | **56,842** |
| Interest expenses | 34,971 |
| Interest on borrowings and rediscounts | 34,971 |
| Fees and commissions payments | 8,995 |
| Expense on compensation security contract | 8,995 |
| Other ordinary expenses | 12,484 |
| Interest subsidies | 12,484 |
| General and administrative expenses | 199 |
| Other expenses | 191 |
| Other | 191 |
| **Ordinary loss** | **14,917** |
| **Extraordinary income** | **39** |
| Gain on transfer of benefit obligation relating to employees' pension fund | 39 |
| **Extraordinary losses** | **31** |
| Loss on disposal of noncurrent assets | 31 |
| **Net loss** | **14,909** |

Data

## Statement of Changes in Net Assets (Year ended March 31, 2015)

(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 | 932,426 | (161,295) | (161,295) | 771,130 | 771,130 |
| Changes of items during the period | | | | | |
| Issuance of new shares | 24,968 | | | 24,968 | 24,968 |
| Net income (loss) | | (14,909) | (14,909) | (14,909) | (14,909) |
| Total changes of items during the period | 24,968 | (14,909) | (14,909) | 10,058 | 10,058 |
| Balance at the end of current period | 957,394 | (176,205) | (176,205) | 781,188 | 781,188 |

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Securities

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

### (b) Depreciation basis for fixed assets

(i) 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" (including prepaid pension cost) 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 addition, 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. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition 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 time 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 at the time of occurrence.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to pay the future portion of funds.

The financial impact of the profit and loss in the fiscal year was ¥39 million, which was listed as extraordinary income.

(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 Accounting Policies

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 Standard Accounting Application Guidelines for Retirement Benefits (Corporate Accounting Application Guidelines No.25, March, 26, 2015. hereinafter, " Guidance on Retirement Benefits ")(hereinafter, "Retirement Benefits Accounting Standards, etc.") regarding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Guidance on Retirement Benefits Item No. 67 have been applied from the fiscal year.

The method of determining the discount rate was changed from a discount rate based on the number of years that was approximate to the average remaining employment period of employees to a single weighted average discount rate that reflects the expected payment period and the amount of the expected retirement benefit payment period for each employee.

The application of the Retirement Benefit Accounting Standards, etc. is in accordance with the transitional provisions stated in Retirement Benefit Accounting Standards Item No. 37, but this has no effect on the beginning of provision for retirement benefits and retained earnings, and profit and loss for the fiscal year.

In addition, the amount of net assets per share and the current net loss per share for the fiscal year are likewise not affected.

## 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, 2015.

"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 | ¥120,000 million |
| Foreign-currency-denominated government-guaranteed bonds | ¥992,227 million |

## 6. Amount of compensation security contract

(Millions of yen)

| | |
|---|---|
| The total amount of compensation outstanding (106,087 contracts) | 2,669,136 |
| Reserve for compensation | 32,934 |
| Net amount | 2,636,201 |

## 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.

Data

*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, 2015, 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 | 932,426,000,000 | 24,968,000,000 | — | 957,394,000,000 |

(Note) Increase is due to the issuance of 24,968,000,000 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), 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, 2015, 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 | 819,920 | 819,920 | — |
| (2) Loans and bills discounted | 4,035,688 | 4,104,667 | 68,979 |
| Total assets | 4,855,608 | 4,924,587 | 68,979 |
| Borrowings | 4,035,688 | 4,115,877 | 80,189 |
| Total liabilities | 4,035,688 | 4,115,877 | 80,189 |

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

Assets

(1) Cash and due from banks

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

(2) Loans and bills discounted

All loans have a fixed interest rate and fair value is calculated by discounting the principal and interest by the interest rate 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: ¥2,669,136 million

Compensation loss reserve: ¥32,934 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 (*) | 819,920 | — | — | — | — | — |
| Loans and bills discounted | 1,067,643 | 1,300,830 | 792,613 | 447,644 | 308,899 | 118,059 |
| Total | 1,887,563 | 1,300,830 | 792,613 | 447,644 | 308,899 | 118,059 |

(*) 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 | 1,067,643 | 1,300,830 | 792,613 | 447,644 | 308,899 | 118,059 |

## 10. Fair value of securities

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

The fair value of securities at March 31, 2015 is as follows:

### Available-for-sale securities

| | Type | Carrying amount on the balance sheet (Millions of yen) | Acquisition cost (Millions of yen) | Difference (Millions of yen) |
|---|---|---|---|---|
| Securities whose carrying amount does not exceed their acquisition cost | Others | 816,000 | 816,000 | — |

## 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 corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC welfare corporate 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 plan assets in accordance with the projected benefit obligations ratio.

Under the corporate 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 October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds. In addition, on October 1, 2014 JFC discontinued the welfare pension fund plan and replaced it with the defined benefit corporate pension plan and the defined contribution pension plan.

Defined benefits plan

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

| | |
|---|---|
| Opening balance of projected benefit obligations | 221 million yen |
| Service cost | 6 |
| Interest cost | 1 |
| Financing from employees | 0 |
| Actuarial difference | (3) |
| Payment of retirement benefits | — |
| Prior service cost | (14) |
| Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund | (53) |
| Other | (2) |
| Closing balance of projected benefit obligations | 156 |

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

| | |
|---|---|
| Opening balance of fair value of plan assets | 41 million yen |
| Expected return on plan assets | 0 |
| Actuarial difference | (30) |
| Financing from employer | 33 |
| Financing from employees | 0 |
| Payment of retirement benefits | — |
| Other | (2) |
| Closing balance of fair value of plan assets | 43 |

(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 | 50 million yen |
| Fair value of plan assets | (43) |
| | 6 |
| Projected benefit obligations of unfunded plan | 105 |
| Unfunded pension obligations | 112 |
| Actuarial unrecognized difference | (48) |
| Unrecognized prior service cost | 14 |
| Net amount of liabilities and assets recognized on the balance sheet | 78 |
| Provision for retirement benefits | 108 |
| Prepaid pension cost | (29) |
| Net amount of liabilities and assets recognized on the balance sheet | 78 |

(4) Net pensions cost and breakdown of included items

| | |
|---|---|
| Service cost | 6 million yen |
| Interest cost | 1 |
| Expected return on plan assets | (0) |
| Amount of actuarial difference accounted for as expense | 4 |
| Amortization of prior service cost accounted for as expense | (2) |
| Other | — |
| Net pensions cost related to defined benefits plan | 10 |

(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 | 13% |
| Debentures | 38% |
| General account | 8% |
| Cash and deposits | 41% |
| Total | 100% |

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%

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥0 million.

## 13. Related party transactions

Related party transactions in the fiscal year ended March 31, 2015 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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder | Ministry of Finance (Minister of Finance) (Notes i and ii) | 85.09 (Direct) | Administration for policy based financing | Underwriting of capital increase (Note iii) | 24,968 | — | — |
| | | | | Receipts from general account of the national budget | 67 | — | — |
| | | | | Receipt of funds (Note iv) | 130,000 | Borrowings | 4,035,688 |
| | | | | Repayment of borrowings | 1,005,853 | | |
| | | | | Payment of interest on borrowings | 34,971 | Accrued expenses | 896 |

(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) 0.13%
- Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry) 14.78%

(ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:

- Ministry of Agriculture, Forestry and Fisheries
  Receipts from the national budget ¥44 million
- Small and Medium Enterprise Agency
  Receipts from the national budget ¥365 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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder (corporates) holding the majority of voting rights | JBIC | — | Relation of joint and several liability | Joint and several liability | 1,112,227 (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 ¥0.81

Net loss per share ¥0.01

## 15. Subsequent events

Not applicable.

# Account for Operations to Facilitate Specific Businesses Promotion, etc.

## Balance Sheet (as of March 31, 2015)

(Millions of yen)

| Items | Amount | Items | Amount |
|---|---|---|---|
| Assets | | Liabilities | |
| Cash and due from banks | 272 | Borrowed money | 81,810 |
| Due from banks | 272 | Borrowings | 81,810 |
| Loans and bills discounted | 81,810 | Other liabilities | 192 |
| Loans on deeds | 81,810 | Accrued expenses | 153 |
| Other assets | 181 | Lease obligations | 0 |
| Accrued income | 153 | Other | 37 |
| Other | 28 | Provision for bonuses | 3 |
| Property, plant and equipment | 0 | Provision for directors' bonuses | 0 |
| Lease assets | 0 | Provision for retirement benefits | 50 |
| Intangible assets | 23 | Provision for directors' retirement benefits | 0 |
| Software | 23 | Total liabilities | 82,055 |
| Lease assets | 0 | Net assets | |
| Other | 0 | Capital stock | 267 |
| Prepaid pension cost | 12 | Retained earnings | (21) |
| | | Other retained earnings | (21) |
| | | Retained earnings brought forward | (21) |
| | | Total shareholders' equity | 245 |
| | | Total net assets | 245 |
| Total assets | 82,300 | Total liabilities and net assets | 82,300 |

## Statement of Operations (Year ended March 31, 2015)

(Millions of yen)

| Items | Amount |
|---|---|
| **Ordinary income** | **491** |
| Interest income | 414 |
| Interest on loans and discounts | 414 |
| Interest on deposits with banks | 0 |
| Receipts from the national budget | 77 |
| Receipts from general account of the national budget | 77 |
| Other income | 0 |
| Other | 0 |
| **Ordinary expenses** | **499** |
| Interest expenses | 414 |
| Interest on borrowings and rediscounts | 414 |
| General and administrative expenses | 85 |
| **Ordinary loss** | **7** |
| **Extraordinary income** | **20** |
| Gain on transfer of benefit obligation relating to employees' pension fund | 20 |
| **Extraordinary losses** | **1** |
| Loss on disposal of noncurrent assets | 1 |
| **Net income** | **10** |

## Statement of Changes in Net Assets (Year ended March 31, 2015)

(Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | | Retained earnings | | | |
| | | Other retained earnings | | | |
| | Capital stock | Retained earnings brought forward | Total retained earnings | Total shareholders' equity | Total net assets |
| Balance at the beginning of current period | 267 | (32) | (32) | 234 | 234 |
| Changes of items during the period | | | | | |
| Net income (loss) | | 10 | 10 | 10 | 10 |
| Total changes of items during the period | — | 10 | 10 | 10 | 10 |
| Balance at the end of current period | 267 | (21) | (21) | 245 | 245 |

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" (including prepaid pension cost) 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 addition, 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. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition 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 time 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 at the time of occurrence.

(Additional information)

With regard to the substitutable portion of the welfare pension fund, on October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds.

The financial impact of the profit and loss in the fiscal year was ¥20 million, which was listed as extraordinary income.

#### (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 Accounting Policies

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 Standard Accounting Application Guidelines for Retirement Benefits (Corporate

Accounting Application Guidelines No.25, March, 26, 2015. hereinafter, " Guidance on Retirement Benefits ")(hereinafter, "Retirement Benefits Accounting Standards, etc.") regarding the provisions stated in Retirement Benefit Accounting Standards Item No. 35 and Guidance on Retirement Benefits Item No. 67 have been applied from the fiscal year.

The method of determining the discount rate was changed from a discount rate based on the number of years that was approximate to the average remaining employment period of employees to a single weighted average discount rate that reflects the expected payment period and the amount of the expected retirement benefit payment period for each employee.

The application of the Retirement Benefit Accounting Standards, etc. is in accordance with the transitional provisions stated in Retirement Benefit Accounting Standards Item No. 37, but this has no effect on the beginning of provision for retirement benefits and retained earnings, and profit and loss for the fiscal year.

In addition, the amount of net assets per share and the current net income per share for the fiscal year are likewise not affected.

## 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, 2015.

"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 | ¥120,000 million |
| Foreign-currency-denominated government-guaranteed bonds | ¥992,227 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, 2015, 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 creditworthiness of the designated financial institution.

(b) Market risk

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

(c) Liquidity risk

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

(3) Risk management structure for financial instruments

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

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

The risk management structure for these operations is described below.

(a) Credit risk management

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

(b) Market risk management

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

These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans. Since the terms and conditions of lendings and borrowings are equal, cash inflows resulting from lendings and cash outflows resulting from borrowings are matched. Therefore, as a whole operations, interest rate risk does not exist as a market risk.

(c) Liquidity risk management related to fund procurement

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

(4) Supplementary explanation concerning fair value of financial instruments

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



2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2015, 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 | 272 | 272 | — |
| (2) Loans and bills discounted | 81,810 | 82,874 | 1,064 |
| Total assets | 82,082 | 83,147 | 1,064 |
| Borrowings | 81,810 | 83,179 | 1,369 |
| Total liabilities | 81,810 | 83,179 | 1,369 |

(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 (*) | 272 | — | — | — | — | — |
| Loans and bills discounted | 6,640 | 21,007 | 23,737 | 17,684 | 7,095 | 5,647 |
| Total | 6,912 | 21,007 | 23,737 | 17,684 | 7,095 | 5,647 |

(*) 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 | 6,640 | 21,007 | 23,737 | 17,684 | 7,095 | 5,647 |

## 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 corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate 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 plan assets in accordance with the projected benefit obligations ratio.

Under the corporate 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 October 1, 2014, JFC received approval from the Minister of Health, Labour and Welfare for exemption from the obligation to repay the past portion of funds. In addition, on October 1, 2014 JFC discontinued the welfare pension fund plan and replaced it with the defined benefit corporate pension plan and the defined contribution pension plan.

Defined benefits plan

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

| | |
|---|---|
| Opening balance of projected benefit obligations | 115 million yen |
| Service cost | 3 |
| Interest cost | 0 |
| Financing from employees | 0 |
| Actuarial difference | 0 |
| Payment of retirement benefits | — |
| Prior service cost | (8) |
| Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund | (24) |
| Other | (11) |
| Closing balance of projected benefit obligations | 76 |

(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 | (13) |
| Financing from employer | 14 |
| Financing from employees | 0 |
| Payment of retirement benefits | — |
| Other | (2) |
| Closing balance of fair value of plan assets | 20 |

(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 | 23 million yen |
| Fair value of plan assets | (20) |
| | 3 |
| Projected benefit obligations of unfunded plan | 52 |
| Unfunded pension obligations | 55 |
| Actuarial unrecognized difference | (25) |
| Unrecognized prior service cost | 7 |
| Net amount of liabilities and assets recorded on the balance sheet | 37 |
| Provision for retirement benefits | 50 |
| Prepaid pension cost | (12) |
| Net amount of liabilities and assets recorded on the balance sheet | 37 |

(4) Net pensions cost and breakdown of included items

| | |
|---|---|
| Service cost | 3 million yen |
| Interest cost | 0 |
| Expected return on plan assets | (0) |
| Amount of actuarial difference accounted for as expense | 2 |
| Amortization of prior service cost accounted for as expense | (1) |
| Other | — |
| Net pensions cost related to defined benefits plan | 5 |

(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 | 13% |
| Debentures | 38% |
| General account | 8% |
| Cash and deposits | 41% |
| Total | 100% |

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% |

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥0 million.

## 11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2015 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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder | Ministry of Finance (Minister of Finance) (Note i) | 100 (Direct) | Administration for policy based financing | Receipt of funds (Note ii) | 22,903 | Borrowings | 81,810 |
| | | | | Repayment of borrowings | 3,411 | | |
| | | | | Payment of interest on borrowings | 414 | Accrued expenses | 153 |

(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 ¥77 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, 2015 |
|---|---|---|---|---|---|---|---|
| Principal shareholder (corporates) holding the majority of voting rights | JBIC | — | Relation of joint and several liability | Joint and several liability | 1,112,227 (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 | ¥0.91 |
| Net profit per share | ¥0.03 |

## 13. Subsequent events

Not applicable.

## Risk-monitored Loans

JFC reports risk-monitored loan amounts calculated based on the Ministerial Ordinance Concerning Accounting of Japan Finance Corporation (Ordinance of the Ministry of Finance, the Ministry of Health, Labour and Welfare, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Economy, Trade and Industry; Ordinance No. 3 of 2008)

### ▼ Risk-monitored Loans

(Millions of yen)

| | 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 | 15,448 | 1,172 | 9,137 | 25,758 |
| Non-accrual loans | 134,954 | 61,980 | 550,166 | 747,100 |
| Loans with interest or principal repayments more than three months in arrears | 101 | 1,247 | — | 1,349 |
| Restructured loans | 495,049 | 22,262 | 88,912 | 606,224 |
| Total | 645,553 | 86,662 | 648,216 | 1,380,432 |
| Total of risk-monitored loans/outstanding loans (%) | 9.29 | 3.38 | 10.77 | 8.89 |

(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 | 63,182 | 6,627 | 28,948 | 98,757 |
| Doubtful | 87,729 | 56,569 | 530,498 | 674,796 |
| Special attention | 495,151 | 23,509 | 88,912 | 607,573 |
| Subtotal (1) | 646,062 | 86,706 | 648,358 | 1,381,127 |
| Normal | 6,312,923 | 2,489,760 | 5,376,902 | 14,179,586 |
| Total (2) | 6,958,986 | 2,576,467 | 6,025,447 | 15,560,901 |
| (1/2) (%) | 9.28 | 3.37 | 10.76 | 8.88 |

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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