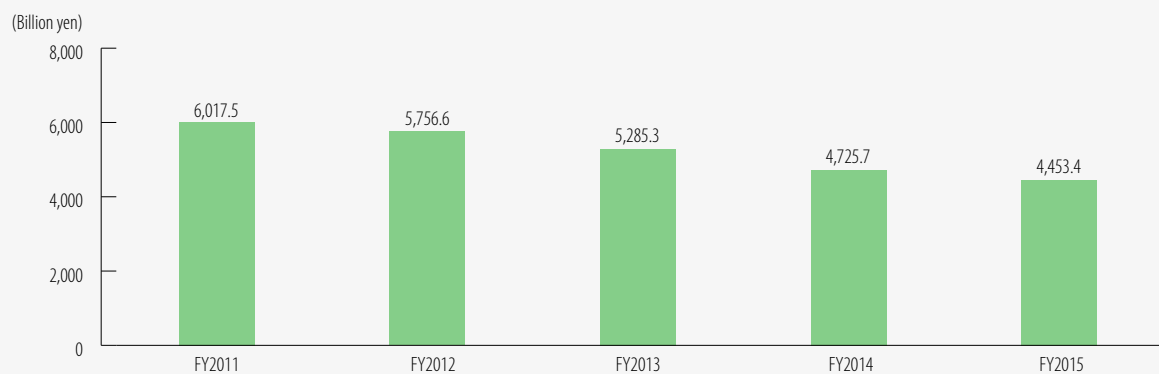


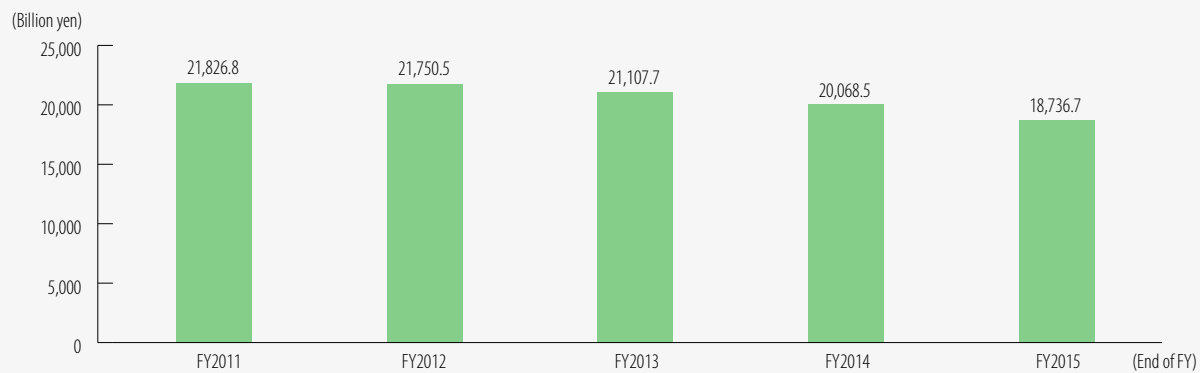
Data

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1 Changes in Annual Loan Operations

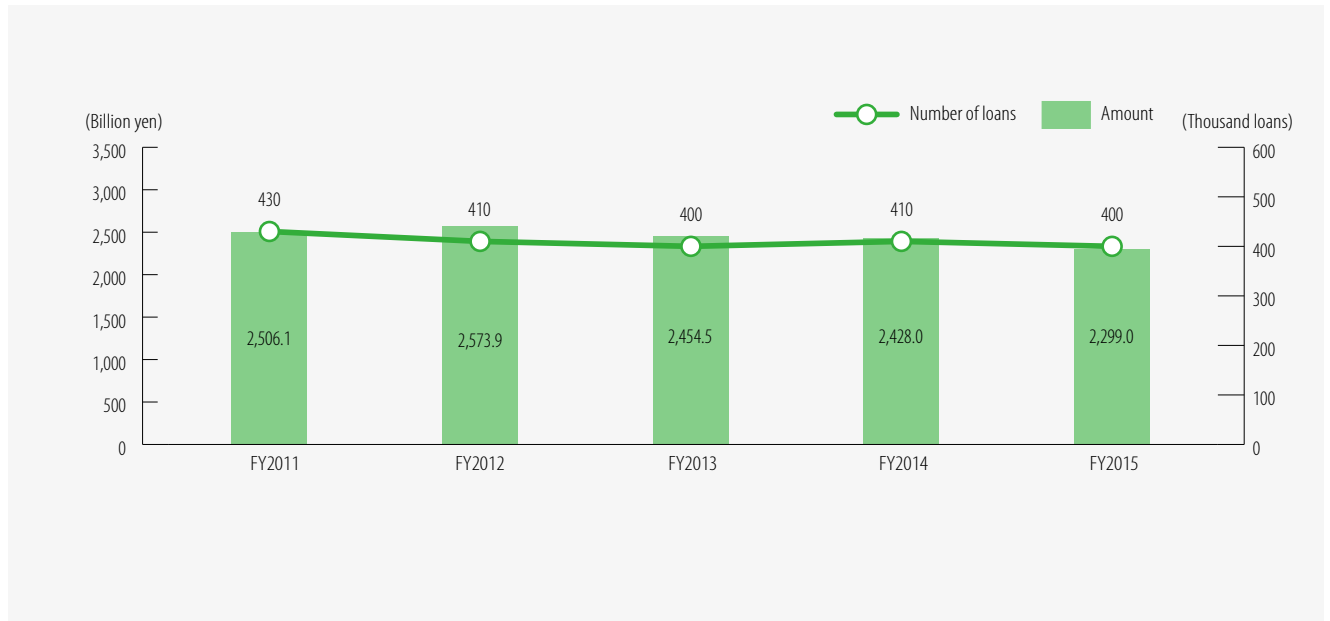


2 Changes in Outstanding Loans



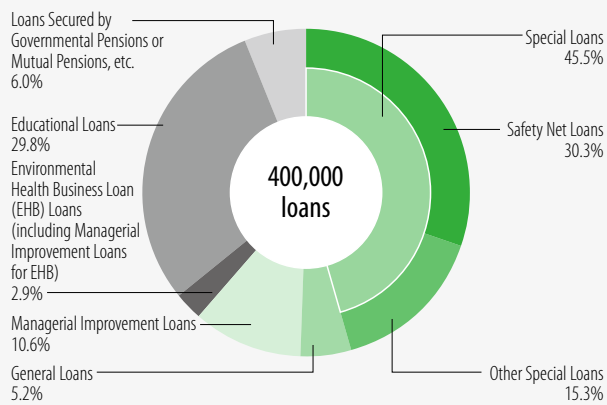
Micro Business and Individual Unit

1 Changes in Annual Loan Operations

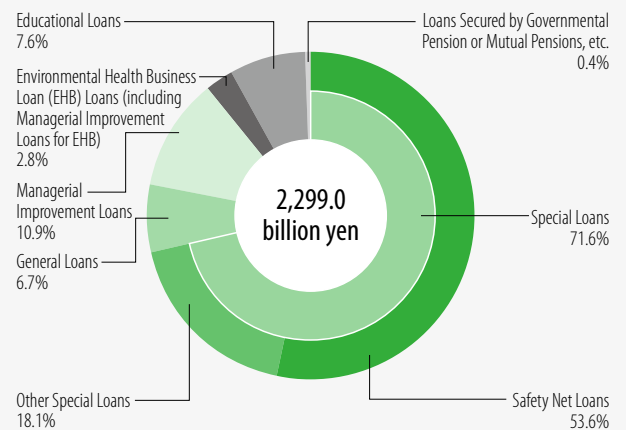


2 Breakdown of Loans by Scheme

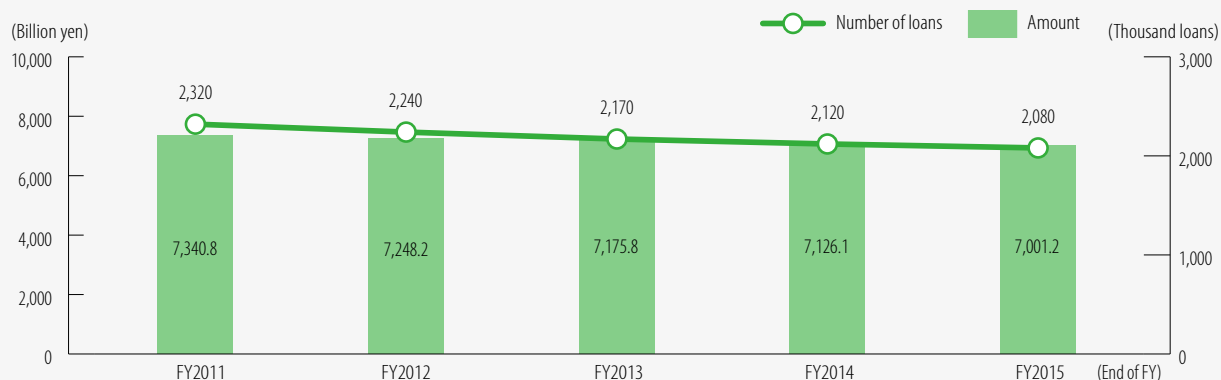
▼ Number of Loans (FY2015)



▼ Total Amount of Loans (FY2015)



3 Changes in Outstanding Loans



4 Breakdown of Business Loans Outstanding by Industry

(Unit: billion yen, %)

	FY2011	FY2012	FY2013	FY2014	FY2015
Manufacturing	782.4 (12.1)	764.7 (12.0)	725.7 (11.5)	679.2 (10.9)	644.6 (10.6)
Wholesale & retail	1,582.5 (24.5)	1,561.2 (24.4)	1,515.6 (24.0)	1,449.0 (23.2)	1,380.9 (22.6)
Restaurants & hotels	556.3 (8.6)	537.8 (8.4)	519.9 (8.2)	504.7 (8.1)	493.8 (8.1)
Services	1,417.7 (22.0)	1,430.4 (22.4)	1,432.9 (22.7)	1,413.5 (22.6)	1,403.8 (23.0)
Construction	997.1 (15.5)	968.4 (15.2)	932.0 (14.7)	899.3 (14.4)	884.6 (14.5)
Others	1,113.4 (17.3)	1,122.9 (17.6)	1,193.3 (18.9)	1,304.0 (20.9)	1,299.1 (21.3)
Total	6,449.5 (100.0)	6,385.5 (100.0)	6,319.7 (100.0)	6,249.9 (100.0)	6,107.1 (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, %)

	FY2011	FY2012	FY2013	FY2014	FY2015
Restaurant-related services	183.2 (46.4)	165.9 (46.6)	150.9 (46.7)	141.0 (47.3)	138.7 (47.9)
Beauty parlors	61.1 (15.5)	58.7 (16.5)	57.5 (17.8)	56.0 (18.8)	58.3 (20.1)
Hotels	85.5 (21.6)	73.5 (20.7)	62.9 (19.5)	55.4 (18.6)	50.1 (17.3)
Barbershops	29.1 (7.4)	25.6 (7.2)	23.2 (7.2)	20.8 (7.0)	19.7 (6.8)
Public baths	20.6 (5.2)	18.1 (5.1)	15.7 (4.9)	13.6 (4.6)	11.8 (4.1)
Laundries	9.8 (2.5)	8.9 (2.5)	8.2 (2.5)	7.6 (2.6)	7.3 (2.5)
Meat shops	3.5 (0.9)	3.1 (0.9)	2.5 (0.8)	2.3 (0.8)	2.1 (0.7)
Entertainment facilities	1.8 (0.5)	1.5 (0.4)	1.3 (0.4)	1.0 (0.4)	0.9 (0.3)
Others	0.3 (0.1)	0.2 (0.1)	0.2 (0.1)	0.2 (0.1)	0.4 (0.1)
Total	395.2 (100.0)	355.9 (100.0)	322.9 (100.0)	298.4 (100.0)	289.7 (100.0)

Note: Figures in parentheses denote percentage shares.

6 Breakdown of Outstanding Loans by Use

(Unit: billion yen, %)

	FY2011	FY2012	FY2013	FY2014	FY2015
Operating funds	4,381.5 (67.9)	4,347.8 (68.1)	4,186.7 (66.2)	3,993.3 (63.9)	3,860.7 (63.2)
Facility funds	2,067.9 (32.1)	2,037.6 (31.9)	2,132.9 (33.8)	2,256.6 (36.1)	2,246.3 (36.8)
Total	6,449.5 (100.0)	6,385.5 (100.0)	6,319.7 (100.0)	6,249.9 (100.0)	6,107.1 (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)

	FY2011	FY2012	FY2013	FY2014	FY2015
Client Companies	989,697	958,282	930,171	903,287	886,207

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

8 Average Loan Balance per Business

(Unit: thousand yen)

	FY2011	FY2012	FY2013	FY2014	FY2015
Average loan balance per business	6,516	6,663	6,794	6,919	6,891

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

9 Educational Loans Outstanding, etc.

(Unit: billion yen)

	FY2011	FY2012	FY2013	FY2014	FY2015
Educational Loans	869.4	843.7	840.3	862.1	882.4
Loans Secured by Governmental Pensions and Mutual Pensions, etc.	21.3	18.5	15.5	13.8	11.6

10 Breakdown of Loans by Credit Amount

(Unit: number of loans, %)

	FY2011	FY2012	FY2013	FY2014	FY2015
Up to 3 million yen	91,472 (32.8)	91,091 (33.0)	83,880 (31.5)	80,459 (31.0)	89,022 (33.9)
Over 3 million yen and up to 5 million yen	54,851 (19.7)	51,811 (18.8)	52,504 (19.7)	50,479 (19.4)	52,323 (19.9)
Over 5 million yen and up to 8 million yen	38,434 (13.8)	37,587 (13.6)	37,128 (14.0)	36,235 (13.9)	35,667 (13.6)
Over 8 million yen	94,022 (33.7)	95,513 (34.6)	92,526 (34.8)	92,616 (35.7)	85,679 (32.6)
Total	278,779 (100.0)	276,002 (100.0)	266,038 (100.0)	259,789 (100.0)	262,691 (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, %)

	FY2011	FY2012	FY2013	FY2014	FY2015
4 or less	184,596 (66.2)	183,363 (66.4)	180,939 (68.0)	181,952 (70.0)	186,137 (70.9)
5-9	58,213 (20.9)	57,805 (20.9)	53,690 (20.2)	49,478 (19.0)	49,279 (18.8)
10-19	23,832 (8.5)	23,251 (8.4)	21,132 (7.9)	19,092 (7.3)	18,411 (7.0)
20 or more	12,132 (4.4)	11,575 (4.2)	10,272 (3.9)	9,261 (3.6)	8,861 (3.4)
Total	278,773 (100.0)	275,994 (100.0)	266,033 (100.0)	259,783 (100.0)	262,688 (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, %)

	FY2011	FY2012	FY2013	FY2014	FY2015	
No-collateral	215,024 (77.2)	204,363 (74.1)	202,413 (76.1)	200,430 (77.2)	213,575 (81.3)	
Collateral	Real estate (including partial collateral)	63,559 (22.8)	71,463 (25.9)	63,481 (23.9)	59,231 (22.8)	49,018 (18.7)
	Securities	26 (0.0)	29 (0.0)	25 (0.0)	22 (0.0)	16 (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)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Total	278,610 (100.0)	275,855 (100.0)	265,919 (100.0)	259,683 (100.0)	262,609 (100.0)	

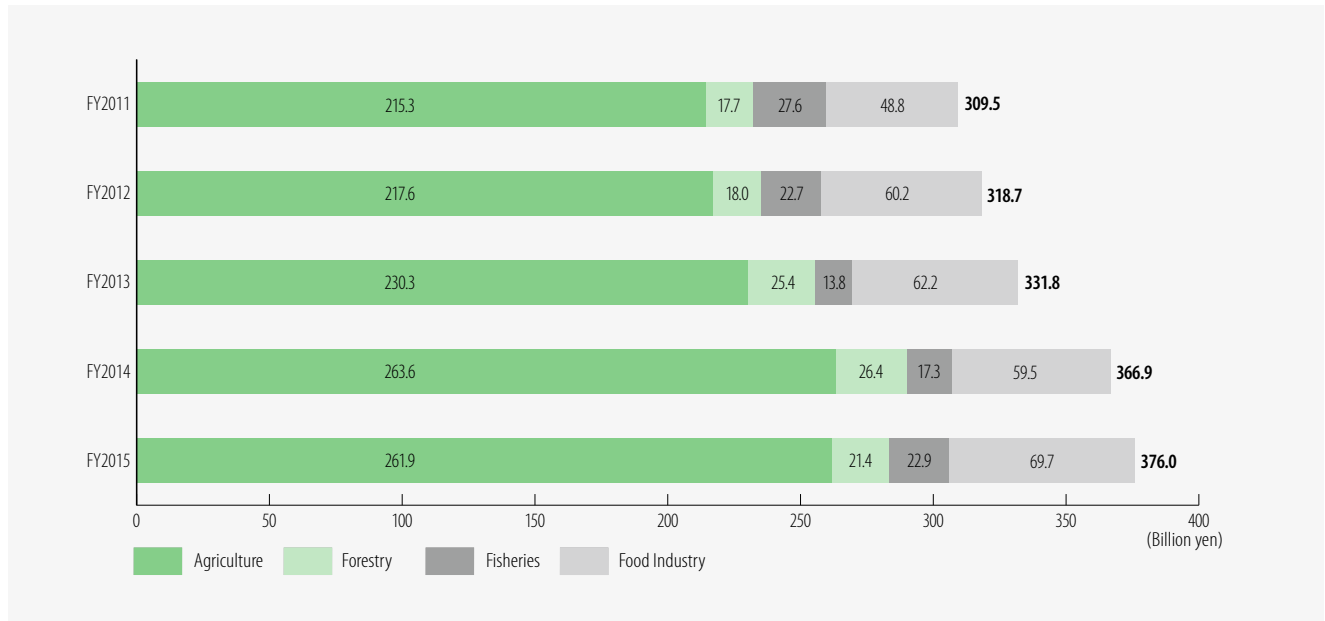
Notes: 1. Loans comprise General Loans and Environmental Health Business Loans.

2. Figures in parentheses denote percentage of shares.

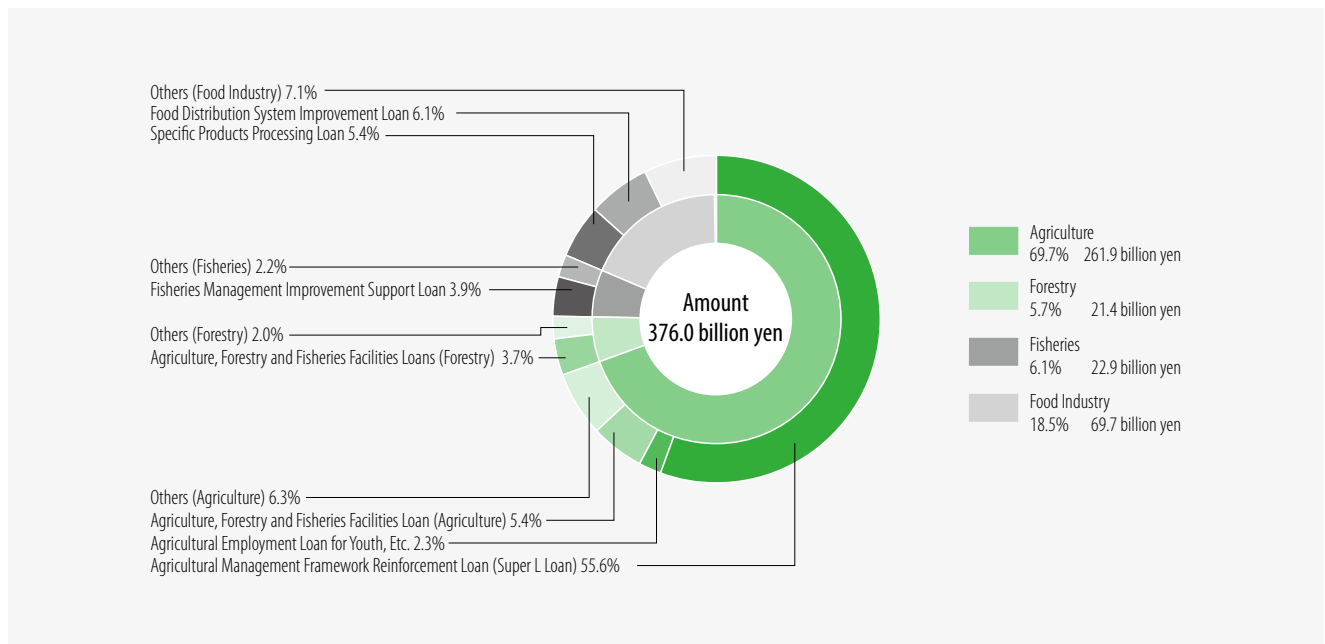
3. Partial collateral refers to real estate or other collateral whose estimated values do not reach amounts borrowed. Partial collateral of "Securities," "Credit Guarantee Corporations" and "Others" are included in "Real estate".

Agriculture, Forestry, Fisheries and Food Business Unit

1 Changes in Annual Loan Operations



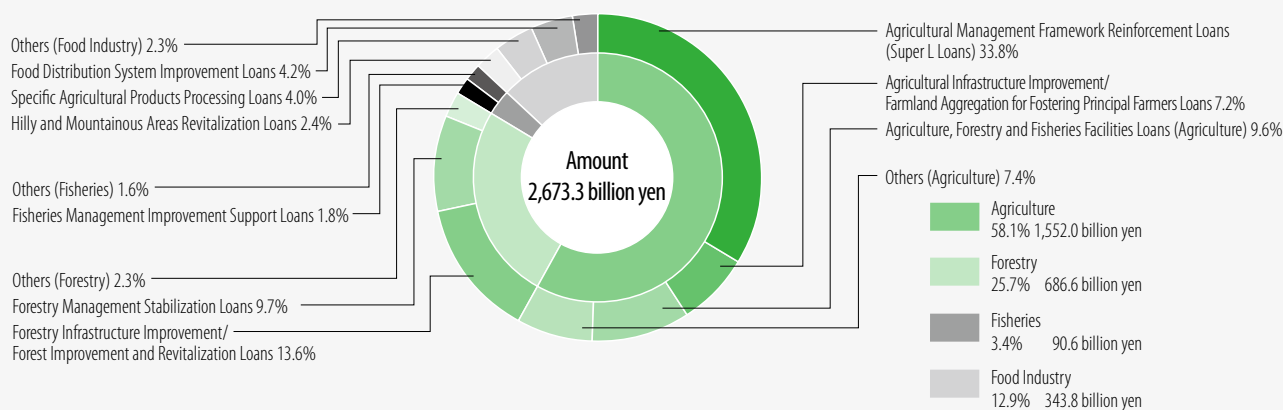
2 Breakdown of Loans by Scheme (FY2015)



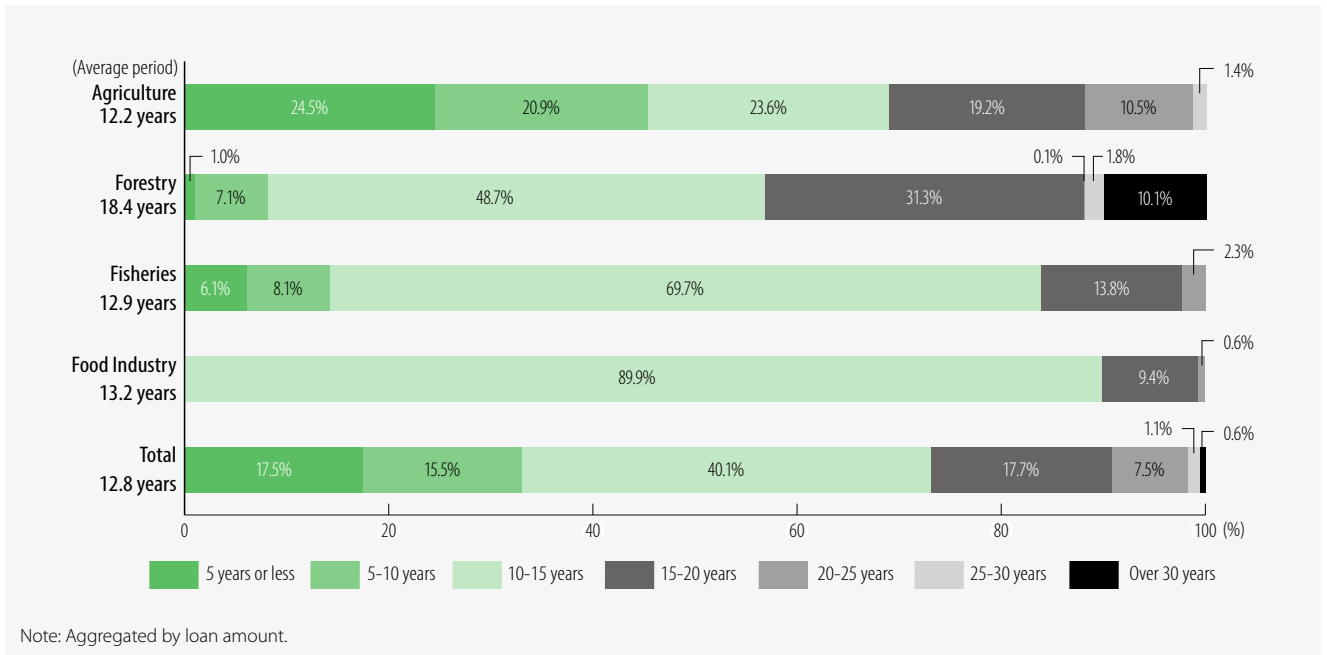
3 Changes in Outstanding Loans



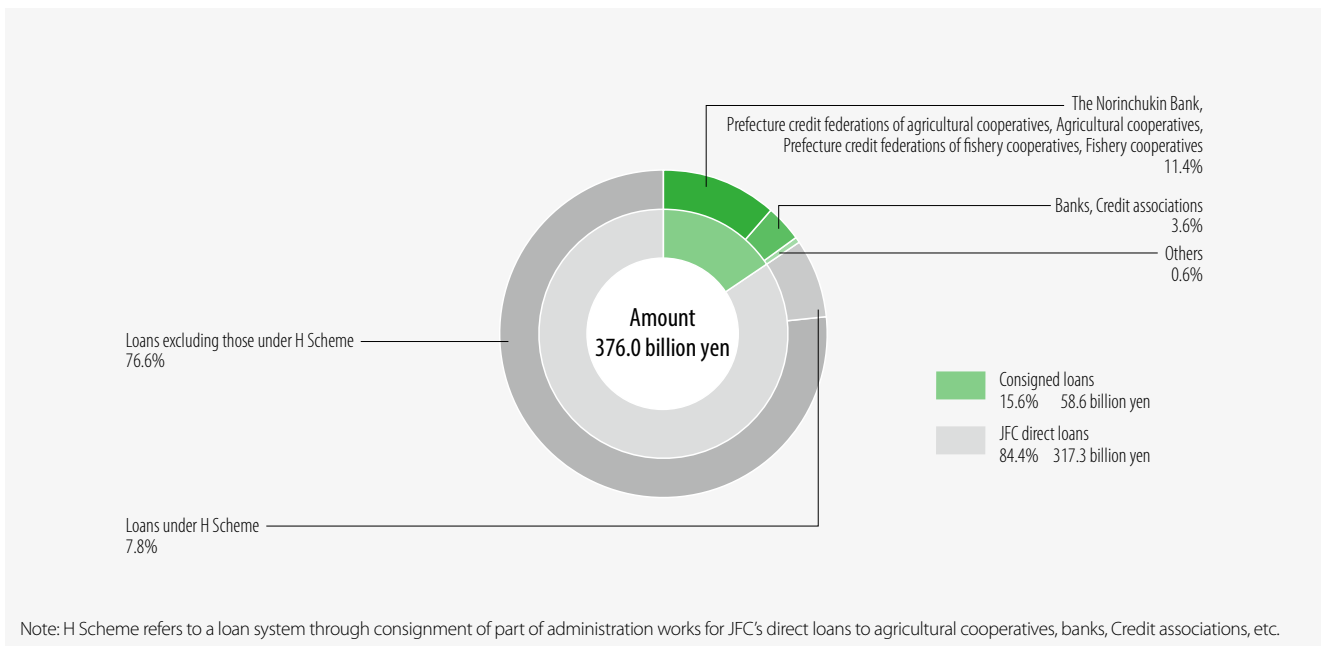
4 Breakdown of Outstanding Loans by Sector and Use (End of FY2015)



5 Loans by Repayment Period (FY2015)

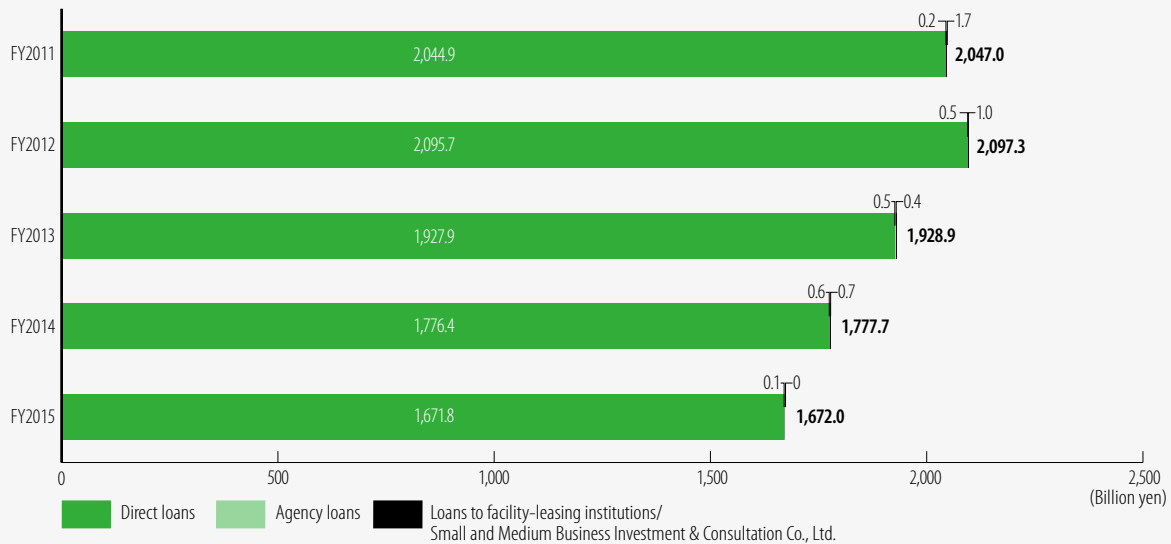


6 Loans by Commissioned Financial Institutions (FY2015)



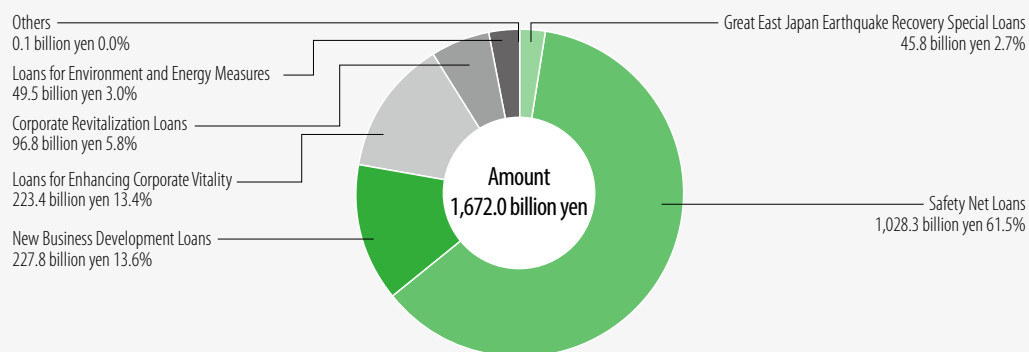
I. Loan Programs

1 Changes in Annual Loan Operations



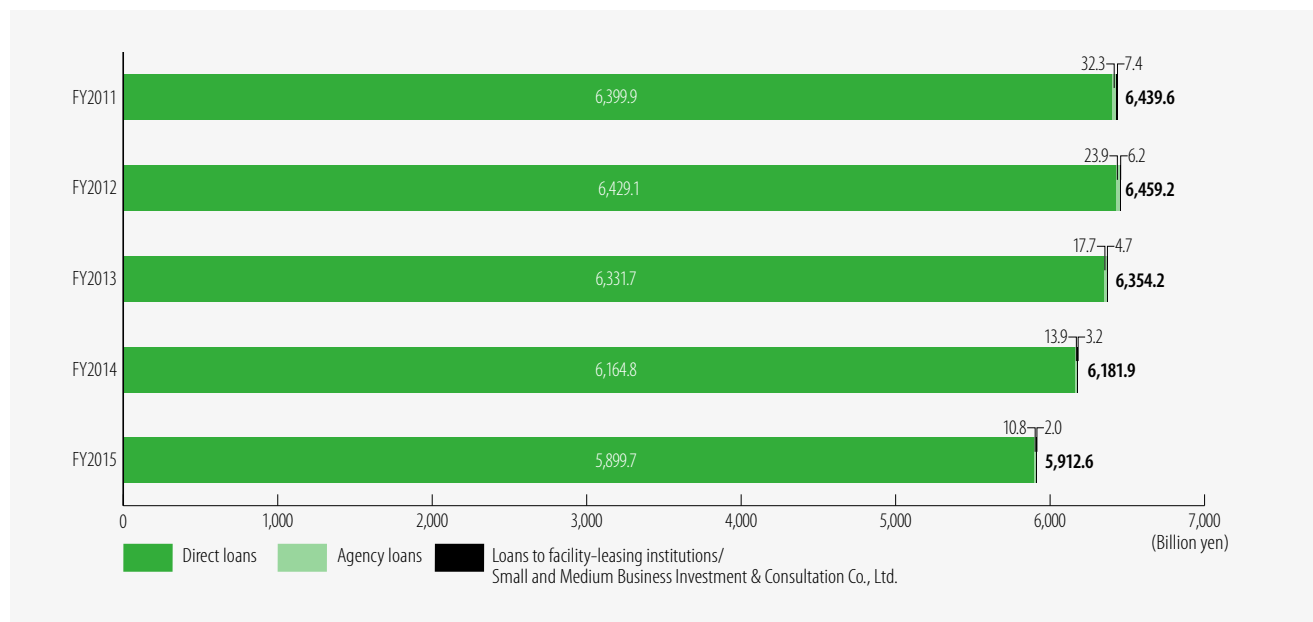
2 Breakdown of Loans by Scheme

▼ Amount (FY2015)



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, %)

	FY2011	FY2012	FY2013	FY2014	FY2015
Manufacturing	3,132.8 (48.7)	3,132.3 (48.5)	3,039.9 (47.9)	2,901.5 (47.0)	2,772.9 (46.9)
Construction	327.0 (5.1)	320.3 (5.0)	305.3 (4.8)	293.7 (4.8)	274.4 (4.6)
Wholesale & retail	1,098.8 (17.1)	1,097.9 (17.0)	1,084.8 (17.1)	1,027.1 (16.6)	985.5 (16.7)
Transport & telecommunications	580.8 (9.0)	591.6 (9.2)	578.0 (9.1)	564.3 (9.1)	540.9 (9.2)
Services	697.2 (10.8)	685.6 (10.6)	674.0 (10.6)	651.6 (10.5)	618.6 (10.5)
Others	595.3 (9.3)	625.0 (9.7)	667.2 (10.5)	740.2 (12.0)	718.0 (12.1)
Total	6,432.2 (100.0)	6,453.0 (100.0)	6,349.5 (100.0)	6,178.7 (100.0)	5,910.6 (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, %)

	FY2011	FY2012	FY2013	FY2014	FY2015
Operating funds	4,221.4 (65.6)	4,199.0 (65.1)	4,117.7 (64.9)	3,913.8 (63.3)	3,742.0 (63.3)
Facility funds	2,210.7 (34.4)	2,254.0 (34.9)	2,231.7 (35.1)	2,264.9 (36.7)	2,168.6 (36.7)
Total	6,432.2 (100.0)	6,453.0 (100.0)	6,349.5 (100.0)	6,178.7 (100.0)	5,910.6 (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)

	FY2011	FY2012	FY2013	FY2014	FY2015
Client companies	46,599	47,282	47,213	46,583	45,583

Note: Figures cover only companies with direct loans.

7 Average Loan Balance per Business

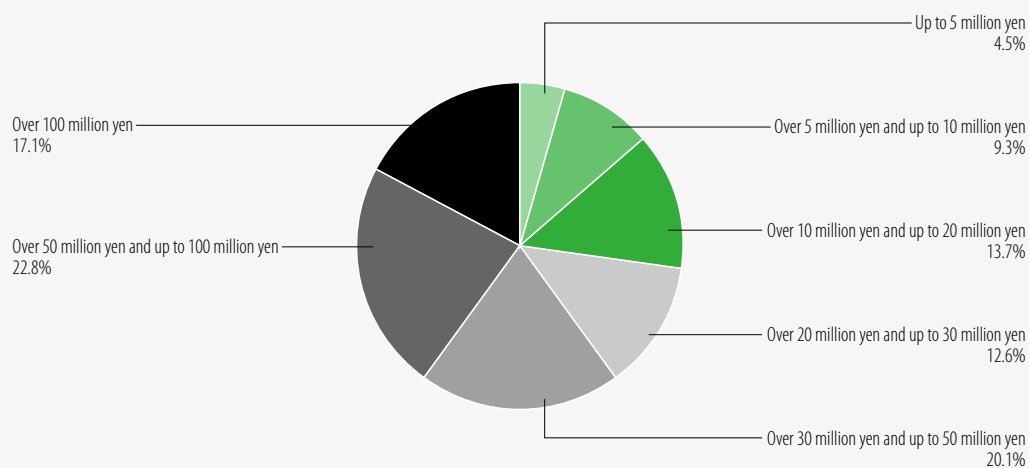
(Unit: million yen)

	FY2011	FY2012	FY2013	FY2014	FY2015
Average loan balance per business	137	135	134	132	129

Note: Figures cover only companies with direct loans.

8 Loans by Credit Amount

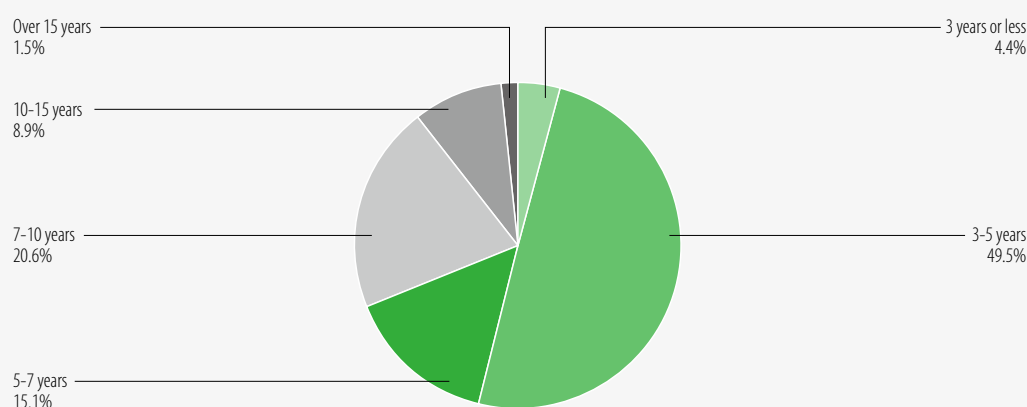
▼ Loan Percentage Breakdown (FY2015)



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

9 Loans by Repayment Period

▼ Loan Percentage Breakdown (FY2015)



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

II. Credit Insurance Programs

(Unit: billion yen)

Items	FY2011	FY2012	FY2013	FY2014	FY2015
Acceptance of insurance and loans					
Small Business Credit Insurance	11,131.3	9,366.2	8,984.4	8,485.9	8,561.4
Loans to CGCs	—	—	—	—	—
Special Insurance for Midsize Enterprises	—	—	—	—	—
Outstanding amounts of insurance and loans					
Small Business Credit Insurance	34,913.6	32,471.0	30,105.5	27,970.2	2,6011.1
Loans to CGCs	—	—	—	—	—
Special Insurance for Midsize Enterprises	0.1	0.0	0.0	0.0	0.0
Machinery Credit Insurance ^(Note)	19.8	6.2	3.1	1.6	1.1

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

III. Securitization Support Programs

(Unit: billion yen)

Items	FY2011	FY2012	FY2013	FY2014	FY2015
Total loan principal amount					
Purchase-type	—	—	—	—	12.1
Guarantee-type	—	—	—	—	—
Outstanding amounts of trust beneficiary rights and guaranteed liabilities					
Purchase-type (outstanding amount of trust beneficiary rights)	1.1	0.3	—	—	4.3
Purchase-type (outstanding amounts of asset-backed securities)	—	—	—	—	1.5
Guarantee-type (outstanding amount of guaranteed liabilities)	0.1	0.1	0.1	0.1	0.0
Standby Letter of Credit Program (outstanding amount of guaranteed liabilities)	—	1.0	2.0	3.9	4.4

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 asset-backed securities refer to subordinated amounts acquired by JFC out of asset-backed securities and trust beneficiary rights and 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 SMEs Business Enhancement Act . etc., Support under the SME Regional Resources Utilization Promotion Law, and the Law to Promote Collaboration between Agriculture, Commerce and Industry.

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	FY2015
Two-step loans	1,430.1	3,869.3	405.2	1,153.4	733.7	559.3	130.0	105.2
Loans, etc.	1,130.3	3,529.4	405.2	1,153.4	733.7	559.3	130.0	105.2
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	1,077.5
Loans, etc.	345.1	1,781.9	1,893.3	1,739.8	1,470.2	1,409.3	1,234.2	1,077.5
Commercial paper (CP) acquisitions	—	—	—	—	—	—	—	—
Equity participations	—	30.0	—	—	—	—	—	—
Interest subsidies	—	—	0.3	2.4	7.8	10.9	12.4	11.0

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 2016.

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 2016, with loss compensation underwritten by JFC for losses incurred until May 10, 2016. 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 2015. (Disbursements pertaining to the period from October 1 each year to March 31 of the following year are made by June 10, while those pertaining to the period from April 1 to September 30 are made by December 10.)

Results of Operations to Facilitate Specific Businesses Promotion

(Unit: billion yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Two-step loans	20.0	1.3	7.8	10.6	2.9	1.1

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 2016.

Results of Operations to Facilitate Business Restructuring Promotion

(Unit: billion yen)

	FY2011	FY2012	FY2013	FY 2014	FY 2015
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 2016. (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, 2016)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	4,094,720	Borrowed money	14,254,666
Cash	23	Borrowings	14,254,666
Due from banks	4,094,697	Bonds payable	1,720,820
Securities	27,569	Entrusted funds	30,318
Government bonds	21,004	Reserve for insurance policy liabilities	1,350,357
Corporate bonds	4,385	Other liabilities	37,368
Stocks	2,030	Accrued expenses	15,225
Other securities	149	Unearned revenue	5,358
Loans and bills discounted	18,339,799	Derivatives other than for trading-liabilities	0
Loans on deeds	18,339,799	Lease obligations	2,572
Other assets	44,223	Other	14,212
Prepaid expenses	1,224	Provision for bonuses	4,864
Accrued income	22,033	Provision for directors' bonuses	20
Agency accounts receivable	1,561	Provision for retirement benefits	93,716
Other	19,404	Provision for directors' retirement benefits	59
Property, plant and equipment	196,339	Reserve for compensation losses	24,497
Buildings	51,096	Acceptances and guarantees	20,586
Land	140,801	Total liabilities	17,537,277
Lease assets	1,922	Net assets	
Construction in progress	1,045	Capital stock	3,904,645
Other	1,472	Capital surplus	1,930,384
Intangible assets	18,262	Special reserve for administrative improvement funds	181,500
Software	15,646	Legal capital surplus	1,748,884
Lease assets	441	Retained earnings	(1,047,753)
Other	2,175	Legal retained earnings	2,826
Customers' liabilities for acceptances and guarantees	20,586	Other retained earnings	(1,050,579)
Allowance for loan losses	(416,948)	Retained earnings brought forward	(1,050,579)
		Total shareholders' equity	4,787,276
		Total net assets	4,787,276
Total assets	22,324,554	Total liabilities and net assets	22,324,554

Statement of Operations (Year ended March 31, 2016)

(Millions of yen)

Items	Amount
Ordinary income	613,879
Interest income	281,382
Interest on loans and discounts	278,163
Interest and dividends on securities	336
Interest on receivables under resale agreements	4
Interest on deposits with banks	2,878
Other interest income	0
Fees and commissions	3,354
Fees and commissions on compensation security contract	3,272
Other fees and commissions	81
Insurance premiums and other	273,555
Insurance premiums	137,030
Receipts of burden charges under the Responsibility-sharing System	6,862
Reversal of reserve for insurance policy liabilities	129,663
Receipts from the national budget	44,978
Receipts from general account of the national budget	44,946
Receipts from special account of the national budget	32
Other income	10,607
Gain on reversal of allowance for indemnity	4,518
Recoveries of written-off claims	1,785
Other	4,303
Ordinary expenses	563,437
Interest expenses	95,625
Interest on call money	90
Interest on borrowings and rediscounts	83,728
Interest on bonds	11,805
Fees and commissions payments	13,456
Expense on compensation security contract	9,549
Other fees and commissions	3,906
Expenses on insurance claims and other	255,869
Expenses on insurance claims	352,873
Recoveries of insurance claims	(97,003)
Other ordinary expenses	11,685
Loss on foreign exchange transactions	18
Amortization of bond issuance cost	607
Expenses on derivatives other than for trading or hedging	0
Interest subsidies	11,059
General and administrative expenses	114,299
Other expenses	72,500
Provision of allowance for loan losses	45,843
Written-off of loans	19,956
Other	6,700
Ordinary profit	50,441
Extraordinary income	493
Gain on disposal of noncurrent assets	493
Extraordinary losses	364
Loss on disposal of noncurrent assets	172
Impairment loss	192
Net income	50,570

Statement of Changes in Net Assets (Year ended March 31, 2016)

(Millions of yen)

	Shareholders' equity								Total net assets
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings		Total shareholders' equity	
		Special reserve for administrative improvement funds	Legal capital surplus	Total capital surplus		Other retained earnings	Total retained earnings		
					Retained earnings brought forward				
Balance at the beginning 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
Changes of items during the period									
Issuance of new shares	49,559		60,000	60,000				109,559	109,559
Provision of legal retained earnings					160	(160)	—	—	—
Payment to the national treasury						(160)	(160)	(160)	(160)
Reversal of legal capital surplus (Deficit disposition)			(276,895)	(276,895)		276,895	276,895	—	—
Net income (loss)						50,570	50,570	50,570	50,570
Total changes of items during the period	49,559	—	(216,895)	(216,895)	160	327,144	327,304	159,969	159,969
Balance at the end of current period	3,904,645	181,500	1,748,884	1,930,384	2,826	(1,050,579)	(1,047,753)	4,787,276	4,787,276

Data

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

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

(c) Depreciation basis for fixed assets

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

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

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

Buildings: 2 years to 50 years

Other: 2 years to 20 years

(ii) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by 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 ¥233,295 million.

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

(ii) Reserve for compensation losses

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

(iii) Provision for bonuses

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

(iv) Provision for directors’ bonuses

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

(v) Provision for retirement benefits

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

(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.

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, 2016		
	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	12,040	708	7,835
Non-accrual loans	127,476	56,569	550,943
Loans with interest or principal repayments more than three months in arrears	41	691	—
Restructured loans	463,263	19,693	89,907
Total	602,823	77,662	648,686

(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, 2016 is ¥164,374 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 ¥1,720,820 million.

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥22,969 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	¥20,000 million
Foreign-currency-denominated government-guaranteed bonds	¥591,622 million

7. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (108,271 contracts)	2,488,087
Reserve for compensation	24,497
Net amount	2,463,590

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: 14 items	Land, buildings, other intangible assets	139
Other	Idle assets: 14 items	Land, buildings	52

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, 2016, 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	10,987,913,407,741	109,559,850,000	—	11,097,473,257,741

(Note) Increase is due to the issuance of 109,559,850,000 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.

Forward exchange contracts are conducted for avoiding foreign exchange risk related to foreign currency loans.

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, 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 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 risks associated with this account are interest rate risk and foreign exchange 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.

It is JFC policy to minimize foreign exchange risk arising from foreign currency loans in this account by conducting forward exchange contracts.

(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, and the financial liabilities are bonds payable. The associated risks are described below.

(a) Credit risk

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

(b) Market risk

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

(c) Liquidity risk

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

e. Account for Credit Insurance Programs

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

(a) Market risk

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

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

(b) Liquidity risk

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

f. Account for Operations to Facilitate Crisis Responses

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

(a) Credit risk

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

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

(b) Market risk

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

(c) Liquidity risk

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

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

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

(a) Credit risk

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

(b) Market risk

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

(c) Liquidity risk

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

(3) Risk management structure for financial instruments

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

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

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

a. Micro Business and Individual Operations

The risk management structure of these operations is described below.

(a) Credit risk management

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

The specific risk management method is described below.

(i) Individual credit management

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

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

(ii) Asset self assessment

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

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

(iii) Quantification of credit risk

A credit scoring model for borrowers based on analysis of transaction data collected over a number of years has been 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 bonds payable.

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, 2016 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥13,879 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 ¥13,134 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 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 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, bonds payable 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, 2016 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥8,518 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥7,353 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

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) Foreign exchange risk

It is JFC policy to minimize foreign exchange risk by conducting forward exchange contracts.

With regards to forward exchange contracts transactions, we have established internal control system which is separating the departments executing and managing.

Forward exchange contracts are conducting by actual needs, and are not maintained in speculative positions.

(iii) Quantitative information relating to market risk

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

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

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, 2016 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥36,792 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 ¥34,196 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 instruments that are subject to interest rate risk in these operations are securities and bonds payable.
 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, 2016 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥45 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 ¥46 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, 2016, 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	4,094,720	4,099,079	4,358
(2) Securities			
Held-to-maturity debt securities	21,051	21,401	350
Other securities	6	6	—
(3) Loans and bills discounted	17,986,392		
Allowance for loan losses ^{(*)1}	(296,887)		
	17,689,504	18,585,158	895,653
Total assets	21,805,283	22,705,646	900,362
(1) Borrowings	14,101,331	14,470,910	369,578
(2) Bonds payable	1,720,820	1,764,972	44,151
Total liabilities	15,822,152	16,235,882	413,729
Derivative transactions ^{(*)2}	(0)	(0)	—
Derivative transactions not qualifying for hedge accounting	—	—	—
Derivative transactions qualifying for hedge accounting			
Total derivative transactions	(0)	(0)	—

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

(*)2) Derivative recorded in "other assets and other liabilities" are collectively displayed. The net values of assets and liabilities arising from derivative transactions are displayed. The figures in parenthesis indicate net liabilities.

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

Assets

(1) Cash and due from banks

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

Derivative transactions

Derivative transactions are forward exchange contracts. The fair value of derivative transactions is determined based on the price provided by financial institutions.

(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: ¥2,488,087 million
 Compensation loss reserve: ¥24,497 million

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

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

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Unlisted stocks ^{(*)1}	2,030
2) Corporate bonds (specific asset-backed securities) ^{(*)2}	4,339
3) Partnership investments ^{(*)3}	142
4) Loans on deeds (subordinated capital loans) ^{(*)4}	353,407
5) Borrowings from general account of the national budget ^{(*)5}	131,300
6) Borrowings from the FILP special account (investment account) of the national budget ^{(*)6}	22,034
Total	513,253

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

(*)2 Corporate bonds (specified asset-backed securities) do not have a market value.

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

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

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

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

(*)3 For partnership 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.

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

(*)5 For borrowings 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.

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

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

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks ^{(*)1}	3,591,597	383,100	120,000	—	—	—
Securities						
Held-to-maturity debt securities	21,006	24	—	—	—	—
Loans and bills discounted ^{(*)2}	3,947,759	5,957,783	3,549,908	1,887,491	1,449,586	1,308,509
Total	7,560,363	6,340,907	3,669,908	1,887,491	1,449,586	1,308,509

(*)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 ¥238,760 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 ^(*)	3,360,754	5,075,745	2,892,573	1,304,401	969,275	520,616
Bonds payable	541,000	575,000	230,000	135,000	150,000	90,000
Total	3,901,754	5,650,745	3,122,573	1,439,401	1,119,275	610,616

(*) 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, 2016 is as follows:

(a) Trading securities

Not applicable.

(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	21,004	21,355	350
Securities whose fair value does not exceed their carrying amount	Corporate bonds	46	46	—
Total		21,051	21,401	350

(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	1,141,086	1,141,090	(3)

(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
Bonds	
Corporate Bonds	4,339
Others	142
Total	4,481

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.

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	198,045 million yen
Service cost	5,494
Interest cost	1,980
Actuarial difference	20,377
Payment of retirement benefits	(8,485)
Prior service cost	2,982
Other	—
Closing balance of projected benefit obligations	<u>220,394</u>

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

Opening balance of fair value of plan assets	100,789 million yen
Expected return on plan assets	2,015
Actuarial difference	(1,844)
Financing from employer	2,914
Payment of retirement benefits	(3,276)
Other	—
Closing balance of fair value of plan assets	<u>100,598</u>

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

Projected benefit obligations of funded plan	129,071 million yen
Fair value of plan assets	<u>(100,598)</u>
	28,472
Projected benefit obligations of unfunded plan	<u>91,322</u>
Unfunded pension obligations	119,795
Actuarial unrecognized difference	(32,984)
Unrecognized prior service cost	6,904
Net amount of liabilities and assets recorded on the balance sheet	<u>93,716</u>
Provision for retirement benefits	93,716
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>93,716</u>

(4) Net pensions cost and breakdown of included items

Service cost	5,494 million yen
Interest cost	1,980
Expected return on plan assets	(2,015)
Amount of actuarial difference accounted for as expense	1,755
Amortization of prior service cost accounted for as expense	(1,345)
Other	—
Net pensions cost related to defined benefits plan	<u>5,869</u>

(5) Items concerning fair value of plan assets

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

Shares	12%
Debentures	39%
General account	8%
Cash and deposits	<u>41%</u>
Total	<u>100%</u>

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

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

(6) Items related to actuarial calculation bases

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

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.7% to 5.9%

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥374 million.

16. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥1,885 million
Profit on investment in affiliates (equity method)	¥52 million

17. Related party transactions

Related party transactions in the fiscal year ended March 31, 2016 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, 2016
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	97.13(Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	96,425	—	—
				Receipts from general account of the national budget	13,008	—	—
				Receipt of funds ^(Note iv)	2,833,767	Borrowings	14,087,079
				Repayment of borrowing	4,000,581		
				Payment of interest on borrowings	83,727	Accrued expenses	12,085
				Deposit of funds ^(Note v)	5,319,600	Due from banks	2,005,800
				Refund of funds	5,861,600		
				Guarantee for bonds payable ^(Note vi)	919,853	—	—

(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)	0.30%
-Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry)	2.54%

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

-Ministry of Health, Labor and Welfare	
Underwriting of capital increase	¥412 million
-Ministry of Agriculture, Forestry and Fisheries	
Underwriting of capital increase	¥4,722 million
-Ministry of Economy, Trade and Industry	
Underwriting of capital increase	¥8,000 million
-Ministry of Health, Labor and Welfare	
Receipts from the national budget	¥2,160 million
-Ministry of Agriculture, Forestry and Fisheries	
Receipts from the national budget	¥9,996 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	¥3 million
-Small and Medium Enterprise Agency	
Receipts from the national budget	¥19,731 million
-Ministry of Agriculture, Forestry and Fisheries	
Repayment of borrowed money	¥7,151 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, 2016
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	611,622 (Notes i and iii)	—	—
					450,000 (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 ¥0.43
Net income per share ¥0.0

19. Subsequent events**(1) Acquisition of treasury stock**

Pursuant to paragraph 1, Article 4 of the Supplementary Provisions to the partially revised JBIC Act (Act No. 41, 2016), JFC has acquired treasury stock.

(i) Type of acquired shares

Common stock

(ii) Total number of acquired shares

1,291,000,000,000 shares

(iii) Total cost of acquisition

0 yen

(iv) Date of acquisition

May 18, 2016

(v) Method of acquisition

Free transfer from the government

(2) Cancellation of treasury stock

JFC resolved at the Board of Directors' Meeting held on May 17, 2016, to cancel its own shares under paragraph 2, Article 4 of the Supplementary Provisions to the partially revised JBIC Act and Article 178 of the Companies Act (Act No. 86, 2005). JFC cancelled its own shares as of May 18, 2016.

(i) Type of cancelled shares

Common stock

(ii) Total number of cancelled shares

1,291,000,000,000 shares

(iii) Total number of issued shares after cancellation

9,806,473,257,741

(iv) Date of cancellation

May 18, 2016

Balance Sheet (as of March 31, 2016)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	70,161	Borrowed money	5,458,981
Cash	18	Borrowings	5,458,981
Due from banks	70,142	Bonds payable	660,050
Loans and bills discounted	6,862,218	Other liabilities	12,103
Loans on deeds	6,862,218	Accrued expenses	4,418
Other assets	12,390	Lease obligations	1,684
Prepaid expenses	274	Other	6,000
Accrued income	6,840	Provision for bonuses	2,990
Agency accounts receivable	1,193	Provision for directors' bonuses	6
Other	4,081	Provision for retirement benefits	58,868
Property, plant and equipment	96,662	Provision for directors' retirement benefits	14
Buildings	27,388	Total liabilities	6,193,016
Land	66,118	Net assets	
Lease assets	1,298	Capital stock	1,064,016
Construction in progress	941	Capital surplus	181,500
Other	915	Special reserve for administrative improvement funds	181,500
Intangible assets	10,201	Retained earnings	(507,132)
Software	9,025	Other retained earnings	(507,132)
Lease assets	246	Retained earnings brought forward	(507,132)
Other	929	Total shareholders' equity	738,383
Allowance for loan losses	(120,234)	Total net assets	738,383
Total assets	6,931,399	Total liabilities and net assets	6,931,399

Statement of Operations (Year ended March 31, 2016)

(Millions of yen)

Items	Amount
Ordinary income	147,530
Interest income	126,007
Interest on loans and discounts	126,003
Interest on receivables under resale agreements	1
Interest on deposits with banks	2
Other interest income	0
Fees and commissions	0
Other fees and commissions	0
Receipts from the national budget	19,936
Receipts from general account of the national budget	19,935
Receipts from special account of the national budget	0
Other income	1,586
Recoveries of written-off claims	499
Other	1,086
Ordinary expenses	122,057
Interest expenses	16,476
Interest on call money	28
Interest on borrowings and rediscounts	13,804
Interest on bonds	2,642
Fees and commissions payments	664
Other fees and commissions	664
Other ordinary expenses	304
Amortization of bond issuance cost	304
General and administrative expenses	69,043
Other expenses	35,569
Provision of allowance for loan losses	17,814
Written-off of loans	17,319
Other	435
Ordinary profit	25,473
Extraordinary income	490
Gain on disposal of noncurrent assets	490
Extraordinary losses	321
Loss on disposal of noncurrent assets	155
Impairment loss	166
Net income	25,641

Statement of Changes in Net Assets (Year ended March 31, 2016)

(Millions of yen)

	Shareholders' equity						Total net assets
	Capital stock	Capital surplus		Retained earnings		Total share- holders' equity	
		Special reserve for administra- tive improve- ment funds	Total capital surplus	Other retained earnings	Total retained earnings		
				Retained earnings brought forward			
Balance at the beginning of current period	1,052,076	181,500	181,500	(532,774)	(532,774)	700,801	700,801
Changes of items during the period							
Issuance of new shares	11,940					11,940	11,940
Net income (loss)				25,641	25,641	25,641	25,641
Total changes of items during the period	11,940	—	—	25,641	25,641	37,581	37,581
Balance at the end of current period	1,064,016	181,500	181,500	(507,132)	(507,132)	738,383	738,383

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 ¥131,354 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.

(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.

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, 2016 Account for Micro Business and Individual Operations
Bankrupt loans	12,040
Non-accrual loans	127,476
Loans with interest or principal repayments more than three months in arrears	41
Restructured loans	463,263
Total	602,823

(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, 2016 is ¥7,879 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 ¥660,050 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥13,130 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	¥20,000 million
Foreign-currency-denominated government-guaranteed bonds	¥591,622 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: 13 items	Land, buildings, other intangible assets	114
Other	Idle assets: 13 items	Land, buildings	52

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, 2016 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	1,233,576,000,000	11,940,000,000	—	1,245,516,000,000

(Note) Increases is due to the issuance of 11,940,000,000 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 bonds payable.

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, 2016 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥13,879 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 ¥13,134 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, 2016, 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	70,161	70,161	—
(2) Loans and bills discounted Allowance for loan losses (*)	6,854,376 (117,190)		
	6,737,185	6,977,933	240,747
Total assets	6,807,346	7,048,094	240,747
(1) Borrowings	5,327,678	5,386,998	59,320
(2) Bonds payable	660,050	663,838	3,787
Total liabilities	5,987,728	6,050,836	63,107

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

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

Assets

(1) Cash and due from banks

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

(2) Loans and bills discounted

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

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

Liabilities

(1) Borrowings

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

(2) Bonds payable

Market value is used for fair value of bonds.

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

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

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Loans on deeds (subordinated capital loans) ^{(*)1}	7,842
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}	3
Total	139,145

(*)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}	70,142	—	—	—	—	—
Loans and bill discounted ^{(*)2}	1,472,831	2,420,381	1,483,997	681,982	406,360	257,125
Total	1,542,974	2,420,381	1,483,997	681,982	406,360	257,125

(*)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 ¥139,539 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 ^(*)	1,485,242	2,205,760	1,125,677	323,753	158,360	28,889
Bonds payable	230,000	250,000	95,000	55,000	30,000	—
Total	1,715,242	2,455,760	1,220,677	378,753	188,360	28,889

(*) 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.

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	123,532 million yen
Service cost	3,304
Interest cost	1,235
Actuarial difference	12,030
Payment of retirement benefits	(5,602)
Prior service cost	760
Other	17
Closing balance of projected benefit obligations	<u>135,279</u>

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

Opening balance of fair value of plan assets	62,327 million yen
Expected return on plan assets	1,246
Actuarial difference	(1,350)
Financing from employer	1,785
Payment of retirement benefits	(1,984)
Other	7
Closing balance of fair value of plan assets	<u>62,031</u>

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

Projected benefit obligations of funded plan	79,589 million yen
Fair value of plan assets	<u>(62,031)</u>
	17,557
Projected benefit obligations of unfunded plan	<u>55,690</u>
Unfunded pension obligations	73,247
Actuarial unrecognized difference	(19,698)
Unrecognized prior service cost	5,320
Net amount of liabilities and assets recorded on the balance sheet	<u>58,868</u>
Provision for retirement benefits	58,868
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>58,868</u>

(4) Net pensions cost and breakdown of included items

Service cost	3,304 million yen
Interest cost	1,235
Expected return on plan assets	(1,246)
Amount of actuarial difference accounted for as expense	992
Amortization of prior service cost accounted for as expense	(817)
Other	—
Net pensions cost related to defined benefits plan	<u>3,467</u>

(5) Items concerning fair value of plan assets

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

Shares	12%
Debentures	39%
General account	8%
Cash and deposits	41%
Total	<u>100%</u>

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

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

(6) Items related to actuarial calculation bases

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

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	2.2% to 5.4%

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥229 million.

12. Related party transactions

Related party transactions in the fiscal year ended March 31, 2016 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, 2016
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	99.72 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	11,528	—	—
				Receipts from general account of the national budget	12,948	—	—
				Receipt of funds ^(Note iv)	1,673,000	Borrowings	5,327,681
				Repayment of borrowing	1,734,196		
				Payment of interest on borrowings	13,804	Accrued expenses	3,451
				Guarantee for bonds payable ^(Note v)	370,050	—	—

(Notes)

(i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:

-Ministry of Health, Labor and Welfare (Minister of Health, Labor and Welfare) 0.28%

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

-Ministry of Health, Labor and Welfare

Underwriting of capital increase ¥412 million

-Ministry of Health, Labor and Welfare

Receipts from the national budget ¥2,160 million

-Agency for Natural Resources and Energy

Receipts from the national budget ¥0 million

-Small and Medium Enterprise Agency

Receipts from the national budget ¥4,826 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, 2016
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	611,622 (Notes i and iii)	—	—
					90,000 (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	¥0.59
Net income per share	¥0.02

14. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2016)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	56,141	Borrowed money	2,010,661
Cash	1	Borrowings	2,010,661
Due from banks	56,139	Bonds payable	210,969
Securities	2,179	Entrusted funds	30,318
Stocks	2,030	Other liabilities	12,679
Other securities	149	Accrued expenses	5,988
Loans and bills discounted	2,583,352	Unearned revenue	7
Loans on deeds	2,583,352	Lease obligations	259
Other assets	11,903	Other	6,424
Prepaid expenses	264	Provision for bonuses	582
Accrued income	10,509	Provision for directors' bonuses	6
Agency accounts receivable	367	Provision for retirement benefits	10,622
Other	761	Provision for directors' retirement benefits	28
Property, plant and equipment	32,870	Acceptances and guarantees	2,742
Buildings	7,544	Total liabilities	2,278,611
Land	24,987	Net assets	
Lease assets	205	Capital stock	389,239
Construction in progress	1	Retained earnings	2,655
Other	131	Legal retained earnings	2,655
Intangible assets	2,341	Total shareholders' equity	391,895
Software	1,973		
Lease assets	35		
Other	333		
Customers' liabilities for acceptances and guarantees	2,742		
Allowance for loan losses	(21,022)	Total net assets	391,895
Total assets	2,670,507	Total liabilities and net assets	2,670,507

Statement of Operations (Year ended March 31, 2016)

(Millions of yen)

Items	Amount
Ordinary income	48,222
Interest income	36,638
Interest on loans and discounts	36,623
Interest on receivables under resale agreements	1
Interest on deposits with banks	13
Other interest income	0
Fees and commissions	34
Other fees and commissions	34
Receipts from the national budget	9,955
Receipts from general account of the national budget	9,927
Receipts from special account of the national budget	28
Other income	1,593
Recoveries of written-off claims	1,110
Other	483
Ordinary expenses	48,221
Interest expenses	29,792
Interest on call money	3
Interest on borrowings and rediscounts	26,520
Interest on bonds	3,268
Fees and commissions payments	3,061
Other fees and commissions	3,061
Other ordinary expenses	44
Amortization of bond issuance cost	44
General and administrative expenses	14,598
Other expenses	724
Provision of allowance for loan losses	593
Written-off of loans	87
Other	43
Ordinary profit	1
Extraordinary losses	1
Loss on disposal of noncurrent assets	0
Impairment loss	0
Net income	—

Statement of Changes in Net Assets (Year ended March 31, 2016)

(Millions of yen)

	Shareholders' equity					Total net assets
	Capital stock	Retained earnings			Total shareholders' equity	
		Legal retained earnings	Other retained earnings	Total retained earnings		
			Retained earnings brought forward			
Balance at the beginning of current period	381,588	2,655	—	2,655	384,243	384,243
Changes of items during the period						
Issuance of new shares	7,651				7,651	7,651
Net income (loss)			—	—	—	—
Total changes of items during the period	7,651	—	—	—	7,651	7,651
Balance at the end of current period	389,239	2,655	—	2,655	391,895	391,895

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 ¥11,601 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.

(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.

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, 2016 Account for Agriculture, Forestry, Fisheries and Food Business Operations
Bankrupt loans	708
Non-accrual loans	56,569
Loans with interest or principal repayments more than three months in arrears	691
Restructured loans	19,693
Total	77,662

(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, 2016 is ¥78,464 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 ¥210,969 million).

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥3,287 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 ¥20,000 million

Foreign-currency-denominated government-guaranteed bonds ¥591,622 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, 2016 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	381,588,000,000	7,651,850,000	—	389,239,850,000

(Note) Increase is due to the issuance of 7,651,850,000 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, 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 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, bonds payable 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, 2016 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥8,518 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥7,353 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 loan funds 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, 2016, 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	56,141	56,141	—
(2) Securities			
Other securities	6	6	—
(3) Loans and bills discounted	2,580,998		
Allowance for loan losses ^(*)	(20,122)		
	2,560,876	2,818,966	258,090
Total assets	2,617,023	2,875,114	258,090
(1) Borrowings	2,010,661	2,171,151	160,489
(2) Bonds payable	210,969	238,315	27,345
(3) Entrusted funds	30,318	29,912	(405)
Total liabilities	2,251,949	2,439,378	187,429

(*) 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.

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

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Unlisted stocks ^{(*)1}	2,030
2) Partnership investments ^{(*)2}	142
3) Loans on deeds (subordinated capital loans) ^{(*)3}	2,353
Total	4,526

(*)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}	56,139	—	—	—	—	—
Loans and bills discounted ^{(*)2}	281,648	498,767	393,190	319,546	352,196	682,486
Total	337,788	498,767	393,190	319,546	352,196	682,486

(*)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 ¥55,516 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	198,173	409,367	346,386	293,235	365,726	397,772
Bonds payable	26,000	40,000	—	25,000	30,000	90,000
Entrusted funds	—	—	245	1,292	4,069	24,711
Total	224,173	449,367	346,631	319,527	399,795	512,483

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, 2016 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	13,086	13,090	(3)

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

	Carrying amount on the balance sheet (Millions of yen)
Others	142

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.

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	23,165 million yen
Service cost	656
Interest cost	231
Actuarial difference	2,378
Payment of retirement benefits	(1,106)
Prior service cost	238
Other	(4)
Closing balance of projected benefit obligations	<u>25,559</u>

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

Opening balance of fair value of plan assets	11,998 million yen
Expected return on plan assets	239
Actuarial difference	(266)
Financing from employer	346
Payment of retirement benefits	(400)
Other	(3)
Closing balance of fair value of plan assets	<u>11,913</u>

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

Projected benefit obligations of funded plan	15,285 million yen
Fair value of plan assets	<u>(11,913)</u>
	3,372
Projected benefit obligations of unfunded plan	<u>10,273</u>
Unfunded pension obligations	13,645
Actuarial unrecognized difference	(3,832)
Unrecognized prior service cost	<u>809</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>10,622</u>
Provision for retirement benefits	10,622
Prepaid pension cost	<u>—</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>10,622</u>

- (4) Net pensions cost and breakdown of included items

Service cost	656 million yen
Interest cost	231
Expected return on plan assets	(239)
Amount of actuarial difference accounted for as expense	188
Amortization of prior service cost accounted for as expense	(133)
Other	<u>—</u>
Net pensions cost related to defined benefits plan	<u>703</u>

- (5) Items concerning fair value of plan assets

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

Shares	12%
Debentures	39%
General account	8%
Cash and deposits	<u>41%</u>
Total	<u>100%</u>

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

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

- (6) Items related to actuarial calculation bases

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

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.8% to 5.9%

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥44 million.

15. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥1,885 million
Profit on Investment in affiliates (equity method)	¥52 million

16. Related party transactions

Related party transactions in the fiscal year ended March 31, 2016 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, 2016
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	91.76 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	2,929	—	—
				Receipt of funds ^(Note iv)	179,000	Borrowings	1,974,374
				Repayment of borrowing	176,192		
				Payment of interest on borrowings	26,520	Accrued expenses	4,662

(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) 8.24%

(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 ¥4,722 million

-Ministry of Agriculture, Forestry and Fisheries
Receipts from the national budget ¥9,955 million

-Ministry of Agriculture, Forestry and Fisheries
Repayment of borrowed money ¥7,151 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, 2016
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)	580	Entrusted fund	30,318
				Repayment of entrusted fund	824		
	JBIC	—	Relation of joint and several liability	Joint and several liability	611,622 ^(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.

Balance Sheet (as of March 31, 2016)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	83,198	Borrowed money	3,635,501
Cash	3	Borrowings	3,635,501
Due from banks	83,194	Bonds payable	845,800
Securities	46	Other liabilities	5,652
Corporate bonds	46	Accrued expenses	3,971
Stocks	0	Unearned revenue	36
Loans and bills discounted	5,744,706	Derivatives other than for trading-liabilities	0
Loans on deeds	5,744,706	Lease obligations	486
Other assets	5,485	Other	1,157
Prepaid expenses	255	Provision for bonuses	1,080
Accrued income	3,474	Provision for directors' bonuses	5
Other	1,755	Provision for retirement benefits	19,733
Property, plant and equipment	47,936	Provision for directors' retirement benefits	14
Buildings	11,389	Acceptances and guarantees	6,034
Land	35,727	Total liabilities	4,513,824
Lease assets	330	Net assets	
Construction in progress	102	Capital stock	1,469,185
Other	386	Retained earnings	(367,432)
Intangible assets	3,854	Other retained earnings	(367,432)
Software	3,023	Retained earnings brought forward	(367,432)
Lease assets	119	Total shareholders' equity	1,101,752
Other	711		
Customers' liabilities for acceptances and guarantees	6,034		
Allowance for loan losses	(275,686)	Total net assets	1,101,752
Total assets	5,615,576	Total liabilities and net assets	5,615,576

Statement of Operations (Year ended March 31, 2016)

(Millions of yen)

Items	Amount
Ordinary income	104,150
Interest income	87,336
Interest on loans and discounts	87,332
Interest and dividends on securities	1
Interest on receivables under resale agreements	0
Interest on deposits with banks	2
Other interest income	0
Fees and commissions	34
Other fees and commissions	34
Receipts from the national budget	14,655
Receipts from general account of the national budget	14,651
Receipts from special account of the national budget	3
Other income	2,123
Recoveries of written-off claims	175
Other	1,948
Ordinary expenses	79,395
Interest expenses	21,152
Interest on call money	58
Interest on borrowings and rediscounts	15,198
Interest on bonds	5,894
Fees and commissions payments	79
Other fees and commissions	79
Other ordinary expenses	268
Loss on foreign exchange transactions	18
Amortization of bond issuance cost	249
Expenses on derivatives other than for trading or hedging	0
General and administrative expenses	25,957
Other expenses	31,937
Provision of allowance for loan losses	27,430
Written-off of loans	2,549
Other	1,957
Ordinary profit	24,755
Extraordinary income	2
Gain on disposal of noncurrent assets	2
Extraordinary losses	42
Loss on disposal of noncurrent assets	16
Impairment loss	25
Net income	24,715

Statement of Changes in Net Assets (Year ended March 31, 2016)

(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	1,439,285	(392,148)	(392,148)	1,047,136	1,047,136
Changes of items during the period					
Issuance of new shares	29,900			29,900	29,900
Net income (loss)		24,715	24,715	24,715	24,715
Total changes of items during the period	29,900	24,715	24,715	54,615	54,615
Balance at the end of current period	1,469,185	(367,432)	(367,432)	1,101,752	1,101,752

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) Valuation method for derivative financial instruments

Derivative financial instruments are carried at fair value.

(c) Depreciation basis for fixed assets

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

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

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

Buildings: 2 years to 50 years

Other: 2 years to 20 years

(ii) Intangible assets (except for lease assets)

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

(iii) Lease assets

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

(d) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

(e) Foreign currency translation and revaluation method

JFC maintains its accounting records in Japanese yen. Assets and liabilities denominated in foreign currencies are translated into Japanese yen 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 ¥90,339 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.

(v) Provision for directors' retirement benefits

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

(g) 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.

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, 2016 Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)
Bankrupt loans	7,835
Non-accrual loans	550,943
Loans with interest or principal repayments more than three months in arrears	—
Restructured loans	89,907
Total	648,686

(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, 2016 is ¥78,030 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 ¥845,800 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥4,993 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	¥20,000 million
Foreign-currency-denominated government-guaranteed bonds	¥591,622 million

6. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations*2 listed in each Item of Article 41

hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

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

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

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

7. Impairment losses

Impairment loss is recognized for the following assets:

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

The Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation) does not have any operating assets that are subject to impairments.

For idle assets, an impairment loss is recognized as the difference between the recoverable amount and the carrying value at the end of the fiscal year.

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

The recoverable value in principle is calculated using net realizable value.

The net realizable value is calculated based on the index that incorporates market value.

8. Issued shares

For the fiscal year ended March 31, 2016 types and number of issued shares are as follows:

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	1,439,285,000,000	29,900,000,000	—	1,469,185,000,000

(Unit : shares)

(Note) Increases is due to the issuance of 29,900,000,000 shares.

9. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

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

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

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

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

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

(2) Types of financial instruments and risks

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

The financial assets 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 risks associated with this account are interest rate risk and foreign exchange 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.

It is JFC policy to minimize foreign exchange risk arising from foreign currency loans in this account by conducting forward exchange contracts.

(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

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) Foreign exchange risk

It is JFC policy to minimize foreign exchange risk by conducting forward exchange contracts.

With regards to forward exchange contracts transactions, we have established internal control system which is separating the departments executing and managing.

Forward exchange contracts are conducting by actual needs, and are not maintained in speculative positions.

(iii) Quantitative information relating to market risk

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

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

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, 2016 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥36,792 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 ¥34,196 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, 2016, 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	83,198	83,198	—
(2) Securities			
Held-to-maturity debt securities	46	46	—
(3) Loans and bills discounted	5,401,495		
Allowance for loan losses ^(*)	(159,574)		
	5,241,920	5,572,046	330,125
Total assets	5,325,166	5,655,291	330,125
(1) Borrowings	3,613,470	3,670,392	56,922
(2) Bonds payable	845,800	858,820	13,019
Total liabilities	4,459,270	4,529,212	69,941
Derivative transactions ^(**)			
Derivative transactions not qualifying for hedge accounting	(0)	(0)	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	(0)	(0)	—

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

(**) Derivative recorded in "other assets and other liabilities" are collectively displayed. The net values of assets and liabilities arising from derivative transactions are displayed. The figures in parenthesis indicate net liabilities.

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

Assets

(1) Cash and due from banks

For due from banks that do not mature, 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.

Derivative transactions

Derivative transactions are forward exchange contracts. The fair value of derivative transactions is determined based on the price provided by financial institutions.

(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}	343,211
3) Borrowings from the FILP special account (investment account) of the national budget ^{(*)3}	22,031
Total	365,242

(*)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}	83,194	—	—	—	—	—
Securities ^{(*)2} Held-to-maturity debt securities	22	24	—	—	—	—
Loans and bill discounted ^{(*)2}	1,406,048	1,988,165	1,082,955	512,199	436,690	274,942
Total	1,489,266	1,988,189	1,082,955	512,199	436,690	274,942

(*)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 ¥43,704 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	890,107	1,410,149	830,745	313,650	190,850	—
Bonds payable	285,000	281,000	135,000	55,000	90,000	—
Total	1,175,107	1,691,149	965,745	368,650	280,850	—

10. Fair value of securities

The fair value of securities at March 31, 2016 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	46	46	—

(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.

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 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.

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	42,000 million yen
Service cost	1,287
Interest cost	419
Actuarial difference	4,983
Payment of retirement benefits	(1,459)
Prior service cost	1,635
Other	(18)
Closing balance of projected benefit obligations	<u>48,848</u>

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

Opening balance of fair value of plan assets	21,574 million yen
Expected return on plan assets	431
Actuarial difference	(173)
Financing from employer	659
Payment of retirement benefits	(747)
Other	(5)
Closing balance of fair value of plan assets	<u>21,738</u>

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

Projected benefit obligations of funded plan	27,891 million yen
Fair value of plan assets	<u>(21,738)</u>
	6,152
Projected benefit obligations of unfunded plan	<u>20,956</u>
Unfunded pension obligations	27,109
Actuarial unrecognized difference	(8,059)
Unrecognized prior service cost	<u>683</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>19,733</u>
Provision for retirement benefits	<u>19,733</u>
Prepaid pension cost	<u>—</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>19,733</u>

(4) Net pensions cost and breakdown of included items

Service cost	1,287 million yen
Interest cost	419
Expected return on plan assets	(431)
Amount of actuarial difference accounted for as expense	504
Amortization of prior service cost accounted for as expense	(334)
Other	<u>—</u>
Net pensions cost related to defined benefits plan	<u>1,445</u>

(5) Items concerning fair value of plan assets

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

Shares	12%
Debentures	39%
General account	8%
Cash and deposits	<u>41%</u>
Total	<u>100%</u>

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

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

(6) Items related to actuarial calculation bases

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

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.7% to 5.9%

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥85 million.

13. Related party transactions

Related party transactions in the fiscal year ended March 31, 2016 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, 2016
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	90.48 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	21,900	—	—
				Receipt of funds ^(Note iv)	875,460	Borrowings	3,635,501
				Repayment of borrowing	1,015,909		
				Payment of interest on borrowings	15,198	Accrued expenses	3,153
				Guarantee for bonds payable ^(Note v)	549,802	—	—

(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) 9.52%

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

-Ministry of Economy, Trade and Industry

Underwriting of capital increase ¥8,000 million

-Agency for Natural Resources and Energy

Receipts from the national budget ¥3 million

-Small and Medium Enterprise Agency

Receipts from the national budget ¥14,651 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, 2016
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	611,622 (Notes i and iii)	—	—
					300,000 (Notes ii and iii)	—	—

(Notes)

(i) Pursuant to item 2 paragraph 1, Article 17 of the Supplementary Provisions to the JBIC Act, JFC has joint and several liability for bonds issued by JFC and succeeded to by JBIC. As JFC, rather than the individual operations accounts within JFC, is responsible overall for the said joint and several liability, the total joint and several liability of JFC is shown. Pursuant to paragraph 2, Article 17 of the Supplementary Provisions, the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation) has pledged its assets as general collateral for the joint and several liabilities.

(ii) Pursuant to paragraph 1, Article 46-2 of the Supplementary Provisions to the JFC Act, JBIC has joint and several liability for bonds issued by JFC that the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation) will redeem. Pursuant to paragraph 2, Article 46-2 of the Supplementary Provisions, JBIC's assets have been pledged as general collateral for the joint and several liabilities.

(iii) There are no transactions recorded under income or expenses related to the joint and several liabilities.

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

14. Per share information

Net assets per share ¥0.74

Net income per share ¥0.01

15. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2016)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	3,478	Bonds payable	4,000
Cash	0	Other liabilities	9
Due from banks	3,478	Accrued expenses	0
Securities	25,343	Other	8
Government bonds	21,004	Provision for bonuses	2
Corporate bonds	4,339	Provision for directors' bonuses	0
Other assets	33	Provision for retirement benefits	40
Accrued income	10	Provision for directors' retirement benefits	0
Other	22	Acceptances and guarantees	11,809
Prepaid pension cost	5	Total liabilities	15,860
Customers' liabilities for acceptances and guarantees	11,809	Net assets	
Allowance for loan losses	(5)	Capital stock	24,476
		Retained earnings	327
		Legal retained earnings	170
		Other retained earnings	157
		Retained earnings brought forward	157
		Total shareholders' equity	24,803
		Total net assets	24,803
Total assets	40,664	Total liabilities and net assets	40,664

Statement of Operations (Year ended March 31, 2016)

(Millions of yen)

Items	Amount
Ordinary income	354
Interest income	337
Interest and dividends on securities	335
Interest on deposits with banks	2
Fees and commissions	12
Other fees and commissions	12
Other income	4
Other	4
Ordinary expenses	197
Interest expenses	0
Interest on bonds	0
Fees and commissions payments	101
Other fees and commissions	101
Other ordinary expenses	8
Amortization of bond issuance cost	8
General and administrative expenses	82
Other expenses	5
Provision of allowance for loan losses	5
Ordinary profit	157
Net income	157

Statement of Changes in Net Assets (Year ended March 31, 2016)

(Millions of yen)

	Shareholders' equity					Total net assets
	Capital stock	Retained earnings			Total shareholders' equity	
		Legal retained earnings	Other retained earnings	Total retained earnings		
			Retained earnings brought forward			
Balance at the beginning of current period	24,476	10	320	330	24,806	24,806
Changes of items during the period						
Provision of legal retained earnings		160	(160)	—	—	—
Payment to the national treasury			(160)	(160)	(160)	(160)
Net income (loss)			157	157	157	157
Total changes of items during the period	—	160	(163)	(2)	(2)	(2)
Balance at the end of current period	24,476	170	157	327	24,803	24,803

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 cost based on the moving average method.

(b) Valuation method for derivative financial instruments

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

(c) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

(d) Accounting policy for reserves

(i) Allowance for loan losses

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

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

(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.

(v) Provision for directors' retirement benefits

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

(e) Consumption and other taxes

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

2. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds totaling ¥4,000 million.

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	¥20,000 million
Foreign-currency-denominated government-guaranteed bonds	¥591,622 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, 2016, 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, and the financial liabilities are bonds payable. The associated risks are described below.

(a) Credit risk

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

(b) Market risk

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

(c) Liquidity risk

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

(3) Risk management structure for financial instruments

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

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

The risk management structure for these operations is described below.

(a) Credit risk management

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

(b) Market risk management

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

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

These operations do not use quantitative analysis of interest rate risk for risk management purposes. The primary financial instruments that are subject to interest rate risk in these operations are securities and bonds payable.

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, 2016 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥45 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 ¥46 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, 2016, 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).

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	3,478	3,478	—
(2) Securities			
Held-to-maturity debt securities	21,004	21,355	350
Total assets	24,482	24,833	350
Bonds payable	4,000	3,999	(0)
Total debt	4,000	3,999	(0)

(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

Market value is used for securities.

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

Liabilities

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".

(Millions of yen)

Classification	Carrying amount on the balance sheet
(1) Corporate bonds (specific asset-backed securities) ^{(*)1}	4,339
(2) credit default swap ^{(*)2}	—
Total	4,339

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

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

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

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

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

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

(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 ^(*)	3,478	—	—	—	—	—
Securities Held-to-maturity debt securities	20,983	—	—	—	—	—
Total	24,461	—	—	—	—	—

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

(Note 4) Redemption schedule for bonds 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
Bonds payable	—	4,000	—	—	—	—

7. Fair value of securities

The fair value of securities at March 31, 2016 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	21,004	21,355	350

(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 (million yen)
Corporate bonds	4,339

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

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.

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	28 million yen
Service cost	3
Interest cost	0
Actuarial difference	13
Payment of retirement benefits	—
Prior service cost	4
Other	21
Closing balance of projected benefit obligations	<u>72</u>

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

Opening balance of fair value of plan assets	7 million yen
Expected return on plan assets	0
Actuarial difference	1
Financing from employer	1
Payment of retirement benefits	—
Other	5
Closing balance of fair value of plan assets	<u>15</u>

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

Projected benefit obligations of funded plan	20 million yen
Fair value of plan assets	(15)
	4
Projected benefit obligations of unfunded plan	51
Unfunded pension obligations	56
Actuarial unrecognized difference	(20)
Unrecognized prior service cost	(0)
Net amount of liabilities and assets recorded on the balance sheet	<u>34</u>
Provision for retirement benefits	40
Prepaid pension cost	(5)
Net amount of liabilities and assets recorded on the balance sheet	<u>34</u>

(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	1
Amortization of prior service cost accounted for as expense	(0)
Other	—
Net pensions cost related to defined benefits plan	<u>4</u>

(5) Items concerning fair value of plan assets

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

Shares	12%
Debentures	39%
General account	8%
Cash and deposits	41%
Total	<u>100%</u>

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

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

(6) Items related to actuarial calculation bases

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

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.7% to 5.9%

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, 2016 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, 2016
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	611,622 (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	¥0.00

12. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2016)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	3,081,511	Reserve for insurance policy liabilities	1,350,357
Cash	0	Other liabilities	1,265
Due from banks	3,081,511	Accrued expenses	26
Other assets	14,040	Lease obligations	140
Prepaid expenses	429	Other	1,097
Accrued income	332	Provision for bonuses	199
Other	13,277	Provision for directors' bonuses	1
Property, plant and equipment	18,868	Provision for retirement benefits	4,343
Buildings	4,773	Provision for directors' retirement benefits	1
Land	13,968	Total liabilities	1,356,168
Lease assets	87	Net assets	
Other	39	Capital surplus	1,748,884
Intangible assets	1,788	Legal capital surplus	1,748,884
Software	1,547	Retained earnings	11,155
Lease assets	40	Other retained earnings	11,155
Other	200	Retained earnings brought forward	11,155
		Total shareholders' equity	1,760,039
		Total net assets	1,760,039
Total assets	3,116,207	Total liabilities and net assets	3,116,207

Statement of Operations (Year ended March 31, 2016)

(Millions of yen)

Items	Amount
Ordinary income	276,048
Interest income	2,173
Interest on deposits with banks	2,173
Insurance premiums and other	273,555
Insurance premiums	137,030
Receipts of burden charges under the Responsibility-sharing System	6,862
Reversal of reserve for insurance policy liabilities	129,663
Other income	320
Other	320
Ordinary expenses	264,893
Expenses on insurance claims and other	255,869
Expenses on insurance claims	352,873
Recoveries of insurance claims	(97,003)
General and administrative expenses	4,938
Other expenses	4,085
Other	4,085
Ordinary profit	11,155
Extraordinary losses	0
Loss on disposal of noncurrent assets	0
Net income	11,155

Statement of Changes in Net Assets (Year ended March 31, 2016)

(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	1,965,779	1,965,779	(276,895)	(276,895)	1,688,884	1,688,884
Changes of items during the period						
Issuance of new shares	60,000	60,000			60,000	60,000
Reversal of legal capital surplus (Deficit disposition)	(276,895)	(276,895)	276,895	276,895	—	—
Net income (loss)			11,155	11,155	11,155	11,155
Total changes of items during the period	(216,895)	(216,895)	288,050	288,050	71,155	71,155
Balance at the end of current period	1,748,884	1,748,884	11,155	11,155	1,760,039	1,760,039

Data

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.

(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.

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 ¥1,558 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	¥20,000 million
Foreign-currency-denominated government-guaranteed bonds	¥591,622 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 ¥4,071 million.

7. Issued shares

For the fiscal year ended March 31, 2016, 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	5,660,327,407,741	60,000,000,000	—	5,720,327,407,741

(Note) Increase is due to the issuance of 60,000,000,000 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, 2016, 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	3,081,511	3,085,870	4,358

(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 (*)	2,578,411	383,100	120,000	—	—	—

(*) 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, 2016)

	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	520,000	520,000	—

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.

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	9,085 million yen
Service cost	232
Interest cost	90
Actuarial difference	937
Payment of retirement benefits	(317)
Prior service cost	332
Other	3
Closing balance of projected benefit obligations	<u>10,365</u>

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

Opening balance of fair value of plan assets	4,817 million yen
Expected return on plan assets	96
Actuarial difference	(57)
Financing from employer	115
Payment of retirement benefits	(144)
Other	2
Closing balance of fair value of plan assets	<u>4,830</u>

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

Projected benefit obligations of funded plan	6,197 million yen
Fair value of plan assets	<u>(4,830)</u>
	1,367
Projected benefit obligations of unfunded plan	<u>4,168</u>
Unfunded pension obligations	5,535
Actuarial unrecognized difference	(1,275)
Unrecognized prior service cost	83
Net amount of liabilities and assets recorded on the balance sheet	<u>4,343</u>
Provision for retirement benefits	4,343
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>4,343</u>

(4) Net pensions cost and breakdown of included items

Service cost	232 million yen
Interest cost	90
Expected return on plan assets	(96)
Amount of actuarial difference accounted for as expense	60
Amortization of prior service cost accounted for as expense	(56)
Other	—
Net pensions cost related to defined benefits plan	<u>231</u>

(5) Items concerning fair value of plan assets

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

Shares	12%
Debentures	39%
General account	8%
Cash and deposits	<u>41%</u>
Total	<u>100%</u>

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

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

(6) Items related to actuarial calculation bases

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

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.7% to 5.9%

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥14 million.

12. Related party transactions

Related party transactions in the fiscal year ended March 31, 2016 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, 2016
Principal shareholder	Ministry of Finance (Minister of Finance)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note i)	60,000	—	—
				Deposit of funds ^(Note ii)	5,319,600	Due from banks	2,005,800
				Refund of funds	5,861,600		

(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, 2016
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	611,622 (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 ¥0.30
Net income per share ¥0.0

14. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2016)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	799,968	Borrowed money	3,073,245
Due from banks	799,968	Borrowings	3,073,245
Loans and bills discounted	3,073,245	Other liabilities	6,035
Loans on deeds	3,073,245	Accrued expenses	676
Other assets	749	Unearned revenue	5,314
Accrued income	722	Lease obligations	1
Other	27	Other	43
Property, plant and equipment	1	Provision for bonuses	6
Lease assets	1	Provision for directors' bonuses	0
Intangible assets	58	Provision for retirement benefits	100
Software	57	Provision for directors' retirement benefits	0
Lease assets	0	Reserve for compensation losses	24,497
Other	0	Total liabilities	3,103,884
Prepaid pension cost	29	Net assets	
		Capital stock	957,462
		Retained earnings	(187,295)
		Other retained earnings	(187,295)
		Retained earnings brought forward	(187,295)
		Total shareholders' equity	770,166
		Total net assets	770,166
Total assets	3,874,051	Total liabilities and net assets	3,874,051

Statement of Operations (Year ended March 31, 2016)

(Millions of yen)

Items	Amount
Ordinary income	37,692
Interest income	28,477
Interest on loans and discounts	27,792
Interest on deposits with banks	685
Fees and commissions	3,272
Fees and commissions on compensation security contract	3,272
Receipts from the national budget	354
Receipts from general account of the national budget	354
Other income	5,588
Gain on reversal of allowance for indemnity	4,518
Other	1,070
Ordinary expenses	48,783
Interest expenses	27,792
Interest on borrowings and rediscounts	27,792
Fees and commissions payments	9,549
Expense on compensation security contract	9,549
Other ordinary expenses	11,059
Interest subsidies	11,059
General and administrative expenses	203
Other expenses	178
Other	178
Ordinary loss	11,090
Net loss	11,090

Data

Statement of Changes in Net Assets (Year ended March 31, 2016)

(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	957,394	(176,205)	(176,205)	781,188	781,188
Changes of items during the period					
Issuance of new shares	68			68	68
Net income (loss)		(11,090)	(11,090)	(11,090)	(11,090)
Total changes of items during the period	68	(11,090)	(11,090)	(11,022)	(11,022)
Balance at the end of current period	957,462	(187,295)	(187,295)	770,166	770,166

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.

(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.

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, 2016.

"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	¥20,000 million
Foreign-currency-denominated government-guaranteed bonds	¥591,622 million

6. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (108,271 contracts)	2,488,087
Reserve for compensation	24,497
Net amount	2,463,590

7. Restriction in dividend distribution

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

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

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

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

8. Issued shares

For the fiscal year ended March 31, 2016, 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	957,394,000,000	68,000,000	—	957,462,000,000

(Note) Increase is due to the issuance of 68,000,000 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, 2016, 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	799,968	799,968	—
(2) Loans and bills discounted	3,073,245	3,138,458	65,213
Total assets	3,873,213	3,938,426	65,213
Borrowings	3,073,245	3,163,868	90,623
Total liabilities	3,073,245	3,163,868	90,623

(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: ¥2,488,087 million

Compensation loss reserve: ¥24,497 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 ^(*)	799,968	—	—	—	—	—
Loans and bills discounted	778,148	1,026,386	566,883	362,800	249,713	89,315
Total	1,578,116	1,026,386	566,883	362,800	249,713	89,315

(*) 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	778,148	1,026,386	566,883	362,800	249,713	89,315

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, 2016 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	608,000	608,000	—

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.

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	156 million yen
Service cost	6
Interest cost	1
Actuarial difference	22
Payment of retirement benefits	—
Prior service cost	5
Other	(19)
Closing balance of projected benefit obligations	<u>173</u>

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets	
Opening balance of fair value of plan assets	43 million yen
Expected return on plan assets	0
Actuarial difference	0
Financing from employer	4
Payment of retirement benefits	—
Other	(5)
Closing balance of fair value of plan assets	<u>44</u>
(3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet	
Projected benefit obligations of funded plan	56 million yen
Fair value of plan assets	(44)
	12
Projected benefit obligations of unfunded plan	116
Unfunded pension obligations	128
Actuarial unrecognized difference	(64)
Unrecognized prior service cost	7
Net amount of liabilities and assets recorded on the balance sheet	71
Provision for retirement benefits	100
Prepaid pension cost	(29)
Net amount of liabilities and assets recorded on the balance sheet	<u>71</u>
(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	5
Amortization of prior service cost accounted for as expense	(1)
Other	—
Net pensions cost related to defined benefits plan	<u>11</u>
(5) Items concerning fair value of plan assets	
1) The percentage of each category of total fair value of plan assets is as follows.	
Shares	12%
Debentures	39%
General account	8%
Cash and deposits	41%
Total	<u>100%</u>
2) Method for setting the long-term expected rate of return on plan assets	
To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.	
(6) Items related to actuarial calculation bases	
Major actuarial calculation bases at the end of the fiscal year in review	
1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	2.6% to 5.9%

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, 2016 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, 2016
Principal shareholder	Ministry of Finance (Minister of Finance) <small>(Notes i and ii)</small>	85.09 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	68	—	—
				Receipts from general account of the national budget	60	—	—
				Receipt of funds ^(Note iv)	105,200	Borrowings	3,073,245
				Repayment of borrowings	1,067,643		
				Payment of interest on borrowings	27,792	Accrued expenses	675

(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 ¥40 million
 - Small and Medium Enterprise Agency
 - Receipts from the national budget ¥253 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, 2016
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	611,622 <small>(Notes i and ii)</small>	—	—

(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	¥0.80
Net loss per share	¥0.01

15. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2016)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	262	Borrowed money	76,277
Due from banks	262	Borrowings	76,277
Loans and bills discounted	76,277	Other liabilities	145
Loans on deeds	76,277	Accrued expenses	143
Other assets	143	Lease obligations	0
Accrued income	143	Other	0
Other	0	Provision for bonuses	3
Property, plant and equipment	0	Provision for directors' bonuses	0
Lease assets	0	Provision for retirement benefits	54
Intangible assets	19	Provision for directors' retirement benefits	0
Software	19	Total liabilities	76,479
Lease assets	0	Net assets	
Other	0	Capital stock	267
Prepaid pension cost	12	Retained earnings	(31)
		Other retained earnings	(31)
		Retained earnings brought forward	(31)
		Total shareholders' equity	235
		Total net assets	235
Total assets	76,715	Total liabilities and net assets	76,715

Statement of Operations (Year ended March 31, 2016)

(Millions of yen)

Items	Amount
Ordinary income	489
Interest income	412
Interest on loans and discounts	412
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	412
Interest on borrowings and rediscounts	412
General and administrative expenses	87
Ordinary loss	9
Net loss	9

Statement of Changes in Net Assets (Year ended March 31, 2016)

(Millions of yen)

	Shareholders' equity				Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	
		Other retained earnings	Total retained earnings		
	Retained earnings brought forward				
Balance at the beginning of current period	267	(21)	(21)	245	245
Changes of items during the period					
Net income (loss)		(9)	(9)	(9)	(9)
Total changes of items during the period	—	(9)	(9)	(9)	(9)
Balance at the end of current period	267	(31)	(31)	235	235

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.

(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.

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, 2016.

"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	¥20,000 million
Foreign-currency-denominated government-guaranteed bonds	¥591,622 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, 2016, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	267,000,000	—	—	267,000,000

8. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

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

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

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments

that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., as stipulated by the JFC Act.

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

(2) Types of financial instruments and risks

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

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

(a) Credit risk

The main financial assets in this account are loans to designated financial institutions that are required to conduct specific business promotion operations, business restructuring promotion, etc. operations, and business restructuring promotion operations. The associated credit risk consists of risk of losses arising from uncollectable claims due to deterioration in credit-worthiness of the designated financial institution.

(b) Market risk

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

(c) Liquidity risk

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

(3) Risk management structure for financial instruments

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

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

The risk management structure for these operations is described below.

(a) Credit risk management

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

(b) Market risk management

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

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

(c) Liquidity risk management related to fund procurement

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

(4) Supplementary explanation concerning fair value of financial instruments

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

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2016, 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	262	262	—
(2) Loans and bills discounted	76,277	77,753	1,476
Total assets	76,539	78,015	1,476
Borrowings	76,277	78,500	2,223
Total liabilities	76,277	78,500	2,223

(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 (*)	262	—	—	—	—	—
Loans and bills discounted	9,083	24,083	22,882	10,963	4,626	4,640
Total	9,345	24,083	22,882	10,963	4,626	4,640

(*) 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	9,083	24,083	22,882	10,963	4,626	4,640

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.

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	76 million yen
Service cost	3
Interest cost	0
Actuarial difference	10
Payment of retirement benefits	—
Prior service cost	4
Other	(0)
Closing balance of projected benefit obligations	<u>96</u>

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

Opening balance of fair value of plan assets	20 million yen
Expected return on plan assets	0
Actuarial difference	0
Financing from employer	2
Payment of retirement benefits	—
Other	(0)
Closing balance of fair value of plan assets	<u>23</u>

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

Projected benefit obligations of funded plan	30 million yen
Fair value of plan assets	<u>(23)</u>
	6
Projected benefit obligations of unfunded plan	<u>65</u>
Unfunded pension obligations	72
Actuarial unrecognized difference	(32)
Unrecognized prior service cost	<u>2</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>42</u>
Provision for retirement benefits	54
Prepaid pension cost	<u>(12)</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>42</u>

(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	(0)
Other	—
Net pensions cost related to defined benefits plan	<u>6</u>

(5) Items concerning fair value of plan assets

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

Shares	12%
Debentures	39%
General account	8%
Cash and deposits	<u>41%</u>
Total	<u>100%</u>

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

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

(6) Items related to actuarial calculation bases

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

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	2.6% to 5.8%

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, 2016 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, 2016
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Note i)	100 (Direct)	Administration for policy based financing	Receipt of funds ^(Note ii)	1,107	Borrowings	76,277
				Repayment of borrowings	6,640		
				Payment of interest on borrowings	412	Accrued expenses	143

(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, 2016
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	611,622 ^(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 ¥0.88

Net loss per share ¥0.03

13. Subsequent events

Not applicable.

Reference Information

Risk-monitored Loans

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

▼ Risk-monitored Loans

(Millions of yen)

	Micro Business and Individual Unit (Account for Micro Business and Individual Operations)	Agriculture, Forestry, Fisheries and Food Business Unit (Account for Agriculture, Forestry, Fisheries and Food Business Operations)	Small and Medium Enterprise (SME) Unit (Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation))	Total
Bankrupt loans	12,040	708	7,835	20,584
Non-accrual loans	127,476	56,569	550,943	734,989
Loans with interest or principal repayments more than three months in arrears	41	691	—	733
Restructured loans	463,263	19,693	89,907	572,865
Total	602,823	77,662	648,686	1,329,172
Total of risk-monitored loans/outstanding loans (%)	8.78	3.01	11.29	8.75

(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	55,135	6,695	24,974	86,805
Doubtful	84,888	50,627	533,920	669,436
Special attention	463,305	20,384	89,907	573,598
Subtotal (1)	603,329	77,707	648,802	1,329,840
Normal	6,266,239	2,518,905	5,105,529	13,890,674
Total (2)	6,869,568	2,596,613	5,754,460	15,220,642
(1/2) (%)	8.78	2.99	11.27	8.74

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" and are not in the categories of "bankrupt or de facto bankrupt" or "doubtful."
- 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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