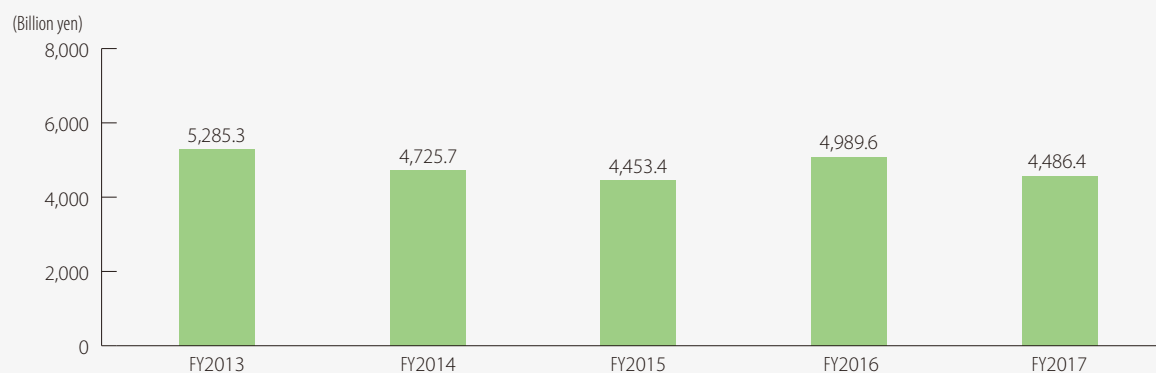


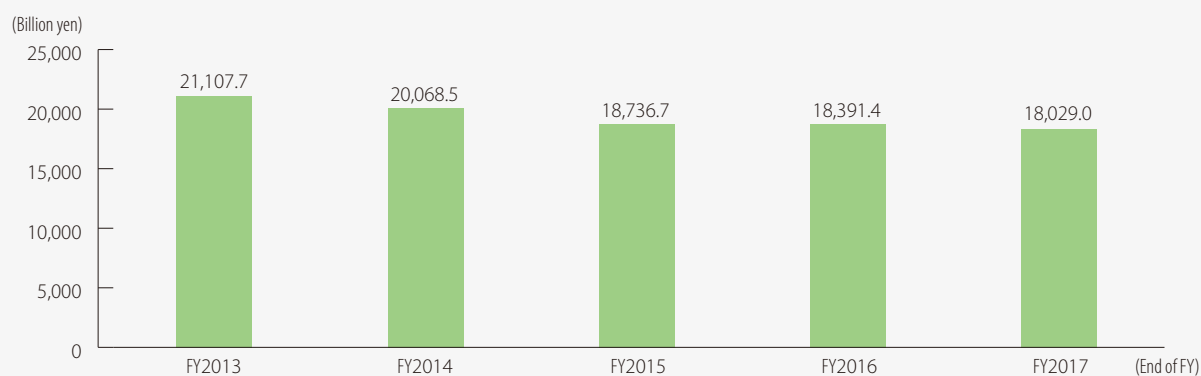
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1 Changes in Annual Loan Operations

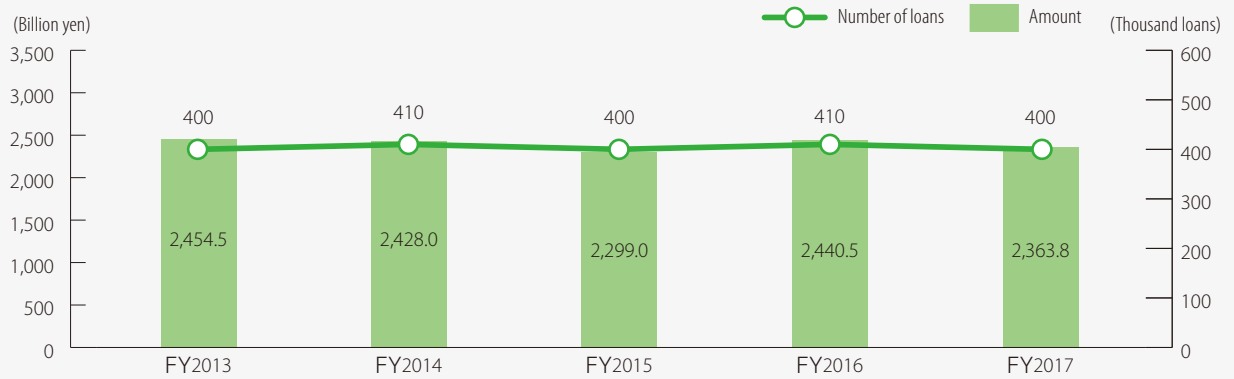


2 Changes in Outstanding Loans



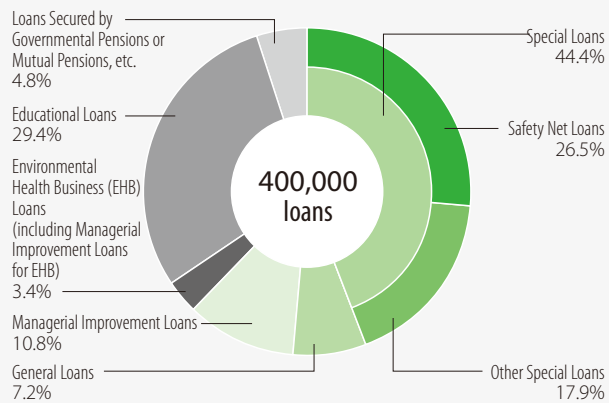
Micro Business and Individual Unit

1 Changes in Annual Loan Operations

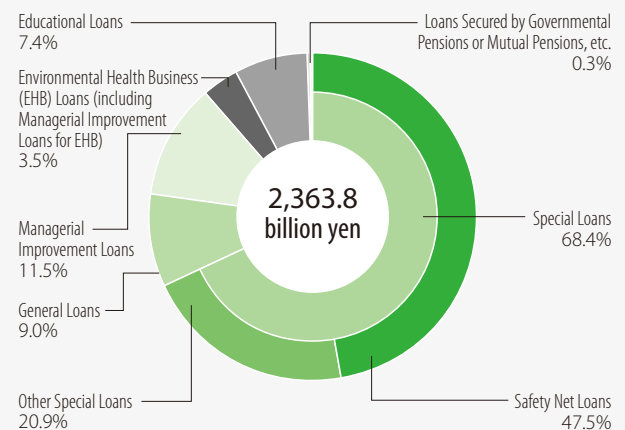


2 Breakdown of Loans by Scheme

▼ Number of Loans (FY2017)

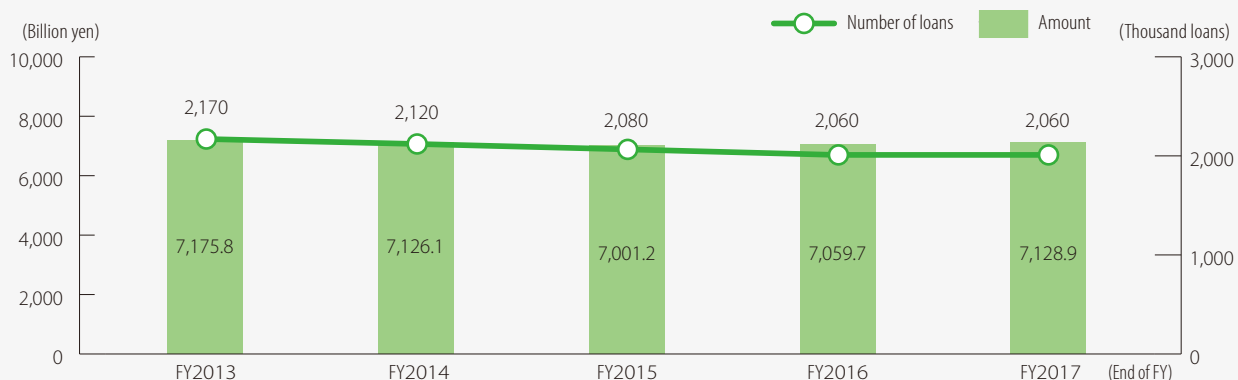


▼ Total Amount of Loans (FY2017)



Data

3 Changes in Outstanding Loans



4 Breakdown of Business Loans Outstanding by Industry

(Unit: billion yen, %)

	FY2013	FY2014	FY2015	FY2016	FY2017
Manufacturing	725.7 (11.5)	679.2 (10.9)	644.6 (10.6)	623.8 (10.2)	606.2 (9.8)
Wholesale & Retail	1,515.6 (24.0)	1,449.0 (23.2)	1,380.9 (22.6)	1,359.0 (22.1)	1,346.5 (21.8)
Restaurants & Hotels	519.9 (8.2)	504.7 (8.1)	493.8 (8.1)	512.8 (8.3)	532.7 (8.6)
Services	1,432.9 (22.7)	1,413.5 (22.6)	1,403.8 (23.0)	1,434.1 (23.3)	1,472.5 (23.8)
Construction	932.0 (14.7)	899.3 (14.4)	884.6 (14.5)	900.3 (14.6)	916.8 (14.8)
Others	1,193.3 (18.9)	1,304.0 (20.9)	1,299.1 (21.3)	1,316.1 (21.4)	1,315.8 (21.3)
Total	6,319.7 (100.0)	6,249.9 (100.0)	6,107.1 (100.0)	6,146.4 (100.0)	6,190.8 (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 of shares.

5 Breakdown of Environmental Health Business Loans Outstanding by Industry

(Unit: billion yen, %)

	FY2013	FY2014	FY2015	FY2016	FY2017
Restaurant-related services	150.9 (46.7)	141.0 (47.3)	138.7 (47.9)	148.0 (49.4)	159.1 (50.8)
Beauty parlors	57.5 (17.8)	56.0 (18.8)	58.3 (20.1)	61.3 (20.4)	65.6 (21.0)
Hotels	62.9 (19.5)	55.4 (18.6)	50.1 (17.3)	49.8 (16.6)	48.8 (15.6)
Barbershops	23.2 (7.2)	20.8 (7.0)	19.7 (6.8)	19.4 (6.5)	19.4 (6.2)
Public baths	15.7 (4.9)	13.6 (4.6)	11.8 (4.1)	10.3 (3.5)	9.5 (3.0)
Laundries	8.2 (2.5)	7.6 (2.6)	7.3 (2.5)	7.1 (2.4)	7.1 (2.3)
Meat shops	2.5 (0.8)	2.3 (0.8)	2.1 (0.7)	2.4 (0.8)	2.4 (0.8)
Entertainment facilities	1.3 (0.4)	1.0 (0.4)	0.9 (0.3)	0.8 (0.3)	0.6 (0.2)
Others	0.2 (0.1)	0.2 (0.1)	0.4 (0.1)	0.3 (0.1)	0.3 (0.1)
Total	322.9 (100.0)	298.4 (100.0)	289.7 (100.0)	299.8 (100.0)	313.3 (100.0)

Note: Figures in parentheses denote percentage of shares.

6 Breakdown of Outstanding Loans by Use

(Unit: billion yen, %)

	FY2013	FY2014	FY2015	FY2016	FY2017
Operating funds	4,186.7 (66.2)	3,993.3 (63.9)	3,860.7 (63.2)	3,871.2 (63.0)	3,914.0 (63.2)
Facility funds	2,132.9 (33.8)	2,256.6 (36.1)	2,246.3 (36.8)	2,275.1 (37.0)	2,276.7 (36.8)
Total	6,319.7 (100.0)	6,249.9 (100.0)	6,107.1 (100.0)	6,146.4 (100.0)	6,190.8 (100.0)

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

2. Figures in parentheses denote percentage of shares.

7 Number of Borrowers

(Unit: number of companies)

	FY2013	FY2014	FY2015	FY2016	FY2017
Number of borrowers	930,171	903,287	886,207	880,104	879,639

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

8 Average Loan Balance per Business

(Unit: thousand yen)

	FY2013	FY2014	FY2015	FY2016	FY2017
Average loan balance per business	6,794	6,919	6,891	6,983	7,037

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

9 Educational Loans Outstanding, etc.

(Unit: billion yen)

	FY2013	FY2014	FY2015	FY2016	FY2017
Educational Loans	840.3	862.1	882.4	903.4	930.0
Loans Secured by Governmental Pensions and Mutual Pensions, etc.	15.5	13.8	11.6	9.7	7.9

10 Breakdown of Loans by Credit Amount

(Unit: number of loans, %)

	FY2013	FY2014	FY2015	FY2016	FY2017
Up to 3 million yen	83,880 (31.5)	80,459 (31.0)	89,022 (33.9)	90,876 (32.8)	89,410 (33.2)
Over 3 million yen and up to 5 million yen	52,504 (19.7)	50,479 (19.4)	52,323 (19.9)	56,115 (20.2)	54,534 (20.2)
Over 5 million yen and up to 8 million yen	37,128 (14.0)	36,235 (13.9)	35,667 (13.6)	37,288 (13.5)	35,830 (13.3)
Over 8 million yen	92,526 (34.8)	92,616 (35.7)	85,679 (32.6)	92,945 (33.5)	89,603 (33.3)
Total	266,038 (100.0)	259,789 (100.0)	262,691 (100.0)	277,224 (100.0)	269,377 (100.0)

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

2. Figures in parentheses denote percentage of shares.

11 Breakdown of Loans by Number of Employees of Borrowers

(Unit: number of loans, %)

	FY2013	FY2014	FY2015	FY2016	FY2017
4 or fewer	180,939 (68.0)	181,952 (70.0)	186,137 (70.9)	197,007 (71.1)	192,794 (71.6)
5–9	53,690 (20.2)	49,478 (19.0)	49,279 (18.8)	51,279 (18.5)	48,486 (18.0)
10–19	21,132 (7.9)	19,092 (7.3)	18,411 (7.0)	19,550 (7.1)	19,046 (7.1)
20 or more	10,272 (3.9)	9,261 (3.6)	8,861 (3.4)	9,386 (3.4)	9,047 (3.4)
Total	266,033 (100.0)	259,783 (100.0)	262,688 (100.0)	277,222 (100.0)	269,373 (100.0)

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

2. Figures in parentheses denote percentage of shares.

12 Breakdown of Loans by Type of Collateral

(Unit: number of loans, %)

	FY2013	FY2014	FY2015	FY2016	FY2017
No collateral	202,413 (76.1)	200,430 (77.2)	213,575 (81.3)	229,665 (82.9)	230,263 (85.5)
Collateral	Real estate (including partial collateral)	63,481 (23.9)	59,231 (22.8)	49,018 (18.7)	47,488 (17.1)
	Securities	25 (0.0)	22 (0.0)	16 (0.0)	21 (0.0)
	Credit Guarantee Corporations (CGCs)	— (—)	— (—)	— (—)	— (—)
	Others	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Total	265,919 (100.0)	259,683 (100.0)	262,609 (100.0)	277,174 (100.0)	269,327 (100.0)

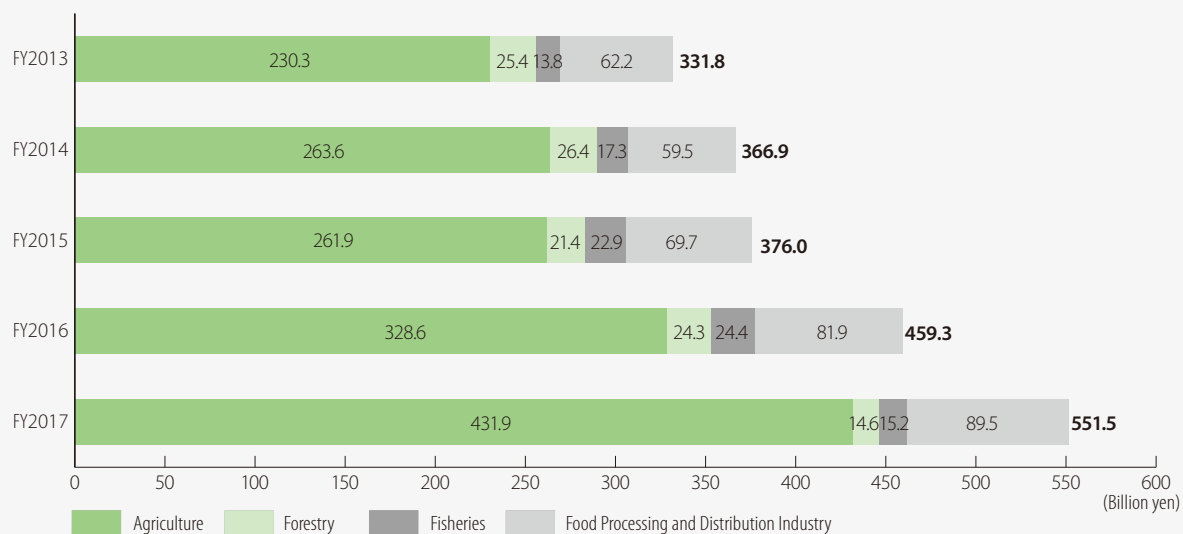
Notes: 1. Loans comprise General Loans and Environmental Health Business Loans.

2. Figures in parentheses denote percentage of shares.

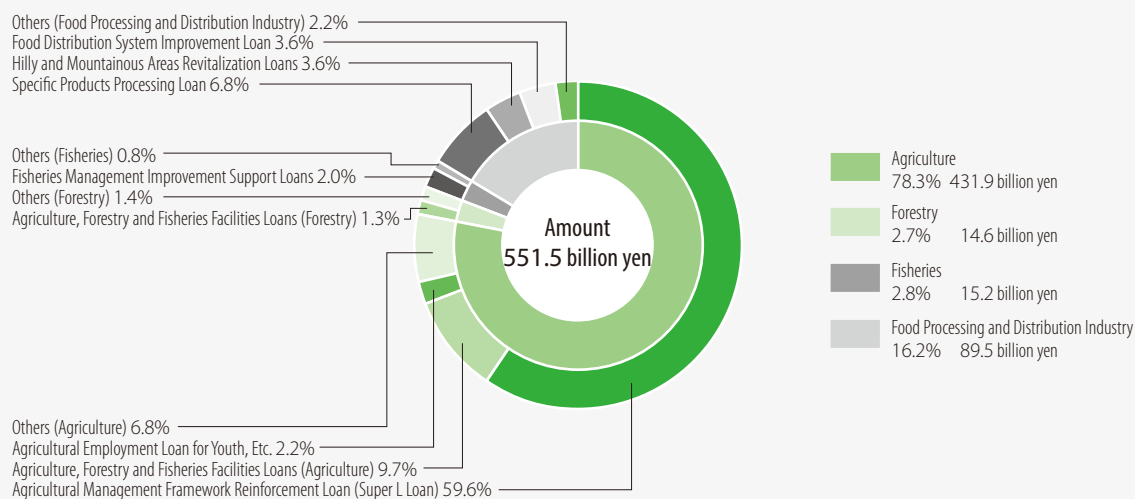
3. Partial collateral refers to real estate or other collateral whose estimated values do not reach amounts borrowed. Partial collateral of "Securities," "Credit Guarantee Corporations" and "Others" are included in "Real estate".

Agriculture, Forestry, Fisheries and Food Business Unit

1 Changes in Annual Loan Operations

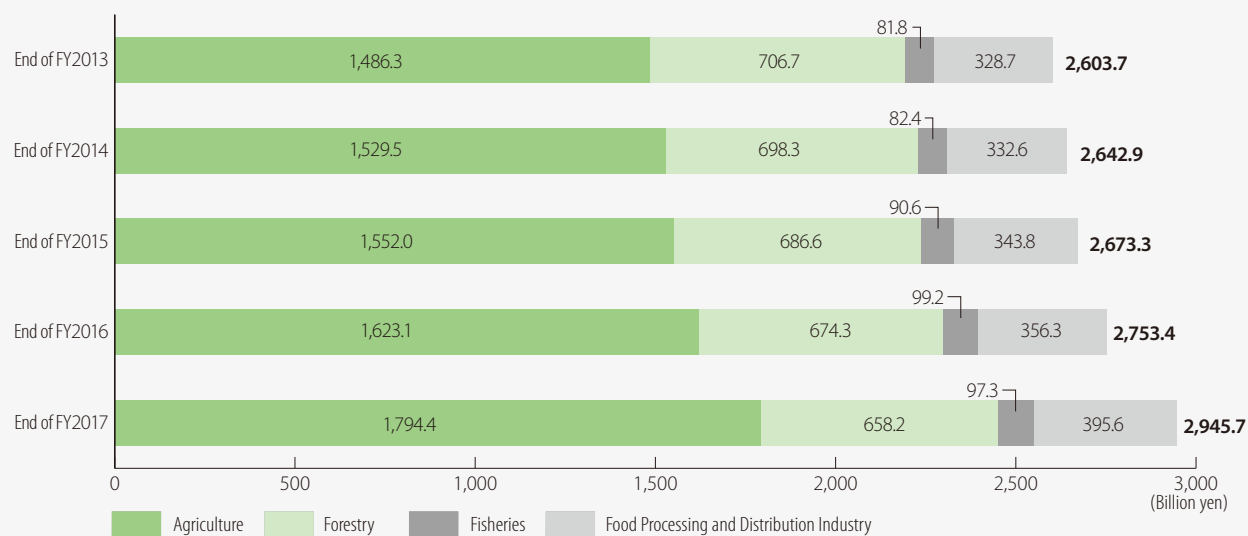


2 Breakdown of Loans by Scheme (FY2017)

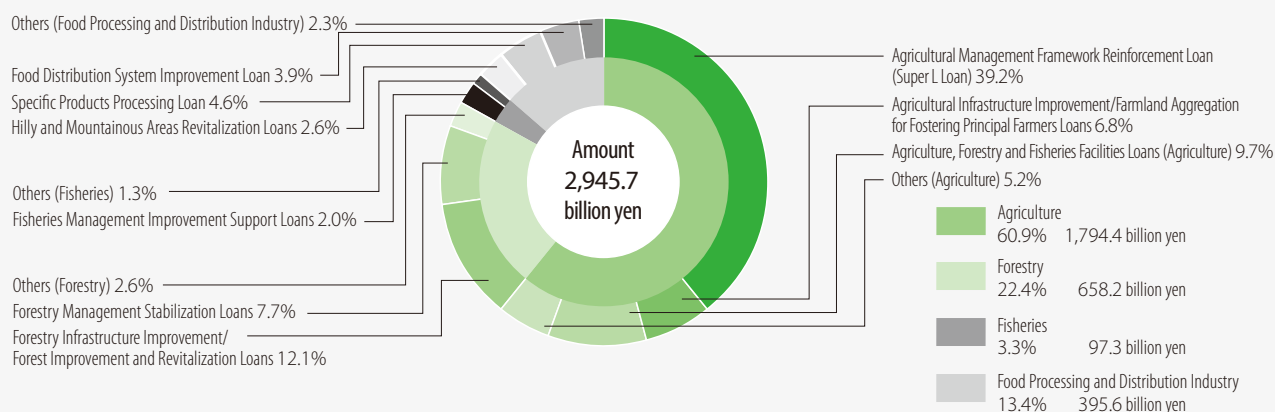


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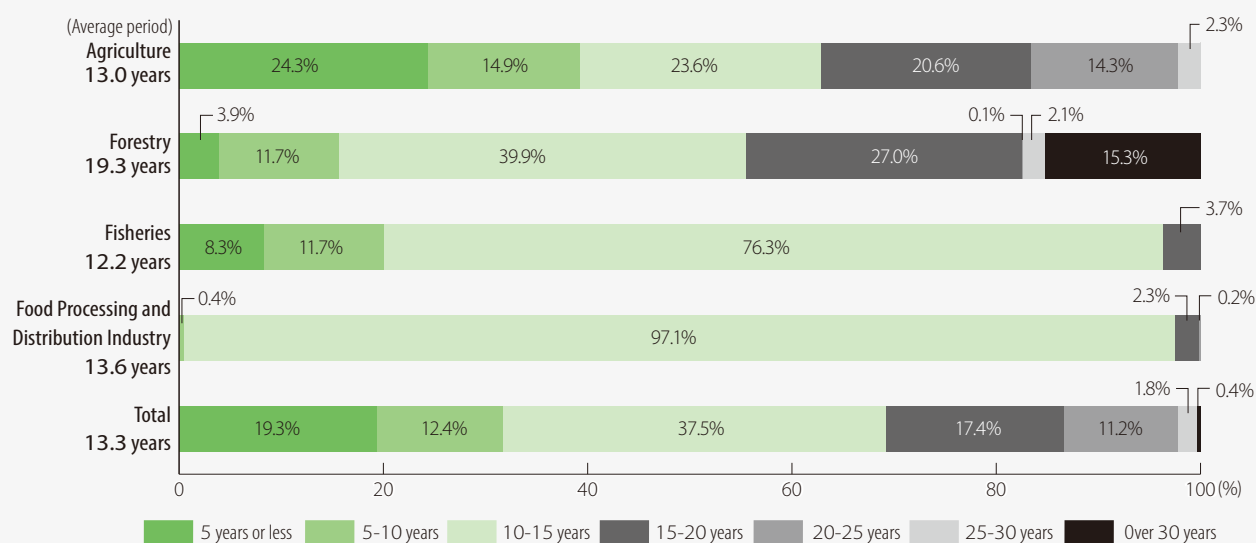
3 Changes in Outstanding Loans



4 Breakdown of Outstanding Loans by Sector and Use (End of FY2017)

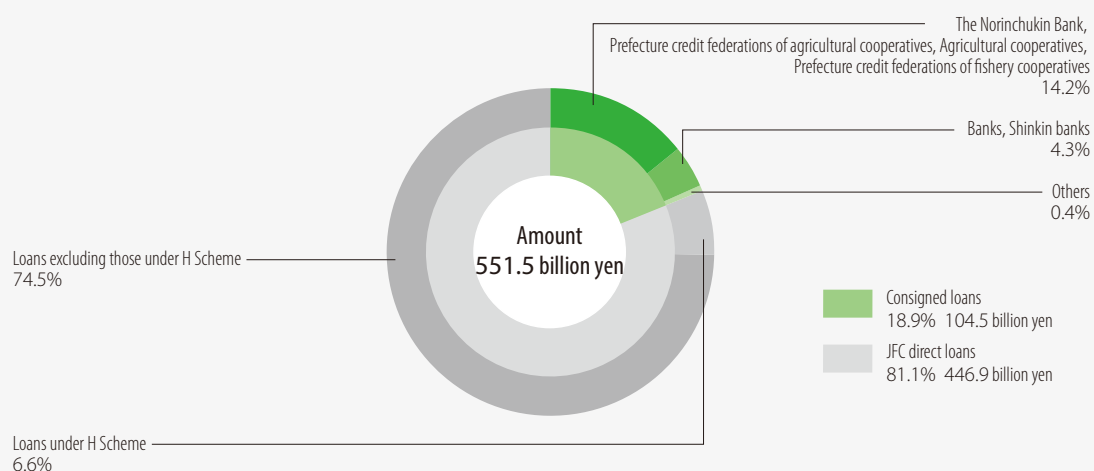


5 Loans by Repayment Period (FY2017)



Note: Aggregated by loan amount.

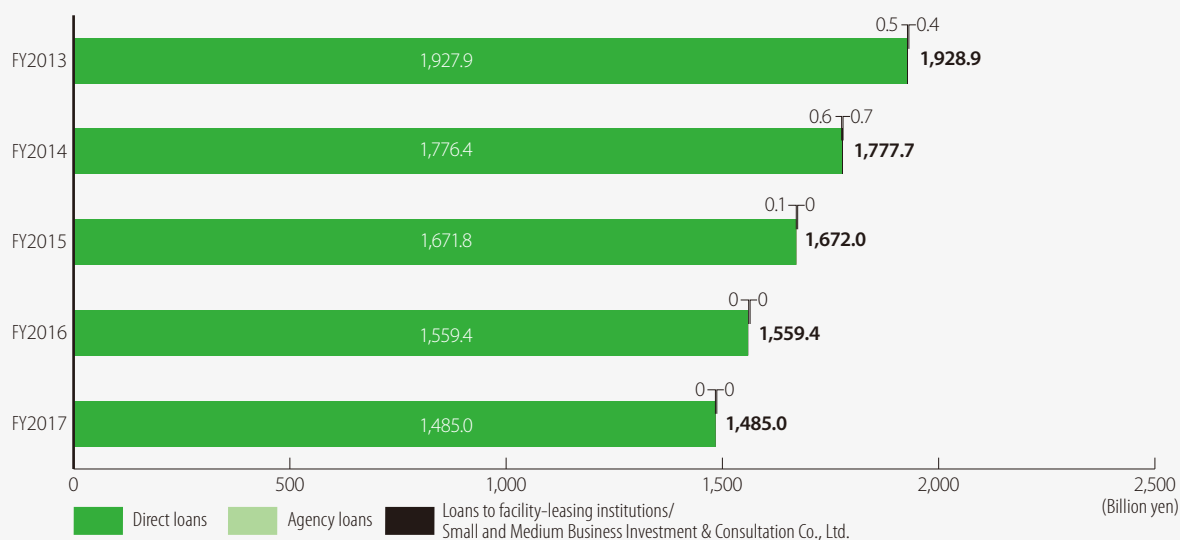
6 Loans by Commissioned Financial Institutions (FY2017)



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

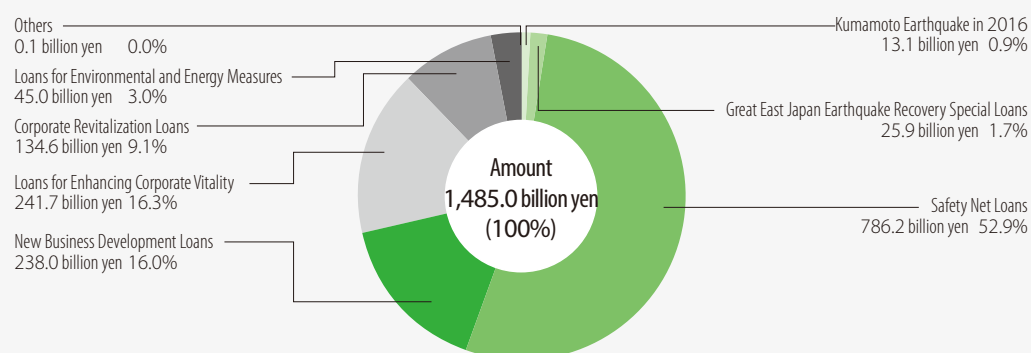
I. Loan Programs

1 Changes in Annual Loan Operations



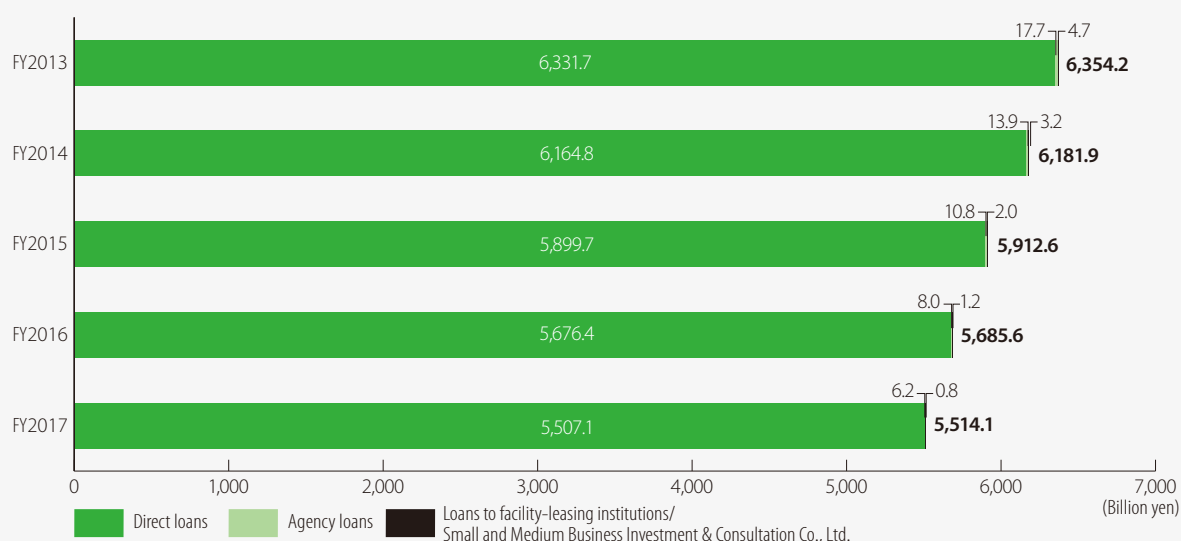
2 Breakdown of Loans by Scheme

▼ Total Amount of Loans (FY2017)



Note: Loans include corporate bonds. Breakdowns are calculated by excluding loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.
Also, performance for respective loan projects is calculated while disregarding amounts of under 100 million yen.

3 Changes in Outstanding Loans



4 Breakdown of Outstanding Loans by Industry

(Unit: billion yen, %)

	FY2013	FY2014	FY2015	FY2016	FY2017
Manufacturing	3,039.9 (47.9)	2,901.5 (47.0)	2,772.9 (46.9)	2,675.2 (47.1)	2,588.1 (46.9)
Construction	305.3 (4.8)	293.7 (4.8)	274.4 (4.6)	260.2 (4.6)	255.9 (4.6)
Wholesale & retail	1,084.8 (17.1)	1,027.1 (16.6)	985.5 (16.7)	920.1 (16.2)	895.5 (16.2)
Transport & telecommunications	578.0 (9.1)	564.3 (9.1)	540.9 (9.2)	538.9 (9.5)	535.6 (9.7)
Services	674.0 (10.6)	651.6 (10.5)	618.6 (10.5)	601.0 (10.6)	581.8 (10.6)
Others	667.2 (10.5)	740.2 (12.0)	718.0 (12.1)	688.7 (12.1)	656.2 (11.9)
Total	6,349.5 (100.0)	6,178.7 (100.0)	5,910.6 (100.0)	5,684.4 (100.0)	5,513.3 (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 of shares.

5 Breakdown of Outstanding Loans by Use

(Unit: billion yen, %)

	FY2013	FY2014	FY2015	FY2016	FY2017
Operating funds	4,117.7 (64.9)	3,913.8 (63.3)	3,742.0 (63.3)	3,497.2 (61.5)	3,321.1 (60.2)
Facility funds	2,231.7 (35.1)	2,264.9 (36.7)	2,168.6 (36.7)	2,187.2 (38.5)	2,192.2 (39.8)
Total	6,349.5 (100.0)	6,178.7 (100.0)	5,910.6 (100.0)	5,684.4 (100.0)	5,513.3 (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 of shares.

6 Number of Borrowers

(Unit: number of companies)

	FY2013	FY2014	FY2015	FY2016	FY2017
Number of Borrowers	47,213	46,583	45,583	44,665	44,145

Note: Figures cover only companies with direct loans.

7 Average Loan Balance per Business

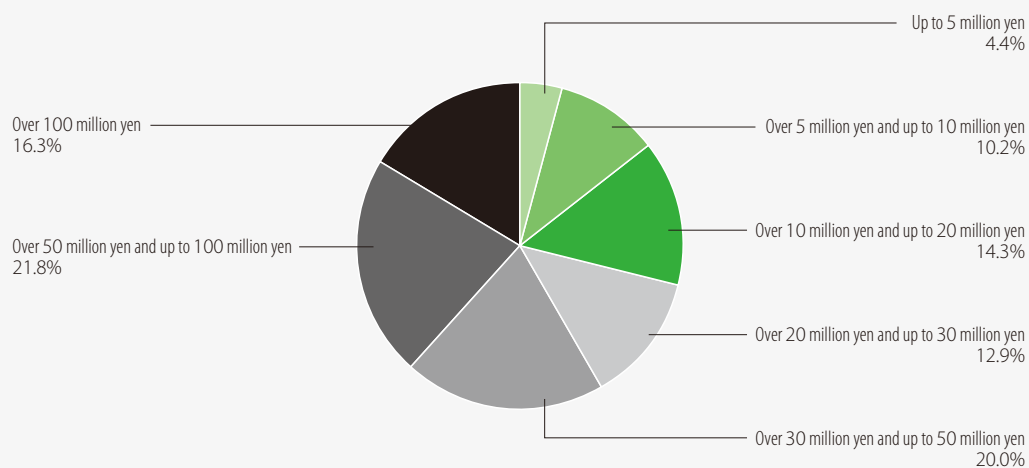
(Unit: million yen)

	FY2013	FY2014	FY2015	FY2016	FY2017
Average loan balance per business	134	132	129	127	124

Note: Figures cover only companies with direct loans.

8 Loans by Credit Amount

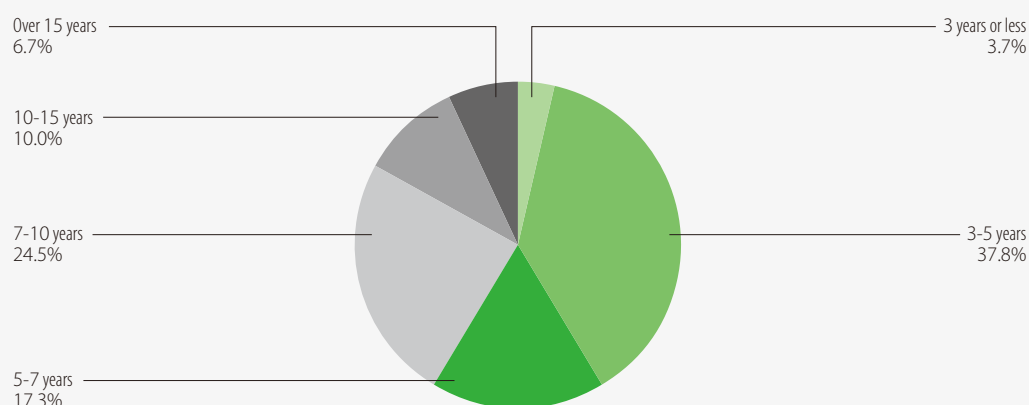
▼ Loan Percentage Breakdown (FY2017)



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

9 Loans by Repayment Period

▼ Loan Percentage Breakdown (FY2017)



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

II. Credit Insurance Programs

(Unit: billion yen)

Items	FY2013	FY2014	FY2015	FY2016	FY2017
Amounts of insurance acceptance and loans					
Small Business Credit Insurance	8,984.4	8,485.9	8,561.4	8,101.1	7,635.5
Loans to CGCs	—	—	—	—	—
Special Insurance for Mid-size Enterprises	—	—	—	—	—
Outstanding amounts of insurance and loans					
Small Business Credit Insurance	30,105.5	27,970.2	26,011.1	24,093.6	22,401.0
Loans to CGCs	—	—	—	—	—
Special Insurance for Mid-size Enterprises	0.0	0.0	0.0	0.0	0.0
Machinery Credit Insurance ^(Note)	3.1	1.6	1.1	0.7	0.4

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 already in force (Transitional Operation of the Machinery Credit Insurance Programs).

III. Securitization Support Programs

(Unit: billion yen)

Items	FY2013	FY2014	FY2015	FY2016	FY2017
Financing support amount					
Purchase-type			12.1	25.7	27.0
Guarantee-type			—	—	—
Financing support balance					
Purchase-type	—	—	12.1	33.7	50.1
Guarantee-type	—	—	—	—	—
Outstanding amounts of trust beneficiary rights and guaranteed liabilities					
Purchase-type (outstanding amount of trust beneficiary rights)	—	—	4.3	12.1	15.1
Purchase-type (outstanding amounts of asset-backed securities)	—	—	1.5	3.7	6.6
Guarantee-type (outstanding amount of guaranteed liabilities)	0.1	0.1	0.0	0.0	0.0
Standby Letter of Credit Program (outstanding amount of guaranteed liabilities)	2.0	3.9	4.4	4.6	5.3

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, the Law to Promote Collaboration between Agriculture, Commerce and Industry, and the Act on Support for Strengthening Agricultural Competitiveness.

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

Results of Operations to Facilitate Crisis Responses

(Unit: billion yen)

	Second Half of FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Two-step loans	1,430.1	3,869.3	405.2	1,153.4	733.7	559.3	130.0	105.2	529.2	85.4
Loans, etc.	1,130.3	3,529.4	405.2	1,153.4	733.7	559.3	130.0	105.2	529.2	85.4
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	547.3	89.2
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	547.3	89.2
Commercial paper (CP) acquisitions	—	—	—	—	—	—	—	—	—	—
Equity participations	—	30.0	—	—	—	—	—	—	—	—
Interest subsidies	—	—	0.3	2.4	7.8	10.9	12.4	11.0	5.4	12.6

Notes: 1. The figures for the two-step loans refer to the amounts of loans JFC provided to the designated financial institutions (Development Bank of Japan Inc. and The Shoko Chukin Bank, Ltd.) through the end of March 2018.

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 2018, with loss compensation underwritten by JFC for losses incurred until May 10, 2018. 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 2017 (in principle, 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	FY2016	FY2017
Two-step loans	20.0	1.3	7.8	10.6	2.9	1.1	1.0	0.5

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 2018.

Results of Operations to Facilitate Business Restructuring Promotion

(Unit: billion yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
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 2018. (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 the Special Measures for Industrial Revitalization and Innovation (Act No. 131 of 1999) that was abolished with the enactment of the Industrial Competitiveness Enhancement Act on January 20, 2014).

Financial Statements and Notes

Japan Finance Corporation

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

Financial statements and notes in English were prepared based on these audited financial statements and notes in Japanese.

Balance Sheet (as of March 31, 2018)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	4,032,604	Borrowed money	13,518,256
Cash	22	Borrowings	13,518,256
Due from banks	4,032,581	Bonds payable	1,460,342
Securities	39,741	Entrusted funds	28,726
Government bonds	21,193	Reserve for insurance policy liabilities	1,002,665
Corporate bonds	15,184	Other liabilities	27,602
Stocks	2,037	Accrued expenses	9,906
Other securities	1,325	Unearned revenue	2,793
Loans and bills discounted	17,605,658	Lease obligations	1,408
Loans on deeds	17,605,658	Other	13,494
Other assets	35,124	Provision for bonuses	5,000
Prepaid expenses	66	Provision for directors' bonuses	22
Accrued income	19,003	Provision for retirement benefits	91,023
Derivatives other than for trading-assets	4	Provision for directors' retirement benefits	56
Agency accounts receivable	1,492	Reserve for compensation losses	38,045
Other	14,558	Acceptances and guarantees	64,586
Property, plant and equipment	195,187	Total liabilities	16,236,330
Buildings	51,447	Net assets	
Land	140,124	Capital stock	4,124,921
Lease assets	1,107	Capital surplus	2,069,484
Construction in progress	924	Special reserve for administrative improvement funds	181,500
Other	1,582	Legal capital surplus	1,887,984
Intangible assets	14,049	Retained earnings	(828,000)
Software	11,367	Legal retained earnings	88,988
Lease assets	131	Other retained earnings	(916,988)
Other	2,551	Retained earnings brought forward	(916,988)
Customers' liabilities for acceptances and guarantees	64,586	Total shareholders' equity	5,366,405
Allowance for loan losses	(383,752)	Valuation difference on available-for-sale securities	464
		Total valuation and translation adjustments	464
		Total net assets	5,366,869
Total assets	21,603,200	Total liabilities and net assets	21,603,200

Data

Statement of Operations (Year ended March 31, 2018)

(Millions of yen)

Items	Amount
Ordinary income	606,865
Interest income	234,359
Interest on loans and discounts	233,715
Interest and dividends on securities	174
Interest on deposits with banks	462
Other interest income	7
Fees and commissions	2,430
Fees and commissions on compensation security contract	2,153
Other fees and commissions	277
Insurance premiums and other	313,146
Insurance premiums	125,489
Receipts of burden charges under the Responsibility-sharing System	5,167
Reversal of reserve for insurance policy liabilities	182,489
Other ordinary income	4
Income from derivatives other than for trading or hedging	4
Receipts from the national budget	46,648
Receipts from general account of the national budget	46,623
Receipts from special account of the national budget	24
Other income	10,275
Recoveries of written-off claims	1,484
Gain on sales of stocks and other securities	136
Other	8,654
Ordinary expenses	488,862
Interest expenses	61,674
Interest on call money	(18)
Interest on borrowings and rediscounts	55,078
Interest on bonds	6,606
Other interest expenses	7
Fees and commissions payments	3,435
Other fees and commissions	3,435
Expenses on insurance claims and other	193,825
Expenses on insurance claims	281,882
Recoveries of insurance claims	(88,056)
Other ordinary expenses	8,443
Loss on foreign exchange transactions	203
Amortization of bond issuance cost	684
Interest subsidies	7,555
General and administrative expenses	118,184
Other expenses	103,299
Provision of allowance for loan losses	61,779
Provision of reserve for compensation losses	22,231
Written-off of loans	13,199
Other	6,089
Ordinary profit	118,002
Extraordinary income	47
Gain on disposal of noncurrent assets	47
Extraordinary losses	252
Loss on disposal of noncurrent assets	180
Impairment loss	71
Net income	117,798

Statement of Changes in Net Assets (Year ended March 31, 2018)

(Millions of yen)

	Shareholders' equity								Valuation and translation adjustments		Total net assets
	Capital stock	Capital surplus			Retained earnings			Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
		Special reserve for administrative improvement funds	Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings				
						Retained earnings brought forward					
Balance at the beginning of current period	4,061,119	181,500	1,833,984	2,015,484	14,060	(959,821)	(945,761)	5,130,842	—	—	5,130,842
Changes of items during the period											
Issuance of new shares	63,802		54,000	54,000				117,802			117,802
Provision of legal retained earnings					74,927	(74,927)	—	—			—
Payment to the national treasury						(37)	(37)	(37)			(37)
Net income (loss)						117,798	117,798	117,798			117,798
Net changes of items other than shareholders' equity									464	464	464
Total changes of items during the period	63,802	—	54,000	54,000	74,927	42,832	117,760	235,562	464	464	236,026
Balance at the end of current period	4,124,921	181,500	1,887,984	2,069,484	88,988	(916,988)	(828,000)	5,366,405	464	464	5,366,869

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 with changes in net unrealized gains or losses, included directly in Net assets. 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) and facilities attached to buildings and structures acquired on or after April 1, 2016, 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 ¥209,611 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 pursuant to Article 4 of the Ministerial Ordinance Concerning Accounting for the JFC.

(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) Reserve for interest subsidies

A reserve for interest subsidies is recognized at an estimated amount accrued through the end of the fiscal year to provide for future provision of interest subsidies. There was no balance at the end of the fiscal year under review.

(iv) 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.

(v) 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.

(vi) 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.

(vii) Provision for directors’ retirement benefits

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

(g) Accounting policies for reserve for insurance policy liabilities

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

(i) Policy reserve

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

(ii) Outstanding claims reserve

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

(h) Consumption and other taxes

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

Issued but not yet adopted accounting standard and others

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

1. Overview

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

2. Scheduled date of application

The standard will be applied from the beginning of the fiscal year ending March 2022.

3. Effects of application of this accounting standard

The impact on the financial statements from application of the Accounting Standard for Revenue Recognition is currently under assessment.

Additional information

A third-party committee established within the Shoko Chukin Bank, Ltd. ("Shoko Chukin Bank"), which is a specified financial institution, conducted an investigation, and Shoko Chukin Bank conducted a subsequent investigation to examine improper conduct by the bank regarding crisis response operations related to an incident on November 22, 2016. The investigation discovered certain payments on compensation security contracts and interest subsidies relating to accounts for which satisfaction of the crisis response operation conditions could not be confirmed. These payments were returned by Shoko Chukin Bank during the fiscal year under review. Also, payment of expense on compensation security contracts and interest subsidies to Shoko Chukin Bank has resumed.

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, 2018		
	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	6,951	368	3,437
Non-accrual loans	102,107	38,739	438,591
Loans with interest or principal repayments more than three months in arrears	40	442	—
Restructured loans	412,638	17,546	85,136
Total	521,738	57,096	527,165

(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, 2018 is ¥214,560 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 ¥1,460,342 million.

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥29,751 million.

6. Contingent liabilities

JFC has joint and several liabilities pertaining to the following bonds issued by JFC succeeded to by Japan Bank for International Co-operation (JBIC). Pursuant to paragraph 2, Article 17 of the Supplementary Provisions to JBIC Act (Act No.39, 2011), JFC has pledged its assets as general collateral for the joint and several liabilities.

FILP Agency Bonds ¥20,000 million

Foreign-currency-denominated government-guaranteed bonds ¥132,837 million

7. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (76,045 contracts)	1,381,545
Reserve for compensation	38,045
Net amount	1,343,499

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

Ordinary income-Other income-Other: ¥0 million

Ordinary expenses-General and administrative expenses: ¥0 million

10. Issued shares

For the fiscal year ended March 31, 2018, 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 stock	10,048,047,107,741	117,802,000,000	—	10,165,849,107,741

(Note) Increase is due to the issuance of 117,802,000,000 shares.

11. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

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

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

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

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

The Account for Micro Business and Individual Operations is for operations, such as business fund financing and educational loans, etc. To conduct these operations funds are raised through the borrowing of fiscal investment funds and loans and the issuing of bonds.

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.

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 by borrowing from the government and 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 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 funds 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 funds through equity participation from the government, etc.

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 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.

(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 operation account are described below.

a. Account for Micro Business and Individual Operations

The financial assets in this operation account mainly include loans to micro business and individuals, 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, etc. 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 operation account.

(b) Market risk

The main type of market risk associated with this operation 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 operation 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 operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, 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 operation 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 operation 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 operation account could increase.

(b) Market risk

The main type of market risk associated with this operation 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 operation 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 operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, 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 operation 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 operation 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 operation account as a result of bad debts and uncollectable claims.

(b) Market risk

The main type of market risks associated with this operation 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 operation 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 operation account by conducting forward exchange contracts.

(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 operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, 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 operation 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 operation 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 operation 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 operation 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 operation 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 operation account mainly include deposits. The associated risks are described below.

(a) Market risk

The main type of market risk associated with this operation account is interest rate risk.

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

f. Account for Operations to Facilitate Crisis Responses

The financial assets in this operation 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 operation 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 operation 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 operation 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 operation 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 operation 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 operation 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 operation 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 operation 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, 2018 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥16,466 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 ¥15,626 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, 2018 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥9,689 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 ¥8,563 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 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. In this process, 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 self assessments.

The results of the self 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, 2018 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥34,163 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥32,146 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, 2018 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥1,821 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥1,632 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, 2018, 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	4,032,604	4,036,035	3,430
(2) Securities			
Held-to-maturity debt securities	21,228	21,946	717
Available-for-sale securities	464	464	—
(3) Loans and bills discounted	17,149,731		
Allowance for loan losses ^(*)	(233,178)		
	16,916,552	17,632,534	715,982
Total assets	20,970,849	21,690,980	720,130
(1) Borrowings	13,364,983	13,574,618	209,634
(2) Bonds payable	1,460,342	1,490,037	29,694
Total liabilities	14,825,326	15,064,655	239,329
Derivative transactions ^(*)			
Derivative transactions not qualifying for hedge accounting	4	4	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	4	4	—

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

(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 bonds, and exchange prices are used for other 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.

Notes for securities by purpose of holding are found in "12. 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 and period of loan. For obligations on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers, allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value resembles the amount 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 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.

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: ¥1,381,545 million

Compensation loss reserve: ¥38,045 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}	2,037
2) Corporate bonds (specific asset-backed securities) ^{(*)2}	15,149
3) Partnership investments ^{(*)3}	861
4) Loans on deeds (subordinated capital loans) ^{(*)4}	455,926
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}	21,973
Total	627,248

(*)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 ^(*)	3,352,381	680,200	—	—	—	—
Securities	35	—	—	—	—	21,068
Held-to-maturity debt securities						
Loans and bills discounted ^(*)	3,568,290	5,461,862	3,754,844	1,900,395	1,418,286	1,354,067
Total	6,920,707	6,142,062	3,754,844	1,900,395	1,418,286	1,375,135

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

(*) Within loans, claims against bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers contains an amount of ¥147,911 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 ^(*)	3,184,773	4,753,596	3,058,756	1,135,159	783,518	471,152
Bonds payable	310,000	485,000	270,000	180,000	155,000	60,000
Total	3,494,773	5,238,596	3,328,756	1,315,159	938,518	531,152

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

12. 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, 2018 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	21,193	21,910	717
Securities whose fair value does not exceed their carrying amount	Corporate bonds	35	35	—
Total		21,228	21,946	717

(b) 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.

(c) 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 exceeds their acquisition cost	Others	464	—	464
Securities whose carrying amount does not exceed their acquisition cost	Others	386,000	386,000	—
Total		386,464	386,000	464

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

	Carrying amount on the balance sheet (Millions of yen)
Stocks	7
Bonds	
Corporate Bonds	15,149
Others	861
Total	16,018

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.

(d) Available-for-sale securities sold in the fiscal year in review (from April 1, 2017 to March 31, 2018)

	Sales amount (Millions of yen)	Total gain on sales (Millions of yen)	Total loss on sales (Millions of yen)
Others	136	136	—

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 of 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, the multi-employer corporate pension fund plan in which JFC participates paid the refund amount (minimum reserve) to the national government on September 22, 2017 with regard to the substituted portion of the employee's pension fund.

The result of this on profit and loss during the fiscal year under review was de minimis.

Defined benefits plan

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

Opening balance of projected benefit obligations	217,508 million yen
Service cost	6,214
Interest cost	197
Actuarial difference	5,038
Payment of retirement benefits	(10,261)
Prior service cost	(2,909)
Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund	(40,871)
Other	—
Closing balance of projected benefit obligations	<u>174,915</u>

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

Opening balance of fair value of plan assets	100,920 million yen
Expected return on plan assets	1,609
Actuarial difference	547
Financing from employer	2,948
Payment of retirement benefits	(3,280)
Extinction of plan assets due to transfer of benefit obligation relating to employees' pension fund	(40,923)
Other	—
Closing balance of fair value of plan assets	<u>61,822</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	86,949 million yen
Fair value of plan assets	<u>(61,822)</u>
	25,127
Projected benefit obligations of unfunded plan	<u>87,965</u>
Unfunded pension obligations	113,093
Actuarial unrecognized difference	(29,720)
Unrecognized prior service cost	<u>7,650</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>91,023</u>
Provision for retirement benefits	91,023
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>91,023</u>

(4) Net pensions cost and breakdown of included items

Service cost	6,214 million yen
Interest cost	197
Expected return on plan assets	(1,609)
Amount of actuarial difference accounted for as expense	4,000
Amortization of prior service cost accounted for as expense	(1,094)
Other	—
Net pensions cost related to defined benefits plan	<u>7,707</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	24%
Debentures	62%
General account	14%
Cash and deposits	1%
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	1.5% to 6.2%

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥377 million.

15. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥1,948 million
Profit on investment in affiliates (equity method)	¥33 million

16. Related party transactions

Related party transactions in the fiscal year ended March 31, 2018 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, 2018
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	96.69 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	110,667	—	—
				Receipts from general account of the national budget	14,365	—	—
				Receipt of funds ^(Note iv)	2,998,489	Borrowings	13,362,162
				Repayment of borrowing	3,398,962		
				Payment of interest on borrowings	55,078	Accrued expenses	7,791
				Deposit of funds ^(Note v)	5,623,100	Due from banks	3,245,800
				Refund of funds	5,463,100		
				Guarantee for bonds payable ^(Note vi)	805,364	—	—

(Notes)

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

-Ministry of Health, Labour and Welfare (Minister of Health, Labour and Welfare)	0.04%
-Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries)	0.40%
-Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry)	2.88%

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

-Ministry of Health, Labour and Welfare	
Underwriting of capital increase	¥355 million
-Ministry of Agriculture, Forestry and Fisheries	
Underwriting of capital increase	¥3,480 million
-Ministry of Economy, Trade and Industry	
Underwriting of capital increase	¥3,300 million
-Ministry of Health, Labour and Welfare	
Receipts from the national budget	¥2,990 million
-Ministry of Agriculture, Forestry and Fisheries	
Receipts from the national budget	¥8,273 million
-Ministry of Economy, Trade and Industry	
Receipts from the national budget	¥78 million
-Agency for Natural Resources and Energy	
Receipts from the national budget	¥2 million
-Small and Medium Enterprise Agency	
Receipts from the national budget	¥20,938 million
-Ministry of Agriculture, Forestry and Fisheries	
Repayment of borrowed money	¥5,542 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, 2018
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	152,837 (Notes i and iii)	—	—
					140,000 (Notes ii and iii)	—	—

(Notes)

(i) Pursuant to item 2 paragraph 1, Article 17 of the Supplementary Provisions to the JBIC Act, JFC has joint and several liability for bonds issued by JFC and succeeded to by JBIC. 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.

17. Per share information

Net assets per share ¥0.52

Net income per share ¥0.01

18. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2018)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	68,748	Borrowed money	5,557,762
Cash	17	Borrowings	5,557,762
Due from banks	68,730	Bonds payable	615,287
Loans and bills discounted	6,994,432	Other liabilities	6,847
Loans on deeds	6,994,432	Accrued expenses	2,264
Other assets	10,457	Lease obligations	1,014
Prepaid expenses	12	Other	3,568
Accrued income	6,343	Provision for bonuses	3,046
Agency accounts receivable	935	Provision for directors' bonuses	7
Other	3,166	Provision for retirement benefits	55,238
Property, plant and equipment	97,385	Provision for directors' retirement benefits	17
Buildings	29,176	Total liabilities	6,238,206
Land	65,499	Net assets	
Lease assets	801	Capital stock	1,137,634
Construction in progress	797	Capital surplus	181,500
Other	1,111	Special reserve for administrative improvement funds	181,500
Intangible assets	7,211	Retained earnings	(483,392)
Software	5,732	Other retained earnings	(483,392)
Lease assets	92	Retained earnings brought forward	(483,392)
Other	1,386	Total shareholders' equity	835,741
Allowance for loan losses	(104,287)	Total net assets	835,741
Total assets	7,073,948	Total liabilities and net assets	7,073,948

Statement of Operations (Year ended March 31, 2018)

(Millions of yen)

Items	Amount
Ordinary income	138,739
Interest income	114,003
Interest on loans and discounts	114,002
Interest on deposits with banks	0
Other interest income	0
Fees and commissions	0
Other fees and commissions	0
Receipts from the national budget	23,042
Receipts from general account of the national budget	23,042
Receipts from special account of the national budget	0
Other income	1,693
Recoveries of written-off claims	583
Other	1,109
Ordinary expenses	133,112
Interest expenses	8,873
Interest on call money	(8)
Interest on borrowings and rediscounts	7,876
Interest on bonds	1,005
Fees and commissions payments	573
Other fees and commissions	573
Other ordinary expenses	333
Amortization of bond issuance cost	333
General and administrative expenses	71,317
Other expenses	52,014
Provision of allowance for loan losses	40,402
Written-off of loans	11,379
Other	232
Ordinary profit	5,627
Extraordinary income	42
Gain on disposal of noncurrent assets	42
Extraordinary losses	203
Loss on disposal of noncurrent assets	132
Impairment loss	71
Net income	5,466

Data

Statement of Changes in Net Assets (Year ended March 31, 2018)

(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	1,122,781	181,500	181,500	(488,858)	(488,858)	815,422	815,422
Changes of items during the period							
Issuance of new shares	14,853					14,853	14,853
Net income (loss)				5,466	5,466	5,466	5,466
Total changes of items during the period	14,853	—	—	5,466	5,466	20,319	20,319
Balance at the end of current period	1,137,634	181,500	181,500	(483,392)	(483,392)	835,741	835,741

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) and facilities attached to buildings and structures acquired on or after April 1, 2016, 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 ¥126,757 million.

Write-offs of this operation account 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 pursuant to Article 4 of the Ministerial Ordinance Concerning Accounting for the JFC.

(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.

Issued but not yet adopted accounting standard and others

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

1. Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

2. Scheduled date of application

The standard will be applied from the beginning of the fiscal year ending March 2022.

3. Effects of application of this accounting standard

The impact on the financial statements from application of the Accounting Standard for Revenue Recognition is currently under assessment.

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, 2018 Account for Micro Business and Individual Operations
Bankrupt loans	6,951
Non-accrual loans	102,107
Loans with interest or principal repayments more than three months in arrears	40
Restructured loans	412,638
Total	521,738

(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, 2018 is ¥8,099 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 this operation account bonds issued to a total amount of ¥615,287 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥16,881 million.

5. Contingent liabilities

This operation account 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), this operation account 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	¥132,837 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, 2018 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	1,304,281,000,000	14,853,000,000	—	1,319,134,000,000

(Note) Increases is due to the issuance of 14,853,000,000 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., based on the JFC Act.

This operation account is for operations, such as business fund financing and educational loans, etc. To conduct these operations funds are raised through the borrowing of fiscal investment funds and loans and 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 in this operation account mainly include loans to micro business and individuals, 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, etc. 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 operation account.

(b) Market risk

The main type of market risk associated with this operation 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 operation 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 operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, 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, 2018 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥16,466 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 ¥15,626 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, 2018, 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	68,748	68,748	—
(2) Loans and bills discounted	6,977,369		
Allowance for loan losses (*)	(96,190)		
	6,881,179	7,105,982	224,803
Total assets	6,949,928	7,174,731	224,803
(1) Borrowings	5,426,462	5,457,360	30,898
(2) Bonds payable	615,287	616,438	1,150
Total liabilities	6,041,749	6,073,798	32,049

(*) 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 and period of loan. For obligations on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers, allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value resembles the amount 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}	17,062
2) Borrowings from general account of the national budget ^{(*)2}	131,300
Total	148,362

(*)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.

(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}	68,730	—	—	—	—	—
Loans and bills discounted ^{(*)2}	1,424,940	2,393,035	1,567,503	773,458	450,248	276,155
Total	1,493,671	2,393,035	1,567,503	773,458	450,248	276,155

(*)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 ¥109,090 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 ^(*)	1,500,848	2,253,013	1,219,114	310,008	114,193	29,286
Bonds payable	170,000	235,000	105,000	75,000	30,000	—
Total	1,670,848	2,488,013	1,324,114	385,008	144,193	29,286

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

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 of 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, the multi-employer corporate pension fund plan in which JFC participates paid the refund amount (minimum reserve) to the national government on September 22, 2017 with regard to the substituted portion of the employee's pension fund.

The result of this on profit and loss during the fiscal year under review was de minimis.

Defined benefits plan

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

Opening balance of projected benefit obligations	133,816 million yen
Service cost	3,701
Interest cost	121
Actuarial difference	3,221
Payment of retirement benefits	(7,202)
Prior service cost	(1,787)
Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund	(25,068)
Other	(4)
Closing balance of projected benefit obligations	<u>106,797</u>

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

Opening balance of fair value of plan assets	62,237 million yen
Expected return on plan assets	993
Actuarial difference	287
Financing from employer	1,802
Payment of retirement benefits	(1,981)
Extinction of plan assets due to transfer of benefit obligation relating to employees' pension fund	(25,100)
Other	(6)
Closing balance of fair value of plan assets	<u>38,233</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	53,772 million yen
Fair value of plan assets	<u>(38,233)</u>
	15,539
Projected benefit obligations of unfunded plan	<u>53,025</u>
Unfunded pension obligations	68,564
Actuarial unrecognized difference	(18,926)
Unrecognized prior service cost	<u>5,600</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>55,238</u>
Provision for retirement benefits	55,238
Prepaid pension cost	<u>—</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>55,238</u>

(4) Net pensions cost and breakdown of included items

Service cost	3,701 million yen
Interest cost	121
Expected return on plan assets	(993)
Amount of actuarial difference accounted for as expense	2,436
Amortization of prior service cost accounted for as expense	(761)
Other	<u>—</u>
Net pensions cost related to defined benefits plan	<u>4,504</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	24%
Debentures	62%
General account	14%
Cash and deposits	<u>1%</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	2.1% to 5.7%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥230 million.

11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2018 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, 2018
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	99.67 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	14,498	—	—
				Receipts from general account of the national budget	14,302	—	—
				Receipt of funds ^(Note iv)	1,684,000	Borrowings	5,426,462
				Repayment of borrowing	1,625,742		
				Payment of interest on borrowings	7,876	Accrued expenses	1,674
				Guarantee for bonds payable ^(Note v)	355,285	—	—

(Notes)

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

-Ministry of Health, Labour and Welfare (Minister of Health, Labour and Welfare) 0.33%

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

-Ministry of Health, Labour and Welfare
Underwriting of capital increase ¥355 million-Ministry of Health, Labour and Welfare
Receipts from the national budget ¥2,990 million-Agency for Natural Resources and Energy
Receipts from the national budget ¥0 million-Small and Medium Enterprise Agency
Receipts from the national budget ¥5,750 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, 2018
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	152,837 (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 operation 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, this operation account 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	¥0.63
Net income per share	¥0.00

13. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2018)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	44,158	Borrowed money	2,183,396
Cash	1	Borrowings	2,183,396
Due from banks	44,157	Bonds payable	229,975
Securities	2,891	Entrusted funds	28,726
Stocks	2,030	Other liabilities	12,965
Other securities	861	Accrued expenses	4,805
Loans and bills discounted	2,791,326	Unearned revenue	9
Loans on deeds	2,791,326	Lease obligations	110
Other assets	9,713	Other	8,039
Prepaid expenses	0	Provision for bonuses	608
Accrued income	8,895	Provision for directors' bonuses	7
Agency accounts receivable	557	Provision for retirement benefits	10,816
Other	260	Provision for directors' retirement benefits	28
Property, plant and equipment	32,248	Acceptances and guarantees	2,910
Buildings	7,084	Total liabilities	2,469,434
Land	24,934	Net assets	
Lease assets	88	Capital stock	399,061
Construction in progress	28	Retained earnings	2,655
Other	112	Legal retained earnings	2,655
Intangible assets	1,912	Other retained earnings	(0)
Software	1,548	Retained earnings brought forward	(0)
Lease assets	8	Total shareholders' equity	401,717
Other	355		
Customers' liabilities for acceptances and guarantees	2,910		
Allowance for loan losses	(14,009)	Total net assets	401,717
Total assets	2,871,151	Total liabilities and net assets	2,871,151

Statement of Operations (Year ended March 31, 2018)

(Millions of yen)

Items	Amount
Ordinary income	42,028
Interest income	30,131
Interest on loans and discounts	30,131
Interest on deposits with banks	0
Other interest income	0
Fees and commissions	39
Other fees and commissions	39
Receipts from the national budget	8,231
Receipts from general account of the national budget	8,208
Receipts from special account of the national budget	22
Other income	3,625
Reversal of allowance for loan losses	2,387
Recoveries of written-off claims	846
Other	392
Ordinary expenses	41,994
Interest expenses	24,151
Interest on call money	(2)
Interest on borrowings and rediscounts	21,414
Interest on bonds	2,739
Fees and commissions payments	2,566
Other fees and commissions	2,566
Other ordinary expenses	86
Amortization of bond issuance cost	86
General and administrative expenses	15,053
Other expenses	136
Written-off of loans	58
Other	78
Ordinary profit	34
Extraordinary income	5
Gain on disposal of noncurrent assets	5
Extraordinary losses	39
Loss on disposal of noncurrent assets	39
Net loss	0

Data

Statement of Changes in Net Assets (Year ended March 31, 2018)

(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	394,980	2,655	—	2,655	397,636	397,636
Changes of items during the period						
Issuance of new shares	4,081				4,081	4,081
Net income (loss)			(0)	(0)	(0)	(0)
Total changes of items during the period	4,081	—	(0)	(0)	4,080	4,080
Balance at the end of current period	399,061	2,655	(0)	2,655	401,717	401,717

Data

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

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

(b) Valuation method for derivative financial instruments

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

(c) Depreciation basis for fixed assets

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

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) and facilities attached to buildings and structures acquired on or after April 1, 2016, 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 ¥5,743 million.

Write-offs of this operation account 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 pursuant to Article 4 of the Ministerial Ordinance Concerning Accounting for the JFC.

(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.

Issued but not yet adopted accounting standard and others

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

1. Overview

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

2. Scheduled date of application

The standard will be applied from the beginning of the fiscal year ending March 2022.

3. Effects of application of this accounting standard

The impact on the financial statements from application of the Accounting Standard for Revenue Recognition is currently under assessment.

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, 2018 Account for Agriculture, Forestry, Fisheries and Food Business Operations
Bankrupt loans	368
Non-accrual loans	38,739
Loans with interest or principal repayments more than three months in arrears	442
Restructured loans	17,546
Total	57,096

(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, 2018 is ¥148,765 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 this operation account bonds issued to a total amount of ¥229,975 million).

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥4,234 million.

6. Contingent liabilities

This operation account 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), this operation account 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	¥132,837 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. The account title and the amount related to transactions with affiliates

Ordinary income—Other income—Other: ¥0 million

Ordinary expenses—General and administrative expenses: ¥0 million

9. Issued shares

For the fiscal year ended March 31, 2018 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	394,980,700,000	4,081,000,000	—	399,061,700,000

(Note) Increase is due to the issuance of 4,081,000,000 shares.

10. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a 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., based on the JFC Act.

In this operation account, 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.

(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 operation 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 operation 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 operation account could increase.

(b) Market risk

The main type of market risk associated with this operation 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 operation 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 operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, 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, 2018 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥9,689 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 ¥8,563 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, 2018, 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	44,158	44,158	—
(2) Loans and bills discounted	2,788,878		
Allowance for loan losses ^(*)	(13,257)		
	2,775,620	2,993,478	217,857
Total assets	2,819,779	3,037,637	217,857
(1) Borrowings	2,183,396	2,292,846	109,450
(2) Bonds payable	229,975	252,509	22,533
(3) Entrusted funds	28,726	28,162	(564)
Total liabilities	2,442,098	2,573,518	131,420

(*) 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 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 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) Loans and bills discounted".

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Unlisted stocks ^{(*)1}	2,030
2) Partnership investments ^{(*)2}	861
3) Loans on deeds (subordinated capital loans) ^{(*)3}	2,448
Total	5,339

(*)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, 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.

(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}	44,157	—	—	—	—	—
Loans and bills discounted ^{(*)2}	322,385	564,933	429,831	346,221	395,549	720,006
Total	366,542	564,933	429,831	346,221	395,549	720,006

(*)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 ¥12,398 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	232,703	426,005	394,531	357,702	372,948	399,504
Bonds payable	20,000	65,000	25,000	30,000	30,000	60,000
Entrusted funds	—	52	907	2,033	5,318	20,415
Total	252,703	491,057	420,438	389,736	408,266	479,919

11. Fair value of securities

The fair value of securities at March 31, 2018 is as follows:

(a) Equity securities of or investment in subsidiaries and affiliates

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

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

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

(b) Available-for-sale securities

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

	Carrying amount on the balance sheet (Millions of yen)
Others	861

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

12. Deferred tax accounting

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

13. 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, the multi-employer corporate pension fund plan in which JFC participates paid the refund amount (minimum reserve) to the national government on September 22, 2017 with regard to the substituted portion of the employee's pension fund.

The result of this on profit and loss during the fiscal year under review was de minimis.

Defined benefits plan

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

Opening balance of projected benefit obligations	25,208 million yen
Service cost	735
Interest cost	22
Actuarial difference	561
Payment of retirement benefits	(886)
Prior service cost	(326)
Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund	(5,006)
Other	(9)
Closing balance of projected benefit obligations	<u>20,298</u>

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

Opening balance of fair value of plan assets	11,985 million yen
Expected return on plan assets	189
Actuarial difference	105
Financing from employer	349
Payment of retirement benefits	(404)
Extinction of plan assets due to transfer of benefit obligation relating to employees' pension fund	(5,013)
Other	(7)
Closing balance of fair value of plan assets	<u>7,203</u>

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

Projected benefit obligations of funded plan	10,131 million yen
Fair value of plan assets	(7,203)
	2,928
Projected benefit obligations of unfunded plan	10,166
Unfunded pension obligations	13,094
Actuarial unrecognized difference	(3,188)
Unrecognized prior service cost	910
Net amount of liabilities and assets recorded on the balance sheet	10,816
Provision for retirement benefits	10,816
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	10,816

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

Service cost	735 million yen
Interest cost	22
Expected return on plan assets	(189)
Amount of actuarial difference accounted for as expense	430
Amortization of prior service cost accounted for as expense	(113)
Other	—
Net pensions cost related to defined benefits plan	885

- (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	24%
Debentures	62%
General account	14%
Cash and deposits	1%
Total	100%

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

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

- (6) Items related to actuarial calculation bases

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

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	2.0% to 6.2%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥44 million.

14. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥1,948 million
Profit on Investment in affiliates (equity method)	¥33 million

15. Related party transactions

Related party transactions in the fiscal year ended March 31, 2018 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, 2018
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	90.22 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	601	—	—
				Receipt of funds ^(Note iv)	352,500	Borrowings	2,158,601
				Repayment of borrowing	237,698		
				Payment of interest on borrowings	21,414	Accrued expenses	3,820

(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) 9.78%

(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 ¥3,480 million

-Ministry of Agriculture, Forestry and Fisheries
Receipts from the national budget ¥8,231 million

-Ministry of Agriculture, Forestry and Fisheries
Repayment of borrowed money ¥5,542 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, 2018
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)	400	Entrusted fund	28,726
				Repayment of entrusted fund	1,252		
	JBIC	—	Relation of joint and several liability	Joint and several liability	152,837 ^(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 operation 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, this operation account 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 this operation account 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.

16. Per share information

Net assets per share ¥1.00

Net loss per share ¥0.00

17. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2018)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	69,300	Borrowed money	3,337,017
Cash	3	Borrowings	3,337,017
Due from banks	69,296	Bonds payable	595,279
Securities	507	Other liabilities	3,975
Corporate bonds	35	Accrued expenses	2,280
Stocks	7	Unearned revenue	76
Other securities	464	Lease obligations	222
Loans and bills discounted	5,379,817	Other	1,396
Loans on deeds	5,379,817	Provision for bonuses	1,125
Other assets	4,307	Provision for directors' bonuses	6
Prepaid expenses	3	Provision for retirement benefits	20,182
Accrued income	3,139	Provision for directors' retirement benefits	9
Derivatives other than for trading-assets	4	Acceptances and guarantees	12,009
Other	1,161	Total liabilities	3,969,605
Property, plant and equipment	47,290	Net assets	
Buildings	10,967	Capital stock	1,594,085
Land	35,721	Retained earnings	(313,070)
Lease assets	168	Other retained earnings	(313,070)
Construction in progress	99	Retained earnings brought forward	(313,070)
Other	334	Total shareholders' equity	1,281,014
Intangible assets	3,224	Valuation difference on available-for-sale securities	464
Software	2,444	Total valuation and translation adjustments	464
Lease assets	26		
Other	754		
Customers' liabilities for acceptances and guarantees	12,009		
Allowance for loan losses	(265,372)	Total net assets	1,281,479
Total assets	5,251,084	Total liabilities and net assets	5,251,084

Statement of Operations (Year ended March 31, 2018)

(Millions of yen)

Items	Amount
Ordinary income	89,762
Interest income	72,739
Interest on loans and discounts	72,737
Interest and dividends on securities	0
Interest on deposits with banks	1
Other interest income	0
Fees and commissions	72
Other fees and commissions	72
Other ordinary income	4
Income from derivatives other than for trading or hedging	4
Receipts from the national budget	15,039
Receipts from general account of the national budget	15,037
Receipts from special account of the national budget	2
Other income	1,906
Recoveries of written-off claims	54
Gain on sales of stocks and other securities	136
Other	1,716
Ordinary expenses	65,955
Interest expenses	11,796
Interest on call money	(6)
Interest on borrowings and rediscounts	8,944
Interest on bonds	2,858
Fees and commissions payments	68
Other fees and commissions	68
Other ordinary expenses	452
Loss on foreign exchange transactions	203
Amortization of bond issuance cost	249
General and administrative expenses	26,652
Other expenses	26,986
Provision of allowance for loan losses	23,780
Written-off of loans	1,762
Other	1,442
Ordinary profit	23,807
Extraordinary income	0
Gain on disposal of noncurrent assets	0
Extraordinary losses	9
Loss on disposal of noncurrent assets	8
Impairment loss	0
Net income	23,797

Data

Statement of Changes in Net Assets (Year ended March 31, 2018)

(Millions of yen)

	Shareholders' equity				Valuation and translation adjustments		Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
		Other retained earnings	Total retained earnings				
		Retained earnings brought forward					
Balance at the beginning of current period	1,549,285	(336,867)	(336,867)	1,212,417	—	—	1,212,417
Changes of items during the period							
Issuance of new shares	44,800			44,800			44,800
Net income (loss)		23,797	23,797	23,797			23,797
Net changes of items other than shareholders' equity					464	464	464
Total changes of items during the period	44,800	23,797	23,797	68,597	464	464	69,062
Balance at the end of current period	1,594,085	(313,070)	(313,070)	1,281,014	464	464	1,281,479

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. As a rule, available-for-sale securities are stated at fair value with changes in net unrealized gains or losses, included directly in Net assets. 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.

(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) and facilities attached to buildings and structures acquired on or after April 1, 2016, 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 ¥77,111 million.

Write-offs of the Account for this operation account 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 pursuant to Article 4 of the Ministerial Ordinance Concerning Accounting for the JFC.

(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.

Issued but not yet adopted accounting standard and others

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

1. Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

2. Scheduled date of application

The standard will be applied from the beginning of the fiscal year ending March 2022.

3. Effects of application of this accounting standard

The impact on the financial statements from application of the Accounting Standard for Revenue Recognition is currently under assessment.

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, 2018 Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)
Bankrupt loans	3,437
Non-accrual loans	438,591
Loans with interest or principal repayments more than three months in arrears	—
Restructured loans	85,136
Total	527,165

(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, 2018 is ¥57,695 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 this operation account bonds issued to a total amount of ¥595,279 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥6,564 million.

5. Contingent liabilities

This operation account 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), this operation account 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	¥132,837 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, 2018 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	1,549,285,000,000	44,800,000,000	—	1,594,085,000,000

(Note) Increases is due to the issuance of 44,800,000,000 shares.

8. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

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

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

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

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

In this operation account, 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 by borrowing from the

government and 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 operation 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 operation 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 operation account as a result of bad debts and uncollectable claims.

(b) Market risk

The main type of market risks associated with this operation 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 operation 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 operation account by conducting forward exchange contracts.

(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 operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, 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. In this process, 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 self assessments.

The results of the self 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, 2018 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥34,163 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥32,146 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, 2018, 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	69,300	69,300	—
(2) Securities			
Held-to-maturity debt securities	35	35	—
Available-for-sale securities	464	464	—
(3) Loans and bills discounted	4,943,401		
Allowance for loan losses ^{(*)1}	(123,731)		
	4,819,670	5,062,587	242,917
Total assets	4,889,469	5,132,387	242,917
(1) Borrowings	3,315,044	3,340,965	25,921
(2) Bonds payable	595,279	601,307	6,027
Total liabilities	3,910,323	3,942,272	31,949
Derivative transactions ^{(*)2}			
Derivative transactions not qualifying for hedge accounting	4	4	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	4	4	—

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

(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 this operation account the carrying amount is used as fair value because fair value approximates the carrying amount. Exchange prices are used for other securities.

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 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.

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.

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}	7
2) Loans on deeds (subordinated capital loans) ^{(*)2}	436,415
3) Borrowings from the FILP special account (investment account) of the national budget ^{(*)3}	21,973
Total	458,396

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

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

(*)3 For borrowings from 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}	69,296	—	—	—	—	—
Securities Held-to-maturity debt securities	35	—	—	—	—	—
Loans and bills discounted ^{(*)2}	1,241,066	1,769,227	1,017,016	579,876	430,664	315,543
Total	1,310,397	1,769,227	1,017,016	579,876	430,664	315,543

(*)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 ¥26,421 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	871,323	1,339,913	704,618	266,610	154,553	—
Bonds payable	116,000	176,000	133,200	75,000	95,000	—
Total	987,323	1,515,913	837,818	341,610	249,553	—

9. Fair value of securities

The fair value of securities at March 31, 2018 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	35	35	—

(b) Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount exceeds their acquisition cost	Others	464	—	464

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

	Carrying amount on the balance sheet (Millions of yen)
Stocks	7

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.

(c) Available-for-sale securities sold in the fiscal year in review (from April 1, 2017 to March 31, 2018)

	Sales amount (Millions of yen)	Total gain on sales (Millions of yen)	Total loss on sales (Millions of yen)
Others	136	136	—

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 of 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, the multi-employer corporate pension fund plan in which JFC participates paid the refund amount (minimum reserve) to the national government on September 22, 2017 with regard to the substituted portion of the employee's pension fund.

The result of this on profit and loss during the fiscal year under review was de minimis.

Defined benefits plan**(1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations**

Opening balance of projected benefit obligations	47,721 million yen
Service cost	1,486
Interest cost	43
Actuarial difference	1,033
Payment of retirement benefits	(1,844)
Prior service cost	(652)
Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund	(8,771)
Other	(12)
Closing balance of projected benefit obligations	<u>39,003</u>

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

Opening balance of fair value of plan assets	21,735 million yen
Expected return on plan assets	347
Actuarial difference	126
Financing from employer	665
Payment of retirement benefits	(753)
Extinction of plan assets due to transfer of benefit obligation relating to employees' pension fund	(8,782)
Other	10
Closing balance of fair value of plan assets	<u>13,347</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	18,772 million yen
Fair value of plan assets	(13,347)
	5,425
Projected benefit obligations of unfunded plan	20,230
Unfunded pension obligations	25,655
Actuarial unrecognized difference	(6,433)
Unrecognized prior service cost	960
Net amount of liabilities and assets recorded on the balance sheet	20,182
Provision for retirement benefits	20,182
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	20,182

(4) Net pensions cost and breakdown of included items

Service cost	1,486 million yen
Interest cost	43
Expected return on plan assets	(347)
Amount of actuarial difference accounted for as expense	965
Amortization of prior service cost accounted for as expense	(190)
Other	—
Net pensions cost related to defined benefits plan	1,957

(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	24%
Debentures	62%
General account	14%
Cash and deposits	1%
Total	100%

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

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

(6) Items related to actuarial calculation bases

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

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.5% to 5.9%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥85 million.

12. Related party transactions

Related party transactions in the fiscal year ended March 31, 2018 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, 2018
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	90.54 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	41,500	—	—
				Receipt of funds ^(Note iv)	876,013	Borrowings	3,337,017
				Repayment of borrowing	997,077		
				Payment of interest on borrowings	8,944	Accrued expenses	1,772
				Guarantee for bonds payable ^(Note v)	450,079	—	—

(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) 9.46%
- (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 ¥3,300 million
 -Agency for Natural Resources and Energy
 Receipts from the national budget ¥2 million
 -Small and Medium Enterprise Agency
 Receipts from the national budget ¥15,037 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, 2018
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	152,837 (Notes i and iii)	—	—
					80,000 (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 operation 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, this operation account 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 this operation account 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	¥0.80
Net income per share	¥0.01

14. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2018)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	8,389	Bonds payable	19,800
Due from banks	8,389	Other liabilities	72
Securities	36,342	Accrued expenses	0
Government bonds	21,193	Unearned revenue	62
Corporate bonds	15,149	Other	8
Other assets	59	Provision for bonuses	2
Prepaid expenses	50	Provision for directors' bonuses	0
Accrued income	6	Provision for retirement benefits	30
Other	2	Provision for directors' retirement benefits	0
Prepaid pension cost	6	Acceptances and guarantees	49,667
Customers' liabilities for acceptances and guarantees	49,667	Total liabilities	69,573
Allowance for loan losses	(83)	Net assets	
		Capital stock	24,476
		Retained earnings	333
		Legal retained earnings	286
		Other retained earnings	46
		Retained earnings brought forward	46
		Total shareholders' equity	24,809
		Total net assets	24,809
Total assets	94,382	Total liabilities and net assets	94,382

Statement of Operations (Year ended March 31, 2018)

(Millions of yen)

Items	Amount
Ordinary income	380
Interest income	173
Interest and dividends on securities	173
Interest on deposits with banks	0
Fees and commissions	165
Other fees and commissions	165
Other income	41
Reversal of allowance for loan losses	16
Other	24
Ordinary expenses	334
Interest expenses	2
Interest on bonds	2
Fees and commissions payments	227
Other fees and commissions	227
Other ordinary expenses	14
Amortization of bond issuance cost	14
General and administrative expenses	90
Other expenses	0
Other	0
Ordinary profit	46
Net income	46

Statement of Changes in Net Assets (Year ended March 31, 2018)

(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	249	75	324	24,800	24,800
Changes of items during the period						
Provision of legal retained earnings		37	(37)	—	—	—
Payment to the national treasury			(37)	(37)	(37)	(37)
Net income (loss)			46	46	46	46
Total changes of items during the period	—	37	(29)	8	8	8
Balance at the end of current period	24,476	286	46	333	24,809	24,809

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. 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.

Issued but not yet adopted accounting standard and others

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

1. Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

2. Scheduled date of application

The standard will be applied from the beginning of the fiscal year ending March 2022.

3. Effects of application of this accounting standard

The impact on the financial statements from application of the Accounting Standard for Revenue Recognition is currently under assessment.

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 (which includes this operation account bonds issued to a total amount of ¥19,800 million).

3. Contingent liabilities

This operation account 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), this operation account 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 ¥132,837 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, 2018, 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., based on the JFC Act.

This operation account 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 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 operation 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 operation 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 operation 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 operation 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 operation 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, 2018 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥1,821 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥1,632 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, 2018, 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	8,389	8,389	—
(2) Securities			
Held-to-maturity debt securities	21,193	21,910	717
Total assets	29,583	30,300	717
Bonds payable	19,800	19,782	(17)
Total debt	19,800	19,782	(17)

(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}	15,149
(2) credit default swap ^{(*)2}	—
Total	15,149

(*)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 ^(*)	8,389	—	—	—	—	—
Securities						
Held-to-maturity debt securities	—	—	—	—	—	21,068
Total	8,389	—	—	—	—	21,068

(*) 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	9,000	6,800	—	—	—

7. Fair value of securities

The fair value of securities at March 31, 2018 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	21,193	21,910	717

(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)
Bonds Corporate Bonds	15,149

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 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, the multi-employer corporate pension fund plan in which JFC participates paid the refund amount (minimum reserve) to the national government on September 22, 2017 with regard to the substituted portion of the employee's pension fund.

The result of this on profit and loss during the fiscal year under review was de minimis.

Defined benefits plan

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

Opening balance of projected benefit obligations	52 million yen
Service cost	2
Interest cost	0
Actuarial difference	1
Payment of retirement benefits	—
Prior service cost	(1)
Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund	(2)
Other	(4)
Closing balance of projected benefit obligations	<u>50</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 million yen
Expected return on plan assets	0
Actuarial difference	(1)
Financing from employer	1
Payment of retirement benefits	—
Extinction of plan assets due to transfer of benefit obligation relating to employees' pension fund	(2)
Other	(0)
Closing balance of fair value of plan assets	<u>9</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	13 million yen
Fair value of plan assets	(9)
	3
Projected benefit obligations of unfunded plan	37
Unfunded pension obligations	40
Actuarial unrecognized difference	(16)
Unrecognized prior service cost	0
Net amount of liabilities and assets recorded on the balance sheet	24
Provision for retirement benefits	30
Prepaid pension cost	(6)
Net amount of liabilities and assets recorded on the balance sheet	24

(4) Net pensions cost and breakdown of included items

Service cost	2 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	4

(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	24%
Debentures	62%
General account	14%
Cash and deposits	1%
Total	100%

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

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

(6) Items related to actuarial calculation bases

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

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	3.0% to 5.9%

Defined contribution pension plan

This operation account'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, 2018 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, 2018
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	152,837 (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 operation 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, this operation account 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, 2018)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	3,062,645	Reserve for insurance policy liabilities	1,002,665
Due from banks	3,062,645	Other liabilities	1,391
Other assets	10,888	Accrued expenses	28
Accrued income	83	Lease obligations	58
Other	10,805	Other	1,304
Property, plant and equipment	18,260	Provision for bonuses	207
Buildings	4,219	Provision for directors' bonuses	1
Land	13,968	Provision for retirement benefits	4,634
Lease assets	48	Provision for directors' retirement benefits	1
Other	24	Total liabilities	1,008,901
Intangible assets	1,662	Net assets	
Software	1,603	Capital surplus	1,887,984
Lease assets	3	Legal capital surplus	1,887,984
Other	55	Retained earnings	196,571
		Legal retained earnings	86,045
		Other retained earnings	110,526
		Retained earnings brought forward	110,526
		Total shareholders' equity	2,084,555
		Total net assets	2,084,555
Total assets	3,093,457	Total liabilities and net assets	3,093,457

Statement of Operations (Year ended March 31, 2018)

(Millions of yen)

Items	Amount
Ordinary income	313,778
Interest income	414
Interest on deposits with banks	414
Insurance premiums and other	313,146
Insurance premiums	125,489
Receipts of burden charges under the Responsibility-sharing System	5,167
Reversal of reserve for insurance policy liabilities	182,489
Other income	216
Other	216
Ordinary expenses	203,252
Expenses on insurance claims and other	193,825
Expenses on insurance claims	281,882
Recoveries of insurance claims	(88,056)
General and administrative expenses	5,305
Other expenses	4,120
Other	4,120
Ordinary profit	110,526
Net income	110,526

Statement of Changes in Net Assets (Year ended March 31, 2018)

(Millions of yen)

	Shareholders' equity						Total net assets
	Capital surplus		Retained earnings			Total shareholders' equity	
	Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings		
				Retained earnings brought forward			
Balance at the beginning of current period	1,833,984	1,833,984	11,155	74,889	86,045	1,920,029	1,920,029
Changes of items during the period							
Issuance of new shares	54,000	54,000				54,000	54,000
Provision of legal retained earnings			74,889	(74,889)	—	—	—
Net income (loss)				110,526	110,526	110,526	110,526
Total changes of items during the period	54,000	54,000	74,889	35,636	110,526	164,526	164,526
Balance at the end of current period	1,887,984	1,887,984	86,045	110,526	196,571	2,084,555	2,084,555

Data

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

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

(b) Depreciation basis for fixed assets

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

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) and facilities attached to buildings and structures acquired on or after April 1, 2016, 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, and provided primarily based on the default rate, which is calculated based on the actual defaults during a certain period in the past.

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

(ii) Provision for bonuses

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

(iii) Provision for directors' bonuses

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

(iv) Provision for retirement benefits

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

Issued but not yet adopted accounting standard and others

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

1. Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

2. Scheduled date of application

The standard will be applied from the beginning of the fiscal year ending March 2022.

3. Effects of application of this accounting standard

The impact on the financial statements from application of the Accounting Standard for Revenue Recognition is currently under assessment.

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 Operations to this operation account bonds have been issued.

3. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥2,069 million.

4. Contingent liabilities

This operation account 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), this operation account 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 ¥132,837 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 ¥4,088 million.

7. Issued shares

For the fiscal year ended March 31, 2018, 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	5,805,427,407,741	54,000,000,000	—	5,859,427,407,741

(Note) Increase is due to the issuance of 54,000,000,000 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., based on the JFC Act.

In this operation account, 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 operation account mainly include deposits. The associated risks are described below.

(a) Market risk

The main type of market risk associated with this operation account is interest rate risk.

However, this operation 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 operation account does not accept deposits and since long-term stable funds such as investments from the Japanese government are secured to finance this operation 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, 2018, 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	3,062,645	3,065,962	3,316

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

Assets

Cash and due from banks

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

(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 (*)	2,382,445	680,200	—	—	—	—

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

9. Fair value of securities

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

The fair value of securities at March 31, 2018 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	98,000	98,000	—

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 of 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, the multi-employer corporate pension fund plan in which JFC participates paid the refund amount (minimum reserve) to the national government on September 22, 2017 with regard to the substituted portion of the employee's pension fund.

The result of this on profit and loss during the fiscal year under review was de minimis.

Defined benefits plan

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

Opening balance of projected benefit obligations	10,451 million yen
Service cost	275
Interest cost	9
Actuarial difference	209
Payment of retirement benefits	(327)
Prior service cost	(137)
Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund	(2,002)
Other	31
Closing balance of projected benefit obligations	<u>8,510</u>

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

Opening balance of fair value of plan assets	4,884 million yen
Expected return on plan assets	77
Actuarial difference	35
Financing from employer	122
Payment of retirement benefits	(140)
Extinction of plan assets due to transfer of benefit obligation relating to employees' pension fund	(2,005)
Other	4
Closing balance of fair value of plan assets	<u>2,978</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	4,189 million yen
Fair value of plan assets	<u>(2,978)</u>
	1,210
Projected benefit obligations of unfunded plan	<u>4,321</u>
Unfunded pension obligations	5,531
Actuarial unrecognized difference	(1,064)
Unrecognized prior service cost	167
Net amount of liabilities and assets recorded on the balance sheet	<u>4,634</u>
Provision for retirement benefits	4,634
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>4,634</u>

(4) Net pensions cost and breakdown of included items

Service cost	275 million yen
Interest cost	9
Expected return on plan assets	(77)
Amount of actuarial difference accounted for as expense	153
Amortization of prior service cost accounted for as expense	(26)
Other	—
Net pensions cost related to defined benefits plan	<u>333</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	24%
Debentures	62%
General account	14%
Cash and deposits	1%
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	1.5% to 5.9%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥15 million.

12. Related party transactions

Related party transactions in the fiscal year ended March 31, 2018 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, 2018
Principal shareholder	Ministry of Finance (Minister of Finance)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note i)	54,000	—	—
				Deposit of funds ^(Note ii)	4,513,100	Due from banks	2,855,800
				Refund of funds	4,353,100		

(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, 2018
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	152,837 (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 operation 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, this operation account 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 ¥0.35

Net income per share ¥0.01

14. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2018)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	779,106	Borrowed money	2,383,219
Due from banks	779,106	Borrowings	2,383,219
Loans and bills discounted	2,383,219	Other liabilities	3,091
Loans on deeds	2,383,219	Accrued expenses	421
Other assets	439	Unearned revenue	2,644
Accrued income	430	Lease obligations	1
Other	8	Other	24
Property, plant and equipment	1	Provision for bonuses	6
Lease assets	1	Provision for directors' bonuses	0
Intangible assets	28	Provision for retirement benefits	102
Software	28	Provision for directors' retirement benefits	0
Lease assets	0	Reserve for compensation losses	38,045
Other	0	Total liabilities	2,424,466
Prepaid pension cost	25	Net assets	
		Capital stock	969,398
		Retained earnings	(231,044)
		Other retained earnings	(231,044)
		Retained earnings brought forward	(231,044)
		Total shareholders' equity	738,353
		Total net assets	738,353
Total assets	3,162,820	Total liabilities and net assets	3,162,820

Statement of Operations (Year ended March 31, 2018)

(Millions of yen)

Items	Amount
Ordinary income	24,702
Interest income	16,583
Interest on loans and discounts	16,529
Interest on deposits with banks	45
Other interest income	7
Fees and commissions	2,153
Fees and commissions on compensation security contract	2,153
Receipts from the national budget	256
Receipts from general account of the national budget	256
Other income	5,709
Other	5,709
Ordinary expenses	46,728
Interest expenses	16,537
Interest on borrowings and rediscounts	16,529
Other interest expenses	7
Other ordinary expenses	7,555
Interest subsidies	7,555
General and administrative expenses	189
Other expenses	22,446
Provision of reserve for compensation losses	22,231
Other	214
Ordinary loss	22,025
Net loss	22,025

Data

Statement of Changes in Net Assets (Year ended March 31, 2018)

(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	969,330	(209,018)	(209,018)	760,311	760,311
Changes of items during the period					
Issuance of new shares	68			68	68
Net income (loss)		(22,025)	(22,025)	(22,025)	(22,025)
Total changes of items during the period	68	(22,025)	(22,025)	(21,957)	(21,957)
Balance at the end of current period	969,398	(231,044)	(231,044)	738,353	738,353

Data

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) Reserve for interest subsidies

A reserve for interest subsidies is recognized at an estimated amount accrued through the end of the fiscal year to provide for future provision of interest subsidies. There was no balance at the end of the fiscal year under review.

(iv) 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.

(v) 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.

(vi) 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.

(vii) Provision for directors' retirement benefits

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

(d) Consumption and other taxes

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

Issued but not yet adopted accounting standard and others

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

1. Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

2. Scheduled date of application

The standard will be applied from the beginning of the fiscal year ending March 2022.

3. Effects of application of this accounting standard

The impact on the financial statements from application of the Accounting Standard for Revenue Recognition is currently under assessment.

Additional information

A third-party committee established within the Shoko Chukin Bank, Ltd. ("Shoko Chukin Bank"), which is a specified financial institution, conducted an investigation, and Shoko Chukin Bank conducted a subsequent investigation to examine improper conduct by the bank regarding crisis response operations related to an incident on November 22, 2016. The investigation discovered certain payments on compensation security contracts and interest subsidies relating to accounts for which satisfaction of the crisis response operation conditions could not be confirmed. These payments were returned by Shoko Chukin Bank during the fiscal year under review. Also, payment of expense on compensation security contracts and interest subsidies to Shoko Chukin Bank has resumed.

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, 2018.

"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 this operation account bonds have been issued.

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥0 million.

5. Contingent liabilities

This operation account 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), this operation account 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 ¥132,837 million

6. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (76,045 contracts)	1,381,545
Reserve for compensation	38,045
Net amount	1,343,499

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. Other ordinary income

Other ordinary income includes ¥4,464 million in refunds of expense on compensation security contracts and interest subsidies relating to accounts for which satisfaction of the crisis response operation conditions could not be confirmed. Those accounts were discovered as a result of an investigation on improper conduct by Shoko Chukin Bank with regard to confirmation of the requirements for crisis response operations.

9. Issued shares

For the fiscal year ended March 31, 2018, 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	969,330,000,000	68,000,000	—	969,398,000,000

(Note) Increase is due to the issuance of 68,000,000 shares.

10. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a 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., based on the JFC Act.

In this operation account 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 funds 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 funds through equity participation from the government, etc.

(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 operation 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 operation 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 operation 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 operation 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 operation 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, 2018, 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	779,106	779,219	113
(2) Loans and bills discounted	2,383,219	2,412,791	29,571
Total assets	3,162,325	3,192,011	29,685
Borrowings	2,383,219	2,425,434	42,214
Total liabilities	2,383,219	2,425,434	42,214

(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) 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) 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: ¥1,381,545 million

Compensation loss reserve: ¥38,045 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 (*)	779,106	—	—	—	—	—
Loans and bills discounted	567,739	711,609	729,256	197,507	136,826	40,282
Total	1,346,845	711,609	729,256	197,507	136,826	40,282

(*) 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	567,739	711,609	729,256	197,507	136,826	40,282

11. Fair value of securities

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

The fair value of securities at March 31, 2018 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	288,000	288,000	—

12. Deferred tax accounting

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

13. Retirement benefits

JFC has a defined benefit pension plan comprising of a 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, the multi-employer corporate pension fund plan in which JFC participates paid the refund amount (minimum reserve) to the national government on September 22, 2017 with regard to the substituted portion of the employee's pension fund.

The result of this on profit and loss during the fiscal year under review was de minimis.

Defined benefits plan

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

Opening balance of projected benefit obligations	165 million yen
Service cost	7
Interest cost	0
Actuarial difference	5
Payment of retirement benefits	—
Prior service cost	(3)
Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund	(13)
Other	(4)
Closing balance of projected benefit obligations	<u>157</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	(3)
Financing from employer	4
Payment of retirement benefits	—
Extinction of plan assets due to transfer of benefit obligation relating to employees' pension fund	(13)
Other	(1)
Closing balance of fair value of plan assets	<u>30</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	42 million yen
Fair value of plan assets	(30)
	<u>12</u>
Projected benefit obligations of unfunded plan	115
Unfunded pension obligations	<u>127</u>
Actuarial unrecognized difference	(58)
Unrecognized prior service cost	<u>8</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>76</u>
Provision for retirement benefits	102
Prepaid pension cost	<u>(25)</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>76</u>

(4) Net pensions cost and breakdown of included items

Service cost	7 million yen
Interest cost	0
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	8
Amortization of prior service cost accounted for as expense	(1)
Other	—
Net pensions cost related to defined benefits plan	<u>14</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	24%
Debentures	62%
General account	14%
Cash and deposits	<u>1%</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	3.0% to 6.0%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥0 million.

14. Related party transactions

Related party transactions in the fiscal year ended March 31, 2018 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, 2018
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	85.27 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	68	—	—
				Receipts from general account of the national budget	63	—	—
				Receipt of funds ^(Note iv)	85,444	Borrowings	2,383,219
				Repayment of borrowings	526,521		
				Payment of interest on borrowings	16,529	Accrued expenses	420
				Deposit of funds ^(Note v)	1,110,000	Due from banks	390,000
				Refund of funds	1,110,000		

(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)	14.60%

(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	¥42 million
- Small and Medium Enterprise Agency	
Receipts from the national budget	¥150 million

(iii) The underwriting of capital increase represents the increase in capital by JFC at an allocation amount of ¥1 per share.

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

(v) Deposit of funds is the deposit for the FILP and the interest rates applicable under the FILP are applied.

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

(b) Transactions with fellow subsidiaries and affiliates' subsidiaries

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2018
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	152,837 (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 operation 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, this operation account 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.

15. Per share information

Net assets per share ¥0.76

Net loss per share ¥0.02

16. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2018)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	255	Borrowed money	56,862
Due from banks	255	Borrowings	56,862
Loans and bills discounted	56,862	Other liabilities	134
Loans on deeds	56,862	Accrued expenses	104
Other assets	134	Lease obligations	0
Accrued income	104	Other	28
Other	30	Provision for bonuses	3
Property, plant and equipment	0	Provision for directors' bonuses	0
Lease assets	0	Provision for retirement benefits	60
Intangible assets	9	Provision for directors' retirement benefits	0
Software	9	Total liabilities	57,060
Lease assets	0	Net assets	
Other	0	Capital stock	267
Prepaid pension cost	10	Retained earnings	(54)
		Other retained earnings	(54)
		Retained earnings brought forward	(54)
		Total shareholders' equity	212
		Total net assets	212
Total assets	57,273	Total liabilities and net assets	57,273

Statement of Operations (Year ended March 31, 2018)

(Millions of yen)

Items	Amount
Ordinary income	392
Interest income	313
Interest on loans and discounts	313
Interest on deposits with banks	0
Receipts from the national budget	78
Receipts from general account of the national budget	78
Other income	0
Other	0
Ordinary expenses	404
Interest expenses	313
Interest on borrowings and rediscounts	313
General and administrative expenses	90
Other expenses	0
Other	0
Ordinary loss	11
Net loss	11

Statement of Changes in Net Assets (Year ended March 31, 2018)

(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	(42)	(42)	224	224
Changes of items during the period					
Net income (loss)		(11)	(11)	(11)	(11)
Total changes of items during the period	—	(11)	(11)	(11)	(11)
Balance at the end of current period	267	(54)	(54)	212	212

Data

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.

Issued but not yet adopted accounting standard and others

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

1. Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years

beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

2. Scheduled date of application

The standard will be applied from the beginning of the fiscal year ending March 2022.

3. Effects of application of this accounting standard

The impact on the financial statements from application of the Accounting Standard for Revenue Recognition is currently under assessment.

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, 2018.

"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 this operation account bonds have been issued.

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥0 million.

5. Contingent liabilities

This operation account 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), this operation account 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	¥132,837 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, 2018, 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., based on the JFC Act.

In this operation account, 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 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.

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

(b) Market risk

The operations of this operation 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 operation 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, 2018, 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	255	255	—
(2) Loans and bills discounted	56,862	57,694	832
Total assets	57,117	57,949	832
Borrowings	56,862	58,011	1,149
Total liabilities	56,862	58,011	1,149

(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 (*)	255	—	—	—	—	—
Loans and bills discounted	12,159	23,056	11,237	3,332	4,998	2,080
Total	12,414	23,056	11,237	3,332	4,998	2,080

(*) 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	12,159	23,056	11,237	3,332	4,998	2,080

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, the multi-employer corporate pension fund plan in which JFC participates paid the refund amount (minimum reserve) to the national government on September 22, 2017 with regard to the substituted portion of the employee's pension fund.

The result of this on profit and loss during the fiscal year under review was de minimis.

Defined benefits plan

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

Opening balance of projected benefit obligations	91 million yen
Service cost	4
Interest cost	0
Actuarial difference	5
Payment of retirement benefits	—
Prior service cost	(2)
Extinction of projected benefit obligations due to transfer of benefit obligation relating to employees' pension fund	(6)
Other	4
Closing balance of projected benefit obligations	<u>97</u>

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

Opening balance of fair value of plan assets	23 million yen
Expected return on plan assets	0
Actuarial difference	(2)
Financing from employer	2
Payment of retirement benefits	—
Extinction of plan assets due to transfer of benefit obligation relating to employees' pension fund	(6)
Other	1
Closing balance of fair value of plan assets	<u>19</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 million yen
Fair value of plan assets	<u>(19)</u>
	7
Projected benefit obligations of unfunded plan	<u>70</u>
Unfunded pension obligations	78
Actuarial unrecognized difference	(31)
Unrecognized prior service cost	3
Net amount of liabilities and assets recorded on the balance sheet	<u>50</u>
Provision for retirement benefits	60
Prepaid pension cost	<u>(10)</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>50</u>

(4) Net pensions cost and breakdown of included items

Service cost	4 million yen
Interest cost	0
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	3
Amortization of prior service cost accounted for as expense	(0)
Other	—
Net pensions cost related to defined benefits plan	<u>7</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	24%
Debentures	62%
General account	14%
Cash and deposits	1%
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	3.0% to 5.9%

Defined contribution pension plan

This operation account'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, 2018 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, 2018
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Note i)	100 (Direct)	Administration for policy based financing	Receipt of funds ^(Note ii)	532	Borrowings	56,862
				Repayment of borrowings	11,924		
				Payment of interest on borrowings	313	Accrued expenses	104

(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 ¥78 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, 2018
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	152,837 ^(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 operation 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, this operation account 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	¥0.79
Net loss per share	¥0.04

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	6,951	368	3,437	10,757
Non-accrual loans	102,107	38,739	438,591	579,438
Loans with interest or principal repayments more than three months in arrears	40	442	—	483
Restructured loans	412,638	17,546	85,136	515,321
Total	521,738	57,096	527,165	1,106,001
Total of risk-monitored loans/outstanding loans (%)	7.46	2.05	9.80	7.29

(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	35,174	4,061	13,737	52,972
Doubtful	74,270	35,073	428,370	537,714
Special attention	412,679	17,988	85,136	515,804
Subtotal (1)	522,124	57,123	527,244	1,106,491
Normal	6,479,039	2,746,019	4,867,813	14,092,872
Total (2)	7,001,163	2,803,143	5,395,168	15,199,475
(1/2) (%)	7.46	2.04	9.77	7.28

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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