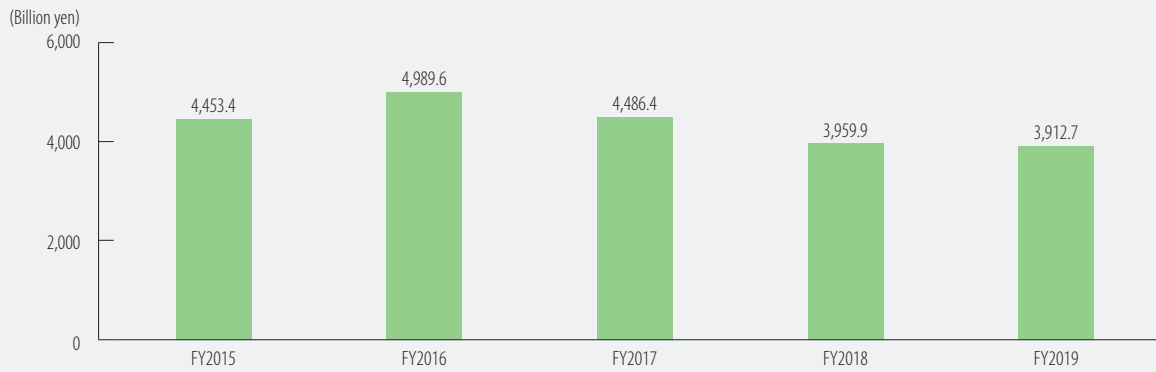


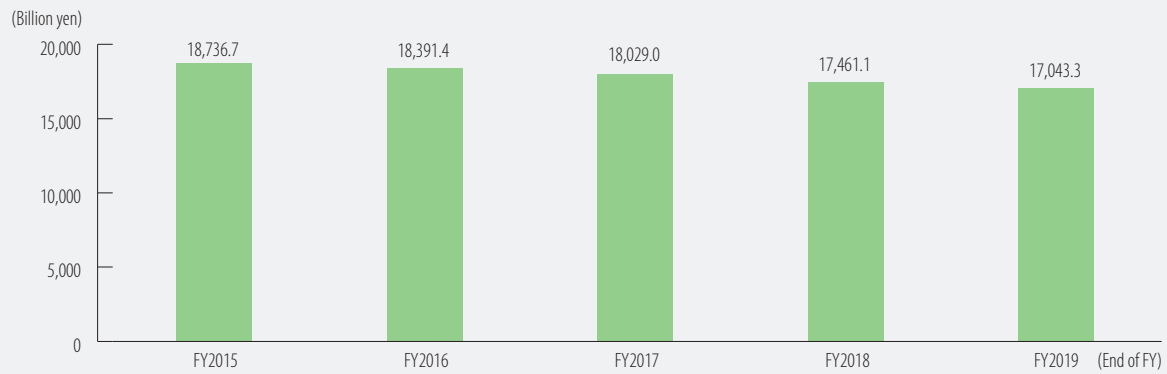
■ Data ■

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1 Changes in Annual Loan Operations

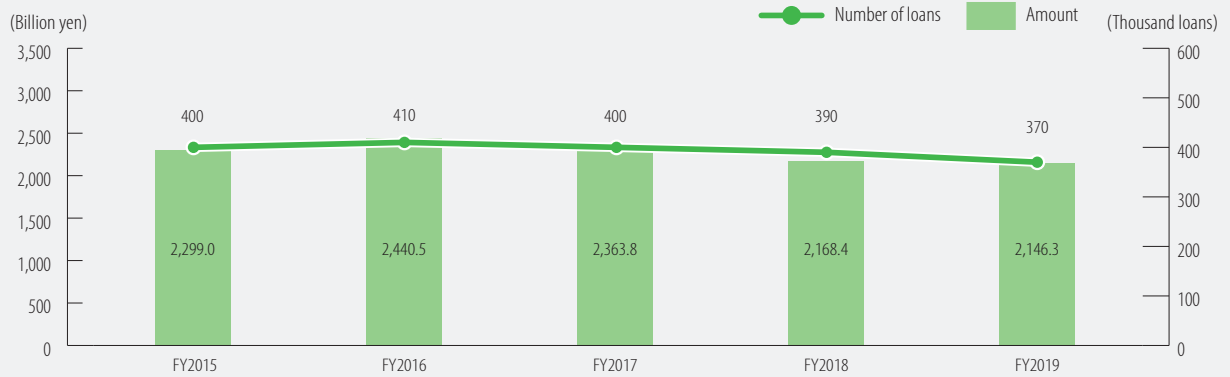


2 Changes in Outstanding Loans



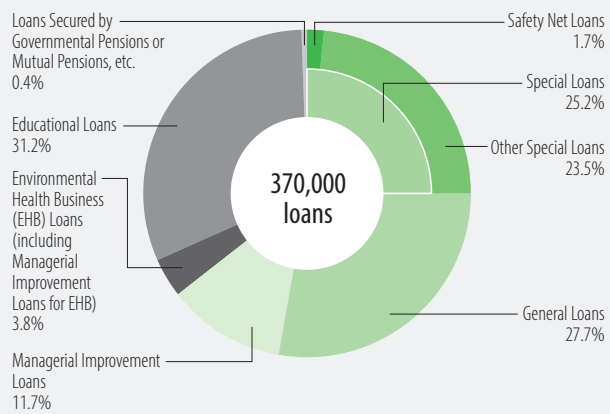
Micro Business and Individual Unit

1 Changes in Annual Loan Operations

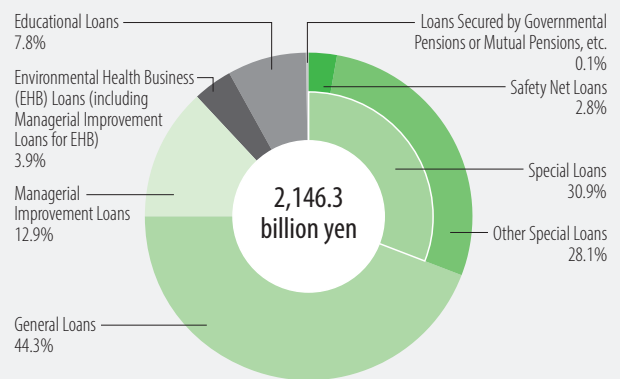


2 Breakdown of Loans by Scheme

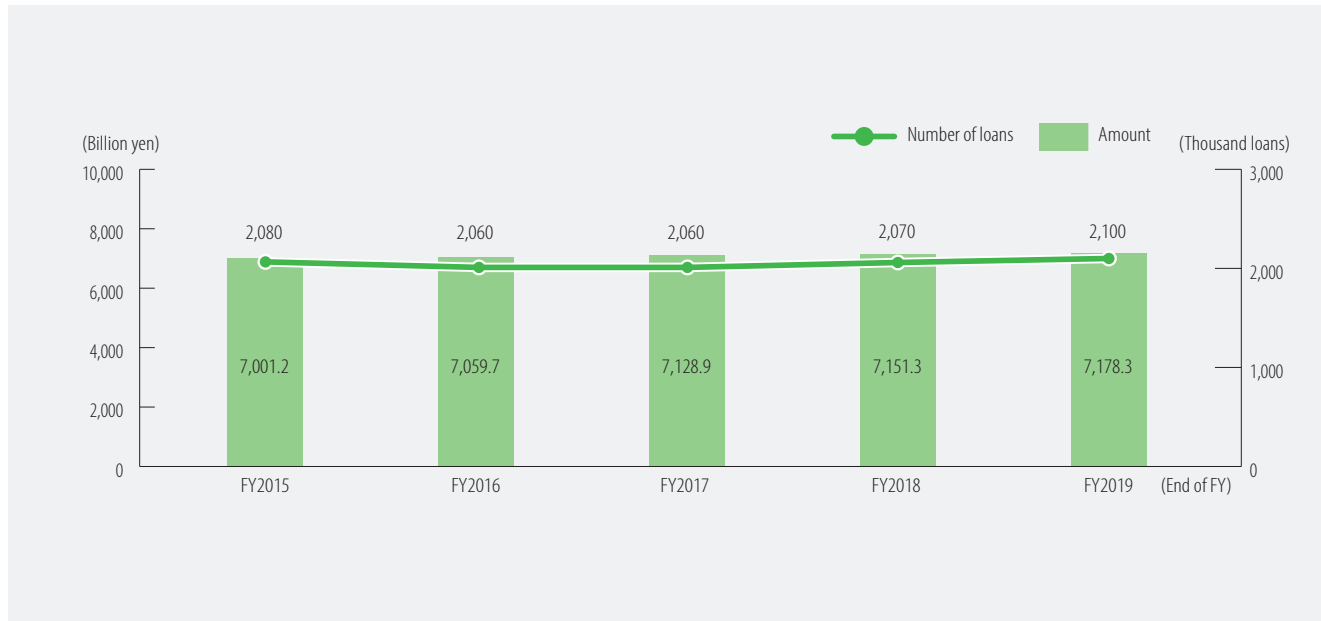
▼ Number of Loans (FY2019)



▼ Total Amount of Loans (FY2019)



3 Changes in Outstanding Loans



4 Breakdown of Business Loans Outstanding by Industry

(Unit: billion yen, %)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Manufacturing	644.6 (10.6)	623.8 (10.2)	606.2 (9.8)	586.1 (9.5)	574.2 (9.3)
Wholesale & Retail	1,380.9 (22.6)	1,359.0 (22.1)	1,346.5 (21.8)	1,318.1 (21.3)	1,293.6 (20.9)
Restaurants & Hotels	493.8 (8.1)	512.8 (8.3)	532.7 (8.6)	547.9 (8.9)	580.7 (9.4)
Services	1,403.8 (23.0)	1,434.1 (23.3)	1,472.5 (23.8)	1,501.1 (24.2)	1,525.4 (24.6)
Construction	884.6 (14.5)	900.3 (14.6)	916.8 (14.8)	919.5 (14.9)	911.1 (14.7)
Others	1,299.1 (21.3)	1,316.1 (21.4)	1,315.8 (21.3)	1,317.7 (21.3)	1,313.6 (21.2)
Total	6,107.1 (100.0)	6,146.4 (100.0)	6,190.8 (100.0)	6,190.6 (100.0)	6,198.8 (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, %)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Restaurant-related services	138.7 (47.9)	148.0 (49.4)	159.1 (50.8)	169.7 (51.7)	178.0 (51.9)
Beauty parlors	58.3 (20.1)	61.3 (20.4)	65.6 (21.0)	69.9 (21.3)	73.1 (21.3)
Hotels	50.1 (17.3)	49.8 (16.6)	48.8 (15.6)	49.4 (15.1)	53.9 (15.7)
Barbershops	19.7 (6.8)	19.4 (6.5)	19.4 (6.2)	19.4 (5.9)	19.4 (5.7)
Public baths	11.8 (4.1)	10.3 (3.5)	9.5 (3.0)	8.7 (2.7)	8.0 (2.4)
Laundries	7.3 (2.5)	7.1 (2.4)	7.1 (2.3)	6.9 (2.1)	6.7 (2.0)
Meat shops	2.1 (0.7)	2.4 (0.8)	2.4 (0.8)	2.6 (0.8)	2.4 (0.7)
Entertainment facilities	0.9 (0.3)	0.8 (0.3)	0.6 (0.2)	0.8 (0.3)	0.5 (0.2)
Others	0.4 (0.1)	0.3 (0.1)	0.3 (0.1)	0.4 (0.1)	0.3 (0.1)
Total	289.7 (100.0)	299.8 (100.0)	313.3 (100.0)	328.0 (100.0)	342.8 (100.0)

Note: Figures in parentheses denote percentage of shares.

6 Breakdown of Outstanding Loans by Use

(Unit: billion yen, %)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Operating funds	3,860.7 (63.2)	3,871.2 (63.0)	3,914.0 (63.2)	3,880.7 (62.7)	3,891.8 (62.8)
Facility funds	2,246.3 (36.8)	2,275.1 (37.0)	2,276.7 (36.8)	2,309.9 (37.3)	2,307.0 (37.2)
Total	6,107.1 (100.0)	6,146.4 (100.0)	6,190.8 (100.0)	6,190.6 (100.0)	6,198.8 (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

(Number of businesses)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Number of borrowers	886,207	880,104	879,639	881,622	881,026

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

8 Average Loan Balance per Business

(Thousand yen)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Average loan balance per business	6,891	6,983	7,037	7,021	7,036

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

9 Educational Loans Outstanding, etc.

(Billion yen)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Educational Loans	882.4	903.4	930.0	953.2	973.6
Loans Secured by Governmental Pensions and Mutual Pensions, etc.	11.6	9.7	7.9	7.3	5.8

10 Breakdown of Loans by Credit Amount

(Unit: number of loans, %)

	FY2015	FY2016	FY2017	FY2018	FY2019
Up to 3 million yen	89,022 (33.9)	90,876 (32.8)	89,410 (33.2)	88,280 (34.3)	87,643 (34.2)
Over 3 million yen and up to 5 million yen	52,323 (19.9)	56,115 (20.2)	54,534 (20.2)	53,659 (20.8)	52,774 (20.6)
Over 5 million yen and up to 8 million yen	35,667 (13.6)	37,288 (13.5)	35,830 (13.3)	34,829 (13.5)	34,586 (13.5)
Over 8 million yen	85,679 (32.6)	92,945 (33.5)	89,603 (33.3)	80,872 (31.4)	80,994 (31.6)
Total	262,691 (100.0)	277,224 (100.0)	269,377 (100.0)	257,640 (100.0)	255,997 (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, %)

	FY2015	FY2016	FY2017	FY2018	FY2019
4 or fewer	186,137 (70.9)	197,007 (71.1)	192,794 (71.6)	172,541 (67.0)	166,749 (65.1)
5-9	49,279 (18.8)	51,279 (18.5)	48,486 (18.0)	51,002 (19.8)	51,647 (20.2)
10-19	18,411 (7.0)	19,550 (7.1)	19,046 (7.1)	21,541 (8.4)	23,108 (9.0)
20 or more	8,861 (3.4)	9,386 (3.4)	9,047 (3.4)	12,555 (4.9)	14,489 (5.7)
Total	262,688 (100.0)	277,222 (100.0)	269,373 (100.0)	257,639 (100.0)	255,993 (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, %)

	FY2015	FY2016	FY2017	FY2018	FY2019	
No collateral	213,575 (81.3)	229,665 (82.9)	230,263 (85.5)	223,271 (86.7)	223,441 (87.3)	
Collateral	Real estate (including partial collateral)	49,018 (18.7)	47,488 (17.1)	39,054 (14.5)	34,323 (13.3)	32,522 (12.7)
	Securities	16 (0.0)	21 (0.0)	10 (0.0)	10 (0.0)	4 (0.0)
	Credit Guarantee Corporations (CGCs)	— (—)	— (—)	— (—)	— (—)	— (—)
	Others	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Total	262,609 (100.0)	277,174 (100.0)	269,327 (100.0)	257,604 (100.0)	255,967 (100.0)	

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

2. Figures in parentheses denote percentage of shares.

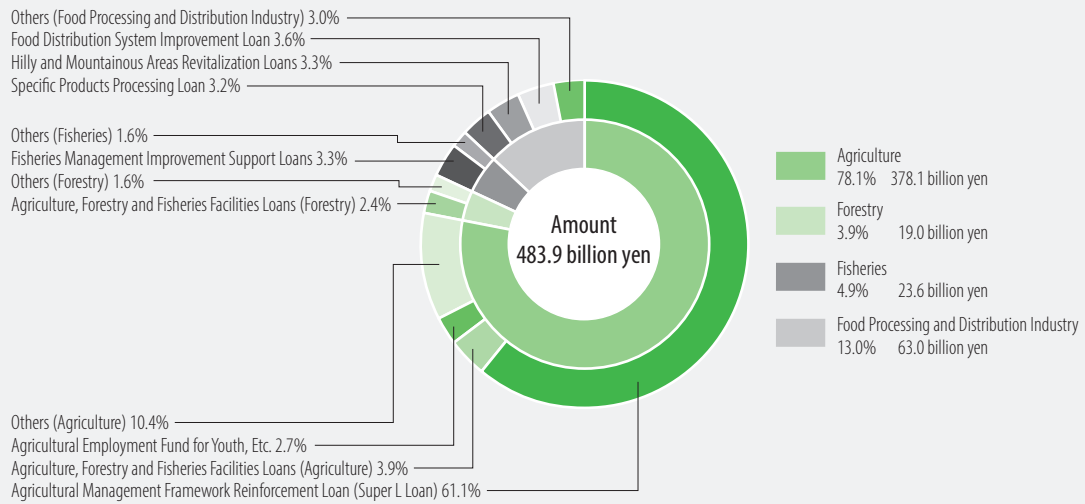
3. Partial collateral refers to real estate or other collateral whose estimated values do not reach amounts borrowed. Partial collateral of "Securities," "Credit Guarantee Corporations" and "Others" are included in "Real estate."

Agriculture, Forestry, Fisheries and Food Business Unit

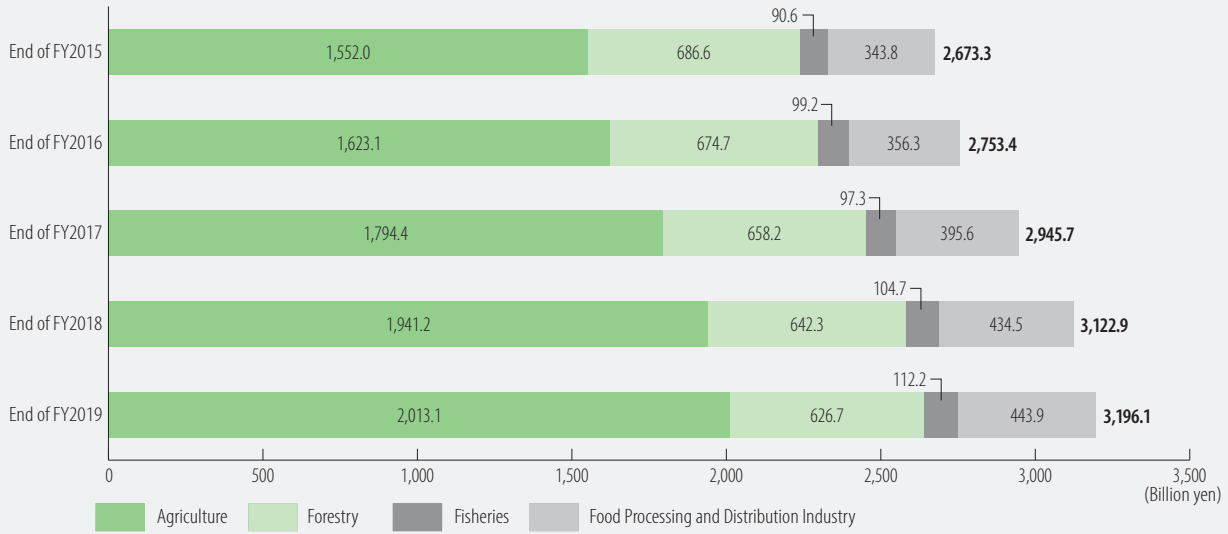
1 Changes in Annual Loan Operations



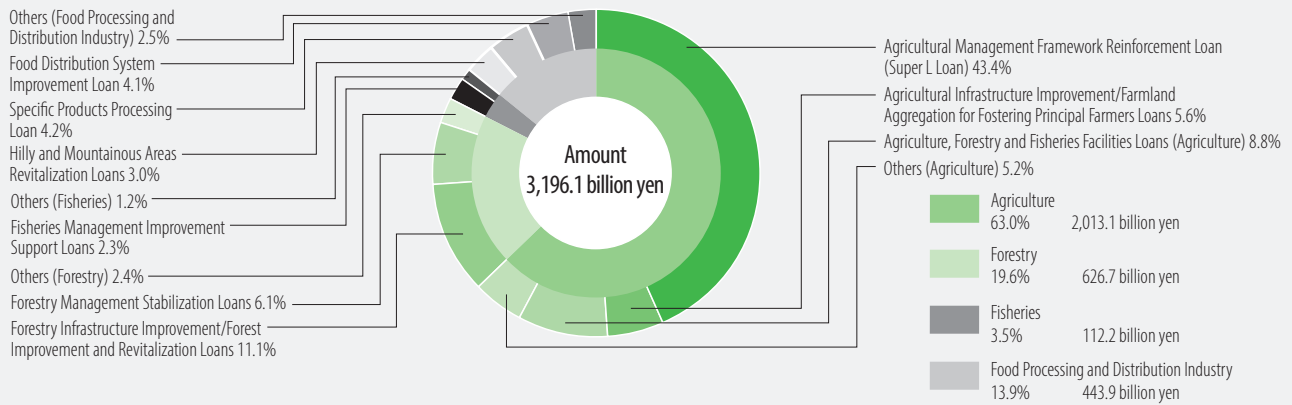
2 Breakdown of Loans by Scheme (FY2019)



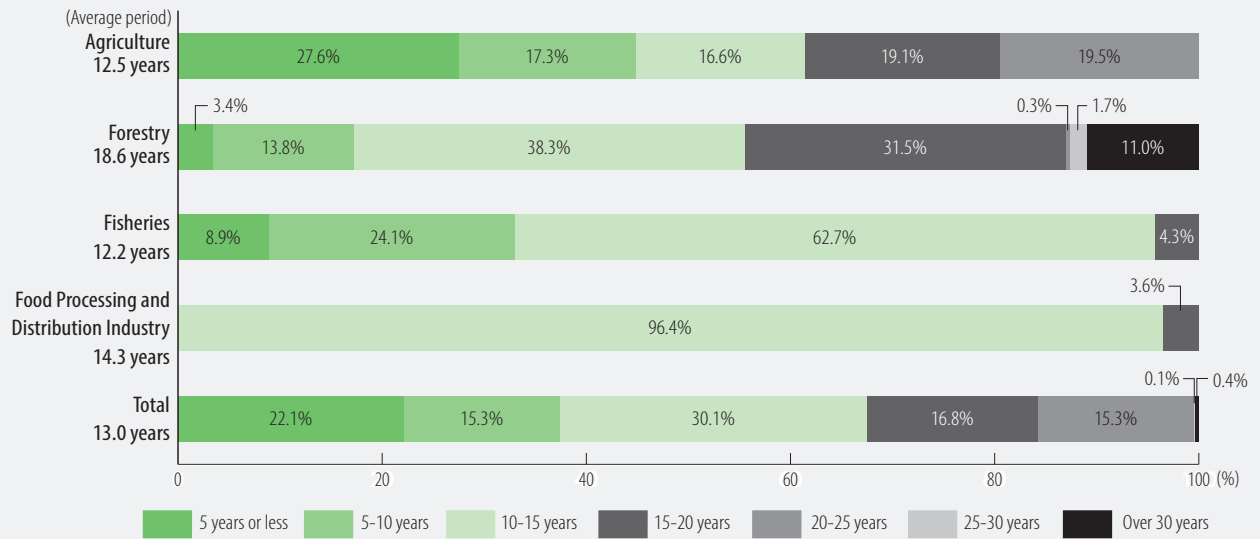
3 Changes in Outstanding Loans



4 Breakdown of Outstanding Loans by Sector and Use (End of FY2019)

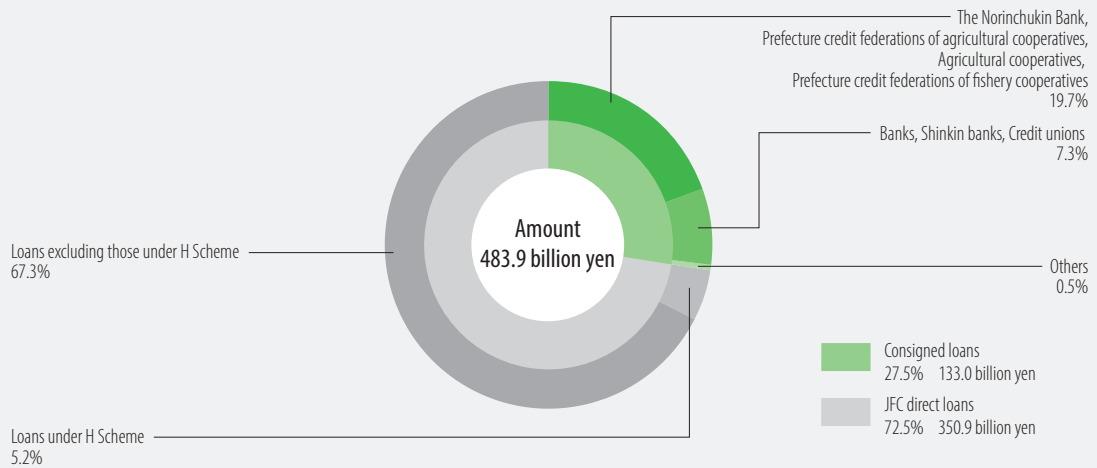


5 Loans by Repayment Period (FY2019)



Note: Aggregated by loan amount.

6 Loans by Commissioned Financial Institutions (FY2019)

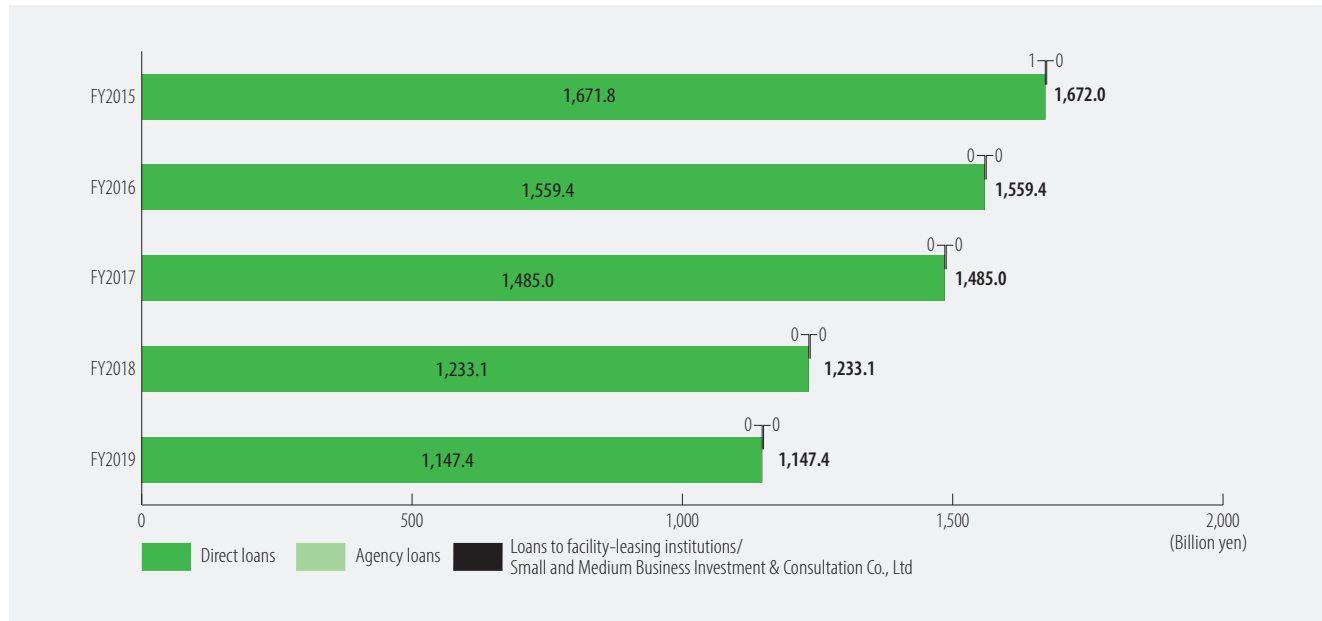


Note: H Scheme refers to a loan system through consignment of part of administration works for JFC's direct loans to agricultural cooperatives, banks, Shinkin banks, etc.

Small and Medium Enterprise (SME) Unit

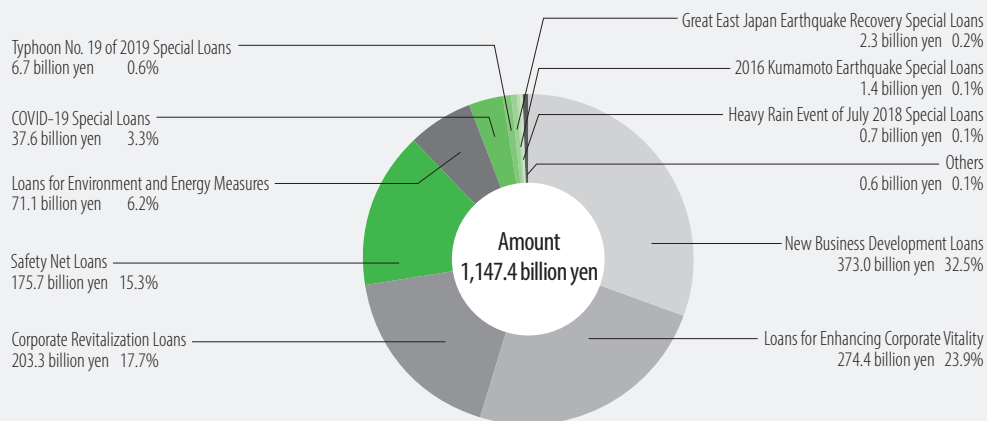
I. Loan Programs

1 Changes in Annual Loan Operations



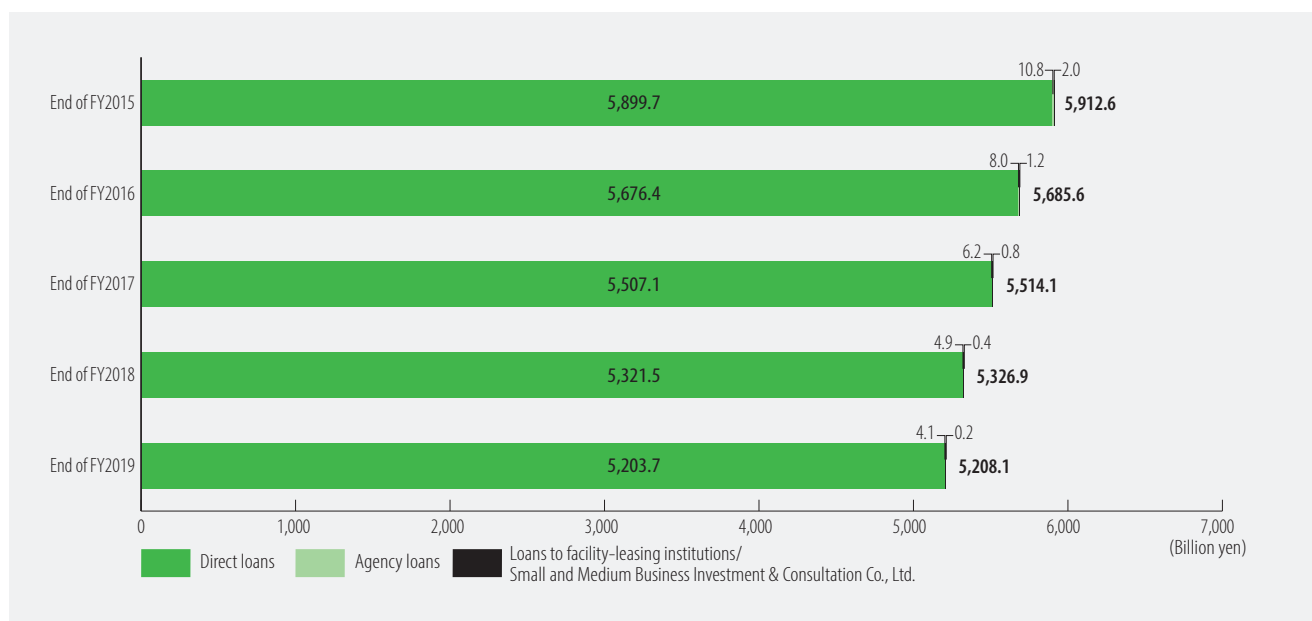
2 Breakdown of Loans by Scheme

▼ Total Amount of Loans (FY2019)



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, %)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Manufacturing	2,772.9 (46.9)	2,675.2 (47.1)	2,588.1 (46.9)	2,487.1 (46.7)	2,387.4 (45.8)
Construction	274.4 (4.6)	260.2 (4.6)	255.9 (4.6)	252.1 (4.7)	249.4 (4.8)
Wholesale & retail	985.5 (16.7)	920.1 (16.2)	895.5 (16.2)	834.3 (15.7)	787.1 (15.1)
Transport & telecommu- nications	540.9 (9.2)	538.9 (9.5)	535.6 (9.7)	538.2 (10.1)	549.9 (10.6)
Services	618.6 (10.5)	601.0 (10.6)	581.8 (10.6)	584.2 (11.0)	612.5 (11.8)
Others	718.0 (12.1)	688.7 (12.1)	656.2 (11.9)	630.2 (11.8)	621.1 (11.9)
Total	5,910.6 (100.0)	5,684.4 (100.0)	5,513.3 (100.0)	5,326.4 (100.0)	5,207.9 (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, %)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Operating funds	3,742.0 (63.3)	3,497.2 (61.5)	3,321.1 (60.2)	3,013.5 (56.6)	2,785.2 (53.5)
Facility funds	2,168.6 (36.7)	2,187.2 (38.5)	2,192.2 (39.8)	2,312.8 (43.4)	2,422.6 (46.5)
Total	5,910.6 (100.0)	5,684.4 (100.0)	5,513.3 (100.0)	5,326.4 (100.0)	5,207.9 (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

(Number of businesses)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Number of borrowers	45,583	44,665	44,145	43,929	44,102

Note: Figures cover only businesses with direct loans.

7 Average Loan Balance per Business

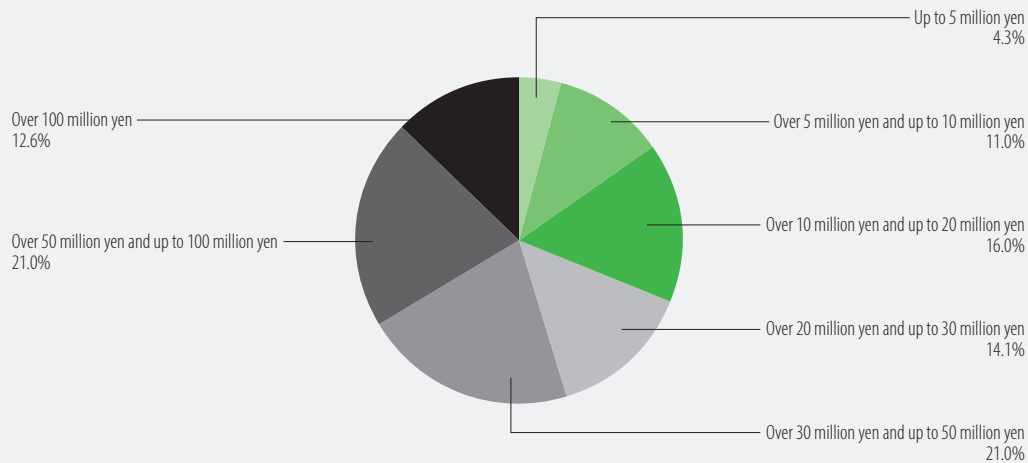
(Million yen)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Average loan balance per business	129	127	124	121	117

Note: Figures cover only businesses with direct loans.

8 Loans by Credit Amount

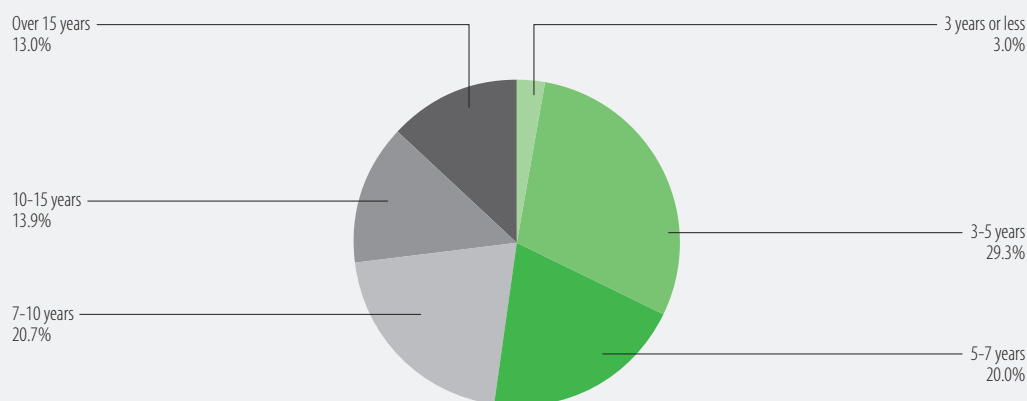
▼ Loan Percentage Breakdown (FY2019)



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

9 Loans by Repayment Period

▼ Loan Percentage Breakdown (FY2019)



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

II. Credit Insurance Programs

(Billion yen)

Items	FY2015	FY2016	FY2017	FY2018	FY2019
Amounts of insurance acceptance and loans					
Small Business Credit Insurance	8,561.4	8,101.1	7,635.5	7,707.2	8,324.3
Loans to CGCs	—	—	—	—	—
Special Insurance for Mid-size Enterprises	—	—	—	—	—
Outstanding amounts of insurance and loans					
Small Business Credit Insurance	26,011.1	24,093.6	22,401.0	21,264.0	21,244.8
Loans to CGCs	—	—	—	—	—
Special Insurance for Mid-size Enterprises	0.0	0.0	0.0	0.0	0.0
Machinery Credit Insurance ^(Note)	1.1	0.7	0.4	—	—

Notes: 1. Suspending the acceptance of new insurance since FY2003, 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).

2. Outstanding amounts of insurance and loans are as of March 31, 2020.

III. Securitization Support Programs

(Billion yen)

Items	FY2015	FY2016	FY2017	FY2018	FY2019
Financing support amount					
Purchase-type	12.1	25.7	27.0	34.5	33.2
Guarantee-type	—	—	—	—	—
Outstanding amount of financing support					
Purchase-type	12.1	33.7	50.1	67.2	78.3
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	18.1	17.4
Purchase-type (outstanding amounts of asset-backed securities)	1.5	3.7	6.6	10.3	14.9
Guarantee-type (outstanding amount of guaranteed liabilities)	0.0	0.0	0.0	0.0	0.0
Standby Letter of Credit Program (outstanding amount of guaranteed liabilities)	4.4	4.6	5.3	5.2	4.7

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, the Act on Support for Strengthening Agricultural Competitiveness, and the Act on Rationalization of Foodstuff Distribution and Normalization of Foodstuff Trading. ^(Note)

5. Outstanding amounts of trust beneficiary rights and guaranteed liabilities are as of March 31, 2020.

Note: This is a literal translation, not an official English name.

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

Results of Operations to Facilitate Crisis Responses

(Billion yen)

	Second Half of FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
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	—	35.0
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	—	35.0
Commercial paper (CP) acquisitions	299.8	339.8	—	—	—	—	—	—	—	—	—	—
Loss compensation	345.1	1,811.9	1,893.3	1,739.8	1,470.2	1,409.3	1,234.2	1,077.5	547.3	89.2	1.0	0.8
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	1.0	0.8
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	4.9	2.7

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 2020.

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 2020, with loss compensation underwritten by JFC for losses incurred until May 10, 2020. 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 2019 (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

(Billion yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
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 the end of March 2020.

Results of Operations to Facilitate Business Restructuring Promotion

(Billion yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Two-step loans	—	25.0	—	20.0	—	—	—	—	100.0

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 the end of March 2020 (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, 2020)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	4,401,127	Borrowed money	12,810,374
Cash	24	Borrowings	12,810,374
Due from banks	4,401,103	Bonds payable	1,410,475
Securities	41,931	Entrusted funds	27,032
Government bonds	21,180	Reserve for insurance policy liabilities	773,166
Corporate bonds	17,525	Other liabilities	19,725
Stocks	2,037	Accrued expenses	6,581
Other securities	1,187	Unearned revenue	951
Loans and bills discounted	16,680,995	Derivatives other than for trading-liabilities	57
Loans on deeds	16,680,995	Lease obligations	2,465
Other assets	37,882	Other	9,668
Prepaid expenses	110	Provision for bonuses	5,345
Accrued income	17,342	Provision for directors' bonuses	24
Agency accounts receivable	2,073	Provision for retirement benefits	88,748
Other	18,355	Provision for directors' retirement benefits	60
Property, plant and equipment	194,629	Reserve for compensation losses	25,652
Buildings	51,931	Acceptances and guarantees	100,967
Land	139,237	Total liabilities	15,261,572
Lease assets	2,137	Net assets	
Construction in progress	319	Capital stock	4,324,220
Other	1,002	Capital surplus	2,233,784
Intangible assets	15,741	Special reserve for administrative improvement funds	181,500
Software	10,665	Legal capital surplus	2,052,284
Lease assets	63	Retained earnings	(781,227)
Other	5,012	Legal retained earnings	291,637
Customers' liabilities for acceptances and guarantees	100,967	Other retained earnings	(1,072,864)
Allowance for loan losses	(434,924)	Retained earnings brought forward	(1,072,864)
		Total shareholders' equity	5,776,777
		Total net assets	5,776,777
Total assets	21,038,349	Total liabilities and net assets	21,038,349

Data

Statement of Operations (Year ended March 31, 2020)

(Millions of yen)

Items	Amount
Ordinary income	469,463
Interest income	212,345
Interest on loans and discounts	211,707
Interest and dividends on securities	225
Interest on deposits with banks	384
Other interest income	28
Fees and commissions	1,391
Fees and commissions on compensation security contract	834
Other fees and commissions	557
Insurance premiums and other	194,860
Insurance premiums	122,704
Receipts of burden charges under the Responsibility-sharing System	6,888
Reversal of reserve for insurance policy liabilities	65,267
Receipts from the national budget	54,732
Receipts from general account of the national budget	54,715
Receipts from special account of the national budget	17
Other income	6,133
Recoveries of written-off claims	910
Gain on sales of stocks and other securities	81
Other	5,141
Ordinary expenses	498,790
Interest expenses	38,368
Interest on call money	(7)
Interest on borrowings and rediscounts	33,640
Interest on bonds	4,707
Other interest expenses	27
Fees and commissions payments	3,496
Other fees and commissions	3,496
Expenses on insurance claims and other	189,340
Expenses on insurance claims	261,285
Recoveries of insurance claims	(71,944)
Other ordinary expenses	3,547
Loss on foreign exchange transactions	340
Amortization of bond issuance cost	457
Interest subsidies	2,750
General and administrative expenses	120,380
Other expenses	143,656
Provision of allowance for loan losses	114,915
Provision of reserve for compensation losses	9,507
Written-off of loans	14,338
Other	4,894
Ordinary loss	29,326
Extraordinary income	104
Gain on disposal of noncurrent assets	104
Extraordinary losses	423
Loss on disposal of noncurrent assets	252
Impairment loss	171
Net loss	29,646

Statement of Changes in Net Assets (Year ended March 31, 2020)

(Millions of yen)

	Shareholders' equity								Total net assets
	Capital stock	Capital surplus			Retained earnings			Total shareholders' equity	
		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	4,195,898	181,500	1,988,384	2,169,884	199,537	(951,080)	(751,542)	5,614,239	5,614,239
Changes of items during the period									
Issuance of new shares	128,322		63,900	63,900				192,222	192,222
Provision of legal retained earnings					92,113	(92,113)	—	—	—
Reversal of legal retained earnings					(13)	13	—	—	—
Payment to the national treasury						(38)	(38)	(38)	(38)
Net income (loss)						(29,646)	(29,646)	(29,646)	(29,646)
Total changes of items during the period	128,322	—	63,900	63,900	92,100	(121,784)	(29,684)	162,537	162,537
Balance at the end of current period	4,324,220	181,500	2,052,284	2,233,784	291,637	(1,072,864)	(781,227)	5,776,777	5,776,777

Data

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

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

(b) Valuation method for derivative financial instruments

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

(c) Depreciation basis for fixed assets

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

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) 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 is provided based on primarily the anticipated loss amount within the next one year or the anticipated loss amount within the next three years. The anticipated loss amount is calculated by seeking the loss rate on the basis of the average default rate over a certain period in the past based on the default rates for one or three years and making necessary adjustments such as future expectations.

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 ¥217,708 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 (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).

(ii) Reserve for compensation losses

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

(iii) Provision for bonuses

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

(iv) Provision for directors’ bonuses

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

(v) Provision for retirement benefits

The “provision for retirement benefits” represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end. In addition, in calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition are calculated as follows:

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

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

(vi) Provision for directors’ retirement benefits

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

(g) Accounting policies for reserve for insurance policy liabilities

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

(i) Policy reserve

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

(ii) Outstanding claims reserve

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

(h) Consumption and other taxes

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

Issued but not yet adopted accounting standards and others

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(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 accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

(2) Scheduled date of application

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

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, 2020		
	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	4,944	1,273	2,943
Non-accrual loans	104,517	53,539	451,356
Loans with interest or principal repayments more than three months in arrears	30	720	—
Restructured loans	414,525	19,183	71,802
Total	524,017	74,717	526,102

(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, 2020 is ¥145,333 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 ¥1,410,475 million.

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥35,848 million.

6. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (35,882 contracts)	472,557
Reserve for compensation	25,652
Net amount	446,905

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

1. Ordinary income-Other income-Other: ¥0 million
2. Ordinary expenses-General and administrative expenses: ¥0 million

9. Issued shares

For the fiscal year ended March 31, 2020, 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	10,337,226,107,741	192,222,000,000	—	10,529,448,107,741

(Note) Increase is due to the issuance of 192,222,000,000 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.

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, the FILP agency bonds, and funding provided by government 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 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 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, the FILP agency bonds, and funding provided by government 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 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, (5) Guarantee related to the liabilities of SMEs and micro businesses' overseas subsidiaries and branches, and (6) 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, the FILP agency bonds, and funding provided by government 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, and funding provided by government 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, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In this process, first stage assessments are conducted by the branch offices, second stage assessments by the Asset Self Assessment Office, and internal inspections by the auditing department.

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

(iii) Quantification of credit risk

A credit scoring model for borrowers based on analysis of transaction data collected over a number of years has been 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 approach and duration analysis, and appropriate risk management is carried out through adjustment of procurement period limits and other means 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, 2020 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥18,358 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 ¥17,393 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, FILP agency bonds, and funding provided by government 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, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. 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 approach 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, 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, 2020 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥12,625 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 ¥11,251 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, FILP agency bonds, and funding provided by government 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 companies 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 management improvement plans.

(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 financing operations and have been used in the formulation of lending policy and in the screening process.

(iii) Asset self assessment

For these financing operations, JFC has conducted the asset self assessment such that the characteristics of assets in these financing operations are properly reflected in the assessment results. 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 formation of a securitization project, the redemption status of the underlying claims is verified and monitoring is performed. With respect to loan receivable-backed securities guaranteed in this operation account, credit risks are accurately determined by using external ratings or statistical methods such as Monte Carlo simulations.

(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 methods such as maturity ladder approach, and duration analysis, and conduct proper risk management by attempting to reduce interest rate risk through adjustment of procurement period limits and other means.

(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 conducted 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, 2020 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥34,338 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 ¥32,245 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, FILP agency bonds, and funding provided by government 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.

After formation of a securitization project, the redemption status of the underlying claims is verified and monitoring is performed. With respect to loan receivable-backed securities in this operation account, credit risks are accurately determined by using external ratings or statistical methods such as Monte Carlo simulations.

(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, 2020 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥1,567 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 ¥1,413 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.

(b) Liquidity risk management related to fund procurement

Long-term and stable 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, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. 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, and funding provided by government 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, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. 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, 2020, 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	4,401,127	4,407,573	6,445
(2) Securities			
Held-to-maturity debt securities	21,208	22,484	1,276
Other securities	0	0	—
(3) Loans and bills discounted	16,173,188		
Allowance for loan losses ^(*)	(244,187)		
	15,929,000	16,565,689	636,688
Total assets	20,351,336	20,995,747	644,411
(1) Borrowings	12,656,782	12,807,845	151,063
(2) Bonds payable	1,410,475	1,433,778	23,303
Total liabilities	14,067,257	14,241,624	174,366
Derivative transactions ^(**)			
Derivative transactions not qualifying for hedge accounting	(57)	(57)	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	(57)	(57)	—

(*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. The figures in parentheses indicate net liabilities.

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

Assets

(1) Cash and due from banks

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

(2) Securities

Market value is used for bonds. However, for corporate bonds in the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), the carrying amount is used as fair value because fair value approximates the carrying amount. Partnership assets that could be assessed at fair value were measured at fair value, and the amount corresponding to equity holding was recorded as the fair value of the partnership investments.

Notes for securities by purpose of holding are found in "11. 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)

For loans with fixed interest rates, the fair value is calculated 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 loans with variable interest rates, since short-term market rates are reflected, the fair value resembles the carrying amount as long as there is no significant difference in the credit status of the borrower, the carrying amount is used as the fair value. For obligations on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers subject to variable interest rates, 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: ¥472,557 million

Compensation loss reserve: ¥25,652 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}	17,497
3) Partnership investments ^{(*)3}	1,187
4) Loans on deeds (subordinated capital loans) ^{(*)4}	507,807
5) Borrowings from general account of the national budget ^{(*)5}	131,300
6) Borrowings from the FILP special account (investment account) of the national budget ^{(*)6}	22,292
Total	682,122

(*)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 in which 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 ^(*)	3,486,003	140,000	775,100	—	—	—
Securities						
Held-to-maturity debt securities	18	—	—	—	—	21,078
Loans and bills discounted ^(*)	3,209,271	5,247,073	3,286,848	1,855,319	1,466,845	1,443,642
Total	6,695,292	5,387,073	4,061,948	1,855,319	1,466,845	1,464,720

(*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 ¥171,993 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 ^(*)	2,867,242	4,590,422	2,606,410	1,160,130	872,674	582,194
Bonds payable	295,000	480,000	280,000	150,000	170,000	35,000
Total	3,162,242	5,070,422	2,886,410	1,310,130	1,042,674	617,194

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

11. 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, 2020 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	21,180	22,456	1,276
Securities whose fair value does not exceed their carrying amount	Corporate bonds	28	28	—
Total		21,208	22,484	1,276

(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 does not exceed their acquisition cost	Others	191,500	191,501	(1)

(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	17,497
Others	1,187
Total	18,692

These are not included in the above table of "Available-for-sale securities" because they have no quoted market price and their fair value is extremely difficult to be determined.

(d) Available-for-sale securities sold in the fiscal year in review (from April 1, 2019 to March 31, 2020)

	Sales amount (Millions of yen)	Total gain on sales (Millions of yen)	Total loss on sales (Millions of yen)
Stocks	2	2	—

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.

Defined benefits plan

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

Opening balance of projected benefit obligations	173,252 million yen
Service cost	6,120
Interest cost	173
Actuarial difference	4,985
Payment of retirement benefits	(9,161)
Prior service cost	—
Other	—
Closing balance of projected benefit obligations	<u>175,370</u>

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

Opening balance of fair value of plan assets	62,635 million yen
Expected return on plan assets	1,252
Actuarial difference	(2,642)
Financing from employer	2,910
Payment of retirement benefits	(3,306)
Other	—
Closing balance of fair value of plan assets	<u>60,848</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	85,458 million yen
Fair value of plan assets	<u>(60,848)</u>
	24,610
Projected benefit obligations of unfunded plan	<u>89,911</u>
Unfunded pension obligations	114,522
Actuarial unrecognized difference	(30,713)
Unrecognized prior service cost	<u>4,940</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>88,748</u>
Provision for retirement benefits	88,748
Prepaid pension cost	<u>—</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>88,748</u>

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

Service cost	6,120 million yen
Interest cost	173
Expected return on plan assets	(1,252)
Amount of actuarial difference accounted for as expense	4,290
Amortization of prior service cost accounted for as expense	(1,349)
Other	<u>—</u>
Net pensions cost related to defined benefits plan	<u>7,982</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	22%
Debentures	65%
General account	13%
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	1.5% to 6.2%

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥372 million.

14. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥2,016 million
Profit on investment in affiliates (equity method)	¥27 million

15. Related party transactions

Related party transactions in the fiscal year ended March 31, 2020 are as follows:

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, 2020
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	96.77 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	190,893	—	—
				Receipts from general account of the national budget	15,202	—	—
				Receipt of funds ^(Note iv)	3,206,500	Borrowings	12,663,855
				Repayment of borrowing	3,276,583		
				Payment of interest on borrowings	33,668	Accrued expenses	4,743
				Deposit of funds ^(Note v)	6,235,400	Due from banks	3,368,800
				Refund of funds	6,302,400		
Guarantee for bonds payable ^(Note vi)	715,491	—	—				

(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)	0.05%
-Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries)	0.38%
-Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry)	2.80%

(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	¥329 million
-Ministry of Economy, Trade and Industry	
Underwriting of capital increase	¥1,000 million
-Ministry of Health, Labour and Welfare	
Receipts from the national budget	¥3,190 million
-Ministry of Agriculture, Forestry and Fisheries	
Receipts from the national budget	¥16,039 million
-Ministry of Economy, Trade and Industry	
Receipts from the national budget	¥75 million
-Agency for Natural Resources and Energy	
Receipts from the national budget	¥0 million
-Small and Medium Enterprise Agency	
Receipts from the national budget	¥20,223 million
-Ministry of Agriculture, Forestry and Fisheries	
Repayment of borrowed money	¥4,557 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.

16. Per share information

Net assets per share	¥0.54
Net loss per share	¥0.00

17. Subsequent events

Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as the underwriter on June 9, 2020 as set forth below pursuant to a resolution of the Board of Directors adopted on May 19, 2020.

Overview of the new shares issue

1. Account for Micro Business and Individual Operations

Type and number of shares to be issued	573,513,000,000 common shares
Issue price	1 yen per share
Total issue price	573,513,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	573,513,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Funding to expand special loans relating to the spread of the COVID-19

2. Account for Agriculture, Forestry, Fisheries and Food Business Operations

Type and number of shares to be issued	16,359,000,000 common shares
Issue price	1 yen per share
Total issue price	16,359,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	16,359,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Funding for substantively unsecured and unguaranteed Young Farmer Business Start-up Loan, etc. and special provision of loans to agriculture, forestry, and fishery businesses affected by the COVID-19

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

Type and number of shares to be issued	398,000,000,000 common shares
Issue price	1 yen per share
Total issue price	398,000,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	398,000,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Funding to expand special loans relating to the spread of the COVID-19

4. Account for Credit Insurance Programs

Type and number of shares to be issued	43,500,000,000 common shares
Issue price	1 yen per share
Total issue price	43,500,000,000 yen
Paid-in capital	0 yen per share
Paid-in capital reserves	1 yen per share
Total paid-in capital	0 yen
Total paid-in capital reserves	43,500,000,000 yen
Payment date	June 9, 2020
Use of capital	Reinforcement of insurance foundations and stable operation of systems

5. Account for Operations to Facilitate Crisis Response

Type and number of shares to be issued	10,576,000,000 common shares
Issue price	1 yen per share
Total issue price	10,576,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	10,576,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Source of funds for compensation security and implantation of operations relating to crisis certification pertaining to matters involving COVID-19

Balance Sheet (as of March 31, 2020)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	335,150	Borrowed money	5,753,200
Cash	17	Borrowings	5,753,200
Due from banks	335,132	Bonds payable	650,416
Loans and bills discounted	7,033,617	Other liabilities	9,072
Loans on deeds	7,033,617	Accrued expenses	1,310
Other assets	10,304	Lease obligations	1,588
Prepaid expenses	15	Other	6,173
Accrued income	6,384	Provision for bonuses	3,243
Agency accounts receivable	675	Provision for directors' bonuses	8
Other	3,228	Provision for retirement benefits	52,612
Property, plant and equipment	96,580	Provision for directors' retirement benefits	18
Buildings	29,731	Total liabilities	6,468,570
Land	64,632	Net assets	
Lease assets	1,395	Capital stock	1,223,643
Construction in progress	117	Capital surplus	181,500
Other	703	Special reserve for administrative improvement funds	181,500
Intangible assets	8,505	Retained earnings	(507,369)
Software	4,968	Other retained earnings	(507,369)
Lease assets	20	Retained earnings brought forward	(507,369)
Other	3,516	Total shareholders' equity	897,773
Allowance for loan losses	(117,813)	Total net assets	897,773
Total assets	7,366,344	Total liabilities and net assets	7,366,344

Statement of Operations (Year ended March 31, 2020)

(Millions of yen)

Items	Amount
Ordinary income	138,257
Interest income	112,610
Interest on loans and discounts	112,610
Interest on deposits with banks	0
Other interest income	0
Fees and commissions	0
Other fees and commissions	0
Receipts from the national budget	24,116
Receipts from general account of the national budget	24,116
Receipts from special account of the national budget	0
Other income	1,530
Recoveries of written-off claims	404
Other	1,126
Ordinary expenses	152,019
Interest expenses	4,159
Interest on call money	(4)
Interest on borrowings and rediscounts	3,821
Interest on bonds	342
Fees and commissions payments	545
Other fees and commissions	545
Other ordinary expenses	278
Amortization of bond issuance cost	278
General and administrative expenses	72,644
Other expenses	74,390
Provision of allowance for loan losses	61,555
Written-off of loans	12,711
Other	123
Ordinary loss	13,762
Extraordinary income	98
Gain on disposal of noncurrent assets	98
Extraordinary losses	310
Loss on disposal of noncurrent assets	138
Impairment loss	171
Net loss	13,974

Statement of Changes in Net Assets (Year ended March 31, 2020)

(Millions of yen)

	Shareholders' equity						Total net assets
	Capital stock	Capital surplus		Retained earnings		Total share-holders' equity	
		Special reserve for administrative improvement funds	Total capital surplus	Other retained earnings	Total retained earnings		
				Retained earnings brought forward			
Balance at the beginning of current period	1,166,433	181,500	181,500	(493,394)	(493,394)	854,538	854,538
Changes of items during the period							
Issuance of new shares	57,210					57,210	57,210
Net income (loss)				(13,974)	(13,974)	(13,974)	(13,974)
Total changes of items during the period	57,210	—	—	(13,974)	(13,974)	43,235	43,235
Balance at the end of current period	1,223,643	181,500	181,500	(507,369)	(507,369)	897,773	897,773

Data

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, is provided based on primarily the anticipated loss amount within the next one year or the anticipated loss amount within the next three years. The anticipated loss amount is calculated by seeking the loss rate on the basis of the average default rate over a certain period in the past based on the default rates for one or three years and making necessary adjustments such as future expectations.

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 ¥139,427 million.

Write-offs of this operation account 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 (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).

(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 standards and others

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(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 accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

(2) Scheduled date of application

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

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, 2020 Account for Micro Business and Individual Operations
Bankrupt loans	4,944
Non-accrual loans	104,517
Loans with interest or principal repayments more than three months in arrears	30
Restructured loans	414,525
Total	524,017

(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, 2020 is ¥5,734 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 ¥650,416 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥20,337 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. Issued shares

For the fiscal year ended March 31, 2020 types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	1,347,933,000,000	57,210,000,000	—	1,405,143,000,000

(Note) Increases is due to the issuance of 57,210,000,000 shares.

7. 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, the FILP agency bonds, and funding provided by government 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, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In this process, first stage assessments are conducted by the branch offices, second stage assessments by the Asset Self Assessment Office, and internal inspections by the auditing department.

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

(iii) Quantification of credit risk

A credit scoring model for borrowers based on analysis of transaction data collected over a number of years has been 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 approach 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, 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, 2020 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥18,358 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 ¥17,393 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, FILP agency bonds, and funding provided by government 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, 2020, 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	335,150	335,150	—
(2) Loans and bills discounted	7,011,697		
Allowance for loan losses ^(*)	(105,015)		
	6,906,681	7,126,686	220,004
Total assets	7,241,831	7,461,836	220,004
(1) Borrowings	5,621,900	5,648,269	26,369
(2) Bonds payable	650,416	651,019	603
Total liabilities	6,272,316	6,299,288	26,972

(*) 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}	21,920
2) Borrowings from general account of the national budget ^{(*)2}	131,300
Total	153,220

(*)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 in which 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}	335,132	—	—	—	—	—
Loans and bills discounted ^{(*)2}	1,407,282	2,399,742	1,601,456	767,017	467,339	281,297
Total	1,742,415	2,399,742	1,601,456	767,017	467,339	281,297

(*)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 ¥109,481 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 ^(*)	1,500,161	2,325,014	1,270,733	298,625	174,378	52,989
Bonds payable	190,000	245,000	130,000	65,000	20,000	—
Total	1,690,161	2,570,014	1,400,733	363,625	194,378	52,989

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

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 of 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.

Defined benefits plan

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

Opening balance of projected benefit obligations	105,597 million yen
Service cost	3,634
Interest cost	105
Actuarial difference	4,965
Payment of retirement benefits	(6,006)
Prior service cost	—
Other	3
Closing balance of projected benefit obligations	<u>108,301</u>

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

Opening balance of fair value of plan assets	38,858 million yen
Expected return on plan assets	777
Actuarial difference	(1,661)
Financing from employer	1,769
Payment of retirement benefits	(2,023)
Other	2
Closing balance of fair value of plan assets	<u>37,722</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	52,979 million yen
Fair value of plan assets	<u>(37,722)</u>
	15,256
Projected benefit obligations of unfunded plan	<u>55,322</u>
Unfunded pension obligations	70,579
Actuarial unrecognized difference	(21,715)
Unrecognized prior service cost	<u>3,749</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>52,612</u>
Provision for retirement benefits	52,612
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>52,612</u>

(4) Net pensions cost and breakdown of included items

Service cost	3,634 million yen
Interest cost	105
Expected return on plan assets	(777)
Amount of actuarial difference accounted for as expense	2,654
Amortization of prior service cost accounted for as expense	(925)
Other	—
Net pensions cost related to defined benefits plan	<u>4,691</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	22%
Debentures	65%
General account	13%
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	2.1% to 5.7%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥226 million.

10. Related party transactions

Related party transactions in the fiscal year ended March 31, 2020 are as follows:

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, 2020
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	99.64 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	56,881	—	—
				Receipts from general account of the national budget	15,147	—	—
				Receipt of funds ^(Note iv)	1,872,000	Borrowings	5,621,900
				Repayment of borrowing	1,617,418		
				Payment of interest on borrowings	3,821	Accrued expenses	747
				Guarantee for bonds payable ^(Note v)	370,414	—	—

(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) 0.36%

(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 ¥329 million
Receipts from the national budget ¥3,190 million
-Agency for Natural Resources and Energy
Receipts from the national budget ¥0 million
-Small and Medium Enterprise Agency
Receipts from the national budget ¥5,778 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.

11. Per share information

Net assets per share	¥0.63
Net loss per share	¥0.01

12. Subsequent events

Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as the underwriter on June 9, 2020 as set forth below pursuant to a resolution of the Board of Directors adopted on May 19, 2020.

Overview of the new shares issue

Type and number of shares to be issued	573,513,000,000 common shares
Issue price	1 yen per share
Total issue price	573,513,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	573,513,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Funding to expand special loans relating to the spread of the COVID-19

Balance Sheet (as of March 31, 2020)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	59,726	Borrowed money	2,487,046
Cash	1	Borrowings	2,487,046
Due from banks	59,725	Bonds payable	259,981
Securities	3,217	Entrusted funds	27,032
Stocks	2,030	Other liabilities	5,524
Other securities	1,187	Accrued expenses	3,976
Loans and bills discounted	3,102,871	Unearned revenue	9
Loans on deeds	3,102,871	Lease obligations	270
Other assets	9,361	Other	1,267
Prepaid expenses	0	Provision for bonuses	662
Accrued income	7,678	Provision for directors' bonuses	8
Agency accounts receivable	1,397	Provision for retirement benefits	11,128
Other	284	Provision for directors' retirement benefits	26
Property, plant and equipment	32,847	Acceptances and guarantees	2,887
Buildings	7,425	Total liabilities	2,794,298
Land	24,934	Net assets	
Lease assets	240	Capital stock	402,363
Construction in progress	169	Retained earnings	2,642
Other	77	Legal retained earnings	2,642
Intangible assets	3,177	Other retained earnings	(0)
Software	1,937	Retained earnings brought forward	(0)
Lease assets	1	Total shareholders' equity	405,005
Other	1,238		
Customers' liabilities for acceptances and guarantees	2,887		
Allowance for loan losses	(14,785)	Total net assets	405,005
Total assets	3,199,304	Total liabilities and net assets	3,199,304

Statement of Operations (Year ended March 31, 2020)

(Millions of yen)

Items	Amount
Ordinary income	43,287
Interest income	25,899
Interest on loans and discounts	25,898
Interest on deposits with banks	0
Other interest income	0
Fees and commissions	40
Other fees and commissions	40
Receipts from the national budget	16,002
Receipts from general account of the national budget	15,986
Receipts from special account of the national budget	16
Other income	1,344
Recoveries of written-off claims	427
Other	917
Ordinary expenses	43,239
Interest expenses	20,234
Interest on borrowings and rediscounts	17,445
Interest on bonds	2,789
Fees and commissions payments	2,488
Other fees and commissions	2,488
Other ordinary expenses	73
Amortization of bond issuance cost	73
General and administrative expenses	15,498
Other expenses	4,944
Provision of allowance for loan losses	4,640
Written-off of loans	98
Other	205
Ordinary profit	48
Extraordinary income	0
Gain on disposal of noncurrent assets	0
Extraordinary losses	48
Loss on disposal of noncurrent assets	48
Net loss	0

Statement of Changes in Net Assets (Year ended March 31, 2020)

(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	399,471	2,655	(13)	2,642	402,114	402,114
Changes of items during the period						
Issuance of new shares	2,892				2,892	2,892
Reversal of legal retained earnings		(13)	13	—	—	—
Net income (loss)			(0)	(0)	(0)	(0)
Total changes of items during the period	2,892	(13)	12	(0)	2,891	2,891
Balance at the end of current period	402,363	2,642	(0)	2,642	405,005	405,005

Data

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Investments 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 is provided based on primarily the anticipated loss amount within the next one year or the anticipated loss amount within the next three years. The anticipated loss amount is calculated by seeking the loss rate on the basis of the average default rate over a certain period in the past based on the default rates for one or three years and making necessary adjustments such as future expectations.

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 ¥6,880 million.

Write-offs of 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 (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).

(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 standards and others

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(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 accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

(2) Scheduled date of application

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

- Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

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, 2020 Account for Agriculture, Forestry, Fisheries and Food Business Operations
Bankrupt loans	1,273
Non-accrual loans	53,539
Loans with interest or principal repayments more than three months in arrears	720
Restructured loans	19,183
Total	74,717

(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, 2020 is ¥86,406 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 ¥259,981 million).

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥5,049 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. The account title and the amount related to transactions with affiliates

1. Ordinary income–Other income–Other: ¥0 million
2. Ordinary expenses–General and administrative expenses: ¥0 million

8. Issued shares

For the fiscal year ended March 31, 2020 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	399,471,700,000	2,892,000,000	—	402,363,700,000

(Note) Increase is due to the issuance of 2,892,000,000 shares.

9. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

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

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

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

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., 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 and bond. 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, and funding provided by government 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, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. 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 approach 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, 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, 2020 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥12,625 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 ¥11,251 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, FILP agency bonds, and funding provided by government 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, 2020, 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	59,726	59,726	—
(2) Securities			
Other securities	0	0	—
(3) Loans and bills discounted	3,100,966		
Allowance for loan losses ^(*)	(13,967)		
	3,086,998	3,260,793	173,795
Total assets	3,146,724	3,320,520	173,795
(1) Borrowings	2,487,046	2,574,463	87,417
(2) Bonds payable	259,981	279,081	19,100
Total liabilities	2,747,027	2,853,544	106,517

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

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

Assets

(1) Cash and due from banks

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

(2) Securities

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

Notes for securities by purpose of holding are found in "10. Fair Value of Securities."

(3) Loans and bills discounted

All loans except some capital-related subordinated loans have a fixed interest rate and fair value is calculated for each borrower's status by discounting the risk-reflected principal and interest that incorporates risk by the risk free rate (the standard Japanese government bond rate) based on the type of borrower and period of loan.

Liabilities

(1) Borrowings

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

(2) Bonds payable

Market value is used for fair value of bonds.

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

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

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Unlisted stocks ^{(*)1}	2,030
2) Partnership investments ^{(*)2}	1,187
3) Loans on deeds (subordinated capital loans) ^{(*)3}	1,905
Total	5,122

(*)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 in which 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}	59,725	—	—	—	—	—
Loans and bills discounted ^{(*)2}	365,917	624,638	468,676	385,212	443,779	775,480
Total	425,642	624,638	468,676	385,212	443,779	775,480

(*)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 ¥39,167 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	255,144	517,580	496,231	375,208	376,765	466,116
Bonds payable	45,000	50,000	30,000	20,000	80,000	35,000
Total	300,144	567,580	526,231	395,208	456,765	501,116

10. Fair value of securities

In addition to "Stocks" and "Other securities" on the balance sheet, transferable deposits in "Due from banks" are also included. The fair value of securities at March 31, 2020 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

	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	26,500	26,501	(1)

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

	Carrying amount on the balance sheet (Millions of yen)
Others	1,187

These are not included in the above table of "Available-for-sale securities" because they have no quoted market price and their fair value is extremely difficult to be determined.

11. Deferred tax accounting

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

12. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate 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.

Defined benefits plan

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

Opening balance of projected benefit obligations	20,414 million yen
Service cost	742
Interest cost	20
Actuarial difference	476
Payment of retirement benefits	(846)
Prior service cost	—
Other	(1)
Closing balance of projected benefit obligations	<u>20,806</u>

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

Opening balance of fair value of plan assets	7,259 million yen
Expected return on plan assets	145
Actuarial difference	(302)
Financing from employer	352
Payment of retirement benefits	(393)
Other	(1)
Closing balance of fair value of plan assets	<u>7,059</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	9,914 million yen
Fair value of plan assets	<u>(7,059)</u>
	2,855
Projected benefit obligations of unfunded plan	<u>10,891</u>
Unfunded pension obligations	13,746
Actuarial unrecognized difference	(3,241)
Unrecognized prior service cost	<u>622</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>11,128</u>
Provision for retirement benefits	11,128
Prepaid pension cost	<u>—</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>11,128</u>

(4) Net pensions cost and breakdown of included items

Service cost	742 million yen
Interest cost	20
Expected return on plan assets	(145)
Amount of actuarial difference accounted for as expense	456
Amortization of prior service cost accounted for as expense	(143)
Other	<u>—</u>
Net pensions cost related to defined benefits plan	<u>930</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	22%
Debentures	65%
General account	13%
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	2.0% to 6.2%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥45 million.

13. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥2,016 million
Profit on Investment in affiliates (equity method)	¥27 million

14. Related party transactions

Related party transactions in the fiscal year ended March 31, 2020 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, 2020
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	90.30 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	2,892	—	—
				Receipt of funds ^(Note iv)	355,500	Borrowings	2,471,827
				Repayment of borrowing	249,569		
				Payment of interest on borrowings	17,445	Accrued expenses	3,079

(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) 9.70%

(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 ¥16,002 million

Repayment of borrowed money ¥4,557 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, 2020
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	60,000 ^(Notes i and ii)	—	—

(Notes)

(i) 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.

(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 ¥1.00

Net loss per share ¥0.00

16. Subsequent events

Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as the underwriter on June 9, 2020 as set forth below pursuant to a resolution of the Board of Directors adopted on May 19, 2020.

Overview of the new shares issue

Type and number of shares to be issued	16,359,000,000 common shares
Issue price	1 yen per share
Total issue price	16,359,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	16,359,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Funding for substantively unsecured and unguaranteed Young Farmer Business Start-up Loan, etc. and special provision of loans to agriculture, forestry, and fishery businesses affected by the COVID-19

Balance Sheet (as of March 31, 2020)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	162,934	Borrowed money	3,109,411
Cash	4	Borrowings	3,109,411
Due from banks	162,929	Bonds payable	470,077
Securities	36	Other liabilities	3,178
Corporate bonds	28	Accrued expenses	1,027
Stocks	7	Unearned revenue	88
Loans and bills discounted	5,083,789	Derivatives other than for trading-liabilities	57
Loans on deeds	5,083,789	Lease obligations	529
Other assets	3,755	Other	1,476
Prepaid expenses	3	Provision for bonuses	1,202
Accrued income	2,955	Provision for directors' bonuses	6
Other	796	Provision for retirement benefits	20,268
Property, plant and equipment	47,378	Provision for directors' retirement benefits	13
Buildings	11,003	Acceptances and guarantees	19,619
Land	35,701	Total liabilities	3,623,778
Lease assets	432	Net assets	
Construction in progress	32	Capital stock	1,703,937
Other	207	Retained earnings	(309,618)
Intangible assets	2,879	Other retained earnings	(309,618)
Software	2,665	Retained earnings brought forward	(309,618)
Lease assets	41	Total shareholders' equity	1,394,318
Other	172		
Customers' liabilities for acceptances and guarantees	19,619		
Allowance for loan losses	(302,295)	Total net assets	1,394,318
Total assets	5,018,097	Total liabilities and net assets	5,018,097

Statement of Operations (Year ended March 31, 2020)

(Millions of yen)

Items	Amount
Ordinary income	80,812
Interest income	64,923
Interest on loans and discounts	64,921
Interest and dividends on securities	0
Interest on deposits with banks	1
Other interest income	0
Fees and commissions	131
Other fees and commissions	131
Receipts from the national budget	14,391
Receipts from general account of the national budget	14,390
Receipts from special account of the national budget	0
Other income	1,365
Recoveries of written-off claims	79
Gain on sales of stocks and other securities	81
Other	1,204
Ordinary expenses	84,799
Interest expenses	5,666
Interest on call money	(3)
Interest on borrowings and rediscounts	4,096
Interest on bonds	1,572
Fees and commissions payments	58
Other fees and commissions	58
Other ordinary expenses	432
Loss on foreign exchange transactions	340
Amortization of bond issuance cost	91
General and administrative expenses	27,303
Other expenses	51,339
Provision of allowance for loan losses	48,762
Written-off of loans	1,529
Other	1,048
Ordinary loss	3,986
Extraordinary income	6
Gain on disposal of noncurrent assets	6
Extraordinary losses	64
Loss on disposal of noncurrent assets	64
Net loss	4,045

Data

Statement of Changes in Net Assets (Year ended March 31, 2020)

(Millions of yen)

	Shareholders' equity				Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	
		Other retained earnings	Total retained earnings		
		Retained earnings brought forward			
Balance at the beginning of current period	1,635,785	(305,572)	(305,572)	1,330,212	1,330,212
Changes of items during the period					
Issuance of new shares	68,152			68,152	68,152
Net income (loss)		(4,045)	(4,045)	(4,045)	(4,045)
Total changes of items during the period	68,152	(4,045)	(4,045)	64,106	64,106
Balance at the end of current period	1,703,937	(309,618)	(309,618)	1,394,318	1,394,318

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 based on market prices on the closing date. However, available-for-sale securities whose fair value is extremely difficult to be determined are carried at cost based on the moving average method.

(b) Valuation method for derivative financial instruments

Derivative financial instruments are carried at fair value.

(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 is provided based on primarily the anticipated loss amount within the next one year or the anticipated loss amount within the next three years. The anticipated loss amount is calculated by seeking the loss rate on the basis of the average default rate over a certain period in the past based on the default rates for one or three years and making necessary adjustments such as future expectations.

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 ¥71,400 million.

Write-offs of 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 (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).

(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 standards and others

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(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 accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the “Fair Value Measurement Standard”) were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

(2) Scheduled date of application

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)**(1) Overview**

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

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, 2020 Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)
Bankrupt loans	2,943
Non-accrual loans	451,356
Loans with interest or principal repayments more than three months in arrears	—
Restructured loans	71,802
Total	526,102

(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, 2020 is ¥53,193 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 ¥470,077 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥7,901 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. Issued shares

For the fiscal year ended March 31, 2020 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	1,635,785,000,000	68,152,000,000	—	1,703,937,000,000

(Note) Increases is due to the issuance of 68,152,000,000 shares.

7. 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 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, (5) Guarantee related to the liabilities of SMEs and micro businesses' overseas subsidiaries and branches, and (6) 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, the FILP agency bonds, and funding provided by government 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 companies 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 management improvement plans.

(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 financing operations and have been used in the formulation of lending policy and in the screening process.

(iii) Asset self assessment

For these financing operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. 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 formation of a securitization project, the redemption status of the underlying claims is verified and monitoring is performed. With respect to loan receivable-backed securities guaranteed in this operation account, credit risks are accurately determined by using external ratings or statistical methods such as Monte Carlo simulations.

(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 methods such as maturity ladder approach and duration analysis, and conduct proper risk management by attempting to reduce interest rate risk through adjustment of procurement period limits and other means.

(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 conducted 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, 2020 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥34,338 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 ¥32,245 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, FILP agency bonds, and funding provided by government 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, 2020, 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	162,934	162,934	—
(2) Securities			
Held-to-maturity debt securities	28	28	—
(3) Loans and bills discounted	4,599,808		
Allowance for loan losses ^(*)	(125,204)		
	4,474,603	4,705,874	231,270
Total assets	4,637,566	4,868,836	231,270
(1) Borrowings	3,087,119	3,104,190	17,071
(2) Bonds payable	470,077	473,696	3,618
Total liabilities	3,557,196	3,577,886	20,690
Derivative transactions ^(**)			
Derivative transactions not qualifying for hedge accounting	(57)	(57)	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	(57)	(57)	—

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

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

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

Assets

(1) Cash and due from banks

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

(2) Securities

For corporate bonds in this operation account, 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 "8. Fair value of securities".

(3) Loans and bills discounted

For loans with fixed interest rates, the fair value is calculated 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 loans with variable interest rates, since short-term market rates are reflected, the fair value resembles the carrying amount as long as there is no significant difference in the credit status of the borrower, the carrying amount is used as the fair value. For obligations on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers subject to variable interest rates, 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}	483,981
3) Borrowings from the FILP special account (investment account) of the national budget ^{(*)3}	22,292
Total	506,281

(*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 in which 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 ^(*)	162,929	—	—	—	—	—
Securities Held-to-maturity debt securities	18	—	—	—	—	10
Loans and bills discounted ^(*)	1,107,678	1,572,523	985,122	564,062	454,197	376,861
Total	1,270,625	1,572,523	985,122	564,062	454,197	376,871

(*) 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 ¥23,344 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	783,544	1,097,658	607,852	347,270	220,002	53,085
Bonds payable	51,000	169,800	114,200	65,000	70,000	—
Total	834,544	1,267,458	722,052	412,270	290,002	53,085

8. Fair value of securities

The fair value of securities at March 31, 2020 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	28	28	—

(b) Available-for-sale securities

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

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

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

(c) Available-for-sale securities sold in the fiscal year in review (from April 1, 2019 to March 31, 2020)

	Sales amount (Millions of yen)	Total gain on sales (Millions of yen)	Total loss on sales (Millions of yen)
Stocks	2	2	—

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.

Defined benefits plan

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

Opening balance of projected benefit obligations	38,603 million yen
Service cost	1,449
Interest cost	38
Actuarial difference	(367)
Payment of retirement benefits	(1,924)
Prior service cost	—
Other	(46)
Closing balance of projected benefit obligations	<u>37,754</u>

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

Opening balance of fair value of plan assets	13,460 million yen
Expected return on plan assets	269
Actuarial difference	(573)
Financing from employer	660
Payment of retirement benefits	(743)
Other	(7)
Closing balance of fair value of plan assets	<u>13,066</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	18,350 million yen
Fair value of plan assets	<u>(13,066)</u>
	5,284
Projected benefit obligations of unfunded plan	<u>19,403</u>
Unfunded pension obligations	24,687
Actuarial unrecognized difference	(4,890)
Unrecognized prior service cost	470
Net amount of liabilities and assets recorded on the balance sheet	<u>20,268</u>
Provision for retirement benefits	20,268
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>20,268</u>

(4) Net pensions cost and breakdown of included items

Service cost	1,449 million yen
Interest cost	38
Expected return on plan assets	(269)
Amount of actuarial difference accounted for as expense	1,007
Amortization of prior service cost accounted for as expense	(239)
Other	—
Net pensions cost related to defined benefits plan	<u>1,987</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	22%
Debentures	65%
General account	13%
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 ¥84 million.

11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2020 are as follows:

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, 2020
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	91.01 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	67,152	—	—
				Receipt of funds ^(Note iv)	844,000	Borrowings	3,109,411
				Repayment of borrowing	875,298		
				Payment of interest on borrowings	4,096	Accrued expenses	683
				Guarantee for bonds payable ^(Note v)	345,077	—	—

(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) 8.99%

(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 ¥1,000 million

-Agency for Natural Resources and Energy
Receipts from the national budget ¥0 million

-Small and Medium Enterprise Agency
Receipts from the national budget ¥14,390 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.

12. Per share information

Net assets per share ¥0.81

Net loss per share ¥0.00

13. Subsequent events

Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as the underwriter on June 9, 2020 as set forth below pursuant to a resolution of the Board of Directors adopted on May 19, 2020.

Overview of the new shares issue

Type and number of shares to be issued	398,000,000,000 common shares
Issue price	1 yen per share
Total issue price	398,000,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	398,000,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Funding to expand special loans relating to the spread of the COVID-19

Balance Sheet (as of March 31, 2020)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	16,381	Bonds payable	30,000
Due from banks	16,381	Other liabilities	118
Securities	38,677	Accrued expenses	0
Government bonds	21,180	Unearned revenue	117
Corporate bonds	17,497	Other	0
Other assets	115	Provision for bonuses	2
Prepaid expenses	90	Provision for directors' bonuses	0
Accrued income	8	Provision for retirement benefits	46
Other	16	Provision for directors' retirement benefits	0
Prepaid pension cost	2	Acceptances and guarantees	78,460
Customers' liabilities for acceptances and guarantees	78,460	Total liabilities	108,629
Allowance for loan losses	(30)	Net assets	
		Capital stock	24,476
		Retained earnings	501
		Legal retained earnings	348
		Other retained earnings	153
		Retained earnings brought forward	153
		Total shareholders' equity	24,977
		Total net assets	24,977
Total assets	133,606	Total liabilities and net assets	133,606

Statement of Operations (Year ended March 31, 2020)

(Millions of yen)

Items	Amount
Ordinary income	682
Interest income	225
Interest and dividends on securities	225
Interest on deposits with banks	0
Fees and commissions	385
Other fees and commissions	385
Other income	71
Reversal of allowance for loan losses	42
Other	29
Ordinary expenses	529
Interest expenses	3
Interest on bonds	3
Fees and commissions payments	404
Other fees and commissions	404
Other ordinary expenses	13
Amortization of bond issuance cost	13
General and administrative expenses	82
Other expenses	25
Other	25
Ordinary profit	153
Net income	153

Statement of Changes in Net Assets (Year ended March 31, 2020)

(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	310	76	386	24,862	24,862
Changes of items during the period						
Provision of legal retained earnings		38	(38)	—	—	—
Payment to the national treasury			(38)	(38)	(38)	(38)
Net income (loss)			153	153	153	153
Total changes of items during the period	—	38	76	114	114	114
Balance at the end of current period	24,476	348	153	501	24,977	24,977

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 is 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 standards and others

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(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 accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

(2) Scheduled date of application

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

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 ¥30,000 million).

3. 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).

4. Issued shares

For the fiscal year ended March 31, 2020, 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

5. 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 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 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 these 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.

After formation of a securitization project, the redemption status of the underlying claims is verified and monitoring is performed. With respect to loan receivable-backed securities in this operation account, credit risks are accurately determined by using external ratings or statistical methods such as Monte Carlo simulations.

(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, 2020 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥1,567 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 ¥1,413 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, 2020, 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	16,381	16,381	—
(2) Securities			
Held-to-maturity debt securities	21,180	22,456	1,276
Total assets	37,561	38,837	1,276
Bonds payable	30,000	29,981	(18)
Total debt	30,000	29,981	(18)

(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 "6. 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}	17,497
(2) Credit default swap ^{(*)2}	—
Total	17,497

(*)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 (*)	16,381	—	—	—	—	—
Securities	—	—	—	—	—	21,068
Held-to-maturity debt securities	—	—	—	—	—	—
Total	16,381	—	—	—	—	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	9,000	15,200	5,800	—	—	—

6. Fair value of securities

The fair value of securities at March 31, 2020 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	21,180	22,456	1,276

(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	17,497

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

7. 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).

8. 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.

Defined benefits plan

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

Opening balance of projected benefit obligations	48 million yen
Service cost	3
Interest cost	0
Actuarial difference	0
Payment of retirement benefits	(1)
Prior service cost	—
Other	22
Closing balance of projected benefit obligations	73

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets	
Opening balance of fair value of plan assets	9 million yen
Expected return on plan assets	0
Actuarial difference	(1)
Financing from employer	1
Payment of retirement benefits	(0)
Other	6
Closing balance of fair value of plan assets	<u>15</u>
(3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet	
Projected benefit obligations of funded plan	22 million yen
Fair value of plan assets	<u>(15)</u>
	6
Projected benefit obligations of unfunded plan	<u>50</u>
Unfunded pension obligations	57
Actuarial unrecognized difference	(12)
Unrecognized prior service cost	<u>(0)</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>44</u>
Provision for retirement benefits	46
Prepaid pension cost	<u>(2)</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>44</u>
(4) Net pensions cost and breakdown of included items	
Service cost	3 million yen
Interest cost	0
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	2
Amortization of prior service cost accounted for as expense	(0)
Other	<u>—</u>
Net pensions cost related to defined benefits plan	<u>5</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	22%
Debentures	65%
General account	13%
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	1.5% to 5.9%

Defined contribution pension plan

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

9. Per share information

Net assets per share	¥1.02
Net income per share	¥0.00

10. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2020)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	3,084,299	Reserve for insurance policy liabilities	773,166
Due from banks	3,084,299	Other liabilities	1,017
Other assets	14,269	Accrued expenses	31
Accrued income	69	Lease obligations	74
Other	14,200	Other	912
Property, plant and equipment	17,819	Provision for bonuses	223
Buildings	3,771	Provision for directors' bonuses	1
Land	13,968	Provision for retirement benefits	4,583
Lease assets	65	Provision for directors' retirement benefits	1
Other	14	Total liabilities	778,993
Intangible assets	1,145	Net assets	
Software	1,085	Capital surplus	2,052,284
Lease assets	0	Legal capital surplus	2,052,284
Other	59	Retained earnings	286,257
		Legal retained earnings	288,646
		Other retained earnings	(2,389)
		Retained earnings brought forward	(2,389)
		Total shareholders' equity	2,338,541
		Total net assets	2,338,541
Total assets	3,117,534	Total liabilities and net assets	3,117,534

Statement of Operations (Year ended March 31, 2020)

(Millions of yen)

Items	Amount
Ordinary income	195,366
Interest income	340
Interest on deposits with banks	340
Insurance premiums and other	194,860
Insurance premiums	122,704
Receipts of burden charges under the Responsibility-sharing System	6,888
Reversal of reserve for insurance policy liabilities	65,267
Other income	165
Other	165
Ordinary expenses	197,756
Expenses on insurance claims and other	189,340
Expenses on insurance claims	261,285
Recoveries of insurance claims	(71,944)
General and administrative expenses	5,019
Other expenses	3,396
Other	3,396
Ordinary loss	2,389
Extraordinary losses	0
Loss on disposal of noncurrent assets	0
Net loss	2,389

Statement of Changes in Net Assets (Year ended March 31, 2020)

(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	1,988,384	1,988,384	196,571	92,075	288,646	2,277,030	2,277,030
Changes of items during the period							
Issuance of new shares	63,900	63,900				63,900	63,900
Provision of legal retained earnings			92,075	(92,075)	—	—	—
Net income (loss)				(2,389)	(2,389)	(2,389)	(2,389)
Total changes of items during the period	63,900	63,900	92,075	(94,464)	(2,389)	61,510	61,510
Balance at the end of current period	2,052,284	2,052,284	288,646	(2,389)	286,257	2,338,541	2,338,541

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 (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). 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 standards and others

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(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 accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

(2) Scheduled date of application

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

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 ¥2,558 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. Other expenses

Other expenses include refund of insurance premiums ¥3,388 million.

6. Issued shares

For the fiscal year ended March 31, 2020, 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	5,959,827,407,741	63,900,000,000	—	6,023,727,407,741

(Note) Increase is due to the issuance of 63,900,000,000 shares.

7. 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.

(b) Liquidity risk management related to fund procurement

Long-term and stable 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, 2020, 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	3,084,299	3,090,568	6,269

(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 (*)	2,169,199	140,000	775,100	—	—	—

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

8. Fair value of securities

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

The fair value of securities at March 31, 2020 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	35,000	35,000	—

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.

Defined benefits plan

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

Opening balance of projected benefit obligations	8,371 million yen
Service cost	277
Interest cost	8
Actuarial difference	(98)
Payment of retirement benefits	(383)
Prior service cost	—
Other	21
Closing balance of projected benefit obligations	<u>8,197</u>

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

Opening balance of fair value of plan assets	3,000 million yen
Expected return on plan assets	60
Actuarial difference	(99)
Financing from employer	120
Payment of retirement benefits	(145)
Other	(0)
Closing balance of fair value of plan assets	<u>2,935</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	4,122 million yen
Fair value of plan assets	<u>(2,935)</u>
	1,187
Projected benefit obligations of unfunded plan	<u>4,075</u>
Unfunded pension obligations	5,262
Actuarial unrecognized difference	(768)
Unrecognized prior service cost	89
Net amount of liabilities and assets recorded on the balance sheet	<u>4,583</u>
Provision for retirement benefits	4,583
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>4,583</u>

(4) Net pensions cost and breakdown of included items

Service cost	277 million yen
Interest cost	8
Expected return on plan assets	(60)
Amount of actuarial difference accounted for as expense	156
Amortization of prior service cost accounted for as expense	(38)
Other	—
Net pensions cost related to defined benefits plan	<u>344</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	22%
Debentures	65%
General account	13%
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.

11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2020 are as follows:

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, 2020
Principal shareholder	Ministry of Finance (Minister of Finance)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note i)	63,900	—	—
				Deposit of funds ^(Note ii)	5,335,400	Due from banks	2,978,800
				Refund of funds	5,402,400		

(Notes)

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

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

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

12. Per share information

Net assets per share	¥0.38
Net loss per share	¥0.00

13. Subsequent events

Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as the underwriter on June 9, 2020 as set forth below pursuant to a resolution of the Board of Directors adopted on May 19, 2020.

Overview of the new shares issue

Type and number of shares to be issued	43,500,000,000 common shares
Issue price	1 yen per share
Total issue price	43,500,000,000 yen
Paid-in capital	0 yen per share
Paid-in capital reserves	1 yen per share
Total paid-in capital	0 yen
Total paid-in capital reserves	43,500,000,000 yen
Payment date	June 9, 2020
Use of capital	Reinforcement of insurance foundations and stable operation of systems

Balance Sheet (as of March 31, 2020)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	742,410	Borrowed money	1,327,740
Due from banks	742,410	Borrowings	1,327,740
Loans and bills discounted	1,327,740	Other liabilities	926
Loans on deeds	1,327,740	Accrued expenses	171
Other assets	192	Unearned revenue	735
Accrued income	182	Lease obligations	2
Other	10	Other	17
Property, plant and equipment	1	Provision for bonuses	7
Lease assets	1	Provision for directors' bonuses	0
Intangible assets	24	Provision for retirement benefits	90
Software	5	Provision for directors' retirement benefits	0
Lease assets	0	Reserve for compensation losses	25,652
Other	19	Total liabilities	1,354,417
Prepaid pension cost	19	Net assets	
		Capital stock	969,534
		Retained earnings	(253,562)
		Other retained earnings	(253,562)
		Retained earnings brought forward	(253,562)
		Total shareholders' equity	715,971
		Total net assets	715,971
Total assets	2,070,388	Total liabilities and net assets	2,070,388

Statement of Operations (Year ended March 31, 2020)

(Millions of yen)

Items	Amount
Ordinary income	11,251
Interest income	8,147
Interest on loans and discounts	8,078
Interest on deposits with banks	41
Other interest income	27
Fees and commissions	834
Fees and commissions on compensation security contract	834
Receipts from the national budget	146
Receipts from general account of the national budget	146
Other income	2,123
Other	2,123
Ordinary expenses	20,627
Interest expenses	8,105
Interest on borrowings and rediscounts	8,078
Other interest expenses	27
Other ordinary expenses	2,750
Interest subsidies	2,750
General and administrative expenses	169
Other expenses	9,602
Provision of reserve for compensation losses	9,507
Other	95
Ordinary loss	9,376
Net loss	9,376

Statement of Changes in Net Assets (Year ended March 31, 2020)

(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	969,466	(244,186)	(244,186)	725,279	725,279
Changes of items during the period					
Issuance of new shares	68			68	68
Net income (loss)		(9,376)	(9,376)	(9,376)	(9,376)
Total changes of items during the period	68	(9,376)	(9,376)	(9,308)	(9,308)
Balance at the end of current period	969,534	(253,562)	(253,562)	715,971	715,971

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 is provided based on primarily the anticipated loss amount within the next one year or the anticipated loss amount within the next three years. The anticipated loss amount is calculated by seeking the loss rate on the basis of the average default rate over a certain period in the past based on the default rates for one or three years and making necessary adjustments such as future expectations.

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

(ii) Reserve for compensation losses

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

(iii) Provision for bonuses

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

(iv) Provision for directors’ bonuses

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

(v) Provision for retirement benefits

The “provision for retirement benefits” (including prepaid pension cost) represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end. In addition, in calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition are calculated as follows:

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

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

(vi) Provision for directors’ retirement benefits

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

(d) Consumption and other taxes

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

Issued but not yet adopted accounting standards and others

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(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 accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

(2) Scheduled date of application

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

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, 2020.

"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 ¥1 million.

5. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (35,882 contracts)	472,557
Reserve for compensation	25,652
Net amount	446,905

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, 2020, 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	969,466,000,000	68,000,000	—	969,534,000,000

(Note) Increase is due to the issuance of 68,000,000 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 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, and funding provided by government 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, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. 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, and funding provided by government 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, 2020, 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	742,410	742,586	176
(2) Loans and bills discounted	1,327,740	1,339,250	11,510
Total assets	2,070,150	2,081,836	11,686
Borrowings	1,327,740	1,346,725	18,985
Total liabilities	1,327,740	1,346,725	18,985

(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.

LiabilitiesBorrowings

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: ¥472,557 million

Compensation loss reserve: ¥25,652 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 (*)	742,410	—	—	—	—	—
Loans and bills discounted	317,063	613,933	202,828	110,943	73,330	9,643
Total	1,059,473	613,933	202,828	110,943	73,330	9,643

(*) 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	317,063	613,933	202,828	110,943	73,330	9,643

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, 2020 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	130,000	130,000	—

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.

Defined benefits plan

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

Opening balance of projected benefit obligations	138 million yen
Service cost	7
Interest cost	0
Actuarial difference	8
Payment of retirement benefits	—
Prior service cost	—
Other	0
Closing balance of projected benefit obligations	<u>154</u>

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

Opening balance of fair value of plan assets	31 million yen
Expected return on plan assets	0
Actuarial difference	(3)
Financing from employer	4
Payment of retirement benefits	—
Other	0
Closing balance of fair value of plan assets	<u>32</u>

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

Projected benefit obligations of funded plan	45 million yen
Fair value of plan assets	<u>(32)</u>
	13
Projected benefit obligations of unfunded plan	<u>108</u>
Unfunded pension obligations	121
Actuarial unrecognized difference	(55)
Unrecognized prior service cost	5
Net amount of liabilities and assets recorded on the balance sheet	<u>71</u>
Provision for retirement benefits	90
Prepaid pension cost	<u>(19)</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>71</u>

(4) Net pensions cost and breakdown of included items

Service cost	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	22%
Debentures	65%
General account	13%
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 6.0%

Defined contribution pension plan

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

12. Related party transactions

Related party transactions in the fiscal year ended March 31, 2020 are as follows:

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, 2020
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	54	—	—
				Receipt of funds ^(Note iv)	35,000	Borrowings	1,327,740
				Repayment of borrowings	522,572	Accrued expenses	170
				Payment of interest on borrowings	8,105		
				Deposit of funds ^(Note iv)	900,000	Due from banks	390,000
				Refund of funds	900,000		

(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	¥36 million
- Small and Medium Enterprise Agency	
Receipts from the national budget	¥54 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.

13. Per share information

Net assets per share	¥0.73
Net loss per share	¥0.00

14. Subsequent events

Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as the underwriter on June 9, 2020 as set forth below pursuant to a resolution of the Board of Directors adopted on May 19, 2020.

Overview of the new shares issue

Type and number of shares to be issued	10,576,000,000 common shares
Issue price	1 yen per share
Total issue price	10,576,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	10,576,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Source of funds for compensation security and implantation of operations relating to crisis certification pertaining to matters involving COVID-19

Balance Sheet (as of March 31, 2020)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	225	Borrowed money	132,977
Due from banks	225	Borrowings	132,977
Loans and bills discounted	132,977	Other liabilities	76
Loans on deeds	132,977	Accrued expenses	64
Other assets	73	Lease obligations	1
Accrued income	63	Other	11
Other	9	Provision for bonuses	3
Property, plant and equipment	1	Provision for directors' bonuses	0
Lease assets	1	Provision for retirement benefits	49
Intangible assets	9	Provision for directors' retirement benefits	0
Software	3	Total liabilities	133,107
Lease assets	0	Net assets	
Other	6	Capital stock	267
Prepaid pension cost	9	Retained earnings	(77)
		Other retained earnings	(77)
		Retained earnings brought forward	(77)
		Total shareholders' equity	189
		Total net assets	189
Total assets	133,296	Total liabilities and net assets	133,296

Statement of Operations (Year ended March 31, 2020)

(Millions of yen)

Items	Amount
Ordinary income	273
Interest income	198
Interest on loans and discounts	198
Interest on deposits with banks	0
Receipts from the national budget	75
Receipts from general account of the national budget	75
Other income	0
Other	0
Ordinary expenses	286
Interest expenses	198
Interest on borrowings and rediscounts	198
General and administrative expenses	87
Other expenses	0
Other	0
Ordinary loss	12
Net loss	12

Statement of Changes in Net Assets (Year ended March 31, 2020)

(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	(65)	(65)	201	201
Changes of items during the period					
Net income (loss)		(12)	(12)	(12)	(12)
Total changes of items during the period	—	(12)	(12)	(12)	(12)
Balance at the end of current period	267	(77)	(77)	189	189

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 is provided based on primarily the anticipated loss amount within the next one year or the anticipated loss amount within the next three years. The anticipated loss amount is calculated by seeking the loss rate on the basis of the average default rate over a certain period in the past based on the default rates for one or three years and making necessary adjustments such as future expectations.

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 standards and others

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(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 accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

(2) Scheduled date of application

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

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, 2020.

"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. 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. Issued shares

For the fiscal year ended March 31, 2020, 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

7. 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, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. 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, 2020, 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	225	225	—
(2) Loans and bills discounted	132,977	133,085	108
Total assets	133,202	133,310	108
Borrowings	132,977	134,197	1,220
Total liabilities	132,977	134,197	1,220

(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 (*)	225	—	—	—	—	—
Loans and bills discounted	11,330	36,237	28,766	28,084	28,199	361
Total	11,555	36,237	28,766	28,084	28,199	361

(*) 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	11,330	36,237	28,766	28,084	28,199	361

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 of 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.

Defined benefits plan

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

Opening balance of projected benefit obligations	78 million yen
Service cost	4
Interest cost	0
Actuarial difference	0
Payment of retirement benefits	—
Prior service cost	—
Other	(0)
Closing balance of projected benefit obligations	83

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets	
Opening balance of fair value of plan assets	15 million yen
Expected return on plan assets	0
Actuarial difference	(1)
Financing from employer	2
Payment of retirement benefits	—
Other	(0)
Closing balance of fair value of plan assets	<u>16</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	22 million yen
Fair value of plan assets	<u>(16)</u>
	6
Projected benefit obligations of unfunded plan	<u>60</u>
Unfunded pension obligations	66
Actuarial unrecognized difference	(29)
Unrecognized prior service cost	<u>2</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>39</u>
Provision for retirement benefits	49
Prepaid pension cost	<u>(9)</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>39</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	5
Amortization of prior service cost accounted for as expense	(0)
Other	—
Net pensions cost related to defined benefits plan	<u>8</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	22%
Debentures	65%
General account	13%
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 5.9%

Defined contribution pension plan

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

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	4,944	1,273	2,943	9,161
Non-accrual loans	104,517	53,539	451,356	609,413
Loans with interest or principal repayments more than three months in arrears	30	720	0	751
Restructured loans	414,525	19,183	71,802	505,511
Total	524,017	74,717	526,102	1,124,837
Total of risk-monitored loans/outstanding loans (%)	7.45	2.41	10.35	7.39

(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	27,103	3,832	9,920	40,855
Doubtful	82,763	51,116	444,484	578,364
Special attention	414,556	19,904	71,802	506,262
Subtotal (1)	524,423	74,852	526,206	1,125,482
Normal	6,515,985	3,038,619	4,580,230	14,134,834
Total (2)	7,040,408	3,113,471	5,106,516	15,260,397
(1/2) (%)	7.45	2.40	10.30	7.38

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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