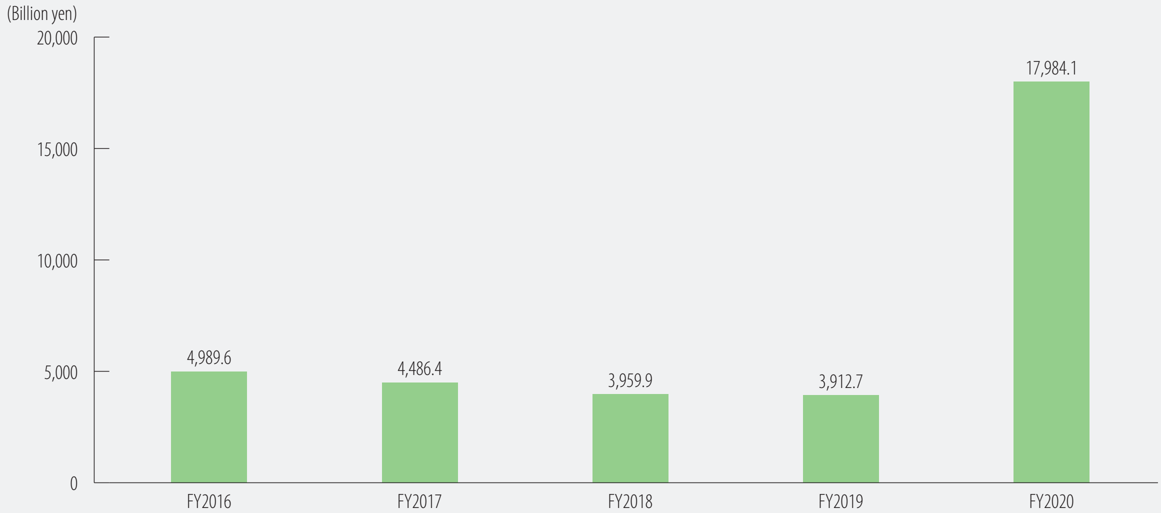
Data

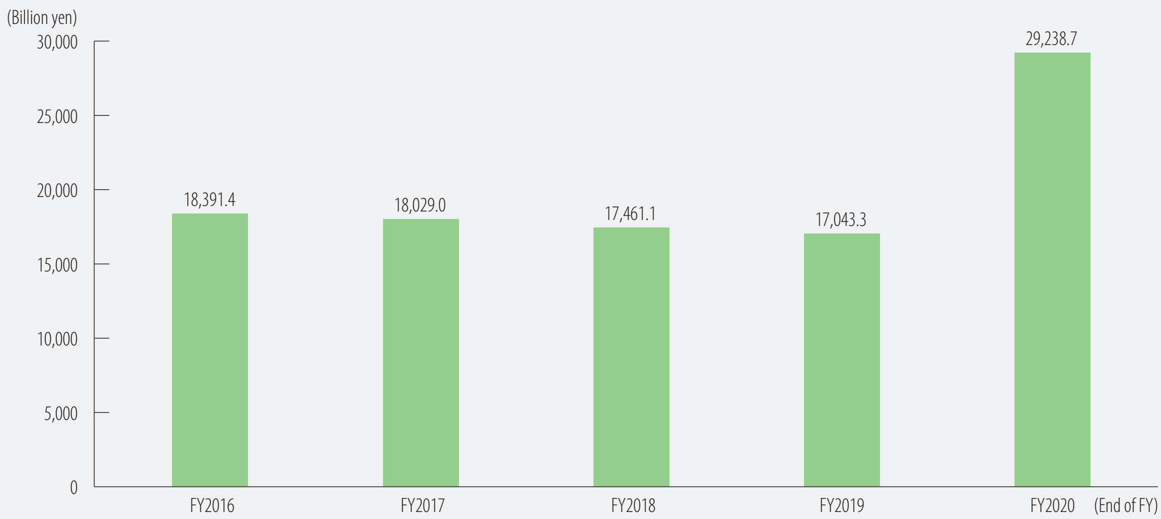
Operational Performances

Japan Finance Corporation

1 Changes in Annual Loan Operations



2 Changes in Outstanding Loans



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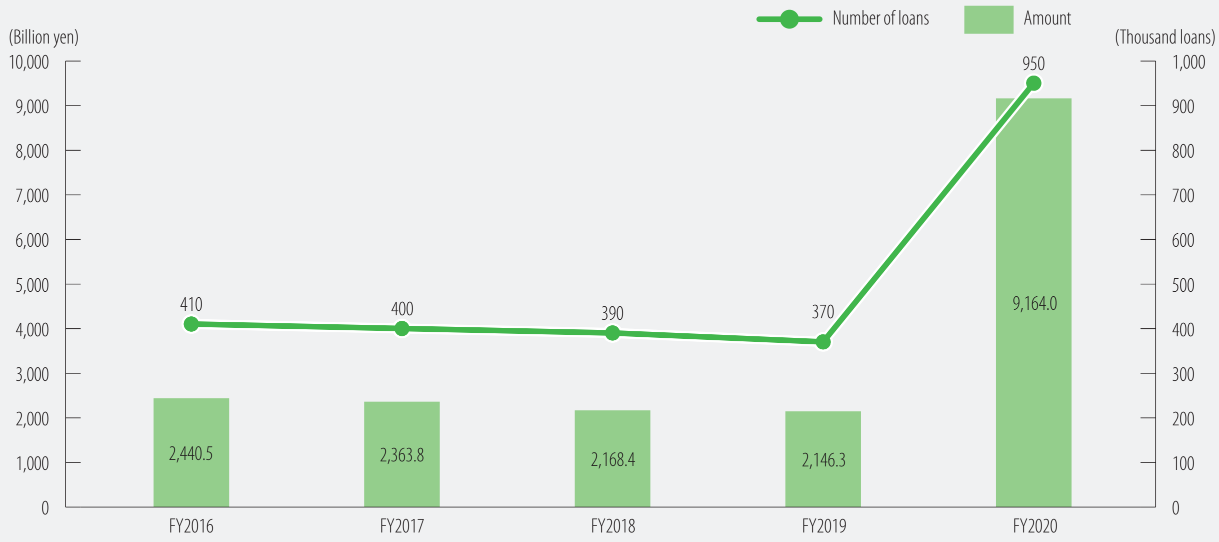
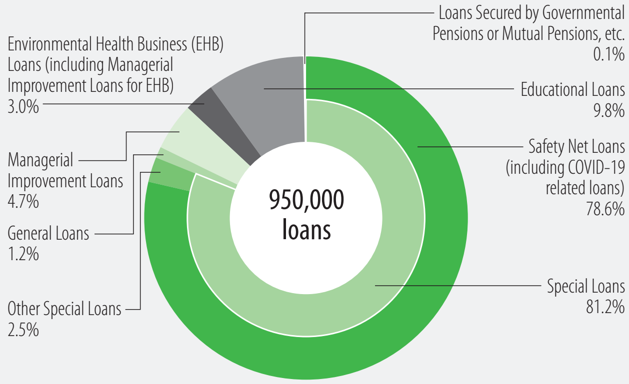
Micro Business and Individual Unit

1 Changes in Annual Loan Operations

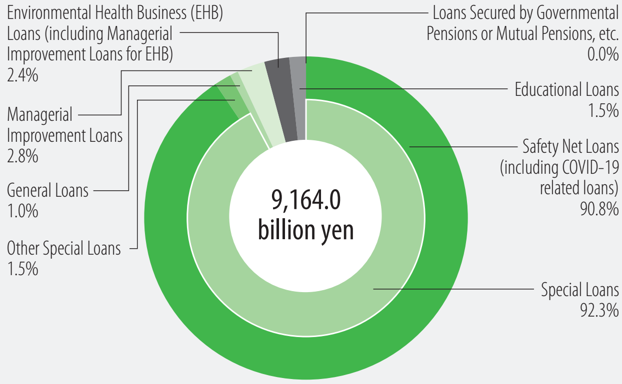


2 Breakdown of Loans by Scheme

▼ Number of Loans (FY2020)



▼ Total Amount of Loans (FY2020)



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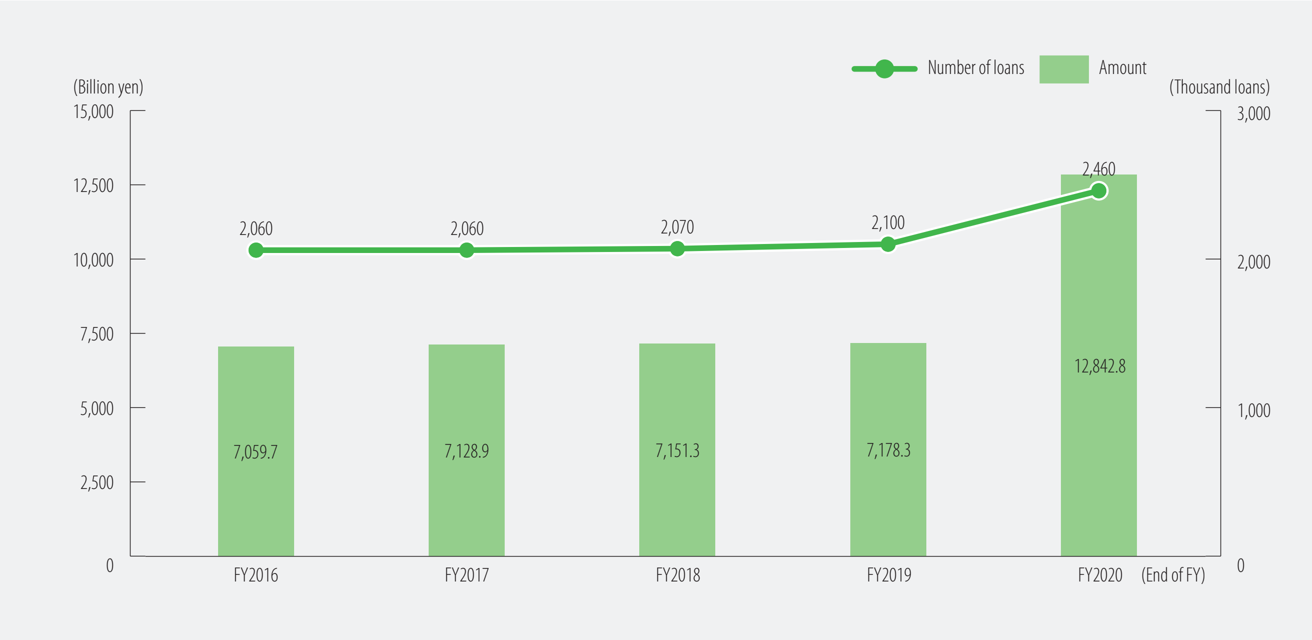
3 Changes in Outstanding Loans



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4 Breakdown of Business Loans Outstanding by Industry

(Billion yen, %)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Manufacturing	623.8 (10.2)	606.2 (9.8)	586.1 (9.5)	574.2 (9.3)	1,043.0 (8.8)
Wholesale & Retail	1,359.0 (22.1)	1,346.5 (21.8)	1,318.1 (21.3)	1,293.6 (20.9)	2,362.7 (19.9)
Restaurants & Hotels	512.8 (8.3)	532.7 (8.6)	547.9 (8.9)	580.7 (9.4)	1,475.1 (12.4)
Services	1,434.1 (23.3)	1,472.5 (23.8)	1,501.1 (24.2)	1,525.4 (24.6)	3,106.8 (26.2)
Construction	900.3 (14.6)	916.8 (14.8)	919.5 (14.9)	911.1 (14.7)	1,870.1 (15.7)
Others	1,316.1 (21.4)	1,315.8 (21.3)	1,317.7 (21.3)	1,313.6 (21.2)	2,016.7 (17.0)
Total	6,146.4 (100.0)	6,190.8 (100.0)	6,190.6 (100.0)	6,198.8 (100.0)	11,874.6 (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

(Billion yen, %)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Restaurant-related Services	148.0 (49.4)	159.1 (50.8)	169.7 (51.7)	178.0 (51.9)	233.0 (54.4)
Beauty parlors	61.3 (20.4)	65.6 (21.0)	69.9 (21.3)	73.1 (21.3)	89.9 (21.0)
Hotels	49.8 (16.6)	48.8 (15.6)	49.4 (15.1)	53.9 (15.7)	63.2 (14.8)
Barbershops	19.4 (6.5)	19.4 (6.2)	19.4 (5.9)	19.4 (5.7)	21.6 (5.0)
Public baths	10.3 (3.5)	9.5 (3.0)	8.7 (2.7)	8.0 (2.4)	7.6 (1.8)
Laundries	7.1 (2.4)	7.1 (2.3)	6.9 (2.1)	6.7 (2.0)	8.5 (2.0)
Meat shops	2.4 (0.8)	2.4 (0.8)	2.6 (0.8)	2.4 (0.7)	2.9 (0.7)
Entertainment facilities	0.8 (0.3)	0.6 (0.2)	0.8 (0.3)	0.5 (0.2)	0.7 (0.2)
Others	0.3 (0.1)	0.3 (0.1)	0.4 (0.1)	0.3 (0.1)	0.3 (0.1)
Total	299.8 (100.0)	313.3 (100.0)	328.0 (100.0)	342.8 (100.0)	428.0 (100.0)

Note: Figures in parentheses denote percentage of shares.

6 Breakdown of Outstanding Loans by Use

(Billion yen, %)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Operating funds	3,871.2 (63.0)	3,914.0 (63.2)	3,880.7 (62.7)	3,891.8 (62.8)	10,071.6 (84.8)
Facility funds	2,275.1 (37.0)	2,276.7 (36.8)	2,309.9 (37.3)	2,307.0 (37.2)	1,803.0 (15.2)
Total	6,146.4 (100.0)	6,190.8 (100.0)	6,190.6 (100.0)	6,198.8 (100.0)	11,874.6 (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 borrowers)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Number of borrowers	880,104	879,639	881,622	881,026	1,177,346

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

8 Average Loan Balance per Business

(Thousand yen)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Average loan balance per business	6,983	7,037	7,021	7,036	10,085

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

9 Educational Loans Outstanding, etc.

(Billion yen)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Educational Loans	903.4	930.0	953.2	973.6	963.9
Loans Secured by Governmental Pensions and Mutual Pensions, etc.	9.7	7.9	7.3	5.8	4.2

Data

10 Breakdown of Loans by Credit Amount

(Number of loans, %)

	FY2016	FY2017	FY2018	FY2019	FY2020
Up to 3 million yen	90,876 (32.8)	89,410 (33.2)	88,280 (34.3)	87,643 (34.2)	229,761 (26.6)
Over 3 million yen and up to 5 million yen	56,115 (20.2)	54,534 (20.2)	53,659 (20.8)	52,774 (20.6)	151,201 (17.5)
Over 5 million yen and up to 8 million yen	37,288 (13.5)	35,830 (13.3)	34,829 (13.5)	34,586 (13.5)	102,930 (11.9)
Over 8 million yen	92,945 (33.5)	89,603 (33.3)	80,872 (31.4)	80,994 (31.6)	379,998 (44.0)
Total	277,224 (100.0)	269,377 (100.0)	257,640 (100.0)	255,997 (100.0)	863,890 (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

(Number of loans, %)

	FY2016	FY2017	FY2018	FY2019	FY2020
4 or fewer	197,007 (71.1)	192,794 (71.6)	172,541 (67.0)	166,749 (65.1)	564,073 (65.3)
5–9	51,279 (18.5)	48,486 (18.0)	51,002 (19.8)	51,647 (20.2)	167,596 (19.4)
10–19	19,550 (7.1)	19,046 (7.1)	21,541 (8.4)	23,108 (9.0)	80,433 (9.3)
20 or more	9,386 (3.4)	9,047 (3.4)	12,555 (4.9)	14,489 (5.7)	51,785 (6.0)
Total	277,222 (100.0)	269,373 (100.0)	257,639 (100.0)	255,993 (100.0)	863,887 (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

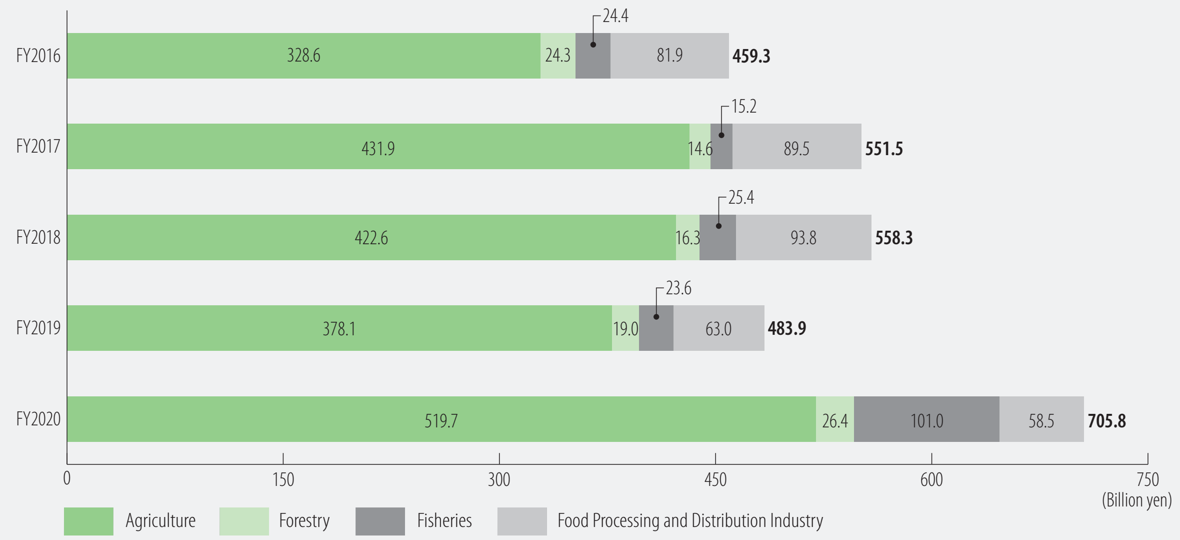
(Number of loans, %)

		FY2016	FY2017	FY2018	FY2019	FY2020
No collateral		229,665 (82.9)	230,263 (85.5)	223,271 (86.7)	223,441 (87.3)	857,271 (99.2)
Collateral	Real estate (including partial collateral)	47,488 (17.1)	39,054 (14.5)	34,323 (13.3)	32,522 (12.7)	6,602 (0.8)
	Securities	21 (0.0)	10 (0.0)	10 (0.0)	4 (0.0)	1 (0.0)
	Credit Guarantee Corporations (CGCs)	— (—)	— (—)	— (—)	— (—)	— (—)
	Others	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Total		277,174 (100.0)	269,327 (100.0)	257,604 (100.0)	255,967 (100.0)	863,874 (100.0)

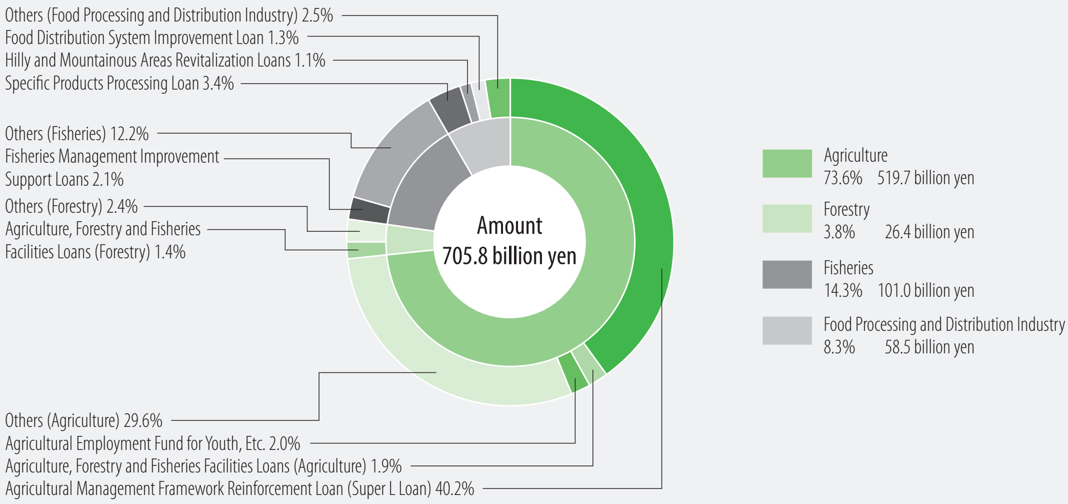
Notes: 1. Loans comprise General Loans and Environmental Health Business Loans.
2. Figures in parentheses denote percentage of shares.
3. Partial collateral refers to real estate or other collateral whose estimated values do not reach amounts borrowed. Partial collateral of "Securities," "Credit Guarantee 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 (FY2020)



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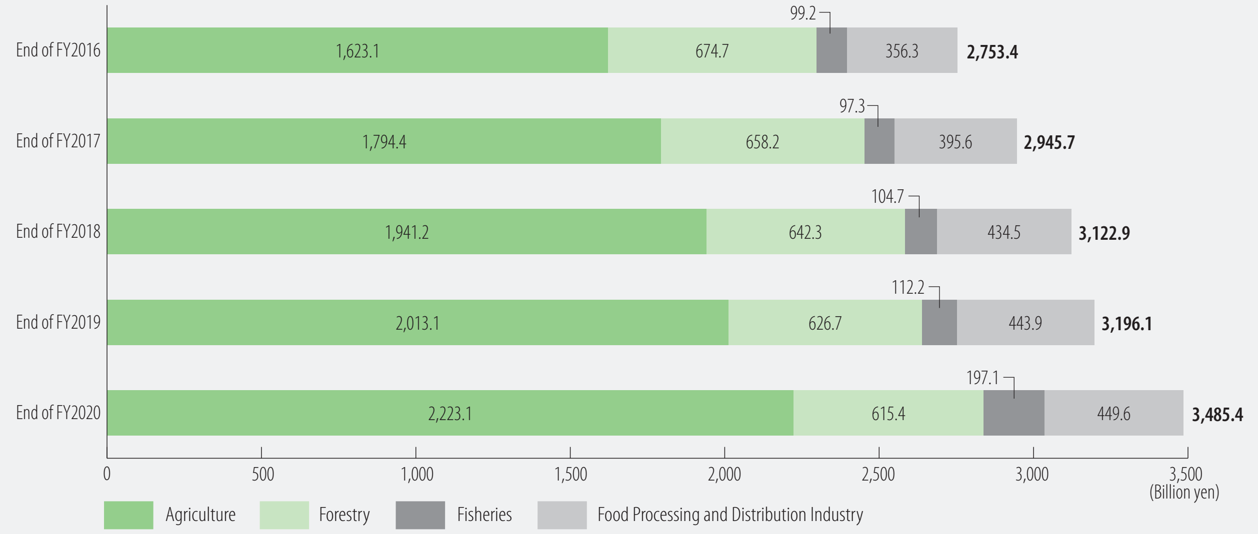
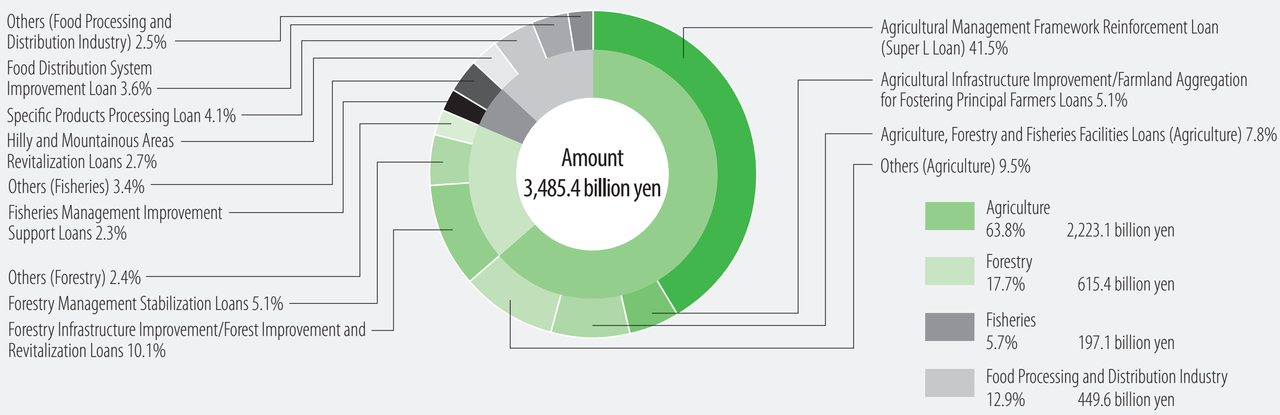
3 Changes in Outstanding Loans

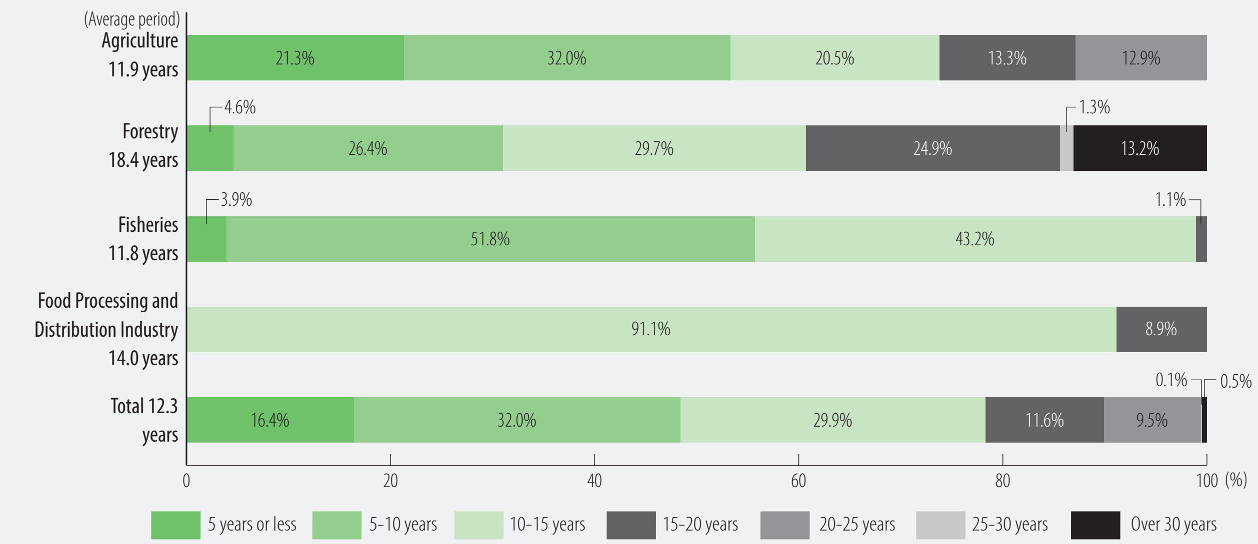


4 Breakdown of Outstanding Loans by Sector and Use (End of FY2020)



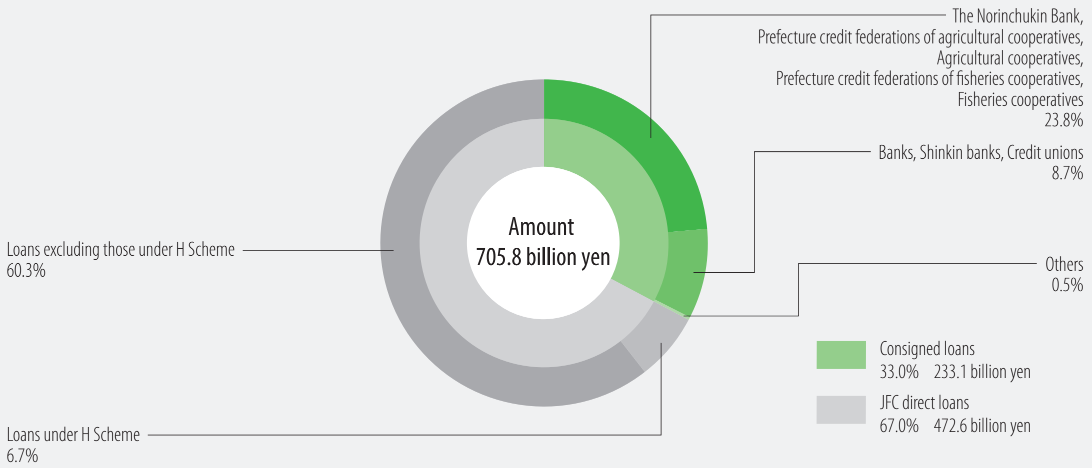
Data

5 Loans by Repayment Period (FY2020)



Note: Aggregated by loan amount.

6 Loans by Commissioned Financial Institutions (FY2020)

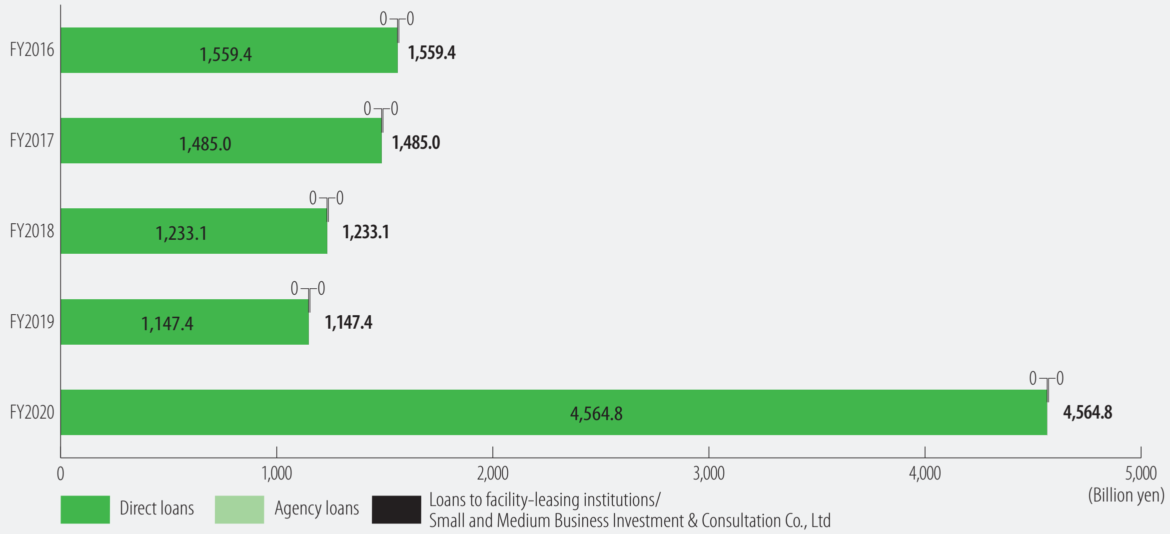


Note: H Scheme refers to a loan system through consignment of part of administration works for JFC's direct loans to agricultural cooperatives, banks, Shinkin banks, etc.

Data

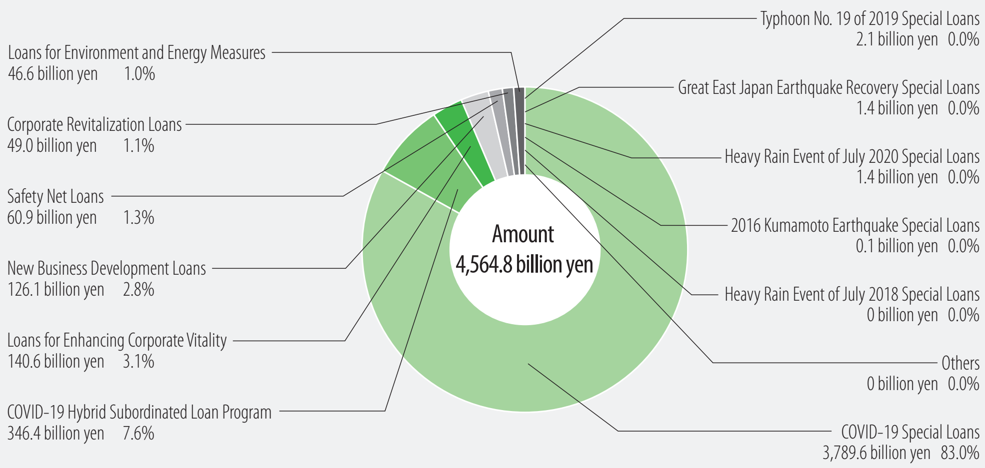
I. Loan Programs

1 Changes in Annual Loan Operations



2 Breakdown of Loans by Scheme

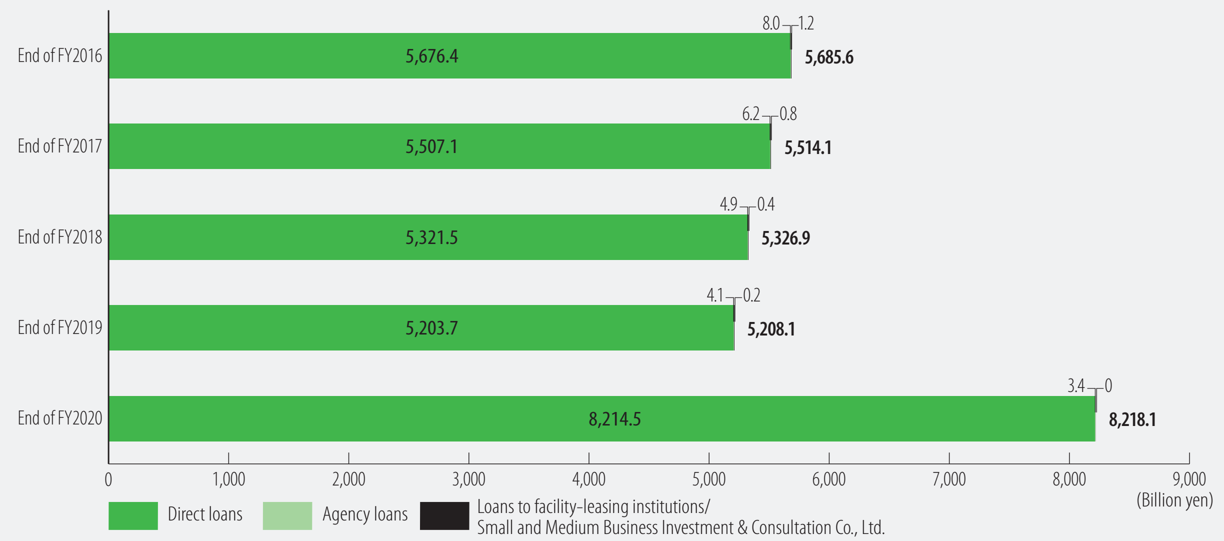
▼**Total Amount of Loans** (FY2020)



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.

Data

3 Changes in Outstanding Loans



4 Breakdown of Outstanding Loans by Industry

(Unit: billion yen, %)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Manufacturing	2,675.2 (47.1)	2,588.1 (46.9)	2,487.1 (46.7)	2,387.4 (45.8)	3,220.1 (39.2)
Construction	260.2 (4.6)	255.9 (4.6)	252.1 (4.7)	249.4 (4.8)	516.4 (6.3)
Wholesale & retail	920.1 (16.2)	895.5 (16.2)	834.3 (15.7)	787.1 (15.1)	1,413.7 (17.2)
Transport & telecommunications	538.9 (9.5)	535.6 (9.7)	538.2 (10.1)	549.9 (10.6)	850.6 (10.4)
Services	601.0 (10.6)	581.8 (10.6)	584.2 (11.0)	612.5 (11.8)	1,488.9 (18.1)
Others	688.7 (12.1)	656.2 (11.9)	630.2 (11.8)	621.1 (11.9)	728.1 (8.9)
Total	5,684.4 (100.0)	5,513.3 (100.0)	5,326.4 (100.0)	5,207.9 (100.0)	8,218.0 (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 FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Operating funds	3,497.2 (61.5)	3,321.1 (60.2)	3,013.5 (56.6)	2,785.2 (53.5)	5,919.4 (72.0)
Facility funds	2,187.2 (38.5)	2,192.2 (39.8)	2,312.8 (43.4)	2,422.6 (46.5)	2,298.5 (28.0)
Total	5,684.4 (100.0)	5,513.3 (100.0)	5,326.4 (100.0)	5,207.9 (100.0)	8,218.0 (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 FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Number of borrowers	44,665	44,145	43,929	44,102	61,074

Note: Figures cover only businesses with direct loans.

7 Average Loan Balance per Business

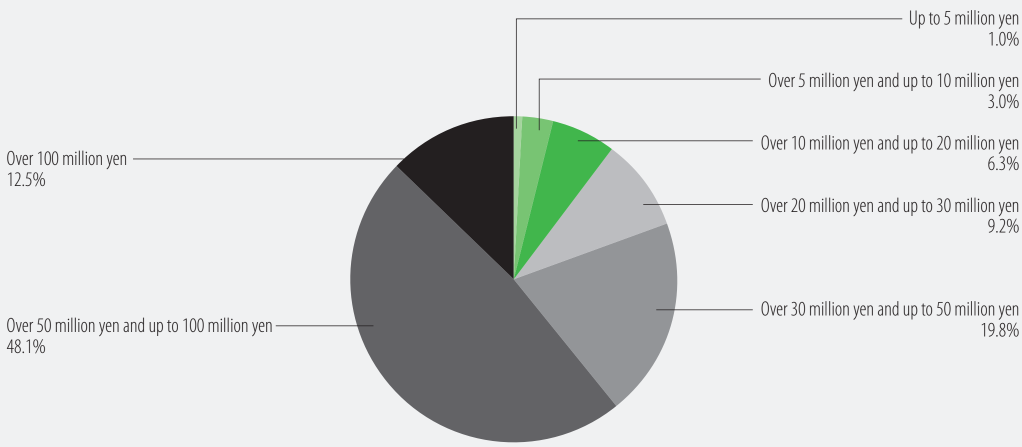
(Million yen)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Average loan balance per business	127	124	121	117	134

Note: Figures cover only businesses with direct loans.

8 Loans by Credit Amount

▼ Loan Percentage Breakdown (FY2020)



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

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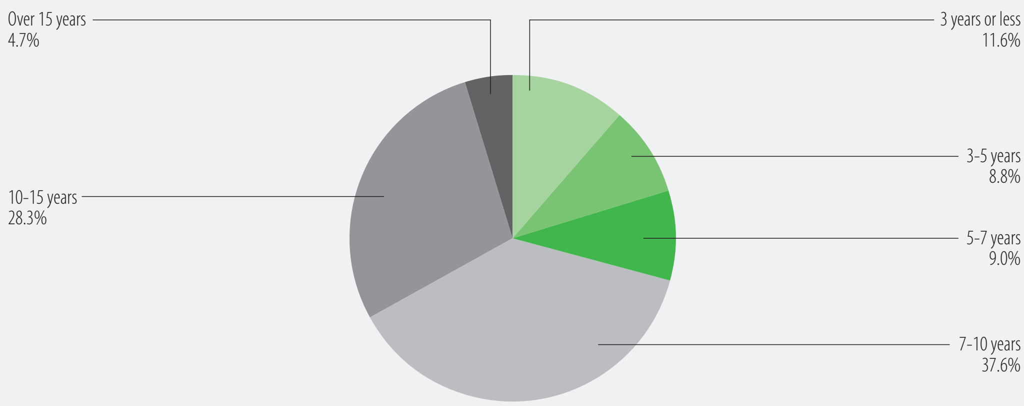
9 Loans by Repayment Period

▼ Loan Percentage Breakdown (FY2020)



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

II. Credit Insurance Programs

(Billion yen)

Items	FY2016	FY2017	FY2018	FY2019	FY2020
Amounts of insurance acceptance and loans					
Small Business Credit Insurance	8,101.1	7,635.5	7,707.2	8,324.3	33,210.6
Loans to CGCs	—	—	—	—	—
Special Insurance for Mid-size Enterprises	—	—	—	—	—
Outstanding amounts of insurance and loans					
Small Business Credit Insurance	24,093.6	22,401.0	21,264.0	21,244.8	42,416.1
Loans to CGCs	—	—	—	—	—
Special Insurance for Mid-size Enterprises	0.0	0.0	0.0	0.0	0.0
Machinery Credit Insurance	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, 2021.

III. Securitization Support Programs

(Billion yen)

Items	FY2016	FY2017	FY2018	FY2019	FY2020
Financing support amount					
Purchase-type	25.7	27.0	34.5	33.2	17.0
Guarantee-type	—	—	—	—	—
Outstanding amount of financing support					
Purchase-type	33.7	50.1	67.2	78.3	65.9
Guarantee-type	—	—	—	—	—
Outstanding amounts of trust beneficiary rights and guaranteed liabilities					
Purchase-type (outstanding amount of trust beneficiary rights)	12.1	15.1	18.1	17.4	12.9
Purchase-type (outstanding amounts of asset-backed securities)	3.7	6.6	10.3	14.9	17.8
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)	4.6	5.3	5.2	4.7	5.0

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, 2021.

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	FY2020
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	3,549.4
Loans, etc.	1,130.3	3,529.4	405.2	1,153.4	733.7	559.3	130.0	105.2	529.2	85.4	—	35.0	3,549.4
Commercial paper (CP) acquisitions	299.8	339.8	—	—	—	—	—	—	—	—	—	—	—
Loss compensation	345.1	1,811.9	1,893.3	1,739.8	1,470.2	1,409.3	1,234.2	1,077.5	547.3	89.2	1.0	0.8	2,364.5
Loans, etc.	345.1	1,781.9	1,893.3	1,739.8	1,470.2	1,409.3	1,234.2	1,077.5	547.3	89.2	1.0	0.8	2,364.5
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	4.6

Notes: 1. The figures for the two-step loans refer to the amounts of loans JFC provided to the designated financial institutions (Development Bank of Japan Inc. and The Shoko Chukin Bank, Ltd.) through the end of March 2021.

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 2021, with loss compensation underwritten by JFC for losses incurred until May 10, 2021.
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 2020 (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).

Data

Results of Operations to Facilitate Specific Businesses Promotion, Operations to Facilitate Business Restructuring Promotion, and Operations to Facilitate Development and Supply Promotion, etc. (Two-step Loans)

(Billion yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Operations to Facilitate Specific Businesses Promotion	20.0	1.3	7.8	10.6	2.9	1.1	1.0	0.5	—	—	—
Operations to Facilitate Business Restructuring Promotion	—	—	25.0	—	20.0	—	—	—	—	100.0	—
Operations to Facilitate Development and Supply Promotion, etc.	—	—	—	—	—	—	—	—	—	—	—

Notes: 1. The figures refer to the amount of loans provided by JFC to the designated financial institution (Development Bank of Japan Inc.) through the end of March 2021.

2. Day of commencement of operations: Operations to Facilitate Specific Businesses Promotion: August 16, 2010; Operations to Facilitate Business Restructuring Promotion: January 20, 2014 Operations to Facilitate Development and Supply Promotion, etc.: August 31, 2020.

3. 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, 2021)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	**7,403,520**	**Borrowed money**	**23,713,831**
Cash	20	Borrowings	23,713,831
Due from banks	7,403,500	**Bonds payable**	**1,575,618**
Securities	**37,428**	**Entrusted funds**	**26,085**
Government bonds	21,173	**Reserve for insurance policy liabilities**	**1,536,853**
Corporate bonds	13,010	**Other liabilities**	**35,240**
Stocks	2,030	Accrued expenses	5,667
Other securities	1,214	Unearned revenue	11,058
Loans and bills discounted	**28,945,758**	Derivatives other than for trading-liabilities	16
Loans on deeds	28,945,758	Lease obligations	5,346
Other assets	**44,911**	Other	13,151
Prepaid expenses	99	**Provision for bonuses**	**5,406**
Accrued income	16,491	**Provision for directors' bonuses**	**24**
Agency accounts receivable	909	**Provision for retirement benefits**	**90,283**
Other	27,410	**Provision for directors' retirement benefits**	**49**
Property, plant and equipment	**195,166**	**Reserve for compensation losses**	**25,449**
Buildings	50,867	**Acceptances and guarantees**	**93,858**
Land	139,089	Total liabilities	27,102,700
Lease assets	3,950	Net assets	
Construction in progress	420	**Capital stock**	**6,990,201**
Other	839	**Capital surplus**	**3,685,484**
Intangible assets	**18,302**	Special reserve for administrative improvement funds	181,500
Software	10,088	Legal capital surplus	3,503,984
Lease assets	797	**Retained earnings**	**(1,818,590)**
Other	7,416	Legal retained earnings	289,324
Customers' liabilities for acceptances and guarantees	**93,858**	Other retained earnings	(2,107,914)
Allowance for loan losses	**(779,151)**	Retained earnings brought forward	(2,107,914)
		Total shareholders' equity	8,857,095
		Total net assets	8,857,095
Total assets	35,959,796	Total liabilities and net assets	35,959,796

Data

Statement of Operations (Year ended March 31, 2021)

(Millions of yen)

Items	Amount
Ordinary income	478,800
Interest income	210,272
Interest on loans and discounts	209,733
Interest and dividends on securities	232
Interest on deposits with banks	307
Other interest income	0
Fees and commissions	2,673
Fees and commissions on compensation security contract	1,998
Other fees and commissions	674
Insurance premiums and other	201,250
Insurance premiums	190,561
Receipts of burden charges under the Responsibility-sharing System	10,688
Receipts from the national budget	59,995
Receipts from general account of the national budget	59,982
Receipts from special account of the national budget	12
Other income	4,608
Recoveries of written-off claims	844
Gain on sales of stocks and other securities	386
Other	3,377
Ordinary expenses	1,515,864
Interest expenses	32,947
Interest on call money	26
Interest on borrowings and rediscounts	28,888
Interest on bonds	4,033
Fees and commissions payments	3,875
Other fees and commissions	3,875
Expenses on insurance claims and other	910,314
Expenses on insurance claims	211,683
Recoveries of insurance claims	(65,056)
Provision of reserve for insurance policy liabilities	763,687
Other ordinary expenses	5,796
Loss on foreign exchange transactions	137
Loss on devaluation of bonds	8
Amortization of bond issuance cost	669
Interest subsidies	4,981
General and administrative expenses	127,820
Other expenses	435,109
Provision of allowance for loan losses	407,567
Provision of reserve for compensation losses	9,903
Written-off of loans	11,998
Other	5,640
Ordinary loss	1,037,064
Extraordinary income	49
Gain on disposal of noncurrent assets	49
Extraordinary losses	272
Loss on disposal of noncurrent assets	193
Impairment loss	78
Net loss	1,037,286

Statement of Changes in Net Assets (Year ended March 31, 2021)

(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: Retained earnings brought forward	Total retained earnings		
Balance at the beginning 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
Changes of items during the period									
Issuance of new shares	2,665,981		1,451,700	1,451,700				4,117,681	4,117,681
Provision of legal retained earnings					76	(76)	—	—	—
Reversal of legal retained earnings					(2,390)	2,390	—	—	—
Payment to the national treasury						(76)	(76)	(76)	(76)
Net income (loss)						(1,037,286)	(1,037,286)	(1,037,286)	(1,037,286)
Total changes of items during the period	2,665,981	—	1,451,700	1,451,700	(2,313)	(1,035,049)	(1,037,362)	3,080,318	3,080,318
Balance at the end of current period	6,990,201	181,500	3,503,984	3,685,484	289,324	(2,107,914)	(1,818,590)	8,857,095	8,857,095

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 ¥203,997 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.

Significant accounting estimates

The items for which the amount was recorded in the financial statements for the current fiscal year based on accounting estimates that may have significant impacts on the financial statements for the following fiscal year are as follows.

1. Allowance for loan losses

(1) Amount recorded in financial statements for the current fiscal year

Allowance for loan losses: ¥779,151 million

(2) Information that will contribute to understanding in relation to the details of significant accounting estimates relating to the identified items

a. Account for micro business and individual operations

(a) Calculation method

The method of calculating the allowance for loan losses is described in Significant accounting policies, (f) Accounting policy for reserves, (i) Allowance for loan losses.

When making calculations, JFC takes the effect of COVID-19 into consideration and adds necessary revisions. Specifically, the borrowers' categories are determined based on the status of loan repayment, whether loan conditions were restructured, and the facts ascertained in the course of normal operations and other factors. Due to the increase in borrowers for which a principal deferment period has been set and other factors in conjunction with the rapid increase in COVID-19 related loans, it is possible that deterioration of borrower credit risks will not immediately appear and will not be reflected in the borrowers' categories, and therefore, loan losses expected to occur in the future are additionally estimated.

(b) Main assumptions

Although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. Because of this, potential short-term credit risks concerning borrowers for which principal deferment periods were set to a certain degree are anticipated, and accordingly, it was assumed that the borrowers' categories would decline to a certain degree and necessary revisions were made. In addition, necessary corrections to the anticipated loss rate were made based on the assumptions that a deterioration of borrower credit risks will occur and late payment, relaxation of lending conditions, bankrupt, termination of business, and so on will occur at approximately the same rate as before the COVID-19 pandemic.

(c) Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of borrowers and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

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

(a) Calculation method

The method of calculating the allowance for loan losses is described in Significant accounting policies, (f) Accounting policy for reserves, (i) Allowance for loan losses.

When making calculations, the borrowers' categories are determined by assessing and setting borrower repayment capacity based on borrower repayment status, financial details, business performance, projections of these, and other factors and an anticipated loss rate on the basis of the average default rate over a certain period in the past based on the loan loss, and making necessary adjustments such as future expectations is included.

(b) Main assumptions

The main assumptions are the outlook for borrowers when determining the borrowers' categories and the impacts of COVID-19.

The outlook for borrowers is assessed on an individual basis according to repayment status including effects from COVID-19, financial details, balance of payments status, reasonableness and feasibility of management improvement plans, and other factors.

Also, although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. However, it is assumed that the short-term credit risks of loans held at the end of the current fiscal year are approximately the same as in the past due to the various supports provided to businesses based on a variety of government measures.

(c) Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of borrowers and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

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

(a) Calculation method

The method of calculating the allowance for loan losses is described in Significant accounting policies, (f) Accounting policy for reserves, (i) Allowance for loan losses.

When making calculations, the borrowers' categories are determined by assessing and setting borrower repayment capacity based on borrower repayment status, financial details, business performance, projections of these, and other factors, and an anticipated loss rate on the basis of the average default rate over a certain period in the past based on the loan loss, and making necessary adjustments such as future expectations is included.

For subordinated capital loan receivables, expected loss amounts are recorded based primarily on the assumption that the portion corresponding to substantive insolvency is not expected to be recovered.

(b) Main assumptions

The main assumptions are the outlook for borrowers when determining the borrowers' categories and the impacts of COVID-19.

The outlook for borrowers is assessed on an individual basis according to repayment status including effects from COVID-19, financial details, balance of payments status, reasonableness and feasibility of management improvement plans, and other factors.

Also, although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. However, it is assumed that the short-term credit risks of loans held at the end of the current fiscal year are approximately the same as in the past due to the various supports provided to businesses based on a variety of government measures.

(c) Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of borrowers and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

2. Reserve for insurance policy liabilities

(1) Amount recorded in financial statements for the current fiscal year

Reserve for insurance policy liabilities: ¥1,536,853 million

(2) Information that will contribute to understanding in relation to the details of significant accounting estimates relating to identified items

a. Calculation method

The method of calculating the reserve for insurance policy liabilities is described in Significant accounting policies, (g) Accounting policies for reserve for insurance policy liabilities.

When making calculations, grouping for each program category and insurance type category is made on March 31 and September 30 of each fiscal year as the record dates in accordance with the standards on the reserve for insurance policy liabilities, the accounting base rates including the balance compared with the prior fiscal year and accident rate are determined, and the reserve for insurance policy liabilities (policy reserve and outstanding claims reserve) is calculated based on estimated future cash flows including estimated insurance claims payment amounts.

In cases where the amount of cumulative maximum excess expenditures of future income and expenditures calculated for each fiscal year after a record date surpasses the amount of the reserve for insurance policy liabilities, the corresponding amount is additionally recorded.

b. Main assumptions

An assumed accident rate based on actual performance over a certain period in the past is used for estimating future insurance claims payment amounts.

The accident rate used for such estimates is the average for the most recent 10 years based on prior results for each insurance underwriting fiscal year and elapsed fiscal year.

Also, although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. However, it is assumed that the short-term credit insurance underwriting risks relating to insurance underwriting at the end of the current fiscal year are approximately the same as in the past due to the various supports provided to businesses based on a variety of government measures.

c. Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of SMEs and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on the reserve for insurance policy liabilities in the financial statements for the following fiscal year.

3. Reserve for compensation losses

(1) Amount recorded in financial statements for the current fiscal year

Reserve for compensation losses: ¥25,449 million

(2) Information that will contribute to understanding in relation to the details of significant accounting estimates relating to identified items

a. Calculation method

The method of calculating the reserve for compensation losses is described in Significant accounting policies, (f) Accounting policy for reserves, (ii) Reserve for compensation losses.

Specifically, compensation security contracts were grouped based on reports from designated financial institutions about the presence or absence of the arrival of repayment performance deadline, and the reserves for compensation losses are calculated based on the anticipated loss rate for each group.

b. Main assumptions

The anticipated loss rate is calculated based on past compensation payment results rate with the assumption that there will not be a major change in the credit risks included in compensation security contracts.

It is assumed that there is no major change in credit risks included in compensation security contracts in relation to COVID-19 or other crises.

c. Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of businesses and economic conditions, and there may be a material impact on reserve for compensation losses in the financial statements for the following fiscal year.

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 26, 2021), 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.

The Change in presentation

The Accounting Standard for Disclosure of Accounting Estimates

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) is applied to the financial statements ended in the fiscal year and notes for significant accounting estimates are found in the financial statements.

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, 2021		
	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	4,192	641	3,817
Non-accrual loans	116,297	77,425	681,051
Loans with interest or principal repayments more than three months in arrears	53	320	—
Restructured loans	389,568	68,770	109,933
Total	510,113	147,157	794,803

(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, 2021 is ¥89,428 million.

In cases where a customer makes a request for loan disbursement in relation to a loan agreement with a commitment period, as long as there are not violations of the conditions set forth in the agreement, the agreement provides for a promise to loan funds up to a certain maximum amount. The undisbursed loan balance of above agreements is ¥400 million.

This agreement contains provisions such that if there are changes in financial conditions, it is necessary for preservation of claims, or there is other cause, JFC may reject a request for disbursement. In addition, JFC collects collateral such as real estate and securities at the time of contract execution as necessary, takes periodical credit preservation measures such as being aware of customer business performance in accordance with JFC procedures specified and review of agreements as necessary after agreement execution.

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 ¥1,575,618 million.

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥38,766 million.

6. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (52,839 contracts)	1,934,625
Reserve for compensation	25,449
Net amount	1,909,175

7. Restriction in dividend distribution

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

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

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

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

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

Ordinary income-Other income-Other: ¥0 million

9. Issued shares

For the fiscal year ended March 31, 2021, 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	10,529,448,107,741	4,117,681,000,000	—	14,647,129,107,741

(Note) Increase is due to the issuance of 4,117,681,000,000 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

Data

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.

The Account for Operations to Facilitate Specific Businesses Promotion, etc. account provides loans to designated financial institutions appointed by the competent minister in order to assist in the smooth financing of required funds for the execution of business by companies that develop or manufacture energy and environmentally friendly products, the execution of business restructuring in order to strengthen their industrial competitiveness, and the development and provision or introduction of systems using specified advanced information and communications technology. 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, (6) Loans to foreign-affiliated corporations, and (7) 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 and bonds payable. 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.

(b) Market risk

The operations of this operation account consist of loans to designated financial institutions, and fiscal investment and loans and issuing of government-backed bonds 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, etc.

(c) Liquidity risk

Long-term and stable funds such as fiscal investment and loans, government-backed bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted, and as a result, liquidity risk is considered to be limited. However, borrowings and bonds payable 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, business reorganization promotion operations, and development and provision, etc. 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, 2021 will cause the fair value after netting of the financial assets and financial liabilities held in this account to decrease by ¥4,303 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to increase by ¥4,018 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, 2021 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥14,922 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥13,504 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, 2021 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥45,167 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 ¥41,803 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, 2021 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥1,582 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 ¥1,445 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, borrowings, and bonds payable.

These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans as well as issuance of government-backed bonds. Since the terms and conditions of lendings and borrowings are equal, cash inflows resulting from lendings and cash outflows resulting from borrowings and bonds payable 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, government-backed bonds, 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, 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, 2021, 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	7,403,520	7,408,273	4,752
(2) Securities			
Held-to-maturity debt securities	21,191	22,234	1,043
Other securities	2	2	—
(3) Loans and bills discounted	28,143,738		
Allowance for loan losses (*1)	(504,687)		
	27,639,051	28,550,424	911,373
Total assets	35,063,765	35,980,934	917,169
(1) Borrowings	23,560,239	23,696,972	136,733
(2) Bonds payable	1,575,618	1,594,505	18,886
Total liabilities	25,135,857	25,291,477	155,619
Derivative transactions (*2)			
Derivative transactions not qualifying for hedge accounting	(16)	(16)	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	(16)	(16)	—

(*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 and loans with post-establishment target-achievement type interest rates, 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 borrowers' categories 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 guaran-

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tee. 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 borrowers' categories 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 borrowers' categories 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) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.
They are not included in "Assets, (2) Securities," "Assets, (3) Loans and bills discounted" or "Liabilities, (1) Borrowings".

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Unlisted stocks (*1)	2,030
2) Corporate bonds (specific asset-backed securities) (*2)	12,993
3) Partnership investments (*3)	1,211
4) Loans on deeds (subordinated capital loans and loans with post-establishment target-achievement type interest rates) (*4)	802,019
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	971,846

(*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, the scheme is such that an interest rate based on the results of success determination according to the business performance of the borrower each year applies. In addition, for loans on deed (post-establishment target-achievement type interest rate) to which a post-establishment target-achievement type interest rate applies, the interest rate is reduced by 0.2% after three years from the date of the loan if the requirements for an interest rate reduction are met based on business performance and other factors in the second fiscal year after establishment of the company. With regard to these, 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 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)	6,458,400	500,100	445,000	—	—	—
Securities Held-to-maturity debt securities	17	—	—	—	—	21,068
Loans and bills discounted (*2)	3,561,560	7,219,830	5,996,907	4,366,242	4,447,297	3,156,818
Total	10,019,978	7,719,930	6,441,907	4,366,242	4,447,297	3,177,886

(*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 ¥197,102 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 (*)	3,959,924	6,918,165	5,252,190	3,044,248	2,719,256	1,688,745
Bonds payable	300,000	615,000	345,000	110,000	180,000	25,000
Total	4,259,924	7,533,165	5,597,190	3,154,248	2,899,256	1,713,745

(*) 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, 2021 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	21,173	22,216	1,043
Securities whose fair value does not exceed their carrying amount	Corporate bonds	17	17	—
Total		21,191	22,234	1,043

(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	175,492	175,501	(8)

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

	Carrying amount on the balance sheet (Millions of yen)
Stocks	0
Bonds	
Corporate Bonds	12,993
Others	1,211
Total	14,204

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, 2020 to March 31, 2021)

	Sales amount (Millions of yen)	Total gain on sales (Millions of yen)	Total loss on sales (Millions of yen)
Stocks	12	4	—

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	175,370	million yen
Service cost	6,245	
Interest cost	175	
Actuarial difference	3,795	
Payment of retirement benefits	(8,207)	
Prior service cost	—	
Other	—	
Closing balance of projected benefit obligations	177,378	

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

Opening balance of fair value of plan assets	60,848	million yen
Expected return on plan assets	1,216	
Actuarial difference	5,068	
Financing from employer	2,925	
Payment of retirement benefits	(3,330)	
Other	—	
Closing balance of fair value of plan assets	66,728	

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(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	87,198	million yen
Fair value of plan assets	(66,728)	
	20,469	
Projected benefit obligations of unfunded plan	90,180	
Unfunded pension obligations	110,650	
Actuarial unrecognized difference	(24,110)	
Unrecognized prior service cost	3,744	
Net amount of liabilities and assets recorded on the balance sheet	90,283	
Provision for retirement benefits	90,283	
Prepaid pension cost	—	
Net amount of liabilities and assets recorded on the balance sheet	90,283	

(4) Net pensions cost and breakdown of included items

Service cost	6,245	million yen
Interest cost	175	
Expected return on plan assets	(1,216)	
Amount of actuarial difference accounted for as expense	5,329	
Amortization of prior service cost accounted for as expense	(1,195)	
Other	—	
Net pensions cost related to defined benefits plan	9,337	

(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	23%
Debentures	65%
General account	11%
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 6.2%

Defined contribution pension plan

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

14. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥2,048 million
Profit on investment in affiliates (equity method)	¥32 million

15. Related party transactions

Related party transactions in the fiscal year ended March 31, 2021 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, 2021
Principal shareholder	Ministry of Finance (Minister of Finance)(Notes i and ii)	97.67 (Direct)	Administration for policy based financing	Underwriting of capital increase(Note iii)	4,117,105	—	—
				Receipts from general account of the national budget	13,049	—	—
				Receipt of funds(Note iv)	14,314,972	Borrowings	23,570,902
				Repayment of borrowing	3,407,926		
				Payment of interest on borrowings	28,866	Accrued expenses	3,982
				Deposit of funds(Note v)	11,155,900	Due from banks	4,846,000
				Refund of funds	9,678,700		
				Guarantee for bonds payable(Note vi)	815,631	—	—

(Notes)

(i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:
- -Ministry of Health, Labour and Welfare (Minister of Health, Labour and Welfare) 0.04%
- -Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries) 0.27%
- -Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry) 2.02%

(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 ¥176 million
- -Ministry of Economy, Trade and Industry
  Underwriting of capital increase ¥400 million
- -Ministry of Health, Labour and Welfare
  Receipts from the national budget ¥2,738 million
- -Ministry of Agriculture, Forestry and Fisheries
  Receipts from the national budget ¥25,674 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 ¥18,456 million
- -Ministry of Agriculture, Forestry and Fisheries
  Repayment of borrowed money ¥3,588million

(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 ¥0.60
Net loss per share ¥0.08

17. Subsequent events

Not applicable.

Data

Account for Micro Business and Individual Operations

Balance Sheet (as of March 31, 2021)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	1,225,787	Borrowed money	10,513,211
Cash	15	Borrowings	10,513,211
Due from banks	1,225,772	Bonds payable	680,311
Loans and bills discounted	12,720,479	Other liabilities	10,764
Loans on deeds	12,720,479	Accrued expenses	1,214
Other assets	9,910	Lease obligations	3,510
Prepaid expenses	16	Other	6,039
Accrued income	6,142	Provision for bonuses	3,290
Agency accounts receivable	578	Provision for directors' bonuses	8
Other	3,172	Provision for retirement benefits	53,625
Property, plant and equipment	96,383	Provision for directors' retirement benefits	15
Buildings	28,594	Total liabilities	11,261,225
Land	64,485	Net assets	
Lease assets	2,625	Capital stock	2,997,738
Construction in progress	117	Capital surplus	181,500
Other	560	Special reserve for administrative improvement funds	181,500
Intangible assets	8,428	Retained earnings	(662,001)
Software	4,320	Other retained earnings	(662,001)
Lease assets	492	Retained earnings brought forward	(662,001)
Other	3,616	Total shareholders' equity	2,517,236
Allowance for loan losses	(282,528)	Total net assets	2,517,236
Total assets	13,778,462	Total liabilities and net assets	13,778,462

Statement of Operations (Year ended March 31, 2021)

(Millions of yen)

Items	Amount
Ordinary income	**135,840**
Interest income	114,309
Interest on loans and discounts	114,308
Interest on deposits with banks	0
Other interest income	0
Fees and commissions	0
Other fees and commissions	0
Receipts from the national budget	19,949
Receipts from general account of the national budget	19,949
Other income	1,582
Recoveries of written-off claims	503
Other	1,078
Ordinary expenses	**290,370**
Interest expenses	3,433
Interest on call money	8
Interest on borrowings and rediscounts	3,212
Interest on bonds	211
Fees and commissions payments	596
Other fees and commissions	596
Other ordinary expenses	327
Amortization of bond issuance cost	327
General and administrative expenses	78,138
Other expenses	207,874
Provision of allowance for loan losses	197,254
Written-off of loans	10,583
Other	36
Ordinary loss	**154,529**
Extraordinary income	**49**
Gain on disposal of noncurrent assets	49
Extraordinary losses	**152**
Loss on disposal of noncurrent assets	75
Impairment loss	77
Net loss	**154,632**

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Statement of Changes in Net Assets (Year ended March 31, 2021)

(Millions of yen)

	Shareholders' equity						Total net assets
	Capital stock	Capital surplus		Retained earnings		Total share-holders' equity	
		Special reserve for administra-tive improve-ment funds	Total capital surplus	Other retained earnings: Retained earnings brought forward	Total retained earnings		
Balance at the beginning of current period	1,223,643	181,500	181,500	(507,369)	(507,369)	897,773	897,773
Changes of items during the period							
Issuance of new shares	1,774,095					1,774,095	1,774,095
Net income (loss)				(154,632)	(154,632)	(154,632)	(154,632)
Total changes of items during the period	1,774,095	—	—	(154,632)	(154,632)	1,619,462	1,619,462
Balance at the end of current period	2,997,738	181,500	181,500	(662,001)	(662,001)	2,517,236	2,517,236

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 ¥121,001 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.

Significant accounting estimates

The item for which the amount was recorded in the financial statements for the current fiscal year based on accounting estimates that may have significant impacts on the financial statements for the following fiscal year is the allowance for loan losses.

1. Amount recorded in financial statements for the current fiscal year
   Allowance for loan losses: ¥282,528 million
2. Information that will contribute to understanding in relation to the details of significant accounting estimates relating to the identified item

(1) Calculation method

The method of calculating the allowance for loan losses is described in Significant accounting policies, (c) Accounting policy for reserves, (i) Allowance for loan losses.

When making calculations, JFC takes the effect of COVID-19 into consideration and adds necessary revisions. Specifically, the borrowers' categories are determined based on the status of loan repayment, whether loan conditions were restructured, and the facts ascertained in the course of normal operations and other factors. Due to the increase in borrowers for which a principal deferment period has been set and other factors in conjunction with the rapid increase in COVID-19 related loans, it is possible that deterioration of borrower credit risks will not immediately appear and will not be reflected in the borrowers' categories, and therefore, loan losses expected to occur in the future are additionally estimated.

(2) Main assumptions

Although the impacts of COVID-19 will gradually diminish , it is expected that the effects on the economy will continue for about one year into the future. Because of this, potential short-term credit risks concerning borrowers for which principal deferment periods were set to a certain degree are anticipated, and accordingly, it was assumed that the borrowers' categories would decline to a certain degree and necessary revisions were made. In addition, necessary corrections to the anticipated loss rate were made based on the assumptions that a deterioration of borrower credit risks will occur and late payment, relaxation of lending conditions, bankrupt, termination of business, and so on will occur at approximately the same rate as before the COVID-19 pandemic.

(3) Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of borrowers and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

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 26, 2021), 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.

The Change in presentation

The Accounting Standard for Disclosure of Accounting Estimates

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) is applied to the financial statements ended in the fiscal year and notes for significant accounting estimates are found in the financial statements.

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, 2021 Account for Micro Business and Individual Operations
Bankrupt loans	4,192
Non-accrual loans	116,297
Loans with interest or principal repayments more than three months in arrears	53
Restructured loans	389,568
Total	510,113

(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, 2021 is ¥1,580 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 ¥680,311 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥21,906 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, 2021 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	1,405,143,000,000	1,774,095,000,000	—	3,179,238,000,000

(Note) Increases is due to the issuance of 1,774,095,000,000 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, 2021 will cause the fair value after netting of the financial assets and financial liabilities held in this account to decrease by ¥4,303 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to increase by ¥4,018 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, 2021, 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	1,225,787	1,225,787	—
(2) Loans and bills discounted	12,697,007		
Allowance for loan losses (*)	(263,713)		
	12,433,293	12,798,857	365,563
Total assets	13,659,081	14,024,645	365,563
(1) Borrowings	10,381,911	10,412,815	30,904
(2) Bonds payable	680,311	680,501	189
Total liabilities	11,062,222	11,093,316	31,094

(*) 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 and loans with post-establishment target-achievement type interest rates, 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 borrowers' categories 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 and loans with post-establishment target-achievement type interest rates) (*1)	23,471
2) Borrowings from general account of the national budget (*2)	131,300
Total	154,771

(*1) For loans on deed (subordinated capital loans) under the Provision Scheme for Challenge Support and Capital Enhancement or other schemes, the scheme is such that an interest rate based on the results of success determination according to the business performance of the borrower each year applies. In addition, for loans on deed (post-establishment target-achievement type interest rate) to which a post-establishment target-achievement type interest rate applies, the interest rate is reduced by 0.2% after three years from the date of the loan if the requirements for an interest rate reduction are met based on business performance and other factors in the second fiscal year after establishment of the company. With regard to these, 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)	1,225,772	—	—	—	—	—
Loans and bills discounted (*2)	1,498,929	3,250,881	2,868,053	2,113,047	1,934,408	934,656
Total	2,724,701	3,250,881	2,868,053	2,113,047	1,934,408	934,656

(*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 ¥120,503 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 (*)	2,130,756	3,633,697	2,424,225	1,177,620	675,318	340,295
Bonds payable	185,000	295,000	120,000	20,000	60,000	—
Total	2,315,756	3,928,697	2,544,225	1,197,620	735,318	340,295

(*) 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	108,301	million yen
Service cost	3,793	
Interest cost	108	
Actuarial difference	2,340	
Payment of retirement benefits	(5,027)	
Prior service cost	—	
Other	(34)	
Closing balance of projected benefit obligations	109,480	

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

Opening balance of fair value of plan assets	37,722	million yen
Expected return on plan assets	754	
Actuarial difference	3,139	
Financing from employer	1,775	
Payment of retirement benefits	(2,044)	
Other	(5)	
Closing balance of fair value of plan assets	41,341	

Data

(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	54,023	million yen
Fair value of plan assets	(41,341)	
	12,681	
Projected benefit obligations of unfunded plan	55,457	
Unfunded pension obligations	68,139	
Actuarial unrecognized difference	(17,355)	
Unrecognized prior service cost	2,841	
Net amount of liabilities and assets recorded on the balance sheet	53,625	
Provision for retirement benefits	53,625	
Prepaid pension cost	—	
Net amount of liabilities and assets recorded on the balance sheet	53,625	

(4) Net pensions cost and breakdown of included items

Service cost	3,793	million yen
Interest cost	108	
Expected return on plan assets	(754)	
Amount of actuarial difference accounted for as expense	3,560	
Amortization of prior service cost accounted for as expense	(907)	
Other	—	
Net pensions cost related to defined benefits plan	5,800	

(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	23%
Debentures	65%
General account	11%
Cash and deposits	1%
Total	100%

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

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

(6) Items related to actuarial calculation bases

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

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	2.1% to 5.7%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥227 million.

10. Related party transactions

Related party transactions in the fiscal year ended March 31, 2021 are as follows:

Transactions with parent company and major shareholder companies

(Millions of yen)

<table>
<tr><th>Classification</th><th>Corporate name</th><th>Ratio to Total Voting Rights (%)</th><th>Relation with related parties</th><th>Transactions</th><th>Amount of transactions</th><th>Items</th><th>Balance as of March 31, 2021</th></tr>
<tr><td rowspan="6">Principal shareholder</td><td rowspan="6">Ministry of Finance (Minister of Finance) (Notes i and ii)</td><td rowspan="6">99.83 (Direct)</td><td rowspan="6">Administration for policy based financing</td><td>Underwriting of capital increase (Note iii)</td><td>1,773,919</td><td>—</td><td>—</td></tr>
<tr><td>Receipts from general account of the national budget</td><td>12,991</td><td>—</td><td>—</td></tr>
<tr><td>Receipt of funds (Note iv)</td><td>6,600,900</td><td rowspan="2">Borrowings</td><td rowspan="2">10,381,911</td></tr>
<tr><td>Repayment of borrowing</td><td>1,840,889</td></tr>
<tr><td>Payment of interest on borrowings</td><td>3,203</td><td>Accrued expenses</td><td>620</td></tr>
<tr><td>Guarantee for bonds payable (Note v)</td><td>370,309</td><td>—</td><td>—</td></tr>
</table>

(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) 0.17%

(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 ¥176 million
  - Receipts from the national budget ¥2,738 million
- -Small and Medium Enterprise Agency
  - Receipts from the national budget ¥4,218 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 ¥0.79

Net loss per share ¥0.08

12. Subsequent events

Not applicable.

Account for Agriculture, Forestry, Fisheries and Food Business Operations

Balance Sheet (as of March 31, 2021)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	69,049	Borrowed money	2,812,074
Cash	0	Borrowings	2,812,074
Due from banks	69,049	Bonds payable	224,984
Securities	3,244	Entrusted funds	26,085
Stocks	2,030	Other liabilities	8,663
Other securities	1,214	Accrued expenses	3,464
Loans and bills discounted	3,416,516	Unearned revenue	10
Loans on deeds	3,416,516	Lease obligations	541
Other assets	7,785	Other	4,648
Prepaid expenses	0	Provision for bonuses	668
Accrued income	7,108	Provision for directors' bonuses	8
Agency accounts receivable	330	Provision for retirement benefits	11,350
Other	346	Provision for directors' retirement benefits	16
Property, plant and equipment	33,066	Acceptances and guarantees	2,841
Buildings	7,534	Total liabilities	3,086,694
Land	24,933	Net assets	
Lease assets	395	Capital stock	424,823
Construction in progress	130	Retained earnings	2,642
Other	72	Legal retained earnings	2,642
Intangible assets	4,141	Total shareholders' equity	427,465
Software	1,651		
Lease assets	84		
Other	2,405		
Customers' liabilities for acceptances and guarantees	2,841		
Allowance for loan losses	(22,486)	Total net assets	427,465
Total assets	3,514,160	Total liabilities and net assets	3,514,160

Data

Statement of Operations (Year ended March 31, 2021)

(Millions of yen)

Items	Amount
Ordinary income	**49,931**
Interest income	23,612
Interest on loans and discounts	23,611
Interest on deposits with banks	1
Other interest income	0
Fees and commissions	37
Other fees and commissions	37
Receipts from the national budget	25,636
Receipts from general account of the national budget	25,623
Receipts from special account of the national budget	12
Other income	645
Recoveries of written-off claims	253
Other	391
Ordinary expenses	**49,905**
Interest expenses	18,465
Interest on call money	(0)
Interest on borrowings and rediscounts	15,673
Interest on bonds	2,792
Fees and commissions payments	2,746
Other fees and commissions	2,746
Other ordinary expenses	29
Amortization of bond issuance cost	29
General and administrative expenses	15,749
Other expenses	12,914
Provision of allowance for loan losses	12,655
Written-off of loans	160
Other	99
Ordinary profit	**25**
Extraordinary losses	**25**
Loss on disposal of noncurrent assets	24
Impairment loss	1
Net income	**—**

Data

Statement of Changes in Net Assets (Year ended March 31, 2021)

(Millions of yen)

	Shareholders' equity					Total net assets
	Capital stock	Retained earnings			Total shareholders' equity	
		Legal retained earnings	Other retained earnings Retained earnings brought forward	Total retained earnings		
Balance at the beginning of current period	402,363	2,642	(0)	2,642	405,005	405,005
Changes of items during the period						
Issuance of new shares	22,460				22,460	22,460
Reversal of legal retained earnings		(0)	0	—	—	—
Net income (loss)			—	—	—	—
Total changes of items during the period	22,460	(0)	0	—	22,460	22,460
Balance at the end of current period	424,823	2,642	—	2,642	427,465	427,465

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 ¥9,113 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.

Significant accounting estimates

The item for which the amount was recorded in the financial statements for the current fiscal year based on accounting estimates that may have significant impacts on the financial statements for the following fiscal year is the allowance for loan losses.

1. Amount recorded in financial statements for the current fiscal year
   Allowance for loan losses: ¥22,486 million
2. Information that will contribute to understanding in relation to the details of significant accounting estimates relating to the identified item
   (1) Calculation method
   The method of calculating the allowance for loan losses is described in Significant accounting policies, (e) Accounting policy for reserves, (i) Allowance for loan losses.
   When making calculations, the borrowers' categories are determined by assessing and setting borrower repayment capacity based on borrower repayment status, financial details, business performance, projections of these, and other factors and an anticipated loss rate on the basis of the average default rate over a certain period in the past based on the loan loss, and making necessary adjustments such as future expectations is included.
   (2) Main assumptions
   The main assumptions are the outlook for borrowers when determining the borrowers' categories and the impacts of COVID-19.
   The outlook for borrowers is assessed on an individual basis according to repayment status including effects from COVID-19, financial details, balance of payments status, reasonableness and feasibility of management improvement plans, and other factors.
   Also, although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. However, it is assumed that the short-term credit risks of loans held at the end of the current fiscal year are approximately the same as in the past due to the various supports provided to businesses based on a variety of government measures.
   (3) Impacts on financial statements for the following fiscal year
   The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of borrowers and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

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 26, 2021), 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.

The Change in presentation

The Accounting Standard for Disclosure of Accounting Estimates

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) is applied to the financial statements ended in the fiscal year and notes for significant accounting estimates are found in the financial statements.

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, 2021 Account for Agriculture, Forestry, Fisheries and Food Business Operations
Bankrupt loans	641
Non-accrual loans	77,425
Loans with interest or principal repayments more than three months in arrears	320
Restructured loans	68,770
Total	147,157

(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, 2021 is ¥59,884 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 ¥224,984 million).

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥5,500 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

Ordinary income–Other income-Other: ¥0 million

8. Issued shares

For the fiscal year ended March 31, 2021 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	402,363,700,000	22,460,000,000	—	424,823,700,000

(Note) Increase is due to the issuance of 22,460,000,000 shares.

Data

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, 2021 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥14,922million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥13,504 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, 2021, 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	69,049	69,049	—
(2) Securities			
Other securities	2	2	—
(3) Loans and bills discounted	3,414,810		
Allowance for loan losses (*)	(21,815)		
	3,392,994	3,549,186	156,192
Total assets	3,462,046	3,618,238	156,192
(1) Borrowings	2,812,074	2,879,160	67,085
(2) Bonds payable	224,984	241,615	16,631
Total liabilities	3,037,059	3,120,776	83,716

(*) 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 borrowers' categories 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)	1,211
3) Loans on deeds (subordinated capital loans) (*3)	1,706
Total	4,947

(*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)	69,049	—	—	—	—	—
Loans and bills discounted (*2)	376,400	668,530	531,700	448,258	520,229	810,730
Total	445,450	668,530	531,700	448,258	520,229	810,730

(*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 ¥60,665 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	310,766	624,959	559,777	395,348	417,566	503,656
Bonds payable	25,000	55,000	10,000	30,000	80,000	25,000
Total	335,766	679,959	569,777	425,348	497,566	528,656

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, 2021 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	13,492	13,501	(8)

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

	Carrying amount on the balance sheet (Millions of yen)
Others	1,211

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.

Data

Defined benefits plan

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

Opening balance of projected benefit obligations	20,806 million yen
Service cost	760
Interest cost	20
Actuarial difference	387
Payment of retirement benefits	(928)
Prior service cost	—
Other	54
Closing balance of projected benefit obligations	21,101

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

Opening balance of fair value of plan assets	7,059 million yen
Expected return on plan assets	141
Actuarial difference	544
Financing from employer	356
Payment of retirement benefits	(382)
Other	7
Closing balance of fair value of plan assets	7,727

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

Projected benefit obligations of funded plan	10,097 million yen
Fair value of plan assets	(7,727)
	2,370
Projected benefit obligations of unfunded plan	11,003
Unfunded pension obligations	13,373
Actuarial unrecognized difference	(2,504)
Unrecognized prior service cost	480
Net amount of liabilities and assets recorded on the balance sheet	11,350
Provision for retirement benefits	11,350
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	11,350

(4) Net pensions cost and breakdown of included items

Service cost	760 million yen
Interest cost	20
Expected return on plan assets	(141)
Amount of actuarial difference accounted for as expense	579
Amortization of prior service cost accounted for as expense	(142)
Other	—
Net pensions cost related to defined benefits plan	1,077

(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	23%
Debentures	65%
General account	11%
Cash and deposits	1%
Total	100%

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

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

(6) Items related to actuarial calculation bases

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

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

Defined contribution pension plan

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

13. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥2,048 million
Profit on Investment in affiliates (equity method)	¥32 million

14. Related party transactions

Related party transactions in the fiscal year ended March 31, 2021 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, 2021
Principal shareholder	Ministry of Finance (Minister of Finance)(Notes i and ii)	90.81 (Direct)	Administration for policy based financing	Underwriting of capital increase (Note iii)	22,460	—	—
				Receipt of funds (Note iv)	615,000	Borrowings	2,800,445
				Repayment of borrowing	286,382		
				Payment of interest on borrowings	15,673	Accrued expenses	2,685

(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) 9.19%

(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 ¥25,636 million
Repayment of borrowed money ¥3,588 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, 2021
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.

Data

(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 income per share	¥0

16. Subsequent events

Not applicable.

Data

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

Balance Sheet (as of March 31, 2021)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	757,003	Borrowed money	5,846,249
Cash	4	Borrowings	5,846,249
Due from banks	756,999	Bonds payable	499,049
Securities	17	Other liabilities	4,019
Corporate bonds	17	Accrued expenses	735
Stocks	0	Unearned revenue	87
Loans and bills discounted	8,116,466	Derivatives other than for trading-liabilities	16
Loans on deeds	8,116,466	Lease obligations	1,115
Other assets	4,201	Other	2,065
Prepaid expenses	3	Provision for bonuses	1,232
Accrued income	2,962	Provision for directors' bonuses	6
Other	1,235	Provision for retirement benefits	20,485
Property, plant and equipment	48,030	Provision for directors' retirement benefits	14
Buildings	11,168	Acceptances and guarantees	22,928
Land	35,701	Total liabilities	6,393,986
Lease assets	800	Net assets	
Construction in progress	172	Capital stock	2,546,937
Other	187	Retained earnings	(461,963)
Intangible assets	4,429	Other retained earnings	(461,963)
Software	2,947	Retained earnings brought forward	(461,963)
Lease assets	190	Total shareholders' equity	2,084,973
Other	1,291		
Customers' liabilities for acceptances and guarantees	22,928		
Allowance for loan losses	(474,118)	Total net assets	2,084,973
Total assets	8,478,960	Total liabilities and net assets	8,478,960

Statement of Operations (Year ended March 31, 2021)

(Millions of yen)

Items	Amount
Ordinary income	80,698
Interest income	65,096
Interest on loans and discounts	65,095
Interest and dividends on securities	0
Interest on deposits with banks	0
Other interest income	0
Fees and commissions	157
Other fees and commissions	157
Receipts from the national budget	14,180
Receipts from general account of the national budget	14,179
Receipts from special account of the national budget	0
Other income	1,264
Recoveries of written-off claims	87
Gain on sales of stocks and other securities	386
Other	789
Ordinary expenses	232,949
Interest expenses	4,423
Interest on call money	17
Interest on borrowings and rediscounts	3,285
Interest on bonds	1,120
Fees and commissions payments	59
Other fees and commissions	59
Other ordinary expenses	294
Loss on foreign exchange transactions	137
Loss on devaluation of bonds	8
Amortization of bond issuance cost	149
General and administrative expenses	28,723
Other expenses	199,448
Provision of allowance for loan losses	197,670
Written-off of loans	1,254
Other	523
Ordinary loss	152,250
Extraordinary losses	94
Loss on disposal of noncurrent assets	94
Net loss	152,345

Statement of Changes in Net Assets (Year ended March 31, 2021)

(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	1,703,937	(309,618)	(309,618)	1,394,318	1,394,318
Changes of items during the period					
Issuance of new shares	843,000			843,000	843,000
Net income (loss)		(152,345)	(152,345)	(152,345)	(152,345)
Total changes of items during the period	843,000	(152,345)	(152,345)	690,654	690,654
Balance at the end of current period	2,546,937	(461,963)	(461,963)	2,084,973	2,084,973

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 ¥73,882 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.

Significant accounting estimates

The item for which the amount was recorded in the financial statements for the current fiscal year based on accounting estimates that may have significant impacts on the financial statements for the following fiscal year is the allowance for loan losses.

1. Amount recorded in financial statements for the current fiscal year

Allowance for loan losses: ¥474,118 million

2. Information that will contribute to understanding in relation to the details of significant accounting estimates relating to the identified item

(1) Calculation method

The method of calculating the allowance for loan losses is described in Significant accounting policies, (f) Accounting policy for reserves, (i) Allowance for loan losses.

When making calculations, the borrowers' categories are determined by assessing and setting borrower repayment capacity based on borrower repayment status, financial details, business performance, projections of these, and other factors and an anticipated loss rate on the basis of the average default rate over a certain period in the past based on the loan loss, and making necessary adjustments such as future expectations is included.

For subordinated capital loan receivables, anticipated loss amounts are recorded based primarily on the assumption that the portion corresponding to substantive insolvency is not expected to be recovered.

(2) Main assumptions

The main assumptions are the outlook for borrowers when determining the borrowers' categories and the impacts of COVID-19.

The outlook for borrowers is assessed on an individual basis according to repayment status including effects from COVID-19, financial details, balance of payments status, reasonableness and feasibility of management improvement plans, and other factors.

Also, although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. However, it is assumed that the short-term credit risks of loans held at the end of the current fiscal year are approximately the same as in the past due to the various supports provided to businesses based on a variety of government measures.

(3) Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of borrowers and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

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 26, 2021), 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.

The Change in presentation

The Accounting Standard for Disclosure of Accounting Estimates

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) is applied to the financial statements ended in the fiscal year and notes for significant accounting estimates are found in the financial statements.

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, 2021 Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)
Bankrupt loans	3,817
Non-accrual loans	681,051
Loans with interest or principal repayments more than three months in arrears	—
Restructured loans	109,933
Total	794,803

(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, 2021 is ¥27,964 million.

In cases where a customer makes a request for loan disbursement in relation to a loan agreement with a commitment period, as long as there are not violations of the conditions set forth in the agreement, the agreement provides for a promise to loan funds up to a certain maximum amount. The undisbursed loan balance of above agreements is ¥400 million.

This agreement contains provisions such that if there are changes in financial conditions, it is necessary for preservation of claims, or there is other cause, JFC may reject a request for disbursement. In addition, JFC collects collateral such as real estate and securities at the time of contract execution as necessary, takes periodical credit preservation measures such as being aware of customer business performance in accordance with JFC procedures specified and review of agreements as necessary after agreement execution.

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 ¥499,049 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥8,593 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).

Data

6. Issued shares

For the fiscal year ended March 31, 2021 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	1,703,937,000,000	843,000,000,000	—	2,546,937,000,000

(Note) Increases is due to the issuance of 843,000,000,000 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, (6) Loans to foreign-affiliated corporations, and (7) 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, 2021 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥45,167 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 ¥41,803 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, 2021, 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	757,003	757,003	—
(2) Securities			
Held-to-maturity debt securities	17	17	—
(3) Loans and bills discounted	7,339,624		
Allowance for loan losses (*1)	(219,158)		
	7,120,466	7,532,344	411,878
Total assets	7,877,487	8,289,366	411,878
(1) Borrowings	5,823,957	5,842,014	18,057
(2) Bonds payable	499,049	501,366	2,317
Total liabilities	6,323,006	6,343,380	20,374
Derivative transactions (*2)			
Derivative transactions not qualifying for hedge accounting	(16)	(16)	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	(16)	(16)	—

(*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, 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 borrowers' categories 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)	0
2) Loans on deeds (subordinated capital loans and loans with post-establishment target-achievement type interest rates) (*2)	776,842
3) Borrowings from the FILP special account (investment account) of the national budget (*3)	22,292
Total	799,134

(*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, the scheme is such that an interest rate based on the results of success determination according to the business performance of the borrower each year applies. In addition, for loans on deed (post-establishment target-achievement type interest rate) to which a post-establishment target-achievement type interest rate applies, the interest rate is reduced by 0.2% after three years from the date of the loan if the requirements for an interest rate reduction are met based on business performance and other factors in the second fiscal year after establishment of the company. With regard to these, 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 (*1)	756,999	—	—	—	—	—
Securities Held-to-maturity debt securities	17	—	—	—	—	—
Loans and bills discounted (*2)	1,165,008	2,192,779	1,493,198	1,082,669	1,302,166	864,711
Total	1,922,025	2,192,779	1,493,198	1,082,669	1,302,166	864,711

(*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 ¥15,933 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	997,180	1,621,870	1,244,233	749,013	935,879	298,074
Bonds payable	83,200	180,800	135,000	60,000	40,000	—
Total	1,080,380	1,802,670	1,379,233	809,013	975,879	298,074

8. Fair value of securities

The fair value of securities at March 31, 2021 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	17	17	—

(b) Available-for-sale securities

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

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

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

(c) Available-for-sale securities sold in the fiscal year in review (from April 1, 2020 to March 31, 2021)

	Sales amount (Millions of yen)	Total gain on sales (Millions of yen)	Total loss on sales (Millions of yen)
Stocks	12	4	—

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	37,754 million yen
Service cost	1,413
Interest cost	37
Actuarial difference	892
Payment of retirement benefits	(1,936)
Prior service cost	—
Other	(16)
Closing balance of projected benefit obligations	38,144

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

Opening balance of fair value of plan assets	13,066 million yen
Expected return on plan assets	261
Actuarial difference	1,130
Financing from employer	663
Payment of retirement benefits	(751)
Other	(0)
Closing balance of fair value of plan assets	14,368

(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	18,776 million yen
Fair value of plan assets	(14,368)
	4,407
Projected benefit obligations of unfunded plan	19,368
Unfunded pension obligations	23,776
Actuarial unrecognized difference	(3,639)
Unrecognized prior service cost	348
Net amount of liabilities and assets recorded on the balance sheet	20,485
Provision for retirement benefits	20,485
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	20,485

(4) Net pensions cost and breakdown of included items

Service cost	1,413 million yen
Interest cost	37
Expected return on plan assets	(261)
Amount of actuarial difference accounted for as expense	1,012
Amortization of prior service cost accounted for as expense	(121)
Other	—
Net pensions cost related to defined benefits plan	2,080

(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	23%
Debentures	65%
General account	11%
Cash and deposits	1%
Total	100%

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

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

(6) Items related to actuarial calculation bases

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

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

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥84 million.

11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2021 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, 2021
Principal shareholder	Ministry of Finance (Minister of Finance)[Notes i and ii]	93.97 (Direct)	Administration for policy based financing	Underwriting of capital increase[Note iii]	842,600	—	—
				Receipt of funds[Note iv]	3,699,600	Borrowings	5,846,249
				Repayment of borrowing	962,762		
				Payment of interest on borrowings	3,273	Accrued expenses	454
				Guarantee for bonds payable[Note v]	295,049	—	—

(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) 6.03%

(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 ¥400 million
-Agency for Natural Resources and Energy
Receipts from the national budget ¥0 million
-Small and Medium Enterprise Agency
Receipts from the national budget ¥14,179 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	¥0.07

13. Subsequent events

Not applicable.

Account for Securitization Support Programs (Purchase-type Operation)

Balance Sheet (as of March 31, 2021)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	11,976	Bonds payable	21,000
Due from banks	11,976	Other liabilities	160
Securities	34,166	Accrued expenses	0
Government bonds	21,173	Unearned revenue	104
Corporate bonds	12,993	Other	55
Other assets	127	Provision for bonuses	3
Prepaid expenses	79	Provision for directors' bonuses	0
Accrued income	7	Provision for retirement benefits	40
Other	41	Provision for directors' retirement benefits	0
Prepaid pension cost	4	Acceptances and guarantees	68,087
Customers' liabilities for acceptances and guarantees	68,087	Total liabilities	89,292
Allowance for loan losses	(18)	Net assets	
		Capital stock	24,476
		Retained earnings	576
		Legal retained earnings	424
		Other retained earnings	151
		Retained earnings brought forward	151
		Total shareholders' equity	25,052
		Total net assets	25,052
Total assets	114,344	Total liabilities and net assets	114,344

Statement of Operations (Year ended March 31, 2021)

(Millions of yen)

Items	Amount
Ordinary income	724
Interest income	231
Interest and dividends on securities	231
Interest on deposits with banks	0
Fees and commissions	479
Other fees and commissions	479
Other income	13
Reversal of allowance for loan losses	12
Other	1
Ordinary expenses	573
Interest expenses	3
Interest on bonds	3
Fees and commissions payments	472
Other fees and commissions	472
Other ordinary expenses	1
Amortization of bond issuance cost	1
General and administrative expenses	95
Other expenses	0
Other	0
Ordinary profit	151
Net income	151

Statement of Changes in Net Assets (Year ended March 31, 2021)

(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	348	153	501	24,977	24,977
Changes of items during the period						
Provision of legal retained earnings		76	(76)	—	—	—
Payment to the national treasury			(76)	(76)	(76)	(76)
Net income (loss)			151	151	151	151
Total changes of items during the period	—	76	(1)	74	74	74
Balance at the end of current period	24,476	424	151	576	25,052	25,052

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 26, 2021), 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.

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 ¥21,000 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, 2021, 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, 2021 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥1,582 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 ¥1,445 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, 2021, 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	11,976	11,976	—
(2) Securities			
Held-to-maturity debt securities	21,173	22,216	1,043
Total assets	33,150	34,193	1,043
Bonds payable	21,000	20,997	(2)
Total debt	21,000	20,997	(2)

(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)	12,993
(2) Credit default swap (*2)	—
Total	12,993

(*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 (*)	11,976	—	—	—	—	—
Securities Held-to-maturity debt securities	—	—	—	—	—	21,068
Total	11,976	—	—	—	—	21,068

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

Data

(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	6,800	14,200	—	—	—	—

6. Fair value of securities

The fair value of securities at March 31, 2021 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	21,173	22,216	1,043

(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	12,993

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	73	million yen
Service cost	4	
Interest cost	0	
Actuarial difference	(3)	
Payment of retirement benefits	—	
Prior service cost	—	
Other	(20)	
Closing balance of projected benefit obligations	54	

(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	(0)	
Financing from employer	1	
Payment of retirement benefits	—	
Other	(6)	
Closing balance of fair value of plan assets	10	

Data

(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	14	million yen
Fair value of plan assets	(10)	
	3	
Projected benefit obligations of unfunded plan	40	
Unfunded pension obligations	43	
Actuarial unrecognized difference	(7)	
Unrecognized prior service cost	(0)	
Net amount of liabilities and assets recorded on the balance sheet	36	
Provision for retirement benefits	40	
Prepaid pension cost	(4)	
Net amount of liabilities and assets recorded on the balance sheet	36	

(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	2	
Amortization of prior service cost accounted for as expense	(0)	
Other	—	
Net pensions cost related to defined benefits plan	6	

(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	23%
Debentures	65%
General account	11%
Cash and deposits	1%
Total	100%

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

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

(6) Items related to actuarial calculation bases

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

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

Defined contribution pension plan

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

9. Per share information

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

10. Subsequent events

Not applicable.

Small and Medium Enterprise (SME) Unit

Account for Credit Insurance Programs

Balance Sheet (as of March 31, 2021)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	4,572,170	Reserve for insurance policy liabilities	1,536,853
Due from banks	4,572,170	Other liabilities	1,667
Other assets	23,806	Accrued expenses	29
Prepaid expenses	0	Lease obligations	171
Accrued income	39	Other	1,466
Other	23,767	Provision for bonuses	201
Property, plant and equipment	17,679	Provision for directors' bonuses	1
Buildings	3,570	Provision for retirement benefits	4,673
Land	13,968	Provision for directors' retirement benefits	2
Lease assets	122	Total liabilities	1,543,398
Other	18	Net assets	
Intangible assets	1,164	Capital surplus	3,503,984
Software	1,032	Legal capital surplus	3,503,984
Lease assets	29	Retained earnings	(432,562)
Other	103	Legal retained earnings	286,257
		Other retained earnings	(718,819)
		Retained earnings brought forward	(718,819)
		Total shareholders' equity	3,071,421
		Total net assets	3,071,421
Total assets	4,614,820	Total liabilities and net assets	4,614,820

Data

Statement of Operations (Year ended March 31, 2021)

(Millions of yen)

Items	Amount
Ordinary income	**201,636**
Interest income	249
Interest on deposits with banks	249
Insurance premiums and other	201,250
Insurance premiums	190,561
Receipts of burden charges under the Responsibility-sharing System	10,688
Other income	136
Other	136
Ordinary expenses	**920,455**
Expenses on insurance claims and other	910,314
Expenses on insurance claims	211,683
Recoveries of insurance claims	(65,056)
Provision of reserve for insurance policy liabilities	763,687
General and administrative expenses	5,195
Other expenses	4,945
Other	4,945
Ordinary loss	**718,819**
Extraordinary losses	**0**
Loss on disposal of noncurrent assets	0
Net loss	**718,819**

Statement of Changes in Net Assets (Year ended March 31, 2021)

(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: Retained earnings brought forward	Total retained earnings		
Balance at the beginning of current period	2,052,284	2,052,284	288,646	(2,389)	286,257	2,338,541	2,338,541
Changes of items during the period							
Issuance of new shares	1,451,700	1,451,700				1,451,700	1,451,700
Reversal of legal retained earnings			(2,389)	2,389	—	—	—
Net income (loss)				(718,819)	(718,819)	(718,819)	(718,819)
Total changes of items during the period	1,451,700	1,451,700	(2,389)	(716,429)	(718,819)	732,880	732,880
Balance at the end of current period	3,503,984	3,503,984	286,257	(718,819)	(432,562)	3,071,421	3,071,421

Data

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

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

(b) Depreciation basis for fixed assets

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

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

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

Buildings: 5 years to 50 years

Other: 2 years to 15 years

(ii) Intangible assets (except for lease assets)

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

(iii) Lease assets

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

(c) Accounting policy for reserves

(i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards, and provided primarily based on the default rate, which is calculated based on the actual defaults during a certain period in the past.

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

(ii) Provision for bonuses

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

(iii) Provision for directors' bonuses

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

(iv) Provision for retirement benefits

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

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

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

(v) Provision for directors' retirement benefits

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

(d) Accounting policies for reserve for insurance policy liabilities

The "reserve for insurance policy liabilities" consists of the following two items, pursuant to Article 9, Paragraph 1 of the Ministerial Ordinance Concerning Accounting for JFC (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.

Significant accounting estimates

The item for which the amount was recorded in the financial statements for the current fiscal year based on accounting estimates that may have significant impacts on the financial statements for the following fiscal year is the reserve for insurance policy liabilities.

1. Amount recorded in financial statements for the current fiscal year
   Reserve for insurance policy liabilities: ¥1,536,853 million
2. Information that will contribute to understanding in relation to the details of significant accounting estimates relating to the identified item

(1) Calculation method

The method of calculating the reserve for insurance policy liabilities is described in Significant accounting policies and (d) Accounting policies for reserve for insurance policy liabilities.

When making calculations, grouping for each program category and insurance type category is performed on March 31 and September 30 of each fiscal year as the record dates in accordance with the standards on the reserve for insurance policy liabilities, the accounting base rates including the balance compared with the prior fiscal year and accident rate are determined, and the reserve for insurance policy liabilities (policy reserve and outstanding claims reserve) is calculated based on estimated future cash flows including estimated insurance claims payment amounts.

In cases where the amount of cumulative maximum excess expenditures of future income and expenditures calculated for each fiscal year after a record date surpasses the amount of the reserve for insurance policy liabilities, the corresponding amount is additionally recorded.

(2) Main assumptions

An assumed accident rate based on actual performance over a certain period in the past is used for estimating future insurance claims payment amounts.

The accident rate used for such estimates is the average for the most recent 10 years based on prior results for each insurance underwriting fiscal year and elapsed fiscal year.

Also, although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. However, it is assumed that the short-term credit insurance underwriting risks relating to insurance underwriting at the end of the current fiscal year are approximately the same as in the past due to the various supports provided to businesses based on a variety of government measures.

(3) Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of SMEs and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on the reserve for insurance policy liabilities in the financial statements for the following fiscal year.

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 26, 2021), 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.

The Change in presentation

The Accounting Standard for Disclosure of Accounting Estimates

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) is applied to the financial statements ended in the fiscal year and notes for significant accounting estimates are found in the financial statements.

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 ¥2,762 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 ¥4,906 million.

6. Issued shares

For the fiscal year ended March 31, 2021, 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	6,023,727,407,741	1,451,700,000,000	—	7,475,427,407,741

(Note) Increase is due to the issuance of 1,451,700,000,000 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, 2021, 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	4,572,170	4,576,753	4,583

(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 (*)	3,657,070	470,100	445,000	—	—	—

(*) 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, 2021 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	58,000	58,000	—

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	8,197	million yen
Service cost	261	
Interest cost	8	
Actuarial difference	174	
Payment of retirement benefits	(314)	
Prior service cost	—	
Other	41	
Closing balance of projected benefit obligations	8,369	

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

Opening balance of fair value of plan assets	2,935	million yen
Expected return on plan assets	58	
Actuarial difference	253	
Financing from employer	122	
Payment of retirement benefits	(151)	
Other	13	
Closing balance of fair value of plan assets	3,232	

(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	4,224	million yen
Fair value of plan assets	(3,232)	
	991	
Projected benefit obligations of unfunded plan	4,144	
Unfunded pension obligations	5,136	
Actuarial unrecognized difference	(529)	
Unrecognized prior service cost	67	
Net amount of liabilities and assets recorded on the balance sheet	4,673	

Provision for retirement benefits	4,673
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	4,673

(4) Net pensions cost and breakdown of included items

Service cost	261 million yen
Interest cost	8
Expected return on plan assets	(58)
Amount of actuarial difference accounted for as expense	159
Amortization of prior service cost accounted for as expense	(22)
Other	—
Net pensions cost related to defined benefits plan	347

(5) Items concerning fair value of plan assets

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

Shares	23%
Debentures	65%
General account	11%
Cash and deposits	1%
Total	100%

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

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

(6) Items related to actuarial calculation bases

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

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

Defined contribution pension plan

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

11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2021 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, 2021
Principal shareholder	Ministry of Finance (Minister of Finance)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase(Note i)	1,451,700	—	—
				Deposit of funds(Note ii)	9,625,900	Due from banks	4,246,000
				Refund of funds	8,358,700		

(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	¥0.41
Net loss per share	¥0.10

13. Subsequent events

Not applicable.

Account for Operations to Facilitate Crisis Responses

Balance Sheet (as of March 31, 2021)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	767,321	Borrowed money	4,420,649
Due from banks	767,321	Borrowings	4,420,649
Loans and bills discounted	4,570,649	Bonds payable	150,273
Loans on deeds	4,570,649	Other liabilities	11,141
Other assets	269	Accrued expenses	179
Accrued income	188	Unearned revenue	10,855
Other	80	Lease obligations	5
Property, plant and equipment	3	Other	100
Lease assets	3	Provision for bonuses	7
Intangible assets	118	Provision for directors' bonuses	0
Software	117	Provision for retirement benefits	92
Lease assets	0	Provision for directors' retirement benefits	0
Prepaid pension cost	18	Reserve for compensation losses	25,449
		Total liabilities	4,607,613
		Net assets	
		Capital stock	995,960
		Retained earnings	(265,192)
		Other retained earnings	(265,192)
		Retained earnings brought forward	(265,192)
		Total shareholders' equity	730,767
		Total net assets	730,767
Total assets	5,338,380	Total liabilities and net assets	5,338,380

Statement of Operations (Year ended March 31, 2021)

(Millions of yen)

Items	Amount
Ordinary income	10,139
Interest income	6,631
Interest on loans and discounts	6,576
Interest on deposits with banks	55
Fees and commissions	1,998
Fees and commissions on compensation security contract	1,998
Receipts from the national budget	154
Receipts from general account of the national budget	154
Other income	1,354
Other	1,354
Ordinary expenses	21,769
Interest expenses	6,480
Interest on borrowings and rediscounts	6,575
Interest on bonds	(94)
Other ordinary expenses	5,143
Amortization of bond issuance cost	161
Interest subsidies	4,981
General and administrative expenses	206
Other expenses	9,939
Provision of reserve for compensation losses	9,903
Other	35
Ordinary loss	11,630
Net loss	11,630

Statement of Changes in Net Assets (Year ended March 31, 2021)

(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	969,534	(253,562)	(253,562)	715,971	715,971
Changes of items during the period					
Issuance of new shares	26,426			26,426	26,426
Net income (loss)		(11,630)	(11,630)	(11,630)	(11,630)
Total changes of items during the period	26,426	(11,630)	(11,630)	14,795	14,795
Balance at the end of current period	995,960	(265,192)	(265,192)	730,767	730,767

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) 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 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.

(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.

Significant accounting estimates

The item for which the amount was recorded in the financial statements for the current fiscal year based on accounting estimates that may have significant impacts on the financial statements for the following fiscal year is the reserve for compensation losses.

1. Amount recorded in financial statements for the current fiscal year
   Reserve for compensation losses: ¥25,449 million
2. Information that will contribute to understanding in relation to the details of significant accounting estimates relating to the identified item
   (1) Calculation method
   The method of calculating the reserve for compensation losses is described in Significant accounting policies, (d) Accounting policy for reserves, (ii) Reserve for compensation losses.
   Specifically, compensation security contracts were grouped based on reports from designated financial institutions about the presence or absence of the arrival of repayment performance deadline, and the reserves for compensation losses are calculated based on the anticipated loss rate for each group.
   (2) Main assumptions
   The anticipated loss rate is calculated based on past compensation payment results rate with the assumption that there will not be a major change in the credit risks included in compensation security contracts.
   It is assumed that there is no major change in credit risks included in compensation security contracts in relation to COVID-19 or other crises.
   (3) Impacts on financial statements for the following fiscal year
   The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of businesses and economic conditions, and there may be a material impact on reserve for compensation losses in the financial statements for the following fiscal year.

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 26, 2021), 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.

The Change in presentation

The Accounting Standard for Disclosure of Accounting Estimates

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) is applied to the financial statements ended in the fiscal year and notes for significant accounting estimates are found in the financial statements.

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, 2021.

"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 (which includes this operation account bonds issued to a total amount of ¥150,273 million).

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 (52,839 contracts)	1,934,625
Reserve for compensation	25,449
Net amount	1,909,175

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, 2021, 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	969,534,000,000	26,426,000,000	—	995,960,000,000

(Note) Increase is due to the issuance of 26,426,000,000 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 Busi-

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ness 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, etc. 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 and bonds payable. 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.

(b) Market risk

The operations of this operation account consist of loans to designated financial institutions, and fiscal investment and loans and issuing of government-backed bonds 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, etc.

(c) Liquidity risk

Long-term and stable funds such as fiscal investment and loans, government-backed bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted, and as a result, liquidity risk is considered to be limited. However, borrowings and bonds payable 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, borrowings, and bonds payable.

These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans as well as issuance of government-backed bonds. Since the terms and conditions of lendings and borrowings are equal, cash inflows resulting from lendings and cash outflows resulting from borrowings and bonds payable 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, government-backed bonds, 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, and therefore, 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, 2021, 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	767,321	767,491	169
(2) Loans and bills discounted	4,570,649	4,548,394	(22,254)
Total assets	5,337,970	5,315,885	(22,085)
(1) Borrowings	4,420,649	4,440,609	19,960
(2) Bonds payable	150,273	150,024	(249)
Total liabilities	4,570,922	4,590,633	19,710

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

<u>Assets</u>

(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.

<u>Liabilities</u>

(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) 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 (*)	737,321	30,000	—	—	—	—
Loans and bills discounted	501,890	1,076,010	1,075,871	694,183	676,127	546,568
Total	1,239,211	1,106,010	1,075,871	694,183	676,127	546,568

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

(Note 3) 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	501,890	1,006,010	995,871	694,183	676,127	546,568
Bonds payable	—	70,000	80,000	—	—	—
Total	501,890	1,076,010	1,075,871	694,183	676,127	546,568

Data

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, 2021 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	104,000	104,000	—

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	154 million yen
Service cost	7
Interest cost	0
Actuarial difference	2
Payment of retirement benefits	—
Prior service cost	—
Other	(14)
Closing balance of projected benefit obligations	149

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

Opening balance of fair value of plan assets	32 million yen
Expected return on plan assets	0
Actuarial difference	(0)
Financing from employer	4
Payment of retirement benefits	—
Other	(5)
Closing balance of fair value of plan assets	31

(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	41 million yen
Fair value of plan assets	(31)
	9
Projected benefit obligations of unfunded plan	108
Unfunded pension obligations	118
Actuarial unrecognized difference	(48)
Unrecognized prior service cost	4
Net amount of liabilities and assets recorded on the balance sheet	73
Provision for retirement benefits	92
Prepaid pension cost	(18)
Net amount of liabilities and assets recorded on the balance sheet	73

(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	9
Amortization of prior service cost accounted for as expense	(1)
Other	—
Net pensions cost related to defined benefits plan	15

(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	23%
Debentures	65%
General account	11%
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%

Data

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, 2021 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, 2021
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	85.66 (Direct)	Administration for policy based financing	Underwriting of capital increase (Note iii)	26,426	—	—
				Receipts from general account of the national budget	58	—	—
				Receipt of funds (Note iv)	3,399,472	Borrowings	4,420,649
				Repayment of borrowings	306,563		
				Payment of interest on borrowings	6,575	Accrued expenses	178
				Deposit of funds (Note iv)	1,530,000	Due from banks	600,000
				Refund of funds	1,320,000		
				Guarantee for bonds payable (Note vi)	150,273	—	—

(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) 0.12%
- Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry) 14.21%

(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 ¥38 million
- Small and Medium Enterprise Agency
  Receipts from the national budget ¥58 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.

13. Per share information

Net assets per share	¥0.73
Net loss per share	¥0.01

14. Subsequent events

Not applicable.

Account for Operations to Facilitate Specific Businesses Promotion, etc.

Balance Sheet (as of March 31, 2021)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	210	Borrowed money	121,647
Due from banks	210	Borrowings	121,647
Loans and bills discounted	121,647	Other liabilities	96
Loans on deeds	121,647	Accrued expenses	43
Other assets	83	Lease obligations	3
Accrued income	42	Other	49
Other	40	Provision for bonuses	3
Property, plant and equipment	2	Provision for directors' bonuses	0
Lease assets	2	Provision for retirement benefits	47
Intangible assets	19	Provision for directors' retirement benefits	0
Software	19	Total liabilities	121,794
Lease assets	0	Net assets	
Prepaid pension cost	9	Capital stock	267
		Retained earnings	(89)
		Other retained earnings	(89)
		Retained earnings brought forward	(89)
		Total shareholders' equity	177
		Total net assets	177
Total assets	121,972	Total liabilities and net assets	121,972

Statement of Operations (Year ended March 31, 2021)

(Millions of yen)

Items	Amount
Ordinary income	**216**
Interest income	140
Interest on loans and discounts	140
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	**227**
Interest expenses	140
Interest on borrowings and rediscounts	140
General and administrative expenses	86
Other expenses	0
Other	0
Ordinary loss	**11**
Net loss	**11**

Statement of Changes in Net Assets (Year ended March 31, 2021)

(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	(77)	(77)	189	189
Changes of items during the period					
Net income (loss)		(11)	(11)	(11)	(11)
Total changes of items during the period	—	(11)	(11)	(11)	(11)
Balance at the end of current period	267	(89)	(89)	177	177

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

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 26, 2021) , 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.

Data

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, 2021.

"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, 2021, 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.

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 the execution of business by companies that develop or manufacture energy and environmentally friendly products, the execution of business restructuring in order to strengthen their industrial competitiveness, and the development and provision or introduction of systems using specified advanced information and communications technology. 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, business reorganization promotion operations, and development and provision, etc. 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, 2021, 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	210	210	—
(2) Loans and bills discounted	121,647	121,640	(6)
Total assets	121,857	121,851	(6)
Borrowings	121,647	122,372	725
Total liabilities	121,647	122,372	725

(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 (*)	210	—	—	—	—	—
Loans and bills discounted	19,332	31,629	28,084	28,084	14,366	152
Total	19,542	31,629	28,084	28,084	14,366	152

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

Data

(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	19,332	31,629	28,084	28,084	14,366	152

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	83 million yen
Service cost	4
Interest cost	0
Actuarial difference	1
Payment of retirement benefits	—
Prior service cost	—
Other	(10)
Closing balance of projected benefit obligations	78

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

Opening balance of fair value of plan assets	16 million yen
Expected return on plan assets	0
Actuarial difference	0
Financing from employer	2
Payment of retirement benefits	—
Other	(2)
Closing balance of fair value of plan assets	16

(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	21 million yen
Fair value of plan assets	(16)
	4
Projected benefit obligations of unfunded plan	57
Unfunded pension obligations	62
Actuarial unrecognized difference	(25)
Unrecognized prior service cost	1
Net amount of liabilities and assets recorded on the balance sheet	38
Provision for retirement benefits	47
Prepaid pension cost	(9)
Net amount of liabilities and assets recorded on the balance sheet	38

(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	8

(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	23%
Debentures	65%
General account	11%
Cash and deposits	1%
Total	100%

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

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

(6) Items related to actuarial calculation bases

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

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

Defined contribution pension plan

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

10. Related party transactions

Related party transactions in the fiscal year ended March 31, 2021 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, 2021
Principal shareholder	Ministry of Finance (Minister of Finance) (Note i)	100 (Direct)	Administration for policy based financing	Repayment of borrowings	11,330	Borrowings	121,647
				Payment of interest on borrowings	140	Accrued expenses	42

(Notes)

(i) Transactions with the ministries and agencies other than Ministry of Finance are as follows:
-Ministry of Economy, Trade and Industry
Receipts from the national budget ¥75 million

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

11. Per share information

Net assets per share ¥0.66

Net loss per share ¥0.04

12. Subsequent events

Not applicable.

Reference Information

Risk-monitored Loans

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

▼Risk-monitored Loans

(Millions of yen)

	Micro Business and Individual Unit (Account for Micro Business and Individual Operations)	Agriculture, Forestry, Fisheries and Food Business Unit (Account for Agriculture, Forestry, Fisheries and Food Business Operations)	Small and Medium Enterprise (SME) Unit (Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation))	Total
Bankrupt loans	4,192	641	3,817	8,651
Non-accrual loans	116,297	77,425	681,051	874,775
Loans with interest or principal repayments more than three months in arrears	53	320	—	374
Restructured loans	389,568	68,770	109,933	568,272
Total	510,113	147,157	794,803	1,452,073
Total of risk-monitored loans/ outstanding loans (%)	4.01	4.31	9.79	5.99

(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, 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."

▼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	23,509	2,180	10,450	36,139
Doubtful	97,188	76,018	674,503	847,710
Special attention	389,622	69,090	109,933	568,647
Subtotal (1)	510,319	147,290	794,887	1,452,498
Normal	12,216,509	3,279,214	7,347,518	22,843,243
Total (2)	12,726,829	3,426,504	8,142,470	24,295,805
(1/2) (%)	4.01	4.30	9.76	5.98

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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