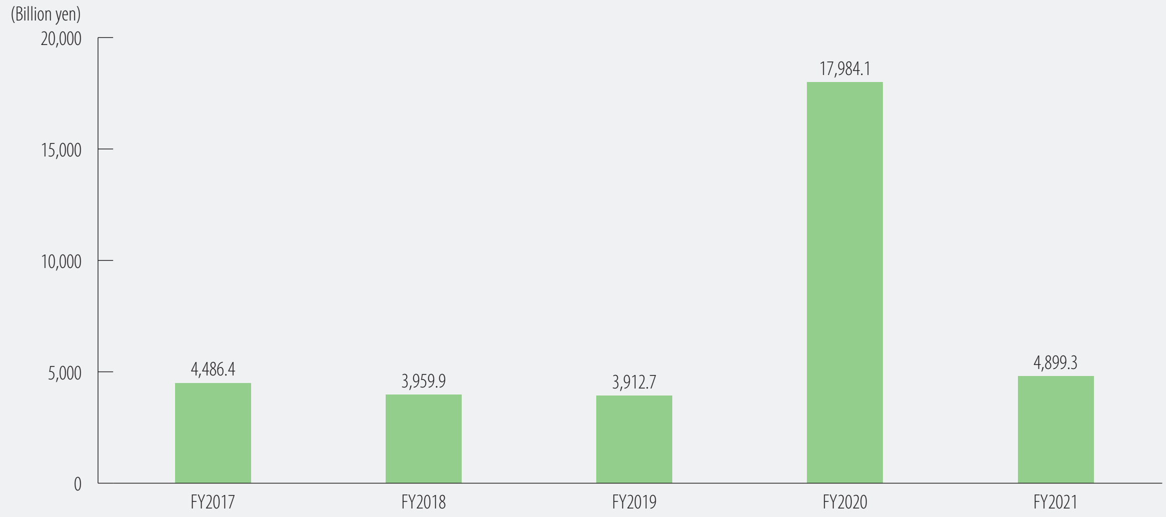
Data

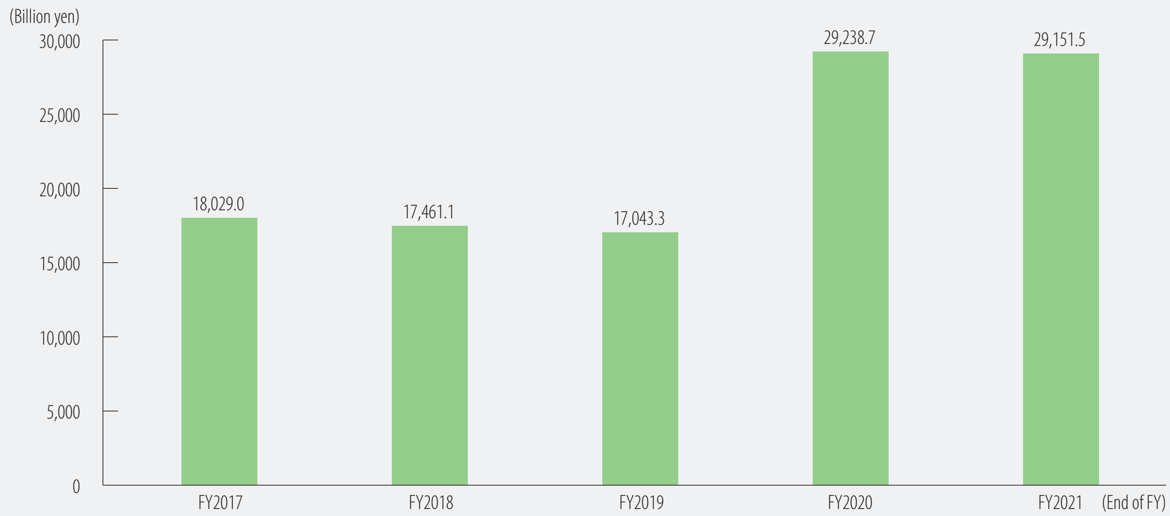
Operational Performances

Japan Finance Corporation

1 Changes in Annual Loan Operations

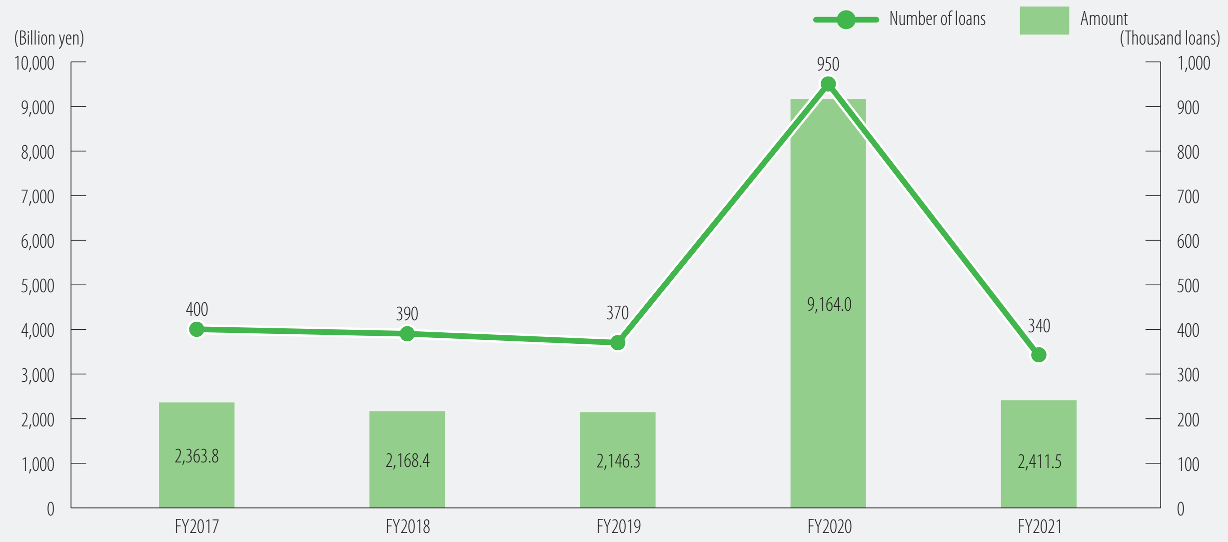


2 Changes in Outstanding Loans



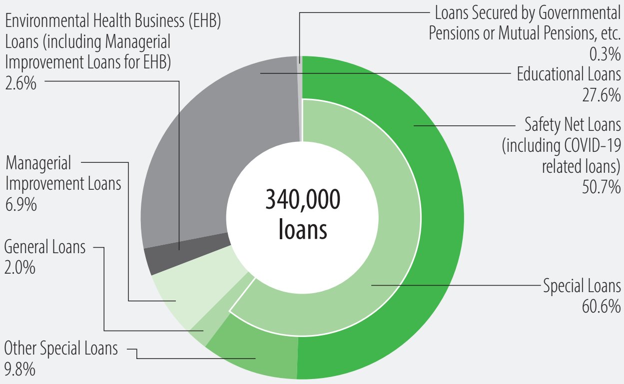
Micro Business and Individual Unit

1 Changes in Annual Loan Operations

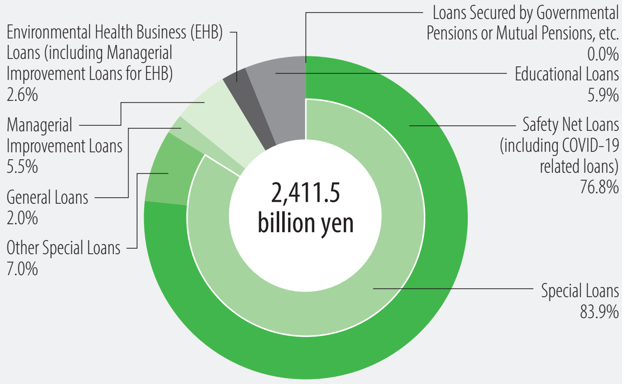


2 Breakdown of Loans by Scheme

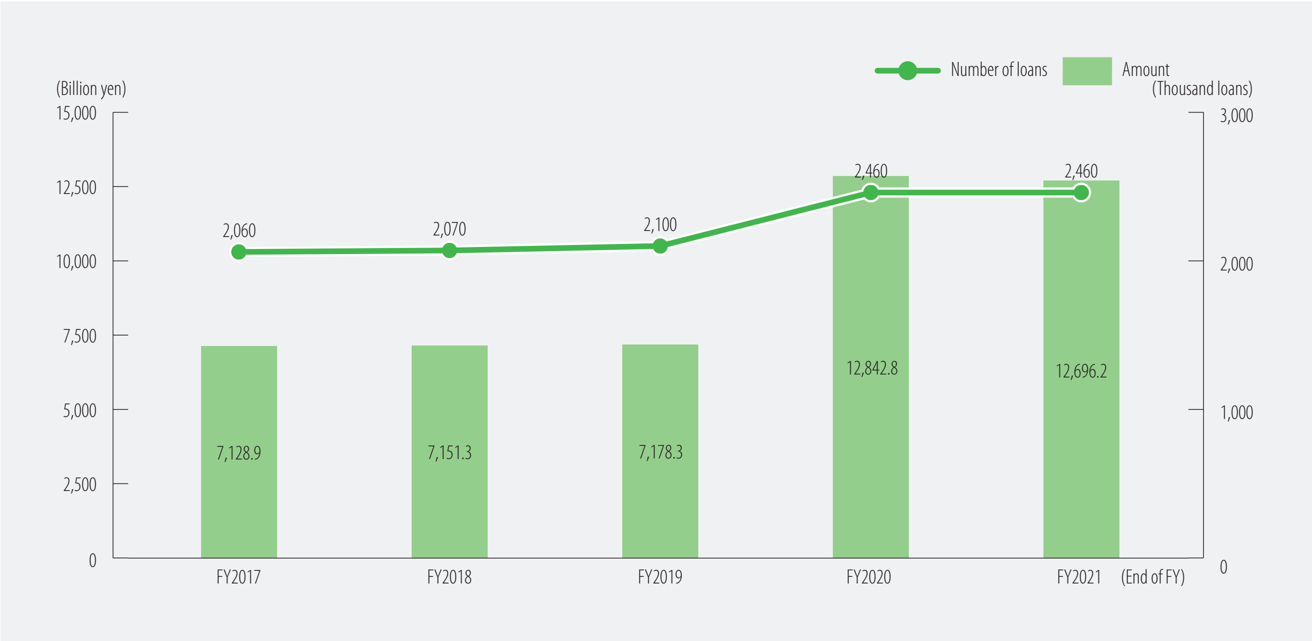
Number of Loans (FY2021)



Total Amount of Loans (FY2021)



3 Changes in Outstanding Loans



4 Breakdown of Business Loans Outstanding by Industry

(Billion yen, %)

	End of FY2017	End of FY2018	End of FY2019	End of FY2020	End of FY2021
Manufacturing	606.2 (9.8)	586.1 (9.5)	574.2 (9.3)	1,043.0 (8.8)	1,023.4 (8.7)
Wholesale & Retail	1,346.5 (21.8)	1,318.1 (21.3)	1,293.6 (20.9)	2,362.7 (19.9)	2,320.3 (19.8)
Restaurants & Hotels	532.7 (8.6)	547.9 (8.9)	580.7 (9.4)	1,475.1 (12.4)	1,448.3 (12.3)
Services	1,472.5 (23.8)	1,501.1 (24.2)	1,525.4 (24.6)	3,106.8 (26.2)	3,098.3 (26.4)
Construction	916.8 (14.8)	919.5 (14.9)	911.1 (14.7)	1,870.1 (15.7)	1,880.1 (16.0)
Others	1,315.8 (21.3)	1,317.7 (21.3)	1,313.6 (21.2)	2,016.7 (17.0)	1,964.2 (16.7)
Total	6,190.8 (100.0)	6,190.6 (100.0)	6,198.8 (100.0)	11,874.6 (100.0)	11,734.8 (100.0)

Notes: 1. Loans comprise General Loans and Environmental Health Business Loans.
2. Industries are in accordance with the Japan Standard Industrial Classification as revised in March 2002.
3. Figures in parentheses denote percentage of shares.

5 Breakdown of Environmental Health Business Loans Outstanding by Industry

(Billion yen, %)

	End of FY2017	End of FY2018	End of FY2019	End of FY2020	End of FY2021
Restaurant-related Services	159.1 (50.8)	169.7 (51.7)	178.0 (51.9)	233.0 (54.4)	222.7 (54.3)
Beauty parlors	65.6 (21.0)	69.9 (21.3)	73.1 (21.3)	89.9 (21.0)	88.8 (21.6)
Hotels	48.8 (15.6)	49.4 (15.1)	53.9 (15.7)	63.2 (14.8)	59.6 (14.5)
Barbershops	19.4 (6.2)	19.4 (5.9)	19.4 (5.7)	21.6 (5.0)	20.4 (5.0)
Public baths	9.5 (3.0)	8.7 (2.7)	8.0 (2.4)	7.6 (1.8)	6.9 (1.7)
Laundries	7.1 (2.3)	6.9 (2.1)	6.7 (2.0)	8.5 (2.0)	8.0 (1.9)
Meat shops	2.4 (0.8)	2.6 (0.8)	2.4 (0.7)	2.9 (0.7)	2.8 (0.7)
Entertainment facilities	0.6 (0.2)	0.8 (0.3)	0.5 (0.2)	0.7 (0.2)	0.6 (0.1)
Others	0.3 (0.1)	0.4 (0.1)	0.3 (0.1)	0.3 (0.1)	0.3 (0.1)
Total	313.3 (100.0)	328.0 (100.0)	342.8 (100.0)	428.0 (100.0)	410.4 (100.0)

Note: Figures in parentheses denote percentage of shares.

6 Breakdown of Outstanding Loans by Use

(Billion yen, %)

	End of FY2017	End of FY2018	End of FY2019	End of FY2020	End of FY2021
Operating funds	3,914.0 (63.2)	3,880.7 (62.7)	3,891.8 (62.8)	10,071.6 (84.8)	10,073.4 (85.8)
Facility funds	2,276.7 (36.8)	2,309.9 (37.3)	2,307.0 (37.2)	1,803.0 (15.2)	1,661.4 (14.2)
Total	6,190.8 (100.0)	6,190.6 (100.0)	6,198.8 (100.0)	11,874.6 (100.0)	11,734.8 (100.0)

Notes:1. Loans comprise General Loans and Environmental Health Business Loans.
2. Figures in parentheses denote percentage of shares.

7 Number of Borrowers

(Number of borrowers)

	End of FY2017	End of FY2018	End of FY2019	End of FY2020	End of FY2021
Number of borrowers	879,639	881,622	881,026	1,177,346	1,197,384

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

8 Average Loan Balance per Business

(Thousand yen)

	End of FY2017	End of FY2018	End of FY2019	End of FY2020	End of FY2021
Average loan balance per business	7,037	7,021	7,036	10,085	9,800

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

9 Educational Loans Outstanding, etc.

(Billion yen)

	End of FY2017	End of FY2018	End of FY2019	End of FY2020	End of FY2021
Educational Loans	930.0	953.2	973.6	963.9	958.5
Loans Secured by Governmental Pensions and Mutual Pensions, etc.	7.9	7.3	5.8	4.2	2.8

10 Breakdown of Loans by Credit Amount

(Number of loans, %)

	FY2017	FY2018	FY2019	FY2020	FY2021
Up to 3 million yen	89,410 (33.2)	88,280 (34.3)	87,643 (34.2)	229,761 (26.6)	80,952 (32.2)
Over 3 million yen and up to 5 million yen	54,534 (20.2)	53,659 (20.8)	52,774 (20.6)	151,201 (17.5)	48,677 (19.3)
Over 5 million yen and up to 8 million yen	35,830 (13.3)	34,829 (13.5)	34,586 (13.5)	102,930 (11.9)	34,259 (13.6)
Over 8 million yen	89,603 (33.3)	80,872 (31.4)	80,994 (31.6)	379,998 (44.0)	87,856 (34.9)
Total	269,377 (100.0)	257,640 (100.0)	255,997 (100.0)	863,890 (100.0)	251,744 (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, %)

	FY2017	FY2018	FY2019	FY2020	FY2021
4 or fewer	192,794 (71.6)	172,541 (67.0)	166,749 (65.1)	564,073 (65.3)	185,748 (73.8)
5–9	48,486 (18.0)	51,002 (19.8)	51,647 (20.2)	167,596 (19.4)	39,944 (15.9)
10–19	19,046 (7.1)	21,541 (8.4)	23,108 (9.0)	80,433 (9.3)	16,783 (6.7)
20 or more	9,047 (3.4)	12,555 (4.9)	14,489 (5.7)	51,785 (6.0)	9,269 (3.7)
Total	269,373 (100.0)	257,639 (100.0)	255,993 (100.0)	863,887 (100.0)	251,744 (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

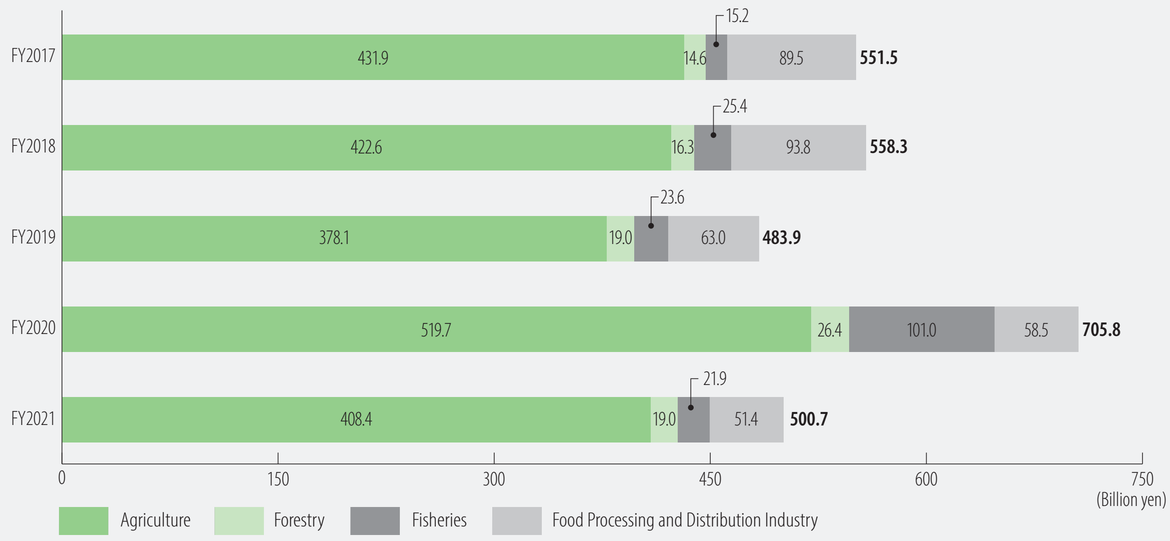
(Number of loans, %)

		FY2017	FY2018	FY2019	FY2020	FY2021
No collateral		230,263 (85.5)	223,271 (86.7)	223,441 (87.3)	857,271 (99.2)	247,087 (98.2)
Collateral	Real estate (including partial collateral)	39,054 (14.5)	34,323 (13.3)	32,522 (12.7)	6,602 (0.8)	4,640 (1.8)
	Securities	10 (0.0)	10 (0.0)	4 (0.0)	1 (0.0)	0 (0.0)
	Credit Guarantee Corporations (CGCs)	— (—)	— (—)	— (—)	— (—)	— (—)
	Others	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Total		269,327 (100.0)	257,604 (100.0)	255,967 (100.0)	863,874 (100.0)	251,727 (100.0)

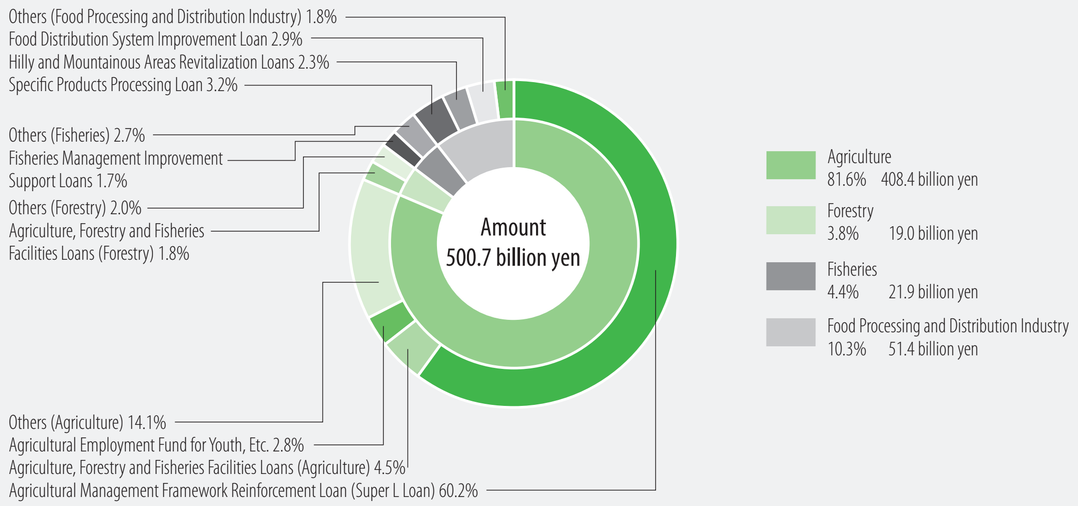
Notes: 1. Loans comprise General Loans and Environmental Health Business Loans.
2. Figures in parentheses denote percentage of shares.
3. Partial collateral refers to real estate or other collateral whose estimated values do not reach amounts borrowed. Partial collateral of "Securities," "Credit Guarantee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

Agriculture, Forestry, Fisheries and Food Business Unit

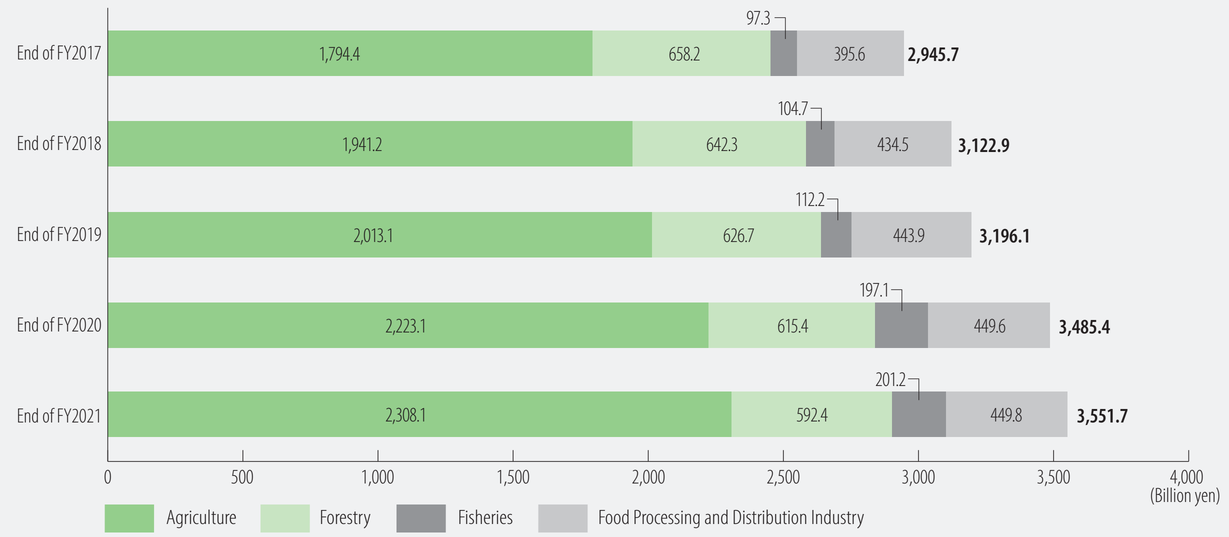
1 Changes in Annual Loan Operations



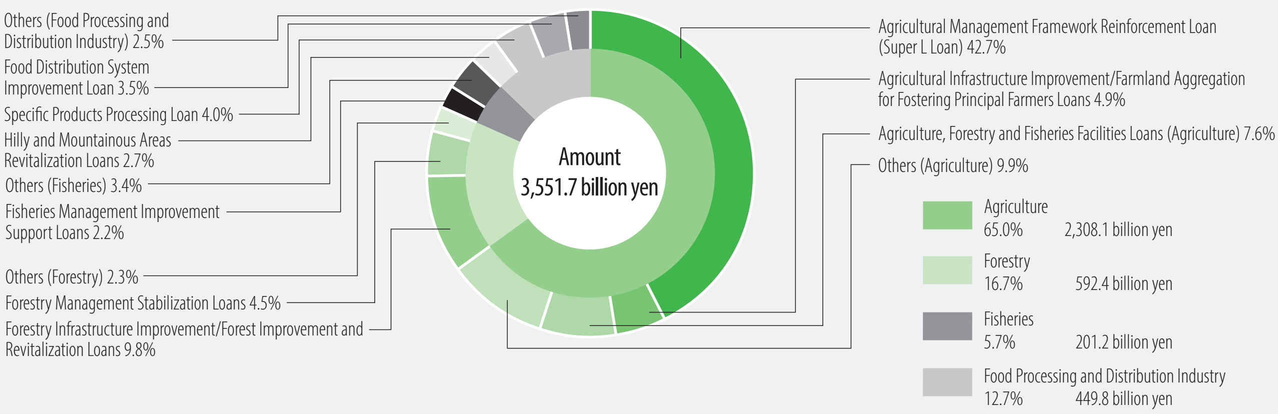
2 Breakdown of Loans by Scheme (FY2021)



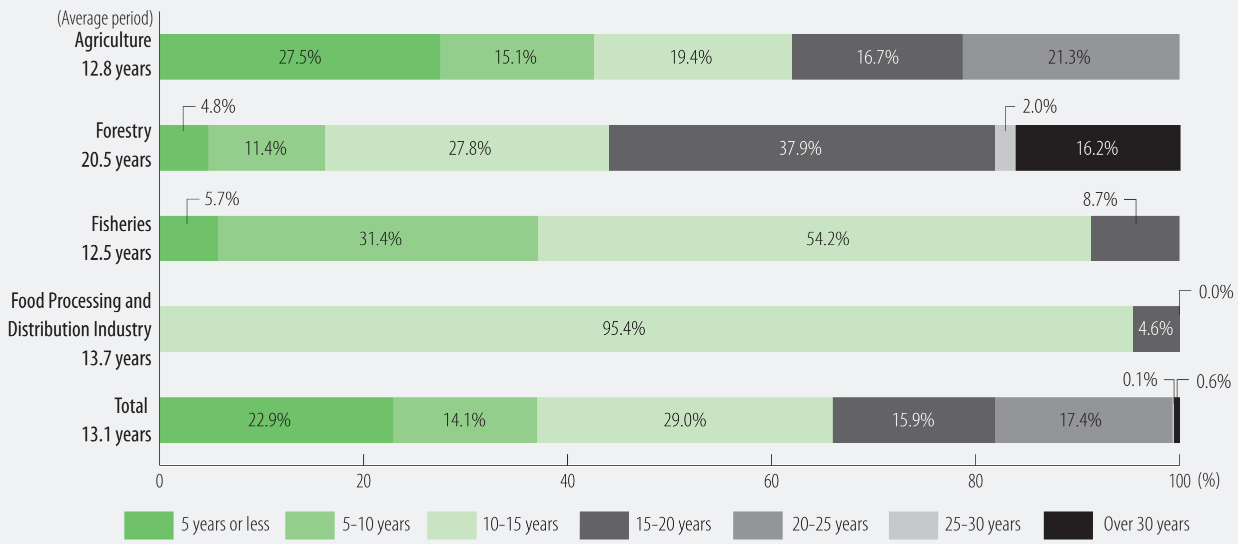
3 Changes in Outstanding Loans



4 Breakdown of Outstanding Loans by Sector and Use (End of FY2021)

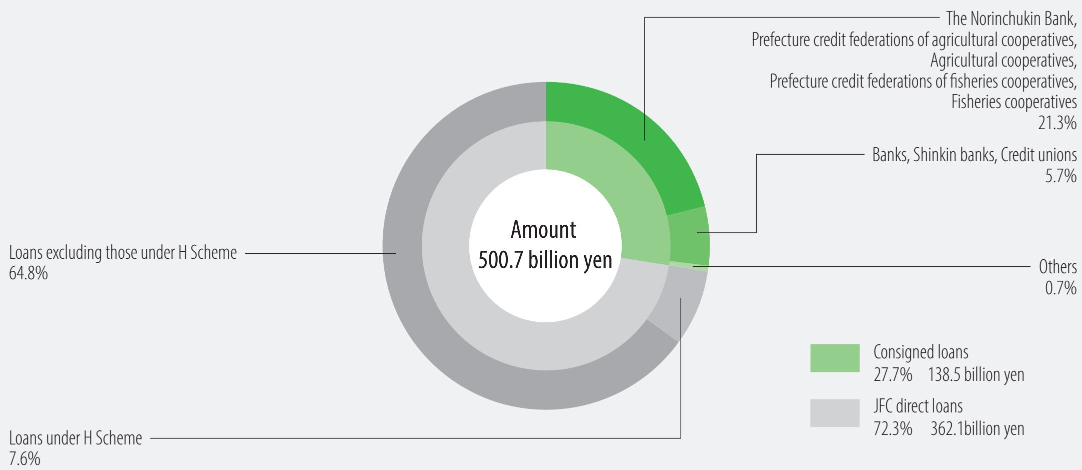


5 Loans by Repayment Period (FY2021)



Note: Aggregated by loan amount.

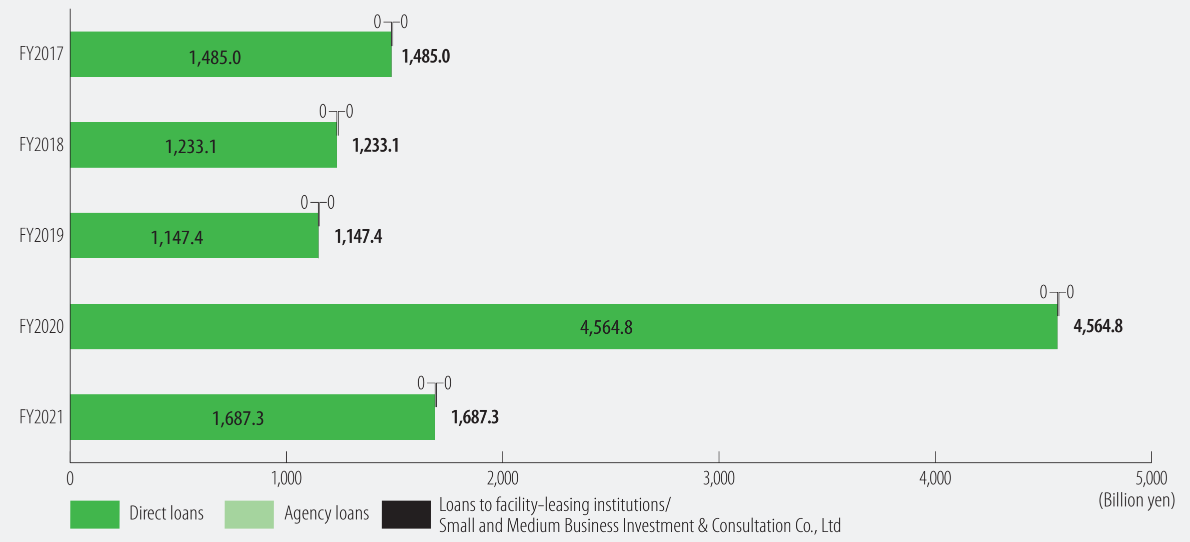
6 Loans by Commissioned Financial Institutions (FY2021)



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

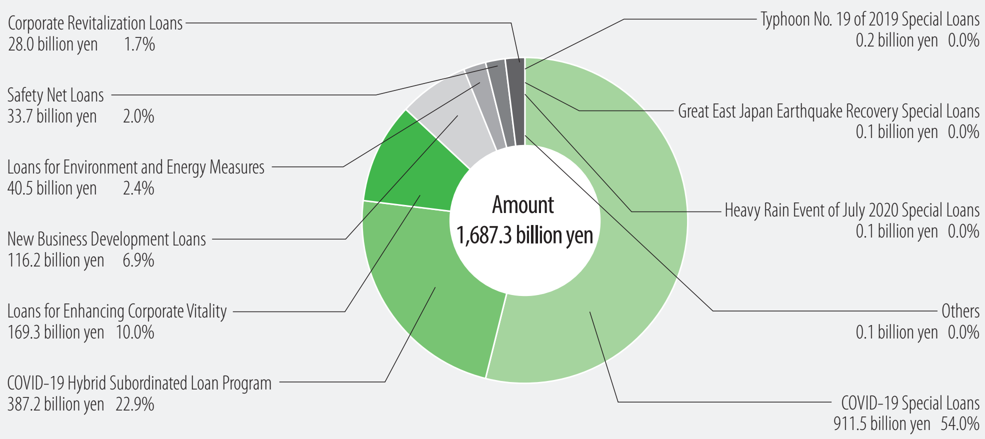
I. Loan Programs

1 Changes in Annual Loan Operations



2 Breakdown of Loans by Scheme

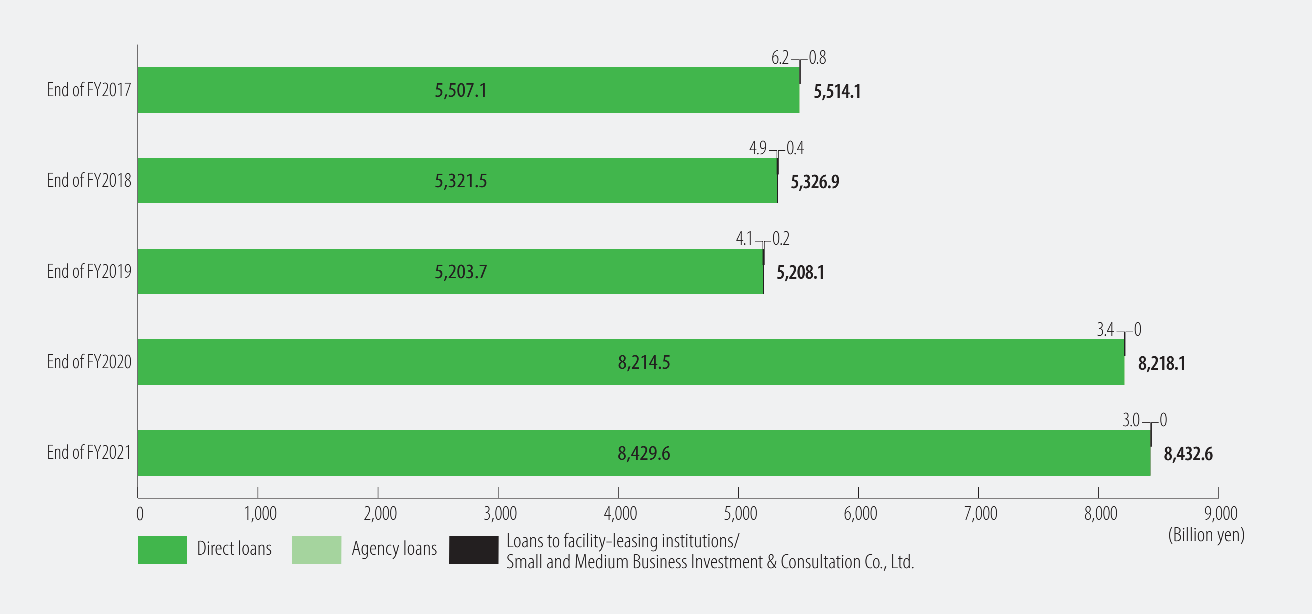
▼Total Amount of Loans (FY2021)



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

(Billion yen, %)

	End of FY2017	End of FY2018	End of FY2019	End of FY2020	End of FY2021
Manufacturing	2,588.1 (46.9)	2,487.1 (46.7)	2,387.4 (45.8)	3,220.1 (39.2)	3,231.1 (38.3)
Construction	255.9 (4.6)	252.1 (4.7)	249.4 (4.8)	516.4 (6.3)	534.4 (6.3)
Wholesale & retail	895.5 (16.2)	834.3 (15.7)	787.1 (15.1)	1,413.7 (17.2)	1,450.1 (17.2)
Transport & telecommunications	535.6 (9.7)	538.2 (10.1)	549.9 (10.6)	850.6 (10.4)	888.7 (10.5)
Services	581.8 (10.6)	584.2 (11.0)	612.5 (11.8)	1,488.9 (18.1)	1,608.2 (19.1)
Others	656.2 (11.9)	630.2 (11.8)	621.1 (11.9)	728.1 (8.9)	719.8 (8.5)
Total	5,513.3 (100.0)	5,326.4 (100.0)	5,207.9 (100.0)	8,218.0 (100.0)	8,432.6 (100.0)

Notes: 1. Loans include corporate bonds. Outstanding balances are calculated by deducting the amounts of loans to facility-leasing institutions/Small and Medium Business Investment & Consultation Co., Ltd. from the total balance.
2. Figures in parentheses denote percentage of shares.

5 Breakdown of Outstanding Loans by Use

(Billion yen, %)

	End of FY2017	End of FY2018	End of FY2019	End of FY2020	End of FY2021
Operating funds	3,321.1 (60.2)	3,013.5 (56.6)	2,785.2 (53.5)	5,919.4 (72.0)	6,184.6 (73.3)
Facility funds	2,192.2 (39.8)	2,312.8 (43.4)	2,422.6 (46.5)	2,298.5 (28.0)	2,247.9 (26.7)
Total	5,513.3 (100.0)	5,326.4 (100.0)	5,207.9 (100.0)	8,218.0 (100.0)	8,432.6 (100.0)

Notes: 1. Loans include corporate bonds. Outstanding balances are calculated by deducting the amounts of loans to facility-leasing institutions/Small and Medium Business Investment & Consultation Co., Ltd. from the total balance.
2. Figures in parentheses denote percentage of shares.

6 Number of Borrowers

(Number of borrowers)

	End of FY2017	End of FY2018	End of FY2019	End of FY2020	End of FY2021
Number of borrowers	44,145	43,929	44,102	61,074	62,010

Note: Figures cover only businesses with direct loans.

7 Average Loan Balance per Business

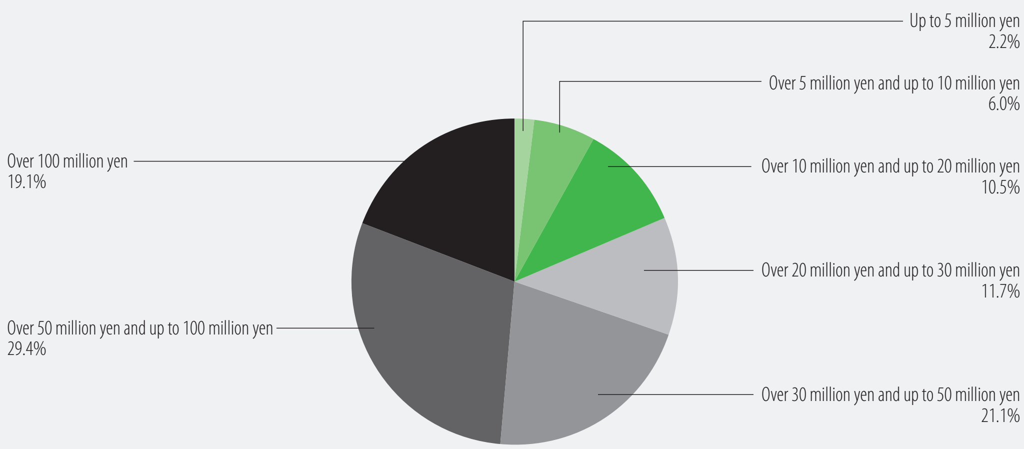
(Million yen)

	End of FY2017	End of FY2018	End of FY2019	End of FY2020	End of FY2021
Average loan balance per business	124	121	117	134	135

Note: Figures cover only businesses with direct loans.

8 Loans by Credit Amount

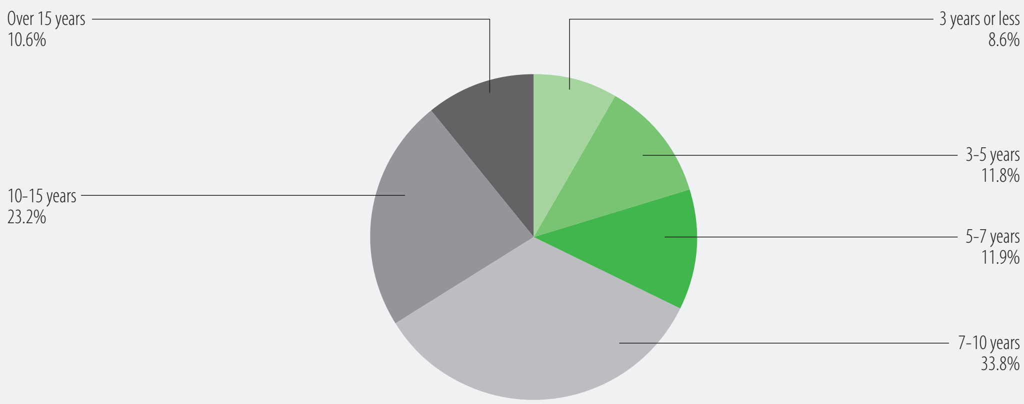
▼ **Loan Percentage Breakdown** (FY2021)



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

9 Loans by Repayment Period

▼ Loan Percentage Breakdown (FY2021)



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

II. Credit Insurance Programs

(Billion yen)

Items	FY2017	FY2018	FY2019	FY2020	FY2021
Amounts of insurance acceptance and loans					
Small Business Credit Insurance	7,635.5	7,707.2	8,324.3	33,210.6	8,768.4
Loans to CGCs	—	—	—	—	—
Special Insurance for Mid-size Enterprises	—	—	—	—	—
Outstanding amounts of insurance and loans					
Small Business Credit Insurance	22,401.0	21,264.0	21,244.8	42,416.1	42,092.3
Loans to CGCs	—	—	—	—	—
Special Insurance for Mid-size Enterprises	0.0	0.0	0.0	0.0	0.0
Machinery Credit Insurance	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, 2022.

III. Securitization Support Programs

(Billion yen)

Items	FY2017	FY2018	FY2019	FY2020	FY2021
Financing support amount					
Purchase-type	27.0	34.5	33.2	17.0	34.3
Guarantee-type	—	—	—	—	—
Outstanding amount of financing support					
Purchase-type	50.1	67.2	78.3	65.9	71.6
Guarantee-type	—	—	—	—	—
Outstanding amounts of trust beneficiary rights and guaranteed liabilities					
Purchase-type (outstanding amount of trust beneficiary rights)	15.1	18.1	17.4	12.9	15.4
Purchase-type (outstanding amounts of asset-backed securities)	6.6	10.3	14.9	17.8	21.6
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)	5.3	5.2	4.7	5.0	4.9

Notes:1. Purchase-type refers to operations prescribed in Article 11-1-2 of the Japan Finance Corporation Act as well as Items 3, 5, 7 and 8 on the Schedule II thereof.

2. Guarantee-type refers to operations prescribed in Article 11-1-2 of the Japan Finance Corporation Act as well as Items 4 and 6 on the Schedule II thereof.

3. Outstanding amounts of 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, 2022.

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 FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
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	291.2
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	291.2
Commercial paper (CP) acquisitions	299.8	339.8	—	—	—	—	—	—	—	—	—	—	—	—
Loss compensation	345.1	1,811.9	1,893.3	1,739.8	1,470.2	1,409.3	1,234.2	1,077.5	547.3	89.2	1.0	0.8	2,364.5	593.1
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	593.1
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	18.2

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 2022.

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 2022, with loss compensation underwritten by JFC for losses incurred until May 10, 2022.
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 2021 (in principle, disbursements pertaining to the period from October 1 each year to March 31 of the following year are made by June 10, while those pertaining to the period from April 1 to September 30 are made by December 10).

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

(Billion yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
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 Business Adaptation Promotion	—	—	—	—	—	—	—	—	—	—	—	—
Operations to Facilitate Development and Supply Promotion, etc.	—	—	—	—	—	—	—	—	—	—	—	—
Operations to Facilitate Business Foundation Reinforcement Promotion	—	—	—	—	—	—	—	—	—	—	—	8.5
Operations to Facilitate Business Introduction Promotion	—	—	—	—	—	—	—	—	—	—	—	—

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 2022. There are no interest subsidies.

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 Business Adaptation Promotion: August 2, 2021; Operations to Facilitate Development and Supply Promotion, etc.: August 31, 2020; Operations to Facilitate Business Foundation Reinforcement Promotion: August 24, 2021; Operations to Facilitate Business Introduction Promotion: August 24, 2021.

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, 2022)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	**12,086,510**	**Borrowed money**	**21,580,461**
Cash	17	Borrowings	21,580,461
Due from banks	12,086,493	**Bonds payable**	**1,325,360**
Securities	**40,216**	**Entrusted funds**	**24,542**
Government bonds	21,166	**Reserve for insurance policy liabilities**	**1,737,697**
Corporate bonds	15,637	**Other liabilities**	**33,239**
Stocks	2,530	Accrued expenses	4,929
Other securities	882	Contract liability	14,252
Loans and bills discounted	**28,855,893**	Unearned revenue	77
Loans on deeds	28,855,893	Derivatives other than for trading-liabilities	306
Other assets	**26,298**	Lease obligations	4,158
Prepaid expenses	51	Other	9,514
Accrued income	15,052	**Provision for bonuses**	**5,264**
Derivatives other than for trading-assets	376	**Provision for directors' bonuses**	**23**
Agency accounts receivable	760	**Provision for retirement benefits**	**92,460**
Other	10,057	**Provision for directors' retirement benefits**	**60**
Property, plant and equipment	**193,710**	**Reserve for compensation losses**	**25,950**
Buildings	50,338	**Acceptances and guarantees**	**26,565**
Land	138,842	Total liabilities	24,851,626
Lease assets	3,252	Net assets	
Construction in progress	565	**Capital stock**	**11,612,727**
Other	710	**Capital surplus**	**5,575,621**
Intangible assets	**23,446**	Special reserve for administrative improvement funds	181,500
Software	21,862	Legal capital surplus	5,394,121
Lease assets	400	**Retained earnings**	**(1,773,613)**
Other	1,182	Legal retained earnings	3,142
Customers' liabilities for acceptances and guarantees	**26,565**	Other retained earnings	(1,776,756)
Allowance for loan losses	**(986,079)**	Retained earnings brought forward	(1,776,756)
		Total shareholders' equity	**15,414,735**
		Valuation difference on available-for-sale securities	**199**
		Total valuation and translation adjustments	**199**
		Total net assets	15,414,935
Total assets	40,266,562	Total liabilities and net assets	40,266,562

Statement of Operations (Year ended March 31, 2022)

(Millions of yen)

Items	Amount
Ordinary income	437,096
Interest income	191,279
Interest on loans and discounts	190,896
Interest and dividends on securities	213
Interest on deposits with banks	169
Other interest income	0
Fees and commissions	3,533
Fees and commissions on compensation security contract	3,371
Other fees and commissions	162
Insurance premiums and other	181,680
Insurance premiums	180,047
Receipts of burden charges under the Responsibility-sharing System	1,632
Other ordinary income	231
Income from derivatives other than for trading or hedging	231
Receipts from the national budget	53,693
Receipts from general account of the national budget	53,683
Receipts from special account of the national budget	9
Other income	6,677
Recoveries of written-off claims	914
Gain on sales of stocks and other securities	238
Other	5,524
Ordinary expenses	824,408
Interest expenses	29,435
Interest on call money	(0)
Interest on borrowings and rediscounts	25,693
Interest on bonds	3,741
Fees and commissions payments	2,897
Other fees and commissions	2,897
Expenses on insurance claims and other	314,476
Expenses on insurance claims	178,027
Recoveries of insurance claims	(64,394)
Provision of reserve for insurance policy liabilities	200,844
Other ordinary expenses	20,039
Loss on foreign exchange transactions	10
Amortization of bond issuance cost	121
Interest subsidies	19,907
General and administrative expenses	128,001
Other expenses	329,559
Provision of allowance for loan losses	291,303
Provision of reserve for compensation losses	9,189
Written-off of loans	22,624
Other	6,441
Ordinary loss	387,312
Extraordinary income	60
Gain on disposal of noncurrent assets	60
Other	0
Extraordinary losses	258
Loss on disposal of noncurrent assets	154
Impairment loss	104
Net loss	387,510

Statement of Changes in Net Assets (Year ended March 31, 2022)

(Millions of yen)

	Shareholders' equity								Valuation and translation adjustments		Total net assets
	Capital stock	Capital surplus			Retained earnings			Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
		Special reserve for administrative improvement funds	Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings: Retained earnings brought forward	Total retained earnings				
Balance at the beginning 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
Changes of items during the period											
Issuance of new shares	4,622,526		2,322,700	2,322,700				6,945,226			6,945,226
Provision of legal retained earnings					75	(75)	—	—			—
Reversal of legal retained earnings					(286,257)	286,257	—	—			—
Payment to the national treasury						(75)	(75)	(75)			(75)
Reversal of legal capital surplus (Deficit disposition)			(432,562)	(432,562)		432,562	432,562	—			—
Net income (loss)						(387,510)	(387,510)	(387,510)			(387,510)
Net changes of items other than shareholders' equity									199	199	199
Total changes of items during the period	4,622,526	—	1,890,137	1,890,137	(286,181)	331,157	44,976	6,557,640	199	199	6,557,840
Balance at the end of current period	11,612,727	181,500	5,394,121	5,575,621	3,142	(1,776,756)	(1,773,613)	15,414,735	199	199	15,414,935

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. Available-for-sale securities are stated at fair value. However, stocks and others without quoted market prices are carried at cost based on the moving average method.

Note that valuation difference on available-for-sale securities are processed by directly booking to net assets.

(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 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), etc., 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 ¥213,196 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 policy for revenue and expense

Contents of main performance obligations and normal points of time to recognize revenues in major businesses with respect to revenues arising from contracts with customers are as described below.

Compensation security transactions in the account for Operations to Facilitate Crisis Responses

JFC is obliged to make a certain percentage of compensation against any loss that occurs in a loan, etc. made by designated financial institutions through concluding damage security contracts with the designated financial institution and collecting its compensation security charges. JFC recognizes revenues by judging that revenues from compensation security transactions shall meet its performance obligations during the indemnity contract period.

(h) 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.

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: ¥986,079 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 information ascertained in the course of normal operations and other factors, however it is possible that deterioration of borrower credit risks for which a principal deferment period has been set in COVID-19 related loans will not immediately appear and will not be reflected in the borrowers' categories. In addition, there is a possibility that deterioration of credit risk of borrowers that are provided with moratoriums of repayments is not properly reflected in borrowers' categories under the influence of COVID-19, 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, JFC made corrections required for the expected loss rate by assuming that there would be the deterioration of credit risk that is similar to that of the borrower who set the principal deferment periods in the past. In addition, since target periods, etc. for extension of principal deferment periods were included and materialization of credit risk may have been postponed for borrowers for whom lending was unified with a new loan after receiving loans related to COVID-19, it was assumed that the borrowers' categories would decline to a certain degree and necessary revisions were made.

Moreover, JFC made necessary corrections by assuming that borrowers' categories would decline to some extent for borrowers that were provided with moratoriums of repayments whose repayment had been repeatedly deferred several times and loans related to COVID-19 under the influence of COVID-19, because it was considered highly likely that repayment would be interrupted, including the aspect that their deferment period might be longer than others under repayment deferment.

In addition, necessary corrections to the anticipated loss rate were made based on the assumptions that deterioration of the credit risks of borrowers who have no particular problems with repayment at this time 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.

Regarding the loan loss ratio, we calculated the expected loss amount through grouping into subordinated capital loans and other claims, based on risk characteristics. 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: ¥1,737,697 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, (h) 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: ¥25,950 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.

Changes in accounting policies

(Accounting Standard for Revenue Recognition, etc.)

JFC has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc., from the beginning of the current fiscal year, and JFC recognizes revenues at the amount expected to be received in exchange for the goods or service when control of the promised goods or service is transferred to the customer.

JFC follows the transitional treatment specified in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition for application of the Accounting Standard for Revenue Recognition, etc., which will not affect retained earnings at the beginning of the current fiscal year. In addition, application of the relevant accounting standards does not affect the profit and loss and the information per share for the current fiscal year.

Because JFC applied the Revenue Recognition Accounting Standard, etc., JFC modified accounting items of the balance sheet from "unearned revenue" to "contract liability" regarding the consideration received from the customer before transferring the service to the customer out of the compensation security transactions in the account for Operations to Facilitate Crisis Responses.

(Accounting Standard for Fair Value Measurement, etc.)

JFC has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019), etc., from the beginning of the current fiscal year, and JFC applies new accounting policies stipulated by the Accounting Standard for Fair Value Measurement, etc. in accordance with the transitional treatment specified in the Accounting Standard for Fair Value Measurement, Paragraph 19 and the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), Paragraph 44-2 for the future.

Accordingly, JFC modified the valuation criteria for corporate bonds which had traditionally been regarded as financial instruments whose fair value is extremely difficult to grasp (specified asset-backed securities) from the cost method to the fair value method, and the valuation criteria for credit default swap transactions from the processing according to debt guarantee to the fair value method.

In addition, JFC made notes such as matters concerning the breakdown of the fair value of financial instruments for each appropriate category in the "financial instruments and related disclosure."

The Change in presentation

(Matters related to balance sheets)

In line with the enforcement of the Ministerial Ordinance on the Partial Revision 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. 1 of 2020) from March 31, 2022, we show the classification of "risk-monitored loans," etc. according to the classification of disclosed claims, etc. based on the "Act on Emergency Measures for the Revitalization of the Financial Functions" (Law No. 132 of 1998).

2. Equity securities of affiliates

Equity securities of affiliates is ¥2,530 million.

3. Claims based on the Ministerial Ordinance Concerning Accounting for the JFC

Claims based on the Ministerial Ordinance Concerning Accounting for the JFC are as described below. Note that claims are corporate bonds (limited to those that guarantee all or part of the redemption of their principals and the payment of interests and in which the issuance of the corporate bonds is through private offering of securities (Financial Instruments and Exchange Act Law No. 25 of 1948, Article 2, Paragraph 3)) in "securities" on the balance sheet, loans, foreign exchange, accrued interest and suspense payment in "other assets," items recorded in each account of customers' liabilities for acceptance and guarantees, and the securities when lending of the securities noted is performed (limited to loans for use or lease contracts).

The amount of bankruptcy reorganization claims and similar claims: ¥31,424 million
The amount of claims under high risk: ¥968,212 million
The amount of performing claims that require monitoring by discounting the risk-adjusted principal and interest: ¥724,708 million
The amount of claims with interest or principal repayments more than 3 months in arrears: ¥709 million
The amount of restructured claims: ¥723,998 million
Subtotal amount: ¥1,724,346 million
The amount of normal claims: ¥27,172,976 million
Total amount: ¥28,897,322 million

Bankruptcy reorganization claims and similar claims are the claims on borrowers who are in bankruptcy due to reasons such as petition for commencement of bankruptcy proceedings, commencement of reorganization proceedings, commencement of rehabilitation proceedings, etc. and similar claims.

Claims under high risk are the claims in which it is highly unlikely that their principals are collected and their interests are received according to the contract due to the deterioration of borrowers' financial conditions and business performances even though they have not yet reached the state of bankruptcy and that do not fall under "bankruptcy reorganization claims and similar claims."

Claims with interest or principal repayments more than 3 months in arrears are claims whose principal or interest payment is more than 3 months in arrears, and which do not fall under the category of "bankruptcy reorganization claims and similar claims," and "claims under high risk."

Restructured claims are claims 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 "bankruptcy reorganization claims and similar claims," "claims under high risk," and "claims with interest or principal repayments more than 3 months in arrears."

Normal claims are the claims that are classified into items other than "bankruptcy reorganization claims or similar claims," "claims under high risk," "claims with interest or principal repayments more than 3 months in arrears," and "restructured claims," assuming that there are no particular problems with the borrowers' financial conditions and business performances.

Note that the above claim amounts are the gross amounts prior to the deduction of allowance for possible claim 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, 2022 is ¥82,782 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 ¥442 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 ¥1,325,360 million.

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥42,666 million.

6. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (48,618 contracts)	2,140,758
Reserve for compensation	25,950
Net amount	2,114,808

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, 2022, 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	14,647,129,107,741	6,945,226,000,000	—	21,592,355,107,741

(Note) Increase is due to the issuance of 6,945,226,000,000 shares.

10. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

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

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

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

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

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

In the Account for Agriculture, Forestry, Fisheries and Food Business Operations, the main operations consist of supplementing the financing provided by general financial institutions and supplying long-term funds at a low interest rate aimed at businesses engaged in agriculture, forestry, fisheries and food manufacturing, etc., in order to contribute to the sustainable and robust development of the agriculture, forestry, fisheries business and ensure the stable supply of food. To conduct these operations funds are raised through borrowing from fiscal investment funds and loans and the issuing of bonds.

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

Operations in the Account for Securitization Support Programs (Purchase-type Operation) are conducted for the purpose of promoting the supply of unsecured funds to SMEs from private sector financial institutions, etc., utilizing securitization and fostering the securitization market for SME loan claims. To conduct these operations funds are raised through the issuing of bonds.

In the Account for Credit Insurance Programs, insurance is provided for the guarantees related to the liabilities on SME loans. To conduct these operations funds are raised through capital investment from the government.

In the Account for Operations to Facilitate Crisis Responses financing operations including 1) loans, 2) credit insurance underwriting (a certain portion of compensation paid by JFC to cover losses incurred by specified financial institutions on loans), and 3) interest subsidies (interest subsidies provided by JFC to specified financial institutions for loans, etc., conducted by specified financial institutions that received a credit facility from JFC) are conducted for financial institutions specified by the competent minister for domestic and global financial disturbance that is recognized by the competent minister when a crisis such as a large-scale disaster occurs. To conduct these operations, the financing required for 1) loans is procured funds through the borrowing from Fiscal Investment and Loan Program ("FILP"), and the issuing of government guaranteed bonds. The loan period and borrowing period are equal, and the financing cost is covered by the interest on the loans. The financing required for 2) credit insurance underwriting, and 3) interest subsidies is procured funds through equity participation from the government, etc.

The Account for Operations to Facilitate Specific Businesses Promotion, etc. provides loans, etc. of required funds for loans provided by designated financial institutions appointed by the competent minister to certified business operators that are developing or manufacturing energy and environmentally friendly products, certified business operators that are restructuring their business, certified business operators that are adapting their business, certified business operators engaged in the development and provision, etc. of systems using specified advanced information and communications technology or improvement of specified semiconductor production facilities, certified business operators that are reinforcing business infrastructure, and certified business operators that are introducing specified ships.

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, etc., (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, business adaptation promotion operations, development and provision, etc. promotion operations, business infrastructure reinforcement promotion operations and introduction 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 funds such as fiscal loan funds and funding provided by government 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.

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, 2022 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥32,805 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 ¥31,832 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, etc., 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 through adjustment of procurement period limits and other means to reduce interest rate 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 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, 2022 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥17,252 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥15,650 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, 2022 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥99,025 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 ¥92,285 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, other assets, bonds payable, and other liabilities.

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, 2022 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥1,537 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 ¥1,419 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 in this account 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 provided by government are secured to finance this account. 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 and funding provided by government 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

Set valuation inputs are used for the calculation of fair value of financial instruments, 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, 2022, and the related fair value, and difference is as follows. Note that stocks and others without quoted market prices are not included in the following chart (refer to Note 1).

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	12,086,510	12,088,105	1,595
(2) Securities			
Held-to-maturity debt securities	21,183	21,822	638
Available-for-sale securities	15,620	15,620	—
(3) Loans and bills discounted	28,855,893		
Allowance for loan losses (*1)	(984,731)		
	27,871,161	29,225,611	1,354,450
Total assets	39,994,475	41,351,160	1,356,684
(1) Borrowings	21,580,461	21,604,131	23,670
(2) Bonds payable	1,325,360	1,339,149	13,788
Total liabilities	22,905,821	22,943,280	37,459
Derivative transactions (*2)			
Derivative transactions not qualifying for hedge accounting	70	70	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	70	70	—

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

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

(Note 1) The amount reported on the balance sheet such as stocks and others without quoted market prices are as shown below, which is not included in the "securities" in the fair value information of financial instruments.

(Millions of yen)

Classification	Carrying amount on the balance sheet
Unlisted stocks (*1)	2,530
Partnership investments (*2)	882

(*1) Unlisted stocks are not subject to fair value disclosure in accordance with the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020), Paragraph 5.
(*2) Partnership investments are not subject to fair value disclosure in accordance with the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019), Paragraph 27.

(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 (*1)	9,011,393	775,100	1,200,000	700,000	300,000	100,000
Securities						
Held-to-maturity debt securities	1	2	13	—	—	21,068
Available-for-sale securities	3,204	3,883	8,332	0	—	—
Loans and bills discounted (*2)	3,801,752	7,330,272	5,910,714	4,269,921	4,262,233	3,077,243
Total	12,816,351	8,109,258	7,119,060	4,969,921	4,562,233	3,198,311

(*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 ¥203,755 million that is not expected to be redeemed and not included in the table above.

(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 (*)	3,916,890	6,567,700	4,415,380	2,881,749	2,308,366	1,490,373
Bonds payable	420,000	490,000	160,000	125,000	130,000	—
Total	4,336,890	7,057,700	4,575,380	3,006,749	2,438,366	1,490,373

(*) In borrowings, general account borrowings with no redemption period stipulated are stated as "Maturities within one year."

3. Breakdown, etc. of fair value of financial instruments for each category

Fair values of financial instruments are classified into the following three levels depending on the observability and the importance of inputs used for calculation of fair values.

Level 1 fair value: Fair values calculated from the market prices of assets or liabilities whose fair values are formed in active markets that are subject to calculation among the inputs for calculation of observable fair values.
Level 2 fair value: Fair values calculated using inputs for calculation of fair values other than the inputs at Level 1 among the inputs for observable fair values.
Level 3 fair value: Fair values calculated using inputs for calculation of unobservable fair values.

When several inputs having significant impacts on calculating fair values are used, fair values are classified into the lowest priority level in calculation of fair values out of the levels to which their respective inputs belong.

(1) Financial instruments recorded on the balance sheet for fair values (March 31, 2022)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Securities				
Available-for-sale securities				
Corporate bonds	—	—	15,620	15,620
Derivative transactions				
Currency related	—	15	—	15
Credit derivatives	—	—	360	360
Total assets	—	15	15,980	15,996
Derivative transactions				
Credit derivatives	—	—	306	306
Total liabilities	—	—	306	306

(2) Financial instruments except those recorded on the balance sheet for fair values (March 31, 2022)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	12,088,105	—	12,088,105
Securities				
Held-to-maturity debt securities				
Government bonds	21,805	—	—	21,805
Corporate bonds	—	17	—	17
Loans and bills discounted	—	4,433,527	24,792,084	29,225,611
Total assets	21,805	16,521,650	24,792,084	41,335,540
Borrowings	—	21,577,596	26,535	21,604,131
Bonds payable	—	1,339,149	—	1,339,149
Total liabilities	—	22,916,745	26,535	22,943,280

(Note 1) Explanation of valuation techniques used for calculation of fair values and inputs for calculation of fair values

Assets

(1) Cash and due from banks

For cash and 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, classified into level 2 fair value.

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, classified into level 2 fair value.

(2) Securities

Market value is used for bonds, classified into level 1 fair value.

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, classified into level 2 fair value.

In addition, corporate bonds in the Account for Securitization Support Programs (Purchase-type Operation) (specified asset-backed securities) have no market prices. They are the securities that are issued with finance receivables for small and medium-sized enterprises originated by several financial institutions as underlying assets, but do not provide a mechanism for continuously obtaining individual borrowers' financial data as underlying assets. Therefore, their fair values are calculated by discounting risk-adjusted cash flows based on external ratings by the risk free rate (the standard Japanese government bond rate), classified into level 3 fair value.

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 loans on deed (subordinated capital loans) under the Provision Scheme for Challenge Support and Capital Enhancement or other schemes and loans on deed (post-establishment target-achievement type interest rate) to which a post-establishment target-achievement type interest rate applies, 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.

Although interest rates that are applied based on borrowers' business performances, etc. may fluctuate for subordinated capital loans and post-establishment target-achievement type interest rate, JFC calculates their fair values like those of other loans by assuming that their interest rates on the closing date will continue in the future as well.

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.

These transactions are classified into level 3 fair values.

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

All loans except loans on deeds under the challenge-oriented capital lending scheme for new sectors, etc. 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.

Although interest rates that are applied based on borrowers' business performances, etc. may fluctuate for loans on deeds under the challenge-oriented capital lending scheme for new sectors, etc., JFC calculates their fair values like those of other loans by assuming that their interest rates on the closing date will continue in the future as well.

These transactions are classified into level 3 fair values.

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, with the exception of loans on deed (subordinated capital loans) under the Provision Scheme for Challenge Support and Capital Enhancement or other schemes and loans on deed (post-establishment target-achievement type interest rate) to which a post-establishment target-achievement type interest rate applies, 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.

Although interest rates that are applied based on borrowers' business performances, etc. may fluctuate for subordinated capital loans and loans with post-establishment target-achievement type interest rate, JFC calculates their fair values like those of other loans by assuming that their interest rates on the closing date will continue in the future as well.

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.

These transactions are classified into level 3 fair values.

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 calculated based on the market yield of bonds issued by the borrower based on the type of borrower and period of loan, classified into level 2 fair values.

<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, classified into level 2 fair values.

However, JFC regards the carrying amount as fair values for general account borrowings in the account for Micro Business and Individual Operations by assuming that payment shall be made immediately upon request due to the nature of the transactions.

In addition, general account borrowings in the Account for Agriculture, Forestry, Fisheries and Food Business Operations are interest-free, and we calculate their fair values by discounting at risk free rates (the standard Japanese government bond rate) after making necessary adjustments to the principal of the general account borrowings divided by a certain period, classified into level 3 fair values.

Because borrowings from the FILP special account (investment account) of the national budget in the Account for SME

Loan Programs and Securitization Support Programs (Guarantee-type Operation) are a scheme that does not have interest rates set at the time of borrowing and that pays interests in a lump sum after the final principal is redeemed, JFC calculates their interest rates based on the interest rates of similar borrowings that are executed simultaneously during the same period, and calculate their fair values by discounting at risk free rates (the standard Japanese government bond rate) corresponding to the principal and interest amount of the borrowed money divided by redemption periods, classified into level 3 fair values.

(2) Bonds payable
Market value is used for fair value of bonds, classified into level 2 fair values.

Derivative transactions
The fair value of forward exchange contracts is determined based on the price provided by financial institutions, classified into level 2 fair values.

As for credit default swaps (CDS) in the Account for Agriculture, Forestry, Fisheries and Food Business Operations, JFC calculates fair values by discounting the risk-adjusted premiums according to the credit rating on the closing date and the compensation expected due to the occurrence of credit events by the risk free rates (the standard Japanese government bond rate), classified into level 3 fair values. As for CDS in the Account for Securitization Support Programs (Purchase-type Operation), finance receivables for SMEs are used as reference debts and they have no market prices and do not have a mechanism where financial data of individual borrowers that constitute the reference debt can be continuously obtained, thus JFC calculates fair values by discounting the risk-adjusted cash flow according to the transaction details and the credit events that occur by the risk free rates (the standard Japanese government bond rate), classified into level 3 fair values.

(Note 2) Information on level 3 fair values out of the financial instruments recorded on the balance sheet with fair values

(1) Quantitative information on important unobservable inputs (March 31, 2022)

Classification	Valuation techniques	Important unobservable inputs	Range of inputs
Securities			
Available-for-sale securities			
Corporate bonds	Discounted present value method	Default probability	0.00%–0.04%
Derivative transactions			
Credit derivatives	Discounted present value method	Default probability	0.12%–20.32%

(2) Adjustment table from the beginning balance to the ending balance, appraised profits or losses that are recognized in profits/losses for the current fiscal year (March 31, 2022)

(Millions of yen)

	Beginning balance	Profits and losses in the fiscal year or valuation and translation adjustments: Recorded in profits and losses (*1)	Profits and losses in the fiscal year or valuation and translation adjustments: Recorded in valuation and translation adjustments (*2)	Net amount of purchase, selling, issuance and settlement	Transfer to level 3 fair value	Transfer from level 3 fair value	Ending balance	Appraised profits or losses of financial assets and financial liabilities that are held on the balance sheet date out of the amount recorded in profits and losses for the fiscal year (*1)
Securities								
Available-for-sale securities								
Corporate bonds	13,141	—	51	2,427	—	—	15,620	—
Derivative transactions								
Credit derivatives (*3)	107	(52)	—	—	—	—	54	(53)

(*1) Included in "income from derivatives other than for trading or hedging" in the profit and loss statement.
(*2) Included in "valuation difference on available-for-sale securities" on the balance sheet.
(*3) Derivative transactions that are recorded as assets/liabilities of derivatives other than for trading or hedging are recorded in a lump sum.

(3) Explanation of a valuation process for fair values
The Risk Management Department determined the purpose and the procedure of calculating fair values, and calculates fair values according to it. The Risk Management Department uses a valuation model that can reflect nature, characteristics, and risks of assets most adequately in calculating fair values.

(4) Explanation of impacts on fair values when changing important and unobservable inputs

The default probability is an estimate value that indicates the possibility that a credit event occurs and that the contract amount or the compensation amount cannot be collected. A significant increase (decrease) in default probability brings about the remarkable decline (rise) in a fair value.

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, 2022 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	21,166	21,805	638
Securities whose fair value does not exceed their carrying amount	Corporate bonds	17	17	—
Total		21,183	21,822	638

(b) Equity securities of subsidiaries and affiliates

(Note) Carrying amount of stocks and others without quoted market prices on the balance sheet.

	Carrying amount on the balance sheet (Millions of yen)
Equity securities of affiliates	2,530

(c) Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount exceeds their acquisition cost	Corporate bonds	15,620	15,420	199
Securities whose carrying amount does not exceed their acquisition cost	Others	177,100	177,100	—
Total		192,720	192,520	199

(Note) Amount of stocks and others without quoted market prices reported on the balance sheet not included in the table above

	Carrying amount on the balance sheet (Millions of yen)
Unlisted stocks	0
Partnership investments	882

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	177,378	million yen
Service cost	6,272	
Interest cost	177	
Actuarial difference	3,619	
Payment of retirement benefits	(7,461)	
Prior service cost	—	
Other	—	
Closing balance of projected benefit obligations	179,986	

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

Opening balance of fair value of plan assets	66,728	million yen
Expected return on plan assets	1,334	
Actuarial difference	(204)	
Financing from employer	2,991	
Payment of retirement benefits	(3,334)	
Other	—	
Closing balance of fair value of plan assets	67,514	

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

Projected benefit obligations of funded plan	86,601	million yen
Fair value of plan assets	(67,514)	
	19,087	
Projected benefit obligations of unfunded plan	93,384	
Unfunded pension obligations	112,471	
Actuarial unrecognized difference	(22,787)	
Unrecognized prior service cost	2,775	
Net amount of liabilities and assets recorded on the balance sheet	92,460	
Provision for retirement benefits	92,460	
Prepaid pension cost	—	
Net amount of liabilities and assets recorded on the balance sheet	92,460	

(4) Net pensions cost and breakdown of included items

Service cost	6,272	million yen
Interest cost	177	
Expected return on plan assets	(1,334)	
Amount of actuarial difference accounted for as expense	5,147	
Amortization of prior service cost accounted for as expense	(968)	
Other	—	
Net pensions cost related to defined benefits plan	9,294	

(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	25%
Debentures	64%
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	1.6% to 6.8%

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥380 million.

14. Profit and loss on equity method

Investment in affiliates	¥2,530 million
Investment in affiliates (equity method)	¥2,564 million
Profit on investment in affiliates (equity method)	¥16 million

15. Revenue Recognition

1. Disaggregation of revenue from contracts with customers.

The revenue from a contract with a customer at the JFC is the revenue from compensation security transactions in the Account for Operations to Facilitate Crisis Responses. In revenue from compensation security transactions, JFC recognizes revenues by judging that the performance obligation is satisfied over the period of the compensation contract, recording its full amount in the "fees and commissions on compensation security contract" on the profit and loss statement, and since disaggregation of revenue the information generated through decomposition of the revenue generated from contracts with customers is of little significance, JFC omits its description.

2. Information on the basis for understanding revenues from contracts with customers.

Information on the basis for understanding revenues from contracts with customers is as described in "(g) Accounting policy for revenue and expense" of "Significant accounting policies."

3. Information for understanding the amount of revenues in the current fiscal year and after the last day of this fiscal year.

(1) Regarding contract liabilities, JFC records the balance that does not satisfy performance obligations at the last day of the current fiscal year out of fees and commissions on compensation security contract collected in a lump sum from designated financial institutions at the time of concluding contracts. The amount included in the contract liability balance as of the beginning of the current fiscal year out of the revenue amount recognized in this fiscal year reaches 2,782 million yen.

(2) The total transaction price allocated to remaining performance obligations at the last day of the current fiscal year amounts to 14,252 million yen. The amount and the period of revenue recognition expected for remaining performance obligations are as follows:

(Millions of yen)

	Current fiscal year
Within one year	2,355
Over one year	11,896
Total	14,252

16. Related party transactions

Related party transactions in the fiscal year ended March 31, 2022 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, 2022
Principal shareholder	Ministry of Finance (Minister of Finance)(Notes i and ii)	98.42 (Direct)	Administration for policy based financing	Underwriting of capital increase(Note iii)	6,945,141	—	—
				Receipts from general account of the national budget	10,967	—	—
				Receipt of funds(Note iv)	1,850,519	Borrowings	21,440,632
				Repayment of borrowing	3,980,788		
				Payment of interest on borrowings	25,693	Accrued expenses	3,348
				Deposit of funds(Note v)	19,798,400	Due from banks	7,514,800
				Refund of funds	17,129,600		
				Guarantee for bonds payable(Note vi)	735,372	—	—

(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)	0.02%
-Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries)	0.19%
-Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry)	1.37%

(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	¥15 million
-Ministry of Economy, Trade and Industry	
Underwriting of capital increase	¥70 million
-Ministry of Health, Labour and Welfare	
Receipts from the national budget	¥2,275 million
-Ministry of Agriculture, Forestry and Fisheries	
Receipts from the national budget	¥24,889 million
-Ministry of Economy, Trade and Industry	
Receipts from the national budget	¥77 million
-Agency for Natural Resources and Energy	
Receipts from the national budget	¥0 million
-Small and Medium Enterprise Agency	
Receipts from the national budget	¥15,482 million
-Ministry of Agriculture, Forestry and Fisheries	
Repayment of borrowed money	¥3,100 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.

17. Per share information

Net assets per share ¥0.71

Net loss per share ¥0.02

18. Subsequent events

Not applicable.

Account for Micro Business and Individual Operations

Balance Sheet (as of March 31, 2022)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	2,433,921	Borrowed money	8,981,223
Cash	12	Borrowings	8,981,223
Due from banks	2,433,908	Bonds payable	525,206
Loans and bills discounted	12,572,300	Other liabilities	9,333
Loans on deeds	12,572,300	Accrued expenses	1,062
Other assets	9,451	Lease obligations	2,705
Prepaid expenses	41	Other	5,564
Accrued income	5,566	Provision for bonuses	3,200
Agency accounts receivable	578	Provision for directors' bonuses	7
Other	3,264	Provision for retirement benefits	55,203
Property, plant and equipment	95,233	Provision for directors' retirement benefits	16
Buildings	28,057	Total liabilities	9,574,191
Land	64,244	Net assets	
Lease assets	2,128	Capital stock	5,773,243
Construction in progress	318	Capital surplus	181,500
Other	483	Special reserve for administrative improvement funds	181,500
Intangible assets	11,784	Retained earnings	(713,182)
Software	11,195	Other retained earnings	(713,182)
Lease assets	249	Retained earnings brought forward	(713,182)
Other	339	Total shareholders' equity	5,241,560
Allowance for loan losses	(306,940)	Total net assets	5,241,560
Total assets	14,815,751	Total liabilities and net assets	14,815,751

Statement of Operations (Year ended March 31, 2022)

(Millions of yen)

Items	Amount
Ordinary income	**121,804**
Interest income	104,325
Interest on loans and discounts	104,325
Interest on deposits with banks	0
Receipts from the national budget	15,865
Receipts from general account of the national budget	15,865
Other income	1,612
Recoveries of written-off claims	550
Other	1,062
Ordinary expenses	**172,905**
Interest expenses	2,925
Interest on borrowings and rediscounts	2,724
Interest on bonds	200
Fees and commissions payments	622
Other fees and commissions	622
Other ordinary expenses	52
Amortization of bond issuance cost	52
General and administrative expenses	77,544
Other expenses	91,759
Provision of allowance for loan losses	72,529
Written-off of loans	19,204
Other	25
Ordinary loss	**51,101**
Extraordinary income	**55**
Gain on disposal of noncurrent assets	55
Extraordinary losses	**136**
Loss on disposal of noncurrent assets	31
Impairment loss	104
Net loss	**51,181**

Statement of Changes in Net Assets (Year ended March 31, 2022)

(Millions of yen)

	Shareholders' equity						Total net assets
		Capital surplus		Retained earnings			
				Other retained earnings			
	Capital stock	Special reserve for administrative improvement funds	Total capital surplus	Retained earnings brought forward	Total retained earnings	Total shareholders' equity	
Balance at the beginning of current period	2,997,738	181,500	181,500	(662,001)	(662,001)	2,517,236	2,517,236
Changes of items during the period							
Issuance of new shares	2,775,505					2,775,505	2,775,505
Net income (loss)				(51,181)	(51,181)	(51,181)	(51,181)
Total changes of items during the period	2,775,505	—	—	(51,181)	(51,181)	2,724,323	2,724,323
Balance at the end of current period	5,773,243	181,500	181,500	(713,182)	(713,182)	5,241,560	5,241,560

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), etc., 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 ¥123,043 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.

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: ¥306,940 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 information ascertained in the course of normal operations and other factors, however it is possible that deterioration of borrower credit risks for which a principal deferment period has been set in COVID-19 related loans will not immediately appear and will not be reflected in the borrowers' categories. In addition, there is a possibility that deterioration of credit risk of borrowers that are provided with moratoriums of repayments is not properly reflected in borrowers' categories under the influence of COVID-19, 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, JFC made corrections required for the expected loss rate by assuming that there would be the deterioration of credit risk that is similar to that of the borrower who set the principal deferment periods in the past. In addition, since target periods, etc. for extension of principal deferment periods were included and materialization of credit risk may have been postponed for borrowers for whom lending was unified with a new loan after receiving loans related to COVID-19, it was assumed that the borrowers' categories would decline to a certain degree and necessary revisions were made.

Moreover, JFC made necessary corrections by assuming that borrowers' categories would decline to some extent for borrowers that were provided with moratoriums of repayments whose repayment had been repeatedly deferred several times and loans related to COVID-19 under the influence of COVID-19, because it was considered highly likely that repayment would be interrupted, including the aspect that their deferment period might be longer than others under repayment deferment.

In addition, necessary corrections to the anticipated loss rate were made based on the assumptions that deterioration of the credit risks of borrowers who have no particular problems with repayment at this time 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.

Changes in accounting policies

(Accounting Standard for Revenue Recognition, etc.)

JFC has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the current fiscal year, and JFC recognizes revenues at the amount expected to be received in exchange for the goods or service when control of the promised goods or service is transferred to the customer.

JFC follows the transitional treatment specified in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition for application of the Accounting Standard for Revenue Recognition, etc., which will not affect retained earnings at the beginning of the current fiscal year. In addition, application of the relevant accounting standards does not affect the profit and loss and the information per share for the current fiscal year.

(Accounting Standard for Fair Value Measurement, etc.)

JFC has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019), etc. from the beginning of the current fiscal year, and JFC applies new accounting policies stipulated by the Accounting Standard for Fair Value Measurement, etc. in accordance with the transitional treatment specified in the Accounting Standard for Fair Value Measurement, Paragraph 19 and the "Accounting Standards for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), Paragraph 44-2 for the future.

In addition, JFC made notes such as matters concerning the breakdown of the fair values of financial instruments for each appropriate category in the "financial instruments and related disclosure."

The Change in presentation

(Matters related to balance sheets)

In line with the enforcement of the Ministerial Ordinance on the Partial Revision 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. 1 of 2020) from March 31, 2022, we show the classification of "risk-monitored loans," etc. according to the classification of disclosed claims, etc. based on the "Act on Emergency Measures for the Revitalization of the Financial Functions" (Law No. 132 of 1998).

2. Claims based on the Ministerial Ordinance Concerning Accounting for the JFC

Claims based on the Ministerial Ordinance Concerning Accounting for the JFC are as described below. Note that claims are corporate bonds (limited to those that guarantee all or part of the redemption of their principals and the payment of interests and in which the issuance of the corporate bonds is through private offering of securities (Financial Instruments and Exchange Act Law No. 25 of 1948, Article 2, Paragraph 3)) in "securities" on the balance sheet, loans, foreign exchange, accrued interest and suspense payment in "other assets," items recorded in each account of customers' liabilities for acceptance and guarantees, and the securities when lending of the securities noted is performed (limited to loans for use or lease contracts) .

The amount of bankruptcy reorganization claims and similar claims: ¥18,444 million
The amount of claims under high risk: ¥93,365 million
The amount of performing claims that require monitoring by discounting the risk-adjusted principal and interest: ¥542,050 million
The amount of claims with interest or principal repayments more than 3 months in arrears: ¥50 million
The amount of restructured claims: ¥542,000 million
Subtotal amount: ¥653,861 million
The amount of normal claims: ¥11,924,135 million
Total amount: ¥12,577,996 million

Bankruptcy reorganization claims and similar claims are the claims on borrowers who are in bankruptcy due to reasons such as petition for commencement of bankruptcy proceedings, commencement of reorganization proceedings, commencement of rehabilitation proceedings, etc. and similar claims.

Claims under high risk are the claims in which it is highly unlikely that their principals are collected and their interests are received according to the contract due to the deterioration of borrowers' financial conditions and business performances even though they have not yet reached the state of bankruptcy and that do not fall under "bankruptcy reorganization claims and similar claims."

Claims with interest or principal repayments more than 3 months in arrears are claims whose principal or interest payment is more than 3 months in arrears, and which do not fall under the category of "bankruptcy reorganization claims and similar claims," and "claims under high risk."

Restructured claims are claims 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 "bankruptcy reorganization claims and similar claims," "claims under high risk," and "claims with interest or principal repayments more than 3 months in arrears."

Normal claims are the claims that are classified into items other than "bankruptcy reorganization claims or similar claims," "claims under high risk," "claims with interest or principal repayments more than 3 months in arrears," and "restructured claims," assuming that there are no particular problems with the borrowers' financial conditions and business performances.

Note that the above claim amounts are the gross amounts prior to the deduction of allowance for possible claim 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, 2022 is ¥1,078 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 ¥525,206 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥24,209 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, 2022 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	3,179,238,000,000	2,775,505,000,000	—	5,954,743,000,000

(Note) Increase is due to the issuance of 2,775,505,000,000 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 through adjustment of procurement period limits and other means to reduce interest rate 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 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, 2022 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥32,805 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 ¥31,832 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

Set valuation inputs are used for the calculation of fair value of financial instruments, 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, 2022, 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	2,433,921	2,433,921	—
(2) Loans and bills discounted	12,572,300		
Allowance for loan losses (*)	(306,792)		
	12,265,508	12,648,377	382,869
Total assets	14,699,429	15,082,299	382,869
(1) Borrowings	8,981,223	8,977,096	(4,126)
(2) Bonds payable	525,206	524,607	(599)
Total liabilities	9,506,429	9,501,703	(4,725)

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

(Note 1) 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)	2,433,908	—	—	—	—	—
Loans and bills discounted (*2)	1,607,971	3,346,597	2,837,816	2,099,967	1,733,759	834,494
Total	4,041,880	3,346,597	2,837,816	2,099,967	1,733,759	834,494

(*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 ¥111,694 million that is not expected to be redeemed and not included in the table above.

(Note 2) 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 (*)	2,147,585	3,271,525	1,800,365	1,117,748	364,275	279,725
Bonds payable	230,000	160,000	65,000	20,000	50,000	—
Total	2,377,585	3,431,525	1,865,365	1,137,748	414,275	279,725

(*) In borrowings, general account borrowings with no redemption period stipulated are stated as "Maturities within one year."

3. Breakdown, etc. of fair value of financial instruments for each category

Fair values of financial instruments are classified into the following three levels depending on the observability and the importance of inputs used for calculation of fair values.

Level 1 fair value: Fair values calculated from the market prices of assets or liabilities whose fair values are formed in active markets that are subject to calculation among the inputs for calculation of observable fair values.
Level 2 fair value: Fair values calculated using inputs for calculation of fair values other than the inputs at Level 1 among the inputs for observable fair values.
Level 3 fair value: Fair values calculated using inputs for calculation of unobservable fair values.

When several inputs having significant impacts on calculating fair values are used, fair values are classified into the lowest priority level in calculation of fair values out of the levels to which their respective inputs belong.

Financial instruments except those recorded on the balance sheet for fair values (March 31, 2022)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	2,433,921	—	2,433,921
Loans and bills discounted	—	—	12,648,377	12,648,377
Total assets	—	2,433,921	12,648,377	15,082,299
Borrowings	—	8,977,096	—	8,977,096
Bonds payable	—	524,607	—	524,607
Total liabilities	—	9,501,703	—	9,501,703

(Note 1) Explanation of valuation techniques used for calculation of fair values and inputs for calculation of fair values

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, classified into level 2 fair value.

(2) Loans and bills discounted

All loans, with the exception of loans on deed (subordinated capital loans) under the Provision Scheme for Challenge Support and Capital Enhancement or other schemes and loans on deed (post-establishment target-achievement type interest rate) to which a post-establishment target-achievement type interest rate applies, 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.

Although interest rates that are applied based on borrowers' business performances, etc. may fluctuate for subordinated capital loans and post-establishment target-achievement type interest rate, JFC calculates their fair values like those of other loans by assuming that their interest rates on the closing date will continue in the future as well.

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.

These transactions are classified into level 3 fair values.

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, classified into level 2 fair values.

However, JFC regards the carrying amount as fair values for general account borrowings by assuming that payment shall be made immediately upon request due to the nature of the transactions.

(2) Bonds payable

Market value is used for fair value of bonds, classified into level 2 fair values.

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	109,480	million yen
Service cost	3,802	
Interest cost	109	
Actuarial difference	1,916	
Payment of retirement benefits	(4,515)	
Prior service cost	—	
Other	18	
Closing balance of projected benefit obligations	110,812	

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

Opening balance of fair value of plan assets	41,341	million yen
Expected return on plan assets	826	
Actuarial difference	(133)	
Financing from employer	1,816	
Payment of retirement benefits	(2,058)	
Other	4	
Closing balance of fair value of plan assets	41,797	

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

Projected benefit obligations of funded plan	53,614	million yen
Fair value of plan assets	(41,797)	
	11,816	
Projected benefit obligations of unfunded plan	57,198	
Unfunded pension obligations	69,014	
Actuarial unrecognized difference	(15,945)	
Unrecognized prior service cost	2,134	
Net amount of liabilities and assets recorded on the balance sheet	55,203	
Provision for retirement benefits	55,203	
Prepaid pension cost	—	
Net amount of liabilities and assets recorded on the balance sheet	55,203	

(4) Net pensions cost and breakdown of included items

Service cost	3,802	million yen
Interest cost	109	
Expected return on plan assets	(826)	
Amount of actuarial difference accounted for as expense	3,460	
Amortization of prior service cost accounted for as expense	(707)	
Other	—	
Net pensions cost related to defined benefits plan	5,837	

(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	25%
Debentures	64%
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	1.6% to 5.7%

Defined contribution pension plan

This operation account’s defined contribution to the defined contribution pension plan is ¥231 million.

10. Related party transactions

Related party transactions in the fiscal year ended March 31, 2022 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, 2022
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	99.91 (Direct)	Administration for policy based financing	Underwriting of capital increase (Note iii)	2,775,490	—	—
				Receipts from general account of the national budget	10,905	—	—
				Receipt of funds (Note iv)	605,000	Borrowings	8,849,923
				Repayment of borrowing	2,136,988		
				Payment of interest on borrowings	2,724	Accrued expenses	489
				Guarantee for bonds payable (Note v)	325,205	—	—

(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) 0.09%

(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 ¥15 million
Receipts from the national budget ¥2,275 million
-Small and Medium Enterprise Agency
Receipts from the national budget ¥2,684 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 ¥0.88
Net loss per share ¥0.01

12. Subsequent events

Not applicable.

Account for Agriculture, Forestry, Fisheries and Food Business Operations

Balance Sheet (as of March 31, 2022)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	**108,197**	**Borrowed money**	**2,902,575**
Cash	0	Borrowings	2,902,575
Due from banks	108,197	**Bonds payable**	**209,987**
Securities	**3,412**	**Entrusted funds**	**24,542**
Stocks	2,530	**Other liabilities**	**5,528**
Other securities	882	Accrued expenses	3,053
Loans and bills discounted	**3,474,105**	Derivatives other than for trading-liabilities	44
Loans on deeds	3,474,105	Lease obligations	406
Other assets	**7,097**	Other	2,024
Prepaid expenses	3	**Provision for bonuses**	**644**
Accrued income	6,582	**Provision for directors' bonuses**	**7**
Derivatives other than for trading-assets	1	**Provision for retirement benefits**	**11,538**
Agency accounts receivable	181	**Provision for directors' retirement benefits**	**22**
Other	328	**Total liabilities**	**3,154,845**
Property, plant and equipment	**32,936**	Net assets	
Buildings	7,505	**Capital stock**	**448,606**
Land	24,929	**Retained earnings**	**2,642**
Lease assets	315	Legal retained earnings	2,642
Construction in progress	129	**Total shareholders' equity**	**451,248**
Other	56		
Intangible assets	**4,870**		
Software	4,808		
Lease assets	40		
Other	21		
Allowance for loan losses	(24,524)	Total net assets	451,248
Total assets	3,606,094	Total liabilities and net assets	3,606,094

Statement of Operations (Year ended March 31, 2022)

(Millions of yen)

Items	Amount
Ordinary income	47,673
Interest income	22,102
Interest on loans and discounts	22,102
Interest on deposits with banks	0
Other interest income	0
Other ordinary income	2
Income from derivatives other than for trading or hedging	2
Receipts from the national budget	24,848
Receipts from general account of the national budget	24,838
Receipts from special account of the national budget	9
Other income	719
Recoveries of written-off claims	261
Other	458
Ordinary expenses	47,618
Interest expenses	16,958
Interest on call money	(0)
Interest on borrowings and rediscounts	14,166
Interest on bonds	2,792
Fees and commissions payments	2,053
Other fees and commissions	2,053
Other ordinary expenses	28
Amortization of bond issuance cost	28
General and administrative expenses	16,528
Other expenses	12,049
Provision of allowance for loan losses	11,600
Written-off of loans	196
Other	252
Ordinary profit	54
Extraordinary income	5
Gain on disposal of noncurrent assets	5
Extraordinary losses	60
Loss on disposal of noncurrent assets	59
Impairment loss	0
Net income	—

Statement of Changes in Net Assets (Year ended March 31, 2022)

(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	424,823	2,642	—	2,642	427,465	427,465
Changes of items during the period						
Issuance of new shares	23,783				23,783	23,783
Net income			—	—	—	—
Total changes of items during the period	23,783	—	—	—	23,783	23,783
Balance at the end of current period	448,606	2,642	—	2,642	451,248	451,248

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. Available-for-securities are stated at fair value. However, stocks and others without quoted market prices 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) 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), etc., 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 ¥15,892 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.

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: ¥24,524 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.

Changes in accounting policies

(Accounting Standard for Revenue Recognition, etc.)

JFC has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the current fiscal year, and JFC recognizes revenues at the amount expected to be received in exchange for the goods or service when control of the promised goods or service is transferred to the customer.

JFC follows the transitional treatment specified in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition for application of the Accounting Standard for Revenue Recognition, etc., which will not affect retained earnings at the beginning of the current fiscal year. In addition, application of the relevant accounting standards does not affect the profit and loss and the information per share for the current fiscal year.

(Accounting Standard for Fair Value Measurement, etc.)

JFC has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019), etc. from the beginning of the current fiscal year, and JFC applies new accounting policies stipulated by the Accounting Standard for Fair Value Measurement, etc. in accordance with the transitional treatment specified in the Accounting Standard for Fair Value Measurement, Paragraph 19 and the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), Paragraph 44-2 for the future.

Accordingly, JFC modified the valuation criteria for credit default swap transactions which had traditionally been regarded as financial instruments whose fair value is extremely difficult to grasp from the processing according to debt guarantee to the fair value method.

In addition, JFC made notes such as matters concerning the breakdown of the fair value of financial instruments for each appropriate category in the "financial instruments and related disclosure."

The Change in presentation

(Matters related to balance sheets)

In line with the enforcement of the Ministerial Ordinance on the Partial Revision 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. 1 of 2020) from March 31, 2022, we show the classification of "risk-monitored loans," etc. according to the classification of disclosed claims, etc. based on the "Act on Emergency Measures for the Revitalization of the Financial Functions" (Law No. 132 of 1998).

2. Equity securities of affiliates

Equity securities of affiliates is ¥2,530 million.

3. Claims based on the Ministerial Ordinance Concerning Accounting for the JFC

Claims based on the Ministerial Ordinance Concerning Accounting for the JFC are as described below. Note that claims are corporate bonds (limited to those that guarantee all or part of the redemption of their principals and the payment of interests and in which the issuance of the corporate bonds is through private offering of securities (Financial Instruments and Exchange Act Law No. 25 of 1948, Article 2, Paragraph 3)) in "securities" on the balance sheet, loans , foreign exchange, accrued interest and suspense payment in "other assets," items recorded in each account of customers' liabilities for acceptance and guarantees, and the securities when lending of the securities noted is performed (limited to loans for use or lease contracts) .

The amount of bankruptcy reorganization claims and similar claims: ¥5,509 million
The amount of claims under high risk: ¥77,929 million
The amount of performing claims that require monitoring by discounting the risk-adjusted principal and interest: ¥45,904 million
The amount of claims with interest or principal repayments more than 3 months in arrears: ¥659 million
The amount of restructured claims: ¥45,245 million
Subtotal amount: ¥129,343 million
The amount of normal claims: ¥3,351,376 million
Total amount: ¥3,480,720 million

Bankruptcy reorganization claims and similar claims are the claims on borrowers who are in bankruptcy due to reasons such as petition for commencement of bankruptcy proceedings, commencement of reorganization proceedings, commencement of rehabilitation proceedings, etc. and similar claims.

Claims under high risk are the claims in which it is highly unlikely that their principals are collected and their interests are received according to the contract due to the deterioration of borrowers' financial conditions and business performances even though they have not yet reached the state of bankruptcy and that do not fall under "bankruptcy reorganization claims and similar claims."

Claims with interest or principal repayments more than 3 months in arrears are claims whose principal or interest payment is more than 3 months in arrears, and which do not fall under the category of "bankruptcy reorganization claims and similar claims," and "claims under high risk."

Restructured claims are claims 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 "bankruptcy reorganization claims and similar claims," "claims under high risk," and "claims with interest or principal repayments more than 3 months in arrears."

Normal claims are the claims that are classified into items other than "bankruptcy reorganization claims or similar claims," "claims under high risk," "claims with interest or principal repayments more than 3 months in arrears," and "restructured claims," assuming that there are no particular problems with the borrowers' financial conditions and business performances.

Note that the above claim amounts are the gross amounts prior to the deduction of allowance for possible claim 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, 2022 is ¥61,814 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 ¥209,987 million).

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥6,007 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, 2022 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	424,823,700,000	23,783,000,000	—	448,606,700,000

(Note) Increase is due to the issuance of 23,783,000,000 shares.

9. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

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

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

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

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

In this operation account, the main operations consist of supplementing the financing provided by general financial institutions and supplying long-term funds at a low interest rate aimed at businesses engaged in agriculture, forestry, fisheries and food manufacturing, etc., in order to contribute to the sustainable and robust development of the agriculture, forestry, fisheries business and ensure the stable supply of food. To conduct these operations funds are raised through borrowing from fiscal investment funds and loans and the issuing of bonds.

(2) Types of financial instruments and risks

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

The financial assets in this operation account mainly include loans to agriculture, forestry, fisheries and food businesses, and financial liabilities mainly include borrowings and bond. The associated risks are described below.

(a) Credit risk

The associated credit risk consists of risk of losses arising from uncollectable claims on credit to agriculture, forestry, fisheries and food businesses from deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the entity to which credit is granted. For this reason, efforts are made to maintain and improve the soundness of assets through proper financial screening and account management throughout the year.

However, among the majority of borrowers that make up this operation account, there are many small businesses in the agriculture, forestry, fisheries sector. These businesses are especially susceptible to natural conditions such as weather, etc., so depending on future conditions, uncollectable debt and credits costs for this operation account could increase.

(b) Market risk

The main type of market risk associated with this operation account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, due to characteristics such as long redemption periods and fixed interest rates that are required by agriculture, forestry, and fisheries policy, not all cash flows can be matched, so some gaps arise between assets and liabilities. This operation account could incur losses from the interest rate risk caused by this gap.

(c) Liquidity risk

Long-term and stable funds such as fiscal loan funds and the FILP agency bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

(3) Risk management structure for financial instruments

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

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

The risk management structure for these operations is described below.

(a) Credit risk management

For these operations, credit risk is properly managed through (i) individual credit management, (ii) credit rating, (iii) asset self assessment, and (iv) quantification of credit risk.

(i) Individual credit management

The screening process for these operations includes screening of the probability of repayment based on eligibility for financing, validity of the financing conditions, and the future potential of the business. Particularly, screening for the certainty of repayment is conducted with a screening standard that gives sufficient consideration to the specific industry (agriculture, forestry, and fisheries) risks. This consists of close examination of the creditworthiness of the borrower, investment-risk, investment-effect, and comprehensive verification and confirmation of repayment ability that takes into account feasibility of the payment and repayment plan, and suitability of financing conditions.

Efforts are also made to continuously assess the customer's economic condition, and maintain and improve the soundness of loan assets through active and detailed support activities.

(ii) Credit rating

These operations strive to maintain and improve the quality of loan assets by using ratings for early discovery of customers with business conditions that could be cause for concern in order to enact business support. Ratings are assigned based on a model built using internal data. The reliability of this scoring model is ensured through continual recalibration based on annual inspection of the model's evaluation accuracy.

The credit ratings are also used for individual credit management, asset self assessment, and quantification of credit risk as the basis for credit risk management. For this reason reassessment of the credit ratings system is conducted as required.

(iii) Asset self assessment

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In this process, first stage assessments are conducted by the branch offices, etc., 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 through adjustment of procurement period limits and other means to reduce interest rate 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 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, 2022 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥17,252 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥15,650 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

Set valuation inputs are used for the calculation of fair value of financial instruments, 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, 2022, and the related fair value, and difference is as follows. Note that stocks and others without quoted market prices are not include in the following chart (refer to Note 1).

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	108,197	108,197	—
(2) Loans and bills discounted	3,474,105		
Allowance for loan losses (*1)	(24,520)		
	3,449,585	3,577,358	127,773
Total assets	3,557,783	3,685,556	127,773
(1) Borrowings	2,902,575	2,940,660	38,084
(2) Bonds payable	209,987	223,531	13,544
Total liabilities	3,112,562	3,164,191	51,628
Derivative transactions (*2)			
Derivative transactions not qualifying for hedge accounting	(42)	(42)	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	(42)	(42)	—

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

(*2) Derivative transactions 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) The amount reported on the balance sheet such as stocks and others without quoted market prices are as shown below.

(Millions of yen)

Classification	Carrying amount on the balance sheet
Unlisted stocks (*1)	2,530
Partnership investments (*2)	882

(*1) Unlisted stocks are not subject to fair value disclosure in accordance with the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020), Paragraph 5.

(*2) Partnership investments are not subject to fair value disclosure in accordance with the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019), Paragraph 27.

(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 (*1)	108,197	—	—	—	—	—
Loans and bills discounted (*2)	390,580	689,454	540,741	455,390	515,939	803,958
Total	498,777	689,454	540,741	455,390	515,939	803,958

(*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 ¥78,041 million that is not expected to be redeemed and not included in the table above.

(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	350,299	704,118	559,507	403,135	417,084	468,429
Bonds payable	25,000	50,000	20,000	35,000	80,000	—
Total	375,299	754,118	579,507	438,135	497,084	468,429

3. Breakdown, etc. of fair value of financial instruments for each category

Fair values of financial instruments are classified into the following three levels depending on the observability and the importance of inputs used for calculation of fair values.

Level 1 fair value: Fair values calculated from the market prices of assets or liabilities whose fair values are formed in active markets that are subject to calculation among the inputs for calculation of observable fair values.
Level 2 fair value: Fair values calculated using inputs for calculation of fair values other than the inputs at Level 1 among the inputs for observable fair values.
Level 3 fair value: Fair values calculated using inputs for calculation of unobservable fair values.

When several inputs having significant impacts on calculating fair values are used, fair values are classified into the lowest priority level in calculation of fair values out of the levels to which their respective inputs belong.

(1) Financial instruments recorded on the balance sheet for fair values (March 31, 2022)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Derivative transactions				
Credit derivatives	—	—	1	1
Total assets	—	—	1	1
Derivative transactions				
Credit derivatives	—	—	44	44
Total liabilities	—	—	44	44

(2) Financial instruments except those recorded on the balance sheet for fair values (March 31, 2022)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	108,197	—	108,197
Loans and bills discounted	—	—	3,577,358	3,577,358
Total assets	—	108,197	3,577,358	3,685,556
Borrowings	—	2,932,259	8,400	2,940,660
Bonds payable	—	223,531	—	223,531
Total liabilities	—	3,155,790	8,400	3,164,191

(Note 1) Explanation of valuation techniques used for calculation of fair values and inputs for calculation of fair values

Assets

(1) Cash and due from banks

For cash and 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, classified into level 2 fair value.

(2) Loans and bills discounted

All loans except loans on deeds under the challenge-oriented capital lending scheme for new sectors, etc. 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.

Although interest rates that are applied based on borrowers' business performances, etc. may fluctuate for loans on deeds under the challenge-oriented capital lending scheme for new sectors, etc., JFC calculates their fair values like those of other loans by assuming that their interest rates on the closing date will continue in the future as well.

These transactions are classified into level 3 fair values.

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, classified into level 2 fair values.

However, general account borrowings are interest-free, and we calculate their fair values by discounting at risk free rates (the standard Japanese government bond rate) after making necessary adjustments to the principal of the general account borrowings divided by a certain period, classified into level 3 fair values.

(2) Bonds payable

Market value is used for fair value of bonds, classified into level 2 fair values.

Derivative transactions

As for credit default swaps (CDS), JFC calculates fair values by discounting the risk-adjusted premiums according to the credit rating on the closing date and the compensation expected due to the occurrence of credit events by the risk free rates (the standard Japanese government bond rate), classified into level 3 fair values.

(Note 2) Information on level 3 fair values out of the financial instruments recorded on the balance sheet with fair values

(1) Quantitative information on important unobservable inputs (March 31, 2022)

Classification	Valuation techniques	Important unobservable inputs	Range of inputs
Derivative transactions			
Credit derivatives	Discounted present value method	Default probability	0.70%–20.32%

(2) Adjustment table from the beginning balance to the ending balance, appraised profits or losses that are recognized in profits/losses for the current fiscal year (March 31, 2022)

(Millions of yen)

	Beginning balance	Profits and losses in the fiscal year or valuation and translation adjustments		Net amount of purchase, selling, issuance and settlement	Transfer to level 3 fair value	Transfer from level 3 fair value	Ending balance	Appraised profits or losses of financial assets and financial liabilities that are held on the balance sheet date out of the amount recorded in profits and losses for the fiscal year (*1)
		Recorded in profits and losses (*1)	Recorded in valuation and translation adjustments					
Derivative transactions								
Credit derivatives (*2)	(37)	(5)	—	—	—	—	(42)	(6)

(*1) Included in "income from derivatives other than for trading or hedging" in the profit and loss statement.
(*2) Derivative transactions that are recorded as assets/liabilities of derivatives other than for trading or hedging are recorded in a lump sum.

(3) Explanation of a valuation process for fair values
The Risk Management Department determined the purpose and the procedure of calculating fair values, and calculates fair values according to it. The Risk Management Department uses a valuation model that can reflect nature, characteristics, and risks of assets most adequately in calculating fair values.

(4) Explanation of impacts on fair values when changing important and unobservable inputs
The default probability is an estimate value that indicates the possibility that a credit event occurs and that the compensation amount cannot be collected. A significant increase (decrease) in default probability brings about the remarkable decline (rise) in a fair value.

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, 2022 is as follows:

(a) Equity securities of subsidiaries and affiliates

(Note) Carrying amount of stocks and others without quoted market prices on the balance sheet.

	Carrying amount on the balance sheet (Millions of yen)
Equity securities of affiliates	2,530

(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	18,100	18,100	—

(Note) Amount of stocks and others without quoted market prices reported on the balance sheet not included in the table above

	Carrying amount on the balance sheet (Millions of yen)
Partnership investments	882

11. Deferred tax accounting

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

12. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

Defined benefits plan

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

Opening balance of projected benefit obligations	21,101 million yen
Service cost	771
Interest cost	21
Actuarial difference	485
Payment of retirement benefits	(923)
Prior service cost	—
Other	18
Closing balance of projected benefit obligations	21,473

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

Opening balance of fair value of plan assets	7,727 million yen
Expected return on plan assets	154
Actuarial difference	(21)
Financing from employer	358
Payment of retirement benefits	(383)
Other	2
Closing balance of fair value of plan assets	7,838

(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	10,054 million yen
Fair value of plan assets	(7,838)
	2,215
Projected benefit obligations of unfunded plan	11,419
Unfunded pension obligations	13,635
Actuarial unrecognized difference	(2,455)
Unrecognized prior service cost	358
Net amount of liabilities and assets recorded on the balance sheet	11,538
Provision for retirement benefits	11,538
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	11,538

(4) Net pensions cost and breakdown of included items

Service cost	771 million yen
Interest cost	21
Expected return on plan assets	(154)
Amount of actuarial difference accounted for as expense	555
Amortization of prior service cost accounted for as expense	(122)
Other	—
Net pensions cost related to defined benefits plan	1,071

(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	25%
Debentures	64%
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	1.7% to 6.8%

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	¥2,530 million
Investment in affiliates (equity method)	¥2,564 million
Profit on Investment in affiliates (equity method)	¥16 million

14. Related party transactions

Related party transactions in the fiscal year ended March 31, 2022 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, 2022
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	91.30 (Direct)	Administration for policy based financing	Underwriting of capital increase (Note iii)	23,783	—	—
				Receipt of funds (Note iv)	419,000	Borrowings	2,894,047
				Repayment of borrowing	325,398		
				Payment of interest on borrowings	14,166	Accrued expenses	2,324

(Notes)

(i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:
-Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries) 8.70%

(ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:
-Ministry of Agriculture, Forestry and Fisheries
Receipts from the national budget ¥24,848 million
Repayment of borrowed money ¥3,100 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, 2022
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	60,000 (Notes i and ii)	—	—

(Notes)

(i) Pursuant to paragraph 1, Article 46-2 of the Supplementary Provisions to the JFC Act, JBIC has joint and several liability for bonds issued by JFC that this operation account will redeem. Pursuant to paragraph 2, Article 46-2 of the Supplementary Provisions, JBIC's assets have been pledged as general collateral for the joint and several liabilities.

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

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

15. Per share information

Net assets per share ¥1.00

Net income per share ¥0

16. Subsequent events

Not applicable.

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

Balance Sheet (as of March 31, 2022)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	1,364,159	Borrowed money	5,375,869
Cash	4	Borrowings	5,375,869
Due from banks	1,364,155	Bonds payable	417,521
Securities	17	Other liabilities	3,378
Corporate bonds	17	Accrued expenses	603
Stocks	0	Unearned revenue	77
Loans and bills discounted	8,338,693	Lease obligations	912
Loans on deeds	8,338,693	Other	1,784
Other assets	4,232	Provision for bonuses	1,213
Prepaid expenses	5	Provision for directors' bonuses	6
Accrued income	2,678	Provision for retirement benefits	21,288
Derivatives other than for trading-assets	15	Provision for directors' retirement benefits	20
Other	1,532	Acceptances and guarantees	26,565
Property, plant and equipment	48,079	Total liabilities	5,845,863
Buildings	11,399	Net assets	
Land	35,700	Capital stock	3,920,007
Lease assets	705	Retained earnings	(633,639)
Construction in progress	117	Other retained earnings	(633,639)
Other	156	Retained earnings brought forward	(633,639)
Intangible assets	5,096	Total shareholders' equity	3,286,367
Software	4,812		
Lease assets	96		
Other	187		
Customers' liabilities for acceptances and guarantees	26,565		
Allowance for loan losses	(654,614)	Total net assets	3,286,367
Total assets	9,132,230	Total liabilities and net assets	9,132,230

Statement of Operations (Year ended March 31, 2022)

(Millions of yen)

Items	Amount
Ordinary income	**72,500**
Interest income	58,615
Interest on loans and discounts	58,613
Interest and dividends on securities	0
Interest on deposits with banks	0
Fees and commissions	162
Other fees and commissions	162
Receipts from the national budget	12,737
Receipts from general account of the national budget	12,737
Receipts from special account of the national budget	0
Other income	985
Recoveries of written-off claims	102
Gain on sales of stocks and other securities	238
Other	644
Ordinary expenses	**244,114**
Interest expenses	3,820
Interest on call money	(0)
Interest on borrowings and rediscounts	2,948
Interest on bonds	872
Fees and commissions payments	59
Other fees and commissions	59
Other ordinary expenses	27
Loss on foreign exchange transactions	10
Amortization of bond issuance cost	17
General and administrative expenses	28,988
Other expenses	211,217
Provision of allowance for loan losses	207,191
Written-off of loans	3,222
Other	803
Ordinary loss	**171,613**
Extraordinary income	**0**
Other extraordinary income	0
Extraordinary losses	**62**
Loss on disposal of noncurrent assets	62
Net loss	**171,676**

Statement of Changes in Net Assets (Year ended March 31, 2022)

(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	2,546,937	(461,963)	(461,963)	2,084,973	2,084,973
Changes of items during the period					
Issuance of new shares	1,373,070			1,373,070	1,373,070
Net income (loss)		(171,676)	(171,676)	(171,676)	(171,676)
Total changes of items during the period	1,373,070	(171,676)	(171,676)	1,201,393	1,201,393
Balance at the end of current period	3,920,007	(633,639)	(633,639)	3,286,367	3,286,367

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method) based on the moving average method. Available-for-sale securities are stated at fair value. However, stocks and others without quoted market prices 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), etc., 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 ¥74,260 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.

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: ¥654,614 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.

Regarding the loan loss ratio, we calculated the expected loss amount through grouping into subordinated capital loans and other claims, based on risk characteristics.

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.

Changes in accounting policies

(Accounting Standard for Revenue Recognition, etc.)

JFC has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the current fiscal year, and JFC recognizes revenues at the amount expected to be received in exchange for the goods or service when control of the promised goods or service is transferred to the customer.

JFC follows the transitional treatment specified in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition for application of the Accounting Standard for Revenue Recognition, etc., which will not affect retained earnings at the beginning of the current fiscal year. In addition, application of the relevant accounting standards does not affect the profit and loss and the information per share for the current fiscal year.

(Accounting Standard for Fair Value Measurement, etc.)
JFC has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019), etc. from the beginning of the current fiscal year, and JFC applies new accounting policies stipulated by the Accounting Standard for Fair Value Measurement, etc. in accordance with the transitional treatment specified in the Accounting Standard for Fair Value Measurement, Paragraph 19 and the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), Paragraph 44-2 for the future.

In addition, JFC made notes such as matters concerning the breakdown of the fair value of financial instruments for each appropriate category in the "financial instruments and related disclosure."

The Change in presentation

(Matters related to balance sheets)
In line with the enforcement of the Ministerial Ordinance on the Partial Revision 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. 1 of 2020) from March 31, 2022, we show the classification of "risk-monitored loans," etc. according to the classification of disclosed claims, etc. based on the "Act on Emergency Measures for the Revitalization of the Financial Functions" (Law No. 132 of 1998).

2. Claims based on the Ministerial Ordinance Concerning Accounting for the JFC

Claims based on the Ministerial Ordinance Concerning Accounting for the JFC are as described below. Note that claims are corporate bonds (limited to those that guarantee all or part of the redemption of their principals and the payment of interests and in which the issuance of the corporate bonds is through private offering of securities (Financial Instruments and Exchange Act Law No. 25 of 1948, Article 2, Paragraph 3)) in "securities" on the balance sheet, loans, foreign exchange, accrued interest and suspense payment in "other assets," items recorded in each account of customers' liabilities for acceptance and guarantees, and the securities when lending of the securities noted is performed (limited to loans for use or lease contracts) .

The amount of bankruptcy reorganization claims and similar claims: ¥7,470 million
The amount of claims under high risk: ¥796,918 million
The amount of performing claims that require monitoring by discounting the risk-adjusted principal and interest: ¥136,753 million
The amount of claims with interest or principal repayments more than 3 months in arrears: ¥– million
The amount of restructured claims: ¥136,753 million
Subtotal amount: ¥941,141 million
The amount of normal claims: ¥7,426,491 million
Total amount: ¥8,367,633 million

Bankruptcy reorganization claims and similar claims are the claims on borrowers who are in bankruptcy due to reasons such as petition for commencement of bankruptcy proceedings, commencement of reorganization proceedings, commencement of rehabilitation proceedings, etc. and similar claims.

Claims under high risk are the claims in which it is highly unlikely that their principals are collected and their interests are received according to the contract due to the deterioration of borrowers' financial conditions and business performances even though they have not yet reached the state of bankruptcy and that do not fall under "bankruptcy reorganization claims and similar claims."

Claims with interest or principal repayments more than 3 months in arrears are claims whose principal or interest payment is more than 3 months in arrears, and which do not fall under the category of "bankruptcy reorganization claims and similar claims," and "claims under high risk."

Restructured claims are claims 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 "bankruptcy reorganization claims and similar claims," "claims under high risk," and "claims with interest or principal repayments more than 3 months in arrears."

Normal claims are the claims that are classified into items other than "bankruptcy reorganization claims and similar claims," "claims under high risk," "claims with interest or principal repayments more than 3 months in arrears," and "restructured claims," assuming that there are no particular problems with the borrowers' financial conditions and business performances.

Note that the above claim amounts are the gross amounts prior to the deduction of allowance for possible claim 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, 2022 is ¥19,890 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 ¥442 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 ¥417,521 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥9,469 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, 2022 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	2,546,937,000,000	1,373,070,000,000	—	3,920,007,000,000

(Note) Increase is due to the issuance of 1,373,070,000,000 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, etc., (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, 2022 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥99,025 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 ¥92,285 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

Set valuation inputs are used for the calculation of fair value of financial instruments, 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, 2022, and the related fair value, and difference is as follows. Note that stocks and others without quoted market prices are not included in the following chart (refer to Note 1).

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	1,364,159	1,364,159	—
(2) Securities			
Held-to-maturity debt securities	17	17	—
(3) Loans and bills discounted	8,338,693		
Allowance for loan losses (*1)	(653,419)		
	7,685,274	8,566,348	881,073
Total assets	9,049,451	9,930,524	881,073
(1) Borrowings	5,375,869	5,371,641	(4,227)
(2) Bonds payable	417,521	418,569	1,048
Total liabilities	5,793,390	5,790,211	(3,179)
Derivative transactions (*2)			
Derivative transactions not qualifying for hedge accounting	15	15	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	15	15	—

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

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

(Note 1) The amount reported on the balance sheet such as stocks and others without quoted market prices are as shown below, which is not included in the "securities" in the fair value information of financial instruments.

(Millions of yen)

Classification	Carrying amount on the balance sheet
Unlisted stocks (*)	0

(*) Unlisted stocks are not subject to fair value disclosure in accordance with the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020), Paragraph 5.

(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 (*1)	1,364,155	—	—	—	—	—
Securities						
Held-to-maturity debt securities	1	2	13	—	—	—
Loans and bills discounted (*2)	1,219,446	2,147,233	1,504,367	1,081,324	1,416,468	955,833
Total	2,583,603	2,147,236	1,504,381	1,081,324	1,416,468	955,833

(*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 ¥14,019 million that is not expected to be redeemed and not included in the table above.

(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	905,251	1,525,070	1,027,719	727,626	930,941	259,262
Bonds payable	86,600	194,200	66,700	70,000	—	—
Total	991,851	1,719,270	1,094,419	797,626	930,941	259,262

3. Breakdown, etc. of fair value of financial instruments for each category

Fair values of financial instruments are classified into the following three levels depending on the observability and the importance of inputs used for calculation of fair values.

Level 1 fair value: Fair values calculated from the market prices of assets or liabilities whose fair values are formed in active markets that are subject to calculation among the inputs for calculation of observable fair values.

Level 2 fair value: Fair values calculated using inputs for calculation of fair values other than the inputs at Level 1 among the inputs

for observable fair values.
Level 3 fair value: Fair values calculated using inputs for calculation of unobservable fair values.

When several inputs having significant impacts on calculating fair values are used, fair values are classified into the lowest priority level in calculation of fair values out of the levels to which their respective inputs belong.

(1) Financial instruments recorded on the balance sheet for fair values (March 31, 2022)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Derivative transactions				
Currency related	—	15	—	15
Total assets	—	15	—	15

(2) Financial instruments except those recorded on the balance sheet for fair values (March 31, 2022)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	1,364,159	—	1,364,159
Securities				
Held-to-maturity debt securities				
Corporate bonds	—	17	—	17
Loans and bills discounted	—	—	8,566,348	8,566,348
Total assets	—	1,364,176	8,566,348	9,930,524
Borrowings	—	5,353,506	18,134	5,371,641
Bonds payable	—	418,569	—	418,569
Total liabilities	—	5,772,076	18,134	5,790,211

(Note) Explanation of valuation techniques used for calculation of fair values and inputs for calculation of fair values

Assets

(1) Cash and due from banks

For cash and due from banks that do not mature, the carrying amount is used as fair value because fair value resembles the carrying amount, classified into level 2 fair value.

(2) Securities

For corporate bonds in this operation account, the carrying amount is used as fair value because fair value approximates the carrying amount, classified into level 2 fair value.

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, with the exception of loans on deed (subordinated capital loans) under the Provision Scheme for Challenge Support and Capital Enhancement or other schemes and loans on deed (post-establishment target-achievement type interest rate) to which a post-establishment target-achievement type interest rate applies, 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.

Although interest rates that are applied based on borrowers' business performances, etc. may fluctuate for subordinated capital loans and loans with post-establishment target-achievement type interest rate, JFC calculates their fair values like those of other loans by assuming that their interest rates on the closing date will continue in the future as well.

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.

These transactions are classified into level 3 fair values.

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, classified into level 2 fair values.

However, because borrowings from the FILP special account (investment account) of the national budget are a scheme that does not have interest rates set at the time of borrowing and that pays interests in a lump sum after the final principal is redeemed, JFC calculates their interest rates based on the interest rates of similar borrowings that are executed simultaneously during the same period, and calculate their fair values by discounting at risk free rates (the standard Japanese government bond rate) corresponding to the principal and interest amount of the borrowed money divided by redemption periods, classified into level 3 fair values.

(2) Bonds payable

Market value is used for fair value of bonds, classified into level 2 fair values.

Derivative transactions

The fair value of forward exchange contracts is determined based on the price provided by financial institutions, classified into level 2 fair values.

8. Fair value of securities

The fair value of securities at March 31, 2022 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) Amount of stocks and others without quoted market prices reported on the balance sheet

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

9. Deferred tax accounting

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

10. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

Defined benefits plan

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

Opening balance of projected benefit obligations	38,144 million yen
Service cost	1,447
Interest cost	38
Actuarial difference	1,091
Payment of retirement benefits	(1,697)
Prior service cost	—
Other	532
Closing balance of projected benefit obligations	39,556

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

Opening balance of fair value of plan assets	14,368	million yen
Expected return on plan assets	289	
Actuarial difference	(22)	
Financing from employer	697	
Payment of retirement benefits	(746)	
Other	126	
Closing balance of fair value of plan assets	14,714	

(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	18,873	million yen
Fair value of plan assets	(14,714)	
	4,159	
Projected benefit obligations of unfunded plan	20,682	
Unfunded pension obligations	24,842	
Actuarial unrecognized difference	(3,788)	
Unrecognized prior service cost	233	
Net amount of liabilities and assets recorded on the balance sheet	21,288	
Provision for retirement benefits	21,288	
Prepaid pension cost	—	
Net amount of liabilities and assets recorded on the balance sheet	21,288	

(4) Net pensions cost and breakdown of included items

Service cost	1,447	million yen
Interest cost	38	
Expected return on plan assets	(289)	
Amount of actuarial difference accounted for as expense	965	
Amortization of prior service cost accounted for as expense	(115)	
Other	—	
Net pensions cost related to defined benefits plan	2,046	

(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	25%
Debentures	64%
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	1.6% to 5.9%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥88 million.

11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2022 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, 2022
Principal shareholder	Ministry of Finance (Minister of Finance)(Notes i and ii)	96.08 (Direct)	Administration for policy based financing	Underwriting of capital increase(Note iii)	1,373,000	—	—
				Receipt of funds(Note iv)	526,800	Borrowings	5,375,869
				Repayment of borrowing	997,180		
				Payment of interest on borrowings	2,948	Accrued expenses	355
				Guarantee for bonds payable(Note v)	260,021	—	—

(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) 3.92%

(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 ¥70 million
-Agency for Natural Resources and Energy
Receipts from the national budget ¥0 million
-Small and Medium Enterprise Agency
Receipts from the national budget ¥12,737 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 ¥0.83
Net loss per share ¥0.06

13. Subsequent events

Not applicable.

Small and Medium Enterprise (SME) Unit

Account for Securitization Support Programs (Purchase-type Operation)

Balance Sheet (as of March 31, 2022)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	11,000	Bonds payable	22,500
Due from banks	11,000	Other liabilities	264
Securities	36,786	Accrued expenses	0
Government bonds	21,166	Derivatives other than for trading-liabilities	262
Corporate bonds	15,620	Other	1
Other assets	366	Provision for bonuses	2
Prepaid expenses	0	Provision for directors' bonuses	0
Accrued income	7	Provision for retirement benefits	43
Derivatives other than for trading-assets	359	Provision for directors' retirement benefits	0
Other	0	Total liabilities	22,810
Prepaid pension cost	3	Net assets	
		Capital stock	24,476
		Retained earnings	670
		Legal retained earnings	500
		Other retained earnings	170
		Retained earnings brought forward	170
		Total shareholders' equity	25,146
		Valuation difference on available-for-sale securities	199
		Total valuation and translation adjustments	199
		Total net assets	25,346
Total assets	48,157	Total liabilities and net assets	48,157

Data

Statement of Operations (Year ended March 31, 2022)

(Millions of yen)

Items	Amount
Ordinary income	**565**
Interest income	212
Interest and dividends on securities	212
Interest on deposits with banks	0
Other ordinary income	229
Income from derivatives other than for trading or hedging	229
Other income	123
Reversal of allowance for loan losses	18
Other	105
Ordinary expenses	**395**
Interest expenses	3
Interest on bonds	3
Fees and commissions payments	161
Other fees and commissions	161
Other ordinary expenses	20
Amortization of bond issuance cost	20
General and administrative expenses	105
Other expenses	104
Other	104
Ordinary profit	**170**
Net income	**170**

Statement of Changes in Net Assets (Year ended March 31, 2022)

(Millions of yen)

	Shareholders' equity					Valuation and translation adjustments		
		Retained earnings						
			Other retained earnings					
	Capital stock	Legal retained earnings	Retained earnings brought forward	Total retained earnings	Total sharehold-ers' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	Total net assets
Balance at the beginning of current period	24,476	424	151	576	25,052	—	—	25,052
Changes of items during the period								
Provision of legal retained earnings		75	(75)	—	—			—
Payment to the national treasury			(75)	(75)	(75)			(75)
Net income (loss)			170	170	170			170
Net changes of items other than shareholders' equity						199	199	199
Total changes of items during the period	—	75	18	94	94	199	199	294
Balance at the end of current period	24,476	500	170	670	25,146	199	199	25,346

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method) based on the moving average method. Available-for-sale securities are stated at fair value.

Note that valuation difference on available-for-sale securities are processed by directly booking to net assets.

(b) Valuation method for derivative financial instruments

Derivative financial instruments are carried at fair value.

(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.

Changes in accounting policies

(Accounting Standard for Revenue Recognition, etc.)

JFC has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the current fiscal year, and JFC recognizes revenues at the amount expected to be received in exchange for the goods or service when control of the promised goods or service is transferred to the customer.

JFC follows the transitional treatment specified in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition for application of the Accounting Standard for Revenue Recognition, etc., which will not affect retained earnings at the beginning of the current fiscal year. In addition, application of the relevant accounting standard does not affect the profit and loss and the information per share for the current fiscal year.

(Accounting Standard for Fair Value Measurement, etc.)

JFC has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019), etc. from the beginning of the current fiscal year, and JFC applies new accounting policies stipulated by the Accounting Standard for Fair Value Measurement, etc. in accordance with the transitional treatment specified in the Accounting Standard for Fair Value Measurement, Paragraph 19 and the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), Paragraph 44-2 for the future.

Accordingly, JFC modified the valuation criteria for corporate bonds which had traditionally been regarded as financial instruments whose fair value is extremely difficult to grasp (specified asset-backed securities) from the cost method to the fair value method, and the valuation criteria for credit default swap transactions from the processing according to debt guarantee to the fair value method.

In addition, JFC made notes such as matters concerning the breakdown of the fair value of financial instruments for each appropriate category in the "financial instruments and related disclosure."

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 ¥22,500 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, 2022, 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, other assets, bonds payable, and other liabilities. 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, 2022 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥1,537 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 ¥1,419 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 in this account 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

Set valuation inputs are used for the calculation of fair value of financial instruments, 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, 2022, 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	11,000	11,000	—
(2) Securities			
Held-to-maturity debt securities	21,166	21,805	638
Available-for-sale securities	15,620	15,620	—
Total assets	47,786	48,425	638
Bonds payable	22,500	22,477	(22)
Total debt	22,500	22,477	(22)
Derivative transactions (*)			
Derivative transactions not qualifying for hedge accounting	97	97	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	97	97	—

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

(Note 1) 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 (*)	11,000	—	—	—	—	—
Securities						
Held-to-maturity debt securities	—	—	—	—	—	21,068
Available-for-sale securities	3,204	3,883	8,332	0	—	—
Total	14,204	3,883	8,332	0	—	21,068

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

(Note 2) 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	8,400	5,800	8,300	—	—	—

3. Breakdown, etc. of fair value of financial instruments for each category

Fair values of financial instruments are classified into the following three levels depending on the observability and the importance of inputs used for calculation of fair values.

Level 1 fair value: Fair values calculated from the market prices of assets or liabilities whose fair values are formed in active markets that are subject to calculation among the inputs for calculation of observable fair values.
Level 2 fair value: Fair values calculated using inputs for calculation of fair values other than the inputs at Level 1 among the inputs for observable fair values.
Level 3 fair value: Fair values calculated using inputs for calculation of unobservable fair values.

When several inputs having significant impacts on calculating fair values are used, fair values are classified into the lowest priority level in calculation of fair values out of the levels to which their respective inputs belong.

(1) Financial instruments recorded on the balance sheet for fair values (March 31, 2022)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Securities				
Available-for-sale securities				
Corporate bonds	—	—	15,620	15,620
Derivative transactions				
Credit derivatives	—	—	359	359
Total assets	—	—	15,979	15,979
Derivative transactions				
Credit derivatives	—	—	262	262
Total liabilities	—	—	262	262

(2) Financial instruments except those recorded on the balance sheet for fair values (March 31, 2022)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	11,000	—	11,000
Securities				
Held-to-maturity debt securities				
Government bonds	21,805	—	—	21,805
Total assets	21,805	11,000	—	32,805
Bonds payable	—	22,477	—	22,477
Total liabilities	—	22,477	—	22,477

(Note 1) Explanation of valuation techniques used for calculation of fair values and inputs for calculation of fair values

Assets

(1) Cash and due from banks

For cash and due from banks that do not mature, the carrying amount is used as fair value because fair value resembles the carrying amount, classified into level 2 fair value.

(2) Securities

Market value is used for securities, classified into level 1 fair value.

In addition, corporate bonds (specified asset-backed securities) have no market prices. They are the securities that are issued with finance receivables for small and medium-sized enterprises originated by several financial institutions as underlying assets, but do not provide a mechanism for continuously obtaining individual borrowers' financial data as underlying assets. Therefore, their fair values are calculated by discounting risk-adjusted cash flows based on external ratings by the risk free rate (the standard Japanese government bond rate), classified into level 3 fair value.

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, classified into level 2 fair values.

Derivative transactions

As for credit default swaps (CDS), finance receivables for SMEs are used as reference debts and they have no market prices and do not have a mechanism where financial data of individual borrowers that constitute the reference debt can be continuously obtained, thus JFC calculates fair values by discounting the risk-adjusted cash flow according to the transaction details and the credit events that occur by the risk free rates (the standard Japanese government bond rate), classified into level 3 fair values.

(Note 2) Information on level 3 fair values out of the financial instruments recorded on the balance sheet with fair values

(1) Quantitative information on important unobservable inputs (March 31, 2022)

Classification	Valuation techniques	Important unobservable inputs	Range of inputs
Securities			
Available-for-sale securities			
Corporate bonds	Discounted present value method	Default probability	0.00%–0.04%
Derivative transactions			
Credit derivatives	Discounted present value method	Default probability	0.12%–3.31%

(2) Adjustment table from the beginning balance to the ending balance, appraised profits or losses that are recognized in profits/losses for the current fiscal year (March 31, 2022)

(Millions of yen)

	Beginning balance	Profits and losses in the fiscal year or valuation and translation adjustments		Net amount of purchase, selling, issuance and settlement	Transfer to level 3 fair value	Transfer from level 3 fair value	Ending balance	Appraised profits or losses of financial assets and financial liabilities that are held on the balance sheet date out of the amount recorded in profits and losses for the fiscal year (*1)
		Recorded in profits and losses (*1)	Recorded in valuation and translation adjustments (*2)					
Securities								
Available-for-sale securities								
Corporate bonds	13,141	—	51	2,427	—	—	15,620	—
Derivative transactions								
Credit derivatives (*3)	144	(47)	—	—	—	—	97	(47)

(*1) Included in "income from derivatives other than for trading or hedging" in the profit and loss statement.
(*2) Included in "valuation difference on available-for-sale securities" on the balance sheet.
(*3) Derivative transactions that are recorded as assets/liabilities of derivatives other than for trading or hedging are recorded in a lump sum.

(3) Explanation of a valuation process for fair values

The Risk Management Department determined the purpose and the procedure of calculating fair values, and calculates fair values according to it. The Risk Management Department uses a valuation model that can reflect nature, characteristics, and risks of assets most adequately in calculating fair values.

(4) Explanation of impacts on fair values when changing important and unobservable inputs

The default probability is an estimate value that indicates the possibility that a credit event occurs and that the contract amount cannot be collected. A significant increase (decrease) in default probability brings about the remarkable decline (rise) in a fair value.

6. Fair value of securities

The fair value of securities at March 31, 2022 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	21,166	21,805	638

(b) Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount exceeds their acquisition cost	Corporate bonds	15,620	15,420	199

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	54 million yen
Service cost	3
Interest cost	0
Actuarial difference	5
Payment of retirement benefits	—
Prior service cost	—
Other	(0)
Closing balance of projected benefit obligations	63

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

Opening balance of fair value of plan assets	10 million yen
Expected return on plan assets	0
Actuarial difference	(0)
Financing from employer	1
Payment of retirement benefits	—
Other	(0)
Closing balance of fair value of plan assets	12

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

Projected benefit obligations of funded plan	15 million yen
Fair value of plan assets	(12)
	3
Projected benefit obligations of unfunded plan	47
Unfunded pension obligations	51
Actuarial unrecognized difference	(11)
Unrecognized prior service cost	(0)
Net amount of liabilities and assets recorded on the balance sheet	39
Provision for retirement benefits	43
Prepaid pension cost	(3)
Net amount of liabilities and assets recorded on the balance sheet	39

(4) Net pensions cost and breakdown of included items

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

(5) Items concerning fair value of plan assets

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

Shares	25%
Debentures	64%
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	2.7% 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	¥1.03
Net income per share	¥0.00

10. Subsequent events

Not applicable.

Account for Credit Insurance Programs

Balance Sheet (as of March 31, 2022)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	6,970,450	Reserve for insurance policy liabilities	1,737,697
Due from banks	6,970,450	Other liabilities	1,453
Other assets	6,172	Accrued expenses	28
Prepaid expenses	0	Lease obligations	127
Accrued income	32	Other	1,298
Other	6,139	Provision for bonuses	192
Property, plant and equipment	17,456	Provision for directors' bonuses	1
Buildings	3,376	Provision for retirement benefits	4,285
Land	13,968	Provision for directors' retirement benefits	1
Lease assets	97	Total liabilities	1,743,632
Other	14	Net assets	
Intangible assets	1,586	Capital surplus	5,394,121
Software	938	Legal capital surplus	5,394,121
Lease assets	13	Retained earnings	(142,087)
Other	634	Other retained earnings	(142,087)
		Retained earnings brought forward	(142,087)
		Total shareholders' equity	5,252,034
		Total net assets	5,252,034
Total assets	6,995,667	Total liabilities and net assets	6,995,667

Statement of Operations (Year ended March 31, 2022)

(Millions of yen)

Items	Amount
Ordinary income	**182,005**
Interest income	156
Interest on deposits with banks	156
Insurance premiums and other	181,680
Insurance premiums	180,047
Receipts of burden charges under the Responsibility-sharing System	1,632
Other income	168
Other	168
Ordinary expenses	**324,093**
Expenses on insurance claims and other	314,476
Expenses on insurance claims	178,027
Recoveries of insurance claims	(64,394)
Provision of reserve for insurance policy liabilities	200,844
General and administrative expenses	4,906
Other expenses	4,709
Other	4,709
Ordinary loss	**142,087**
Net loss	**142,087**

Statement of Changes in Net Assets (Year ended March 31, 2022)

(Millions of yen)

	Shareholders' equity							
	Capital surplus		Retained earnings					
	Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings: Retained earnings brought forward	Total retained earnings	Total shareholders' equity	Total net assets
Balance at the beginning of current period	3,503,984	3,503,984	286,257	(718,819)	(432,562)	3,071,421	3,071,421
Changes of items during the period							
Issuance of new shares	2,322,700	2,322,700				2,322,700	2,322,700
Reversal of legal retained earnings			(286,257)	286,257	—	—	—
Reversal of legal capital surplus (Deficit disposition)	(432,562)	(432,562)		432,562	432,562	—	—
Net income (loss)				(142,087)	(142,087)	(142,087)	(142,087)
Total changes of items during the period	1,890,137	1,890,137	(286,257)	576,731	290,474	2,180,612	2,180,612
Balance at the end of current period	5,394,121	5,394,121	—	(142,087)	(142,087)	5,252,034	5,252,034

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Available-for-sale securities are stated at fair value.

(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.

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: ¥1,737,697 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.

Changes in accounting policies

(Accounting Standard for Revenue Recognition, etc.)

JFC has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the current fiscal year, and JFC recognizes revenues at the amount expected to be received in exchange for the goods or service when control of the promised goods or service is transferred to the customer.

JFC follows the transitional treatment specified in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition for application of the Accounting Standard for Revenue Recognition, etc., which will not affect retained earnings at the beginning of the current fiscal year. In addition, application of the relevant accounting standards does not affect the profit and loss and the information per share for the current fiscal year.

(Accounting Standard for Fair Value Measurement, etc.)

JFC has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019), etc. from the beginning of the current fiscal year, and JFC applies new accounting policies stipulated by the Accounting Standard for Fair Value Measurement, etc. in accordance with the transitional treatment specified in the Accounting Standard for Fair Value Measurement, Paragraph 19 and the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), Paragraph 44-2 for the future.

In addition, JFC made notes such as matters concerning the breakdown of the fair value of financial instruments for each appropriate category in the "financial instruments and related disclosure."

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 ¥2,975 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 ¥4,664 million.

6. Issued shares

For the fiscal year ended March 31, 2022, 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	7,475,427,407,741	2,322,700,000,000	—	9,798,127,407,741

(Note) Increase is due to the issuance of 2,322,700,000,000 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 provided by government are secured to finance this account. Efforts are made for proper risk management through the assessment of cash flows.

(4) Supplementary explanation concerning fair value of financial instruments

Set valuation inputs are used for the calculation of fair value of financial instruments, 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, 2022, 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	6,970,450	6,971,940	1,489

(Note) 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 (*)	3,895,350	775,100	1,200,000	700,000	300,000	100,000

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

3. Breakdown, etc. of fair value of financial instruments for each category

Fair values of financial instruments are classified into the following three levels depending on the observability and the importance of inputs used for calculation of fair values.

Level 1 fair value: Fair values calculated from the market prices of assets or liabilities whose fair values are formed in active markets that are subject to calculation among the inputs for calculation of observable fair values.

Level 2 fair value: Fair values calculated using inputs for calculation of fair values other than the inputs at Level 1 among the inputs for observable fair values.

Level 3 fair value: Fair values calculated using inputs for calculation of unobservable fair values.

When several inputs having significant impacts on calculating fair values are used, fair values are classified into the lowest priority level in calculation of fair values out of the levels to which their respective inputs belong.

Financial instruments except those recorded on the balance sheet for fair values (March 31, 2022)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	6,971,940	—	6,971,940

(Note) Explanation of valuation techniques used for calculation of fair values and inputs for calculation of fair values

Assets

Cash and due from banks

For cash and 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, classified into level 2 fair value.

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, classified into level 2 fair value.

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, 2022 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	79,000	79,000	—

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	8,369	million yen
Service cost	236	
Interest cost	7	
Actuarial difference	109	
Payment of retirement benefits	(324)	
Prior service cost	—	
Other	(536)	
Closing balance of projected benefit obligations	7,862	

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

Opening balance of fair value of plan assets	3,232	million yen
Expected return on plan assets	62	
Actuarial difference	(24)	
Financing from employer	110	
Payment of retirement benefits	(146)	
Other	(126)	
Closing balance of fair value of plan assets	3,107	

(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	3,985	million yen
Fair value of plan assets	(3,107)	
	878	
Projected benefit obligations of unfunded plan	3,877	
Unfunded pension obligations	4,755	
Actuarial unrecognized difference	(514)	
Unrecognized prior service cost	45	
Net amount of liabilities and assets recorded on the balance sheet	4,285	
Provision for retirement benefits	4,285	
Prepaid pension cost	—	
Net amount of liabilities and assets recorded on the balance sheet	4,285	

(4) Net pensions cost and breakdown of included items

Service cost	236 million yen
Interest cost	7
Expected return on plan assets	(62)
Amount of actuarial difference accounted for as expense	149
Amortization of prior service cost accounted for as expense	(21)
Other	—
Net pensions cost related to defined benefits plan	309

(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	25%
Debentures	64%
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	1.6% to 5.9%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥13 million.

11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2022 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, 2022
Principal shareholder	Ministry of Finance (Minister of Finance)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase(Note i)	2,322,700	—	—
				Deposit of funds(Note ii)	17,875,400	Due from banks	6,854,800
				Refund of funds	15,266,600		

(Notes)

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

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

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

12. Per share information

Net assets per share	¥0.53
Net loss per share	¥0.01

13. Subsequent events

Not applicable.

Account for Operations to Facilitate Crisis Responses

Balance Sheet (as of March 31, 2022)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	1,198,479	Borrowed money	4,209,978
Due from banks	1,198,479	Borrowings	4,209,978
Loans and bills discounted	4,359,978	Bonds payable	150,145
Loans on deeds	4,359,978	Other liabilities	14,465
Other assets	174	Accrued expenses	148
Prepaid expenses	0	Contract liability	14,252
Accrued income	153	Lease obligations	4
Other	20	Other	60
Property, plant and equipment	3	Provision for bonuses	6
Lease assets	3	Provision for directors' bonuses	0
Intangible assets	93	Provision for retirement benefits	84
Software	92	Provision for directors' retirement benefits	0
Lease assets	0	Reserve for compensation losses	25,950
Other	0	Total liabilities	4,400,631
Prepaid pension cost	17	Net assets	
		Capital stock	1,446,028
		Retained earnings	(287,914)
		Other retained earnings	(287,914)
		Retained earnings brought forward	(287,914)
		Total shareholders' equity	1,158,113
		Total net assets	1,158,113
Total assets	5,558,745	Total liabilities and net assets	5,558,745

Statement of Operations (Year ended March 31, 2022)

(Millions of yen)

Items	Amount
Ordinary income	**12,749**
Interest income	5,767
Interest on loans and discounts	5,756
Interest on deposits with banks	11
Fees and commissions	3,371
Fees and commissions on compensation security contract	3,371
Receipts from the national budget	164
Receipts from general account of the national budget	164
Other income	3,446
Other	3,446
Ordinary expenses	**35,471**
Interest expenses	5,628
Interest on borrowings and rediscounts	5,754
Interest on bonds	(126)
Other ordinary expenses	19,910
Amortization of bond issuance cost	2
Interest subsidies	19,907
General and administrative expenses	198
Other expenses	9,734
Provision of reserve for compensation losses	9,189
Other	545
Ordinary loss	**22,721**
Net loss	**22,721**

Statement of Changes in Net Assets (Year ended March 31, 2022)

(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	995,960	(265,192)	(265,192)	730,767	730,767
Changes of items during the period					
Issuance of new shares	450,068			450,068	450,068
Net income (loss)		(22,721)	(22,721)	(22,721)	(22,721)
Total changes of items during the period	450,068	(22,721)	(22,721)	427,346	427,346
Balance at the end of current period	1,446,028	(287,914)	(287,914)	1,158,113	1,158,113

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Available-for-sale securities are stated at fair value.

(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) Accounting policy for revenue and expense

Contents of main performance obligations and normal points of time to recognize revenues in major businesses with respect to revenues arising from contracts with customers are as described below.

Compensation security transactions

This account is obliged to make a certain percentage of compensation against any loss that occurs in a loan, etc. made by designated financial institutions through concluding damage security contracts with the designated financial institution and collecting its compensation security charges. This account recognizes revenues by judging that revenues from compensation security transactions shall meet its performance obligations during the indemnity contract period.

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: ¥25,950 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.

Changes in accounting policies

(Accounting Standard for Revenue Recognition, etc.)

JFC has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) etc., from the beginning of the current fiscal year, and JFC recognizes revenues at the amount expected to be received in exchange for the goods or service when control of the promised goods or service is transferred to the customer.

JFC follows the transitional treatment specified in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition for application of the Accounting Standard for Revenue Recognition, etc., which will not affect retained earnings at the beginning of the current fiscal year. In addition, application of the relevant accounting standards does not affect the profit and loss and the information per share for the current fiscal year.

Because JFC applied the Revenue Recognition Accounting Standard, etc., JFC modified accounting items of the balance sheet from "unearned revenue" to "contract liability" regarding the consideration received from the customer before transferring the service to the customer out of the compensation security transactions.

(Accounting Standard for Fair Value Measurement, etc.)

JFC has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) etc., from the beginning of the current fiscal year, and JFC applies new accounting policies stipulated by the Accounting Standard for Fair Value Measurement, etc. in accordance with the transitional treatment specified in the Accounting Standard for Fair Value Measurement, Paragraph 19 and the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), Paragraph 44-2 for the future.

In addition, JFC made notes such as matters concerning the breakdown of the fair value of financial instruments for each appropriate category in the "financial instruments and related disclosure."

The Change in presentation

(Matters related to balance sheets)

In line with the enforcement of the Ministerial Ordinance on the Partial Revision 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. 1 of 2020) from March 31, 2022, we show the classification of "risk-monitored loans," etc. according to the classification of disclosed claims, etc. based on the "Act on Emergency Measures for the Revitalization of the Financial Functions" (Law No. 132 of 1998).

2. Claims based on the Ministerial Ordinance Concerning Accounting for the JFC

Claims based on 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) are as described below. Note that claims are corporate bonds (limited to those that guarantee all or part of the redemption of their principals and the payment of interests and in which the issuance of the corporate bonds is through private offering of securities (Financial Instruments and Exchange Act Law No. 25 of 1948, Article 2, Paragraph 3)) in "securities" on the balance sheet, loans , foreign exchange, accrued interest and suspense payment in "other assets," items recorded in each account of customers' liabilities for acceptance and guarantees, and the securities when lending of the securities noted is performed (limited to loans for use or lease contracts) .

The amount of bankruptcy reorganization claims and similar claims: ¥– million
The amount of claims under high risk: ¥– million
The amount of performing claims that require monitoring by discounting the risk-adjusted principal and interest: ¥– million
The amount of claims with interest or principal repayments more than 3 months in arrears: ¥– million
The amount of restructured claims: ¥– million
Subtotal amount: ¥– million
The amount of normal claims: ¥4,360,125 million
Total amount: ¥4,360,125 million

Bankruptcy reorganization claims and similar claims are the claims on borrowers who are in bankruptcy due to reasons such as petition for commencement of bankruptcy proceedings, commencement of reorganization proceedings, commencement of rehabilitation proceedings, etc. and similar claims.

Claims under high risk are the claims in which it is highly unlikely that their principals are collected and their interests are received according to the contract due to the deterioration of borrowers' financial conditions and business performances even though they have not yet reached the state of bankruptcy and that do not fall under "bankruptcy reorganization claims and similar claims."

Claims with interest or principal repayments more than 3 months in arrears are claims whose principal or interest payment is more than 3 months in arrears, and which do not fall under the category of "bankruptcy reorganization claims and similar claims," and "claims under high risk."

Restructured claims are claims 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 "bankruptcy reorganization claims and similar claims," "claims under high risk," and "claims with interest or principal repayments more than 3 months in arrears."

Normal claims are the claims that are classified into items other than "bankruptcy reorganization claims or similar claims," "claims under high risk," "claims with interest or principal repayments more than 3 months in arrears," and "restructured claims," assuming that there are no particular problems with the borrowers' financial conditions and business performances.

Note that the above claim amounts are the gross amounts prior to the deduction of allowance for possible claim losses.

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 ¥150,145 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥2 million.

5. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (48,618 contracts)	2,140,758
Reserve for compensation	25,950
Net amount	2,114,808

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, 2022, 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	995,960,000,000	450,068,000,000	—	1,446,028,000,000

(Note) Increase is due to the issuance of 450,068,000,000 shares.

8. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

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

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

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

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

In this operation account including 1) loans, 2) credit insurance underwriting (a certain portion of compensation paid by JFC to cover losses incurred by specified financial institutions on loans), and 3) interest subsidies (interest subsidies provided by JFC to a specified financial institutions for loans, etc., conducted by specified financial institutions that received a credit facility from JFC) are conducted for financial institutions specified by the competent minister for domestic and global financial disturbance that is recognized by the competent minister when a crisis such as a large-scale disaster occurs. To conduct these operations, the financing required for 1) loans is procured funds through the borrowing from Fiscal Investment and Loan Program ("FILP"), and the issuing of government guaranteed bonds. The loan period and borrowing period are equal, and the financing cost is covered by the interest on the loans, 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

Set valuation inputs are used for the calculation of fair value of financial instruments, 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, 2022, 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	1,198,479	1,198,585	106
(2) Loans and bills discounted	4,359,978	4,322,895	(37,082)
Total assets	5,558,457	5,521,481	(36,976)
(1) Borrowings	4,209,978	4,203,651	(6,326)
(2) Bonds payable	150,145	149,963	(182)
Total liabilities	4,360,123	4,353,614	(6,509)

(Note 1) 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 (*)	1,198,479	—	—	—	—	—
Loans and bills discounted	566,849	1,118,221	998,335	604,132	593,258	479,183
Total	1,765,328	1,118,221	998,335	604,132	593,258	479,183

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

(Note 2) 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	496,849	1,038,221	998,335	604,132	593,258	479,183
Bonds payable	70,000	80,000	—	—	—	—
Total	566,849	1,118,221	998,335	604,132	593,258	479,183

3. Breakdown, etc. of fair value of financial instruments for each category

Fair values of financial instruments are classified into the following three levels depending on the observability and the importance of inputs used for calculation of fair values.

Level 1 fair value: Fair values calculated from the market prices of assets or liabilities whose fair values are formed in active markets that are subject to calculation among the inputs for calculation of observable fair values.
Level 2 fair value: Fair values calculated using inputs for calculation of fair values other than the inputs at Level 1 among the inputs for observable fair values.
Level 3 fair value: Fair values calculated using inputs for calculation of unobservable fair values.

When several inputs having significant impacts on calculating fair values are used, fair values are classified into the lowest priority level in calculation of fair values out of the levels to which their respective inputs belong.

Financial instruments except those recorded on the balance sheet for fair values (March 31, 2022)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	1,198,585	—	1,198,585
Loans and bills discounted	—	4,322,895	—	4,322,895
Total assets	—	5,521,481	—	5,521,481
Borrowings	—	4,203,651	—	4,203,651
Bonds payable	—	149,963	—	149,963
Total liabilities	—	4,353,614	—	4,353,614

(Note 1) Explanation of valuation techniques used for calculation of fair values and inputs for calculation of fair values

Assets

(1) Cash and due from banks

For cash and 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, classified into level 2 fair value.

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, classified into level 2 fair value.

(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 calculated based on the market yield of bonds issued by the borrower based on the type of borrower and period of loan, classified into level 2 fair values.

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, classified into level 2 fair values.

(2) Bonds payable

Market value is used for fair value of bonds, classified into level 2 fair values.

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, 2022 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	80,000	80,000	—

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	149 million yen
Service cost	6
Interest cost	0
Actuarial difference	6
Payment of retirement benefits	—
Prior service cost	—
Other	(22)
Closing balance of projected benefit obligations	140

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

Opening balance of fair value of plan assets	31 million yen
Expected return on plan assets	0
Actuarial difference	(1)
Financing from employer	4
Payment of retirement benefits	—
Other	(4)
Closing balance of fair value of plan assets	29

(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	37 million yen
Fair value of plan assets	(29)
	8
Projected benefit obligations of unfunded plan	103
Unfunded pension obligations	111
Actuarial unrecognized difference	(47)
Unrecognized prior service cost	3
Net amount of liabilities and assets recorded on the balance sheet	67
Provision for retirement benefits	84
Prepaid pension cost	(17)
Net amount of liabilities and assets recorded on the balance sheet	67

(4) Net pensions cost and breakdown of included items

Service cost	6 million yen
Interest cost	0
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	10
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	25%
Debentures	64%
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	1.6% to 5.9%

Defined contribution pension plan

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

12. Revenue Recognition

1. Disaggregation of revenue from contracts with customers.

The revenue from a contract with a customer at this account is the revenue from compensation security transactions. In revenue from compensation security transactions, JFC recognizes revenues by judging that the performance obligation is satisfied over the period of the compensation contract, recording its full amount in the "fees and commissions on compensation security contract" on the profit and loss statement, and since disaggregation of revenue from contracts with customers is of little significance, JFC omits its description.

2. Information on the basis for understanding revenues from contracts with customers.

Information on the basis for understanding revenues from contracts with customers is as described in "(e) Accounting policy for revenue and expense" of "Significant accounting policies."

3. Information for understanding the amount of revenues in the current fiscal year and after the last day of this fiscal year.

(1) Regarding contract liabilities, JFC records the balance that does not satisfy performance obligations at the last day of the current fiscal year out of fees and commissions on compensation security contract collected in a lump sum from designated financial institutions at the time of concluding contracts. The amount included in the contract liability balance as of the beginning of the current fiscal year out of the revenue amount recognized in this fiscal year reaches 2,782 million yen.

(2) The total transaction price allocated to remaining performance obligations at the last day of the current fiscal year amounts to 14,252 million yen. The amount and the period of revenue recognition expected for remaining performance obligations are as follows:

(Millions of yen)

	Current fiscal year
Within one year	2,355
Over one year	11,896
Total	14,252

13. Related party transactions

Related party transactions in the fiscal year ended March 31, 2022 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, 2022
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	90.13 (Direct)	Administration for policy based financing	Underwriting of capital increase (Note iii)	450,068	—	—
				Receipts from general account of the national budget	61	—	—
				Receipt of funds (Note iv)	291,219	Borrowings	4,209,978
				Repayment of borrowings	501,890		
				Payment of interest on borrowings	5,754	Accrued expenses	147
				Deposit of funds (Note v)	1,923,000	Due from banks	660,000
				Refund of funds	1,863,000		
				Guarantee for bonds payable (Note vi)	150,145	—	—

(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) 0.09%
- Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry) 9.79%

(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	¥41 million

- Small and Medium Enterprise Agency

Receipts from the national budget	¥61 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.

14. Per share information

Net assets per share	¥0.80
Net loss per share	¥0.02

15. Subsequent events

Not applicable.

Account for Operations to Facilitate Specific Businesses Promotion, etc.

Balance Sheet (as of March 31, 2022)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	300	Borrowed money	110,815
Due from banks	300	Borrowings	110,815
Loans and bills discounted	110,815	Other liabilities	69
Loans on deeds	110,815	Accrued expenses	32
Other assets	57	Lease obligations	2
Prepaid expenses	0	Other	35
Accrued income	31	Provision for bonuses	3
Other	26	Provision for directors' bonuses	0
Property, plant and equipment	1	Provision for retirement benefits	45
Lease assets	1	Provision for directors' retirement benefits	0
Intangible assets	15	Total liabilities	110,933
Software	15	Net assets	
Lease assets	0	Capital stock	367
Other	0	Retained earnings	(102)
Prepaid pension cost	8	Other retained earnings	(102)
		Retained earnings brought forward	(102)
		Total shareholders' equity	264
		Total net assets	264
Total assets	111,198	Total liabilities and net assets	111,198

Statement of Operations (Year ended March 31, 2022)

(Millions of yen)

Items	Amount
Ordinary income	**177**
Interest income	99
Interest on loans and discounts	99
Interest on deposits with banks	0
Receipts from the national budget	77
Receipts from general account of the national budget	77
Other income	0
Other	0
Ordinary expenses	**189**
Interest expenses	99
Interest on borrowings and rediscounts	99
General and administrative expenses	90
Other expenses	0
Other	0
Ordinary loss	**12**
Net loss	**12**

Statement of Changes in Net Assets (Year ended March 31, 2022)

(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	(89)	(89)	177	177
Changes of items during the period					
Issuance of new shares	100			100	100
Net income (loss)		(12)	(12)	(12)	(12)
Total changes of items during the period	100	(12)	(12)	87	87
Balance at the end of current period	367	(102)	(102)	264	264

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.

Changes in accounting policies

(Accounting Standard for Revenue Recognition, etc.)

JFC has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the current fiscal year, and JFC recognizes revenues at the amount expected to be received in exchange for the goods or service when control of the promised goods or service is transferred to the customer.

JFC follows the transitional treatment specified in the proviso of Paragraph 84 of the Accounting Standards for Revenue Recognition for application of the Accounting Standard for Revenue Recognition, etc., which will not affect retained earnings at the beginning of the current fiscal year. In addition, application of the relevant accounting standards does not affect the profit and loss and the information per share for the current fiscal year.

(Accounting Standard for Fair Value Measurement, etc.)
JFC has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019), etc. from the beginning of the current fiscal year, and JFC applies new accounting policies stipulated by the Accounting Standard for Fair Value Measurement, etc. in accordance with the transitional treatment specified in the Accounting Standard for Fair Value Measurement, Paragraph 19 and the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), Paragraph 44-2 for the future.

In addition, JFC made notes such as matters concerning the breakdown of the fair value of financial instruments for each appropriate category in the "financial instruments and related disclosure."

The Change in presentation

(Matters related to balance sheets)
In line with the enforcement of the Ministerial Ordinance on the Partial Revision 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. 1 of 2020) from March 31, 2022, we show the classification of "risk-monitored loans," etc. according to the classification of disclosed claims, etc. based on the "Act on Emergency Measures for the Revitalization of the Financial Functions" (Law No. 132 of 1998).

2. Claims based on the Ministerial Ordinance Concerning Accounting for the JFC

Claims based on 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) are as described below. Note that claims are corporate bonds (limited to those that guarantee all or part of the redemption of their principals and the payment of interests and in which the issuance of the corporate bonds is through private offering of securities (Financial Instruments and Exchange Act Law No. 25 of 1948, Article 2, Paragraph 3)) in "securities" on the balance sheet, loans , foreign exchange, accrued interest and suspense payment in "other assets," items recorded in each account of customers' liabilities for acceptance and guarantees, and the securities when lending of the securities noted is performed (limited to loans for use or lease contracts) .

The amount of bankruptcy reorganization claims and similar claims: ¥– million
The amount of claims under high risk: ¥– million
The amount of performing claims that require monitoring by discounting the risk-adjusted principal and interest: ¥– million
  The amount of claims with interest or principal repayments more than 3 months in arrears: ¥– million
  The amount of restructured claims: ¥– million
Subtotal amount: ¥– million
The amount of normal claims: ¥110,846 million
Total amount: ¥110,846 million

Bankruptcy reorganization claims and similar claims are the claims on borrowers who are in bankruptcy due to reasons such as petition for commencement of bankruptcy proceedings, commencement of reorganization proceedings, commencement of rehabilitation proceedings, etc. and similar claims.

Claims under high risk are the claims in which it is highly unlikely that their principals are collected and their interests are received according to the contract due to the deterioration of borrowers' financial conditions and business performances even though they have not yet reached the state of bankruptcy and that do not fall under "bankruptcy reorganization claims and similar claims."

Claims with interest or principal repayments more than 3 months in arrears are claims whose principal or interest payment is more than 3 months in arrears, and which do not fall under the category of "bankruptcy reorganization claims and similar claims," and "claims under high risk."

Restructured claims are claims 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 "bankruptcy reorganization claims and similar claims," "claims under high risk," and "claims with interest or principal repayments more than 3 months in arrears."

Normal claims are the claims that are classified into items other than "bankruptcy reorganization claims or similar claims," "claims under high risk," "claims with interest or principal repayments more than 3 months in arrears," and "restructured claims," assuming that there are no particular problems with the borrowers' financial conditions and business performances.

Note that the above claim amounts are the gross amounts prior to the deduction of allowance for possible claim losses.

3. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC. No Operations to this operation account bonds have been issued.

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥1 million.

5. 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, 2022, 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	100,000,000	—	367,000,000

(Note) Increase is due to the issuance of 100,000,000 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 account provides loans, etc. of required funds for loans provided by designated financial institutions appointed by the competent minister to certified business operators that are developing or manufacturing energy and environmentally friendly products, certified business operators that are restructuring their business, certified business operators that are adapting their business, certified business operators engaged in the development and provision, etc. of systems using specified advanced information and communications technology or improvement of specified semiconductor production facilities, certified business operators that are reinforcing business infrastructure, and certified business operators that are introducing specified ships. 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, business adaptation promotion operations, development and provision, etc. promotion operations, business infrastructure reinforcement promotion operations and introduction 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 funds such as fiscal loan funds and funding provided by government 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 and funding provided by government 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

Set valuation inputs are used for the calculation of fair value of financial instruments, 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, 2022, 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	300	300	—
(2) Loans and bills discounted	110,815	110,631	(183)
Total assets	111,115	110,932	(183)
Borrowings	110,815	111,082	267
Total liabilities	110,815	111,082	267

(Note 1) 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 (*)	300	—	—	—	—	—
Loans and bills discounted	16,905	28,766	29,454	29,108	2,808	3,774
Total	17,205	28,766	29,454	29,108	2,808	3,774

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

(Note 2) 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	16,905	28,766	29,454	29,108	2,808	3,774

3. Breakdown, etc. of fair value of financial instruments for each category

Fair values of financial instruments are classified into the following three levels depending on the observability and the importance of inputs used for calculation of fair values.

Level 1 fair value: Fair values calculated from the market prices of assets or liabilities whose fair values are formed in active markets that are subject to calculation among the inputs for calculation of observable fair values.
Level 2 fair value: Fair values calculated using inputs for calculation of fair values other than the inputs at Level 1 among the inputs for observable fair values.
Level 3 fair value: Fair values calculated using inputs for calculation of unobservable fair values.

When several inputs having significant impacts on calculating fair values are used, fair values are classified into the lowest priority level in calculation of fair values out of the levels to which their respective inputs belong.

Financial instruments except those recorded on the balance sheet for fair values (March 31, 2022)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	300	—	300
Loans and bills discounted	—	110,631	—	110,631
Total assets	—	110,932	—	110,932
Borrowings	—	111,082	—	111,082
Total liabilities	—	111,082	—	111,082

(Note 1) Explanation of valuation techniques used for calculation of fair values and inputs for calculation of fair values

Assets

(1) Cash and due from banks

For cash and due from banks that do not mature, the carrying amount is used as fair value because fair value resembles the carrying amount, classified into level 2 fair value.

(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 calculated based on the market yield of bonds issued by the borrower based on the type of borrower and period of loan, classified into level 2 fair value.

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, classified into level 2 fair value.

8. Deferred tax accounting

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

9. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

Defined benefits plan

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

Opening balance of projected benefit obligations	78 million yen
Service cost	4
Interest cost	0
Actuarial difference	4
Payment of retirement benefits	—
Prior service cost	—
Other	(10)
Closing balance of projected benefit obligations	77

(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	(1)
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	20 million yen
Fair value of plan assets	(16)
	4
Projected benefit obligations of unfunded plan	56
Unfunded pension obligations	61
Actuarial unrecognized difference	(25)
Unrecognized prior service cost	1
Net amount of liabilities and assets recorded on the balance sheet	37
Provision for retirement benefits	45
Prepaid pension cost	(8)
Net amount of liabilities and assets recorded on the balance sheet	37

(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	25%
Debentures	64%
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	2.7% 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, 2022 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, 2022
Principal shareholder	Ministry of Finance (Minister of Finance) (Note i)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase (Note ii)	100	—	—
				Receipt of funds (Note iii)	8,500	Borrowings	110,815
				Repayment of borrowings	19,332		
				Payment of interest on borrowings	99	Accrued expenses	31

(Notes)

(i) Transactions with the ministries and agencies other than Ministry of Finance are as follows:
-Ministry of Economy, Trade and Industry
Receipts from the national budget ¥77 million

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

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

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

11. Per share information

Net assets per share ¥0.72

Net loss per share ¥0.04

12. Subsequent events

Not applicable.

Risk-monitored Loans

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

▼ Risk-monitored Loans

(Millions of yen)

			Micro Business and Individual Unit (Account for Micro Business and Individual Operations)	Agriculture, Forestry, Fisheries and Food Business Unit (Account for Agriculture, Forestry, Fisheries and Food Business Operations)	Small and Medium Enterprise (SME) Unit (Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation))	Total
Risk-managed loan rate			5.20%	3.72%	11.25%	7.06%
Risk-managed loan balance			653,861	129,343	941,141	1,724,346
	Bankruptcy reorganization claims, etc.		18,444	5,509	7,470	31,424
	Doubtful loans		93,365	77,929	796,918	968,212
	Special attention	Loans with interest or principal repayments more than three months in arrears	50	659	–	709
		Restructured loans	542,000	45,245	136,753	723,998
Normal			11,924,135	3,351,376	7,426,491	22,702,004
Total loan balance			12,577,996	3,480,720	8,367,690	24,426,407

(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 (excluding bankrupt or de facto bankrupt borrowers).
- Loans with interest or principal repayments more than three months in arrears:
  Loans whose principal or interest payments are more than three months in arrears (excluding bankrupt or de facto bankrupt and doubtful).
- Restructured loans:
  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 to facilitate collection of the loans (excluding bankrupt or de facto bankrupt, doubtful, and loans with interest or principal repayments more than three months in arrears).
- 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," "loans with interest or principal repayments more than three months in arrears," and "restructured loans."

September 2022
Publisher: Public Relations Department, Japan Finance Corporation
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URL: https://www.jfc.go.jp/n/english/index.html

JAPAN FINANCE CORPORATION