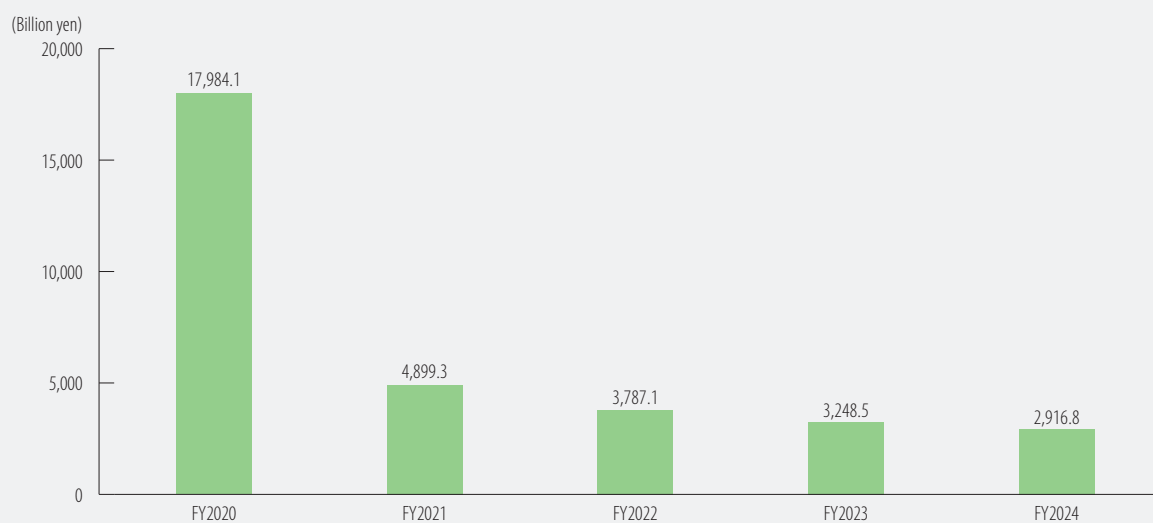


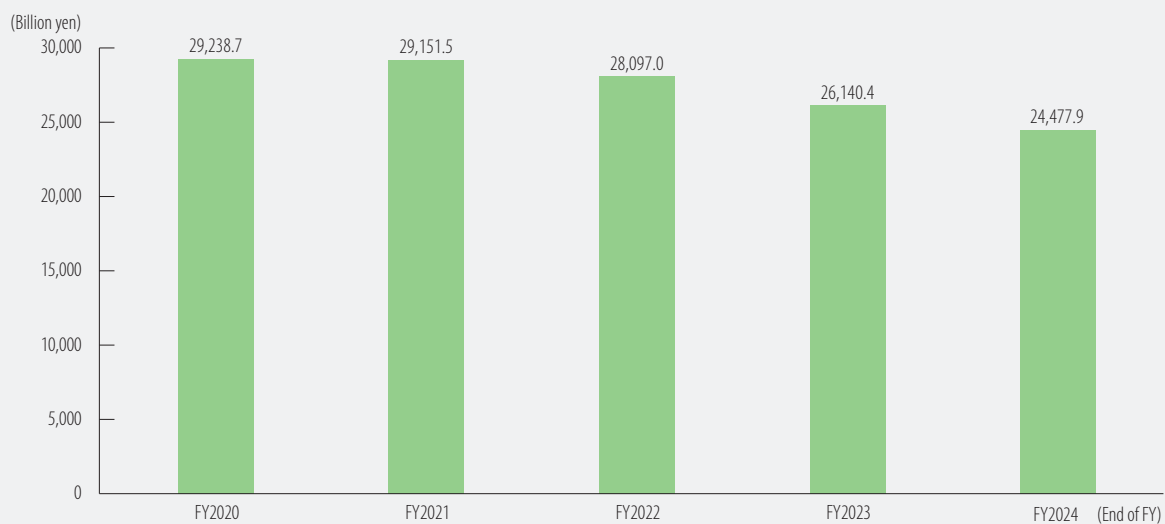
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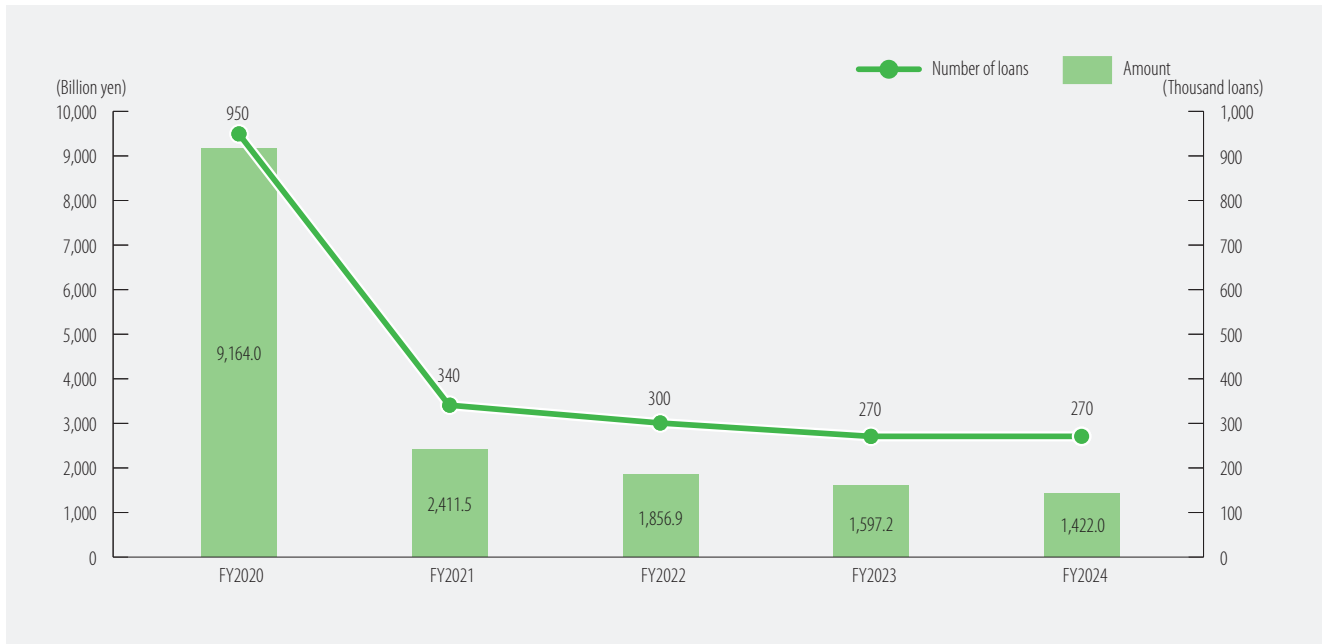
1 Changes in Annual Loan Operations



2 Changes in Outstanding Loans

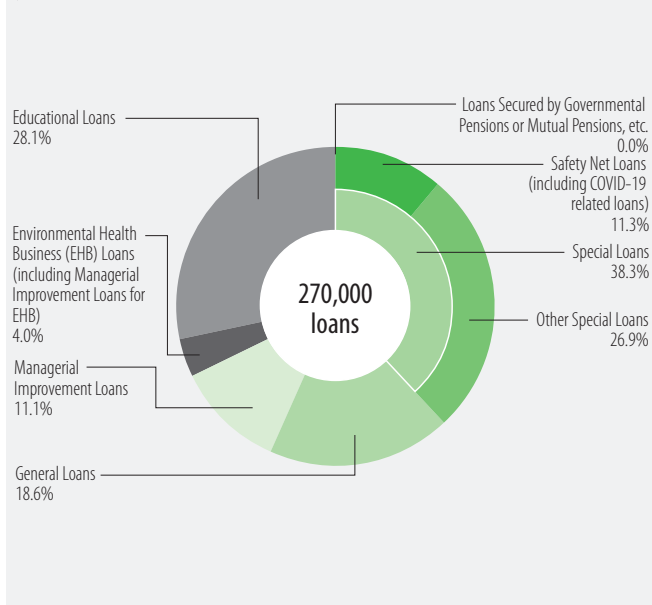


1 Changes in Annual Loan Operations

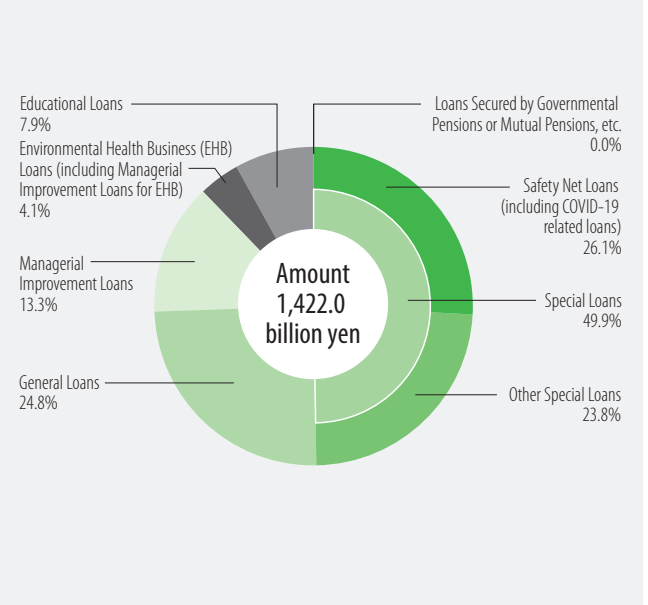


2 Breakdown of Loans by Scheme

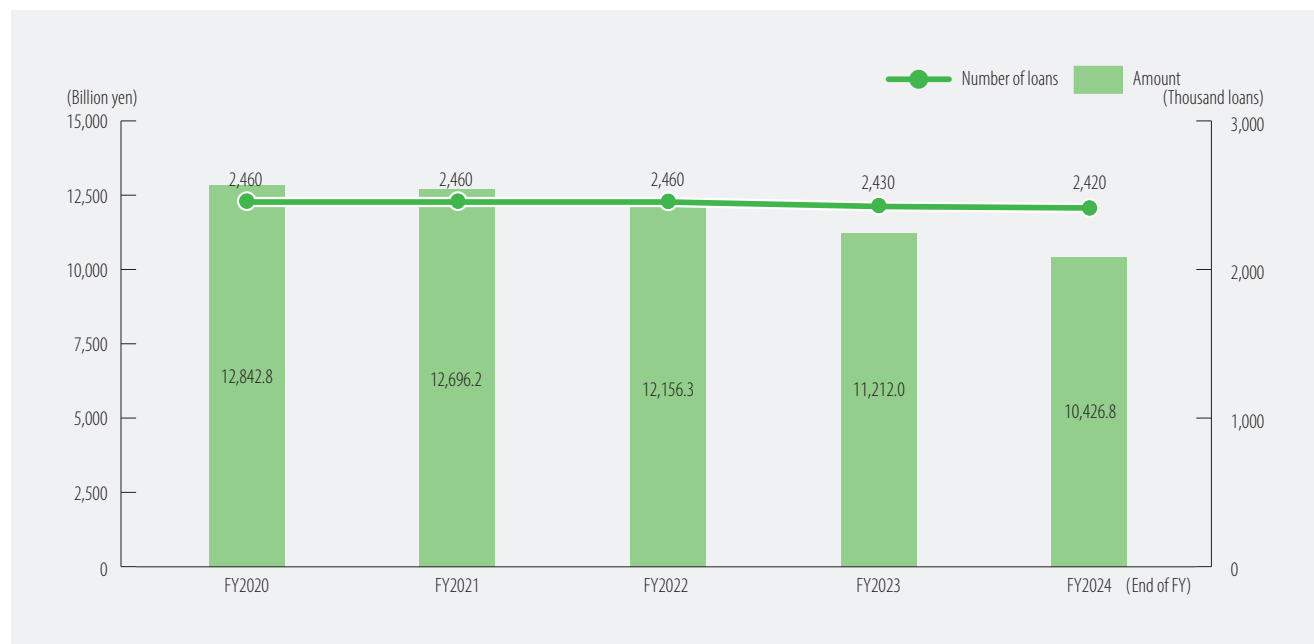
▼ Number of Loans (FY2024)



▼ Total Amount of Loans (FY2024)



3 Changes in Outstanding Loans



4 Breakdown of Business Loans Outstanding by Industry

(Billion yen, %)

	End of FY2020	End of FY2021	End of FY2022	End of FY2023	End of FY2024
Manufacturing	1,043.0 (8.8)	1,023.4 (8.7)	977.9 (8.7)	888.7 (8.7)	817.9 (8.6)
Wholesale & Retail	2,362.7 (19.9)	2,320.3 (19.8)	2,220.0 (19.8)	2,033.7 (19.8)	1,880.4 (19.7)
Restaurants & Hotels	1,475.1 (12.4)	1,448.3 (12.3)	1,372.4 (12.3)	1,254.4 (12.2)	1,155.8 (12.1)
Services	3,106.8 (26.2)	3,098.3 (26.4)	2,971.4 (26.5)	2,743.8 (26.7)	2,574.3 (27.0)
Construction	1,870.1 (15.7)	1,880.1 (16.0)	1,811.1 (16.2)	1,667.7 (16.2)	1,549.5 (16.3)
Others	2,016.7 (17.0)	1,964.2 (16.7)	1,847.9 (16.5)	1,684.6 (16.4)	1,545.7 (16.2)
Total	11,874.6 (100.0)	11,734.8 (100.0)	11,201.0 (100.0)	10,273.3 (100.0)	9,523.8 (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 FY2020	End of FY2021	End of FY2022	End of FY2023	End of FY2024
Restaurant-related Services	233.0 (54.4)	222.7 (54.3)	211.7 (54.4)	200.2 (54.6)	199.6 (55.2)
Beauty parlors	89.9 (21.0)	88.8 (21.6)	85.4 (21.9)	81.0 (22.1)	80.8 (22.3)
Hotels	63.2 (14.8)	59.6 (14.5)	55.1 (14.2)	51.0 (13.9)	48.3 (13.4)
Barbershops	21.6 (5.0)	20.4 (5.0)	19.0 (4.9)	17.6 (4.8)	16.7 (4.6)
Public baths	7.6 (1.8)	6.9 (1.7)	6.4 (1.6)	6.0 (1.6)	5.8 (1.6)
Laundries	8.5 (2.0)	8.0 (1.9)	7.6 (2.0)	6.9 (1.9)	6.6 (1.8)
Meat shops	2.9 (0.7)	2.8 (0.7)	2.6 (0.7)	2.5 (0.7)	2.5 (0.7)
Entertainment facilities	0.7 (0.2)	0.6 (0.1)	0.6 (0.2)	0.6 (0.2)	0.6 (0.2)
Others	0.3 (0.1)	0.3 (0.1)	0.2 (0.1)	0.2 (0.1)	0.2 (0.1)
Total	428.0 (100.0)	410.4 (100.0)	389.1 (100.0)	366.5 (100.0)	361.6 (100.0)

Note: Figures in parentheses denote percentage of shares.

6 Breakdown of Outstanding Loans by Use

(Billion yen, %)

	End of FY2020	End of FY2021	End of FY2022	End of FY2023	End of FY2024
Operating funds	10,071.6 (84.8)	10,073.4 (85.8)	9,632.6 (86.0)	8,767.9 (85.3)	8,038.8 (84.4)
Facility funds	1,803.0 (15.2)	1,661.4 (14.2)	1,568.3 (14.0)	1,505.3 (14.7)	1,484.9 (15.6)
Total	11,874.6 (100.0)	11,734.8 (100.0)	11,201.0 (100.0)	10,273.3 (100.0)	9,523.8 (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 FY2020	End of FY2021	End of FY2022	End of FY2023	End of FY2024
Number of borrowers	1,177,346	1,197,384	1,197,327	1,170,623	1,157,423

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

8 Average Loan Balance per Business

(Thousand yen)

	End of FY2020	End of FY2021	End of FY2022	End of FY2023	End of FY2024
Average loan balance per business	10,085	9,800	9,355	8,775	8,228

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

9 Educational Loans Outstanding, etc.

(Billion yen)

	End of FY2020	End of FY2021	End of FY2022	End of FY2023	End of FY2024
Educational Loans	963.9	958.5	954.0	938.2	902.7
Loans Secured by Governmental Pensions and Mutual Pensions, etc.	4.2	2.8	1.2	0.4	0.1

10 Breakdown of Loans by Credit Amount

(Number of loans, %)

	FY2020	FY2021	FY2022	FY2023	FY2024
Up to 3 million yen	229,761 (26.6)	80,952 (32.2)	71,898 (34.7)	68,020 (36.1)	83,924 (42.5)
Over 3 million yen and up to 5 million yen	151,201 (17.5)	48,677 (19.3)	41,443 (20.0)	38,403 (20.4)	40,887 (20.7)
Over 5 million yen and up to 8 million yen	102,930 (11.9)	34,259 (13.6)	27,116 (13.1)	24,659 (13.1)	23,044 (11.7)
Over 8 million yen	379,998 (44.0)	87,856 (34.9)	66,696 (32.2)	57,103 (30.3)	49,740 (25.2)
Total	863,890 (100.0)	251,744 (100.0)	207,153 (100.0)	188,185 (100.0)	197,595 (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, %)

	FY2020	FY2021	FY2022	FY2023	FY2024
4 or fewer	564,073 (65.3)	185,748 (73.8)	151,568 (73.2)	134,821 (71.6)	141,968 (71.8)
5–9	167,596 (19.4)	39,944 (15.9)	33,512 (16.2)	31,539 (16.8)	32,025 (16.2)
10–19	80,433 (9.3)	16,783 (6.7)	14,018 (6.8)	13,760 (7.3)	14,574 (7.4)
20 or more	51,785 (6.0)	9,269 (3.7)	8,055 (3.9)	8,065 (4.3)	9,028 (4.6)
Total	863,887 (100.0)	251,744 (100.0)	207,153 (100.0)	188,185 (100.0)	197,595 (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, %)

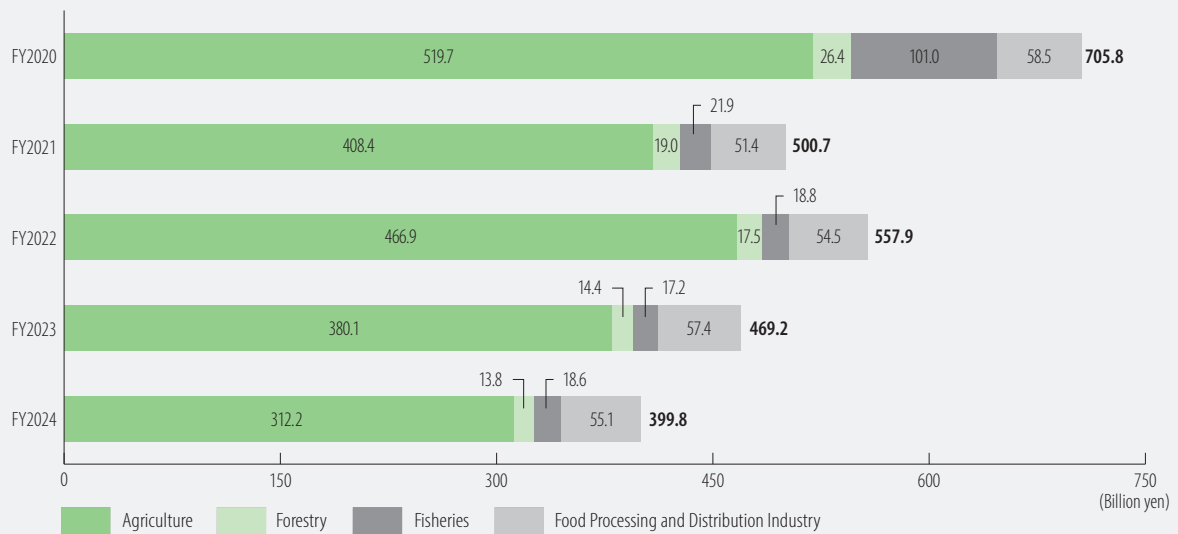
	FY2020	FY2021	FY2022	FY2023	FY2024
No collateral	857,271 (99.2)	247,087 (98.2)	203,107 (98.1)	183,512 (97.5)	189,814 (96.1)
Collateral	Real estate (including partial collateral)	6,602 (0.8)	4,640 (1.8)	4,033 (1.9)	4,657 (2.5)
	Securities	1 (0.0)	— (—)	1 (0.0)	1 (0.0)
	Credit Guarantee Corporations (CGCs)	— (—)	— (—)	— (—)	— (—)
	Others	— (—)	— (—)	— (—)	— (—)
Total	863,874 (100.0)	251,727 (100.0)	207,141 (100.0)	188,170 (100.0)	197,586 (100.0)

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

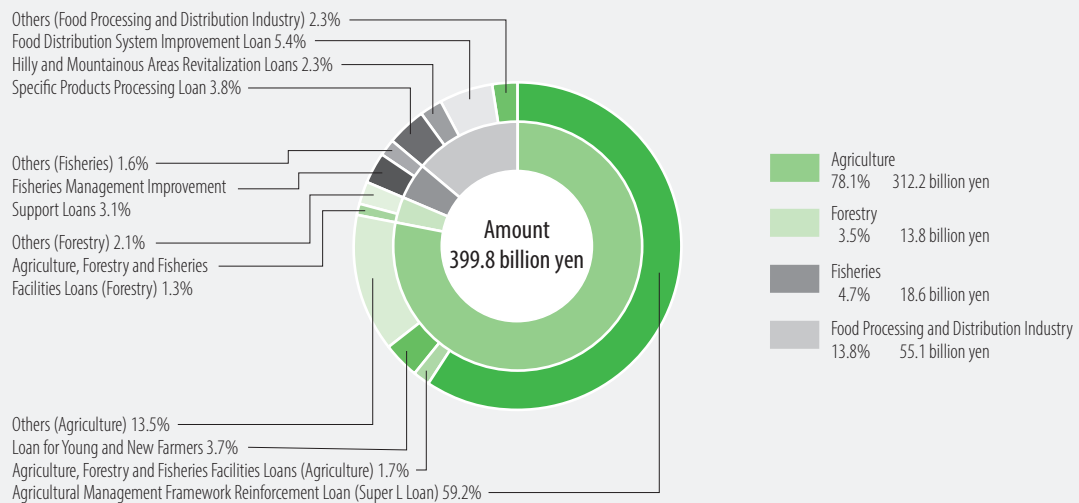
2. Figures in parentheses denote percentage of shares.

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."

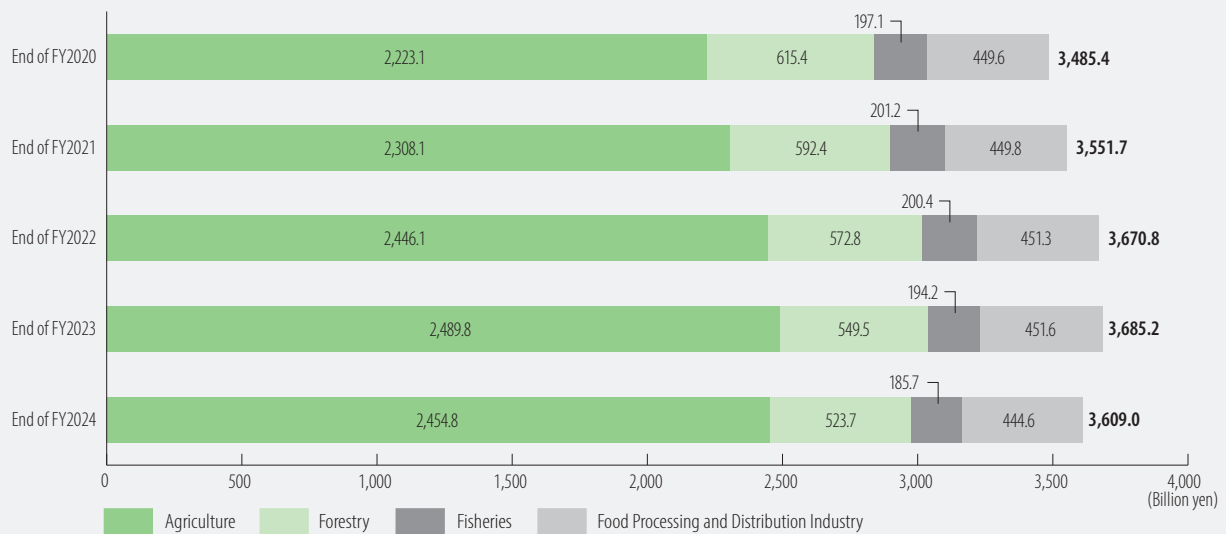
1 Changes in Annual Loan Operations



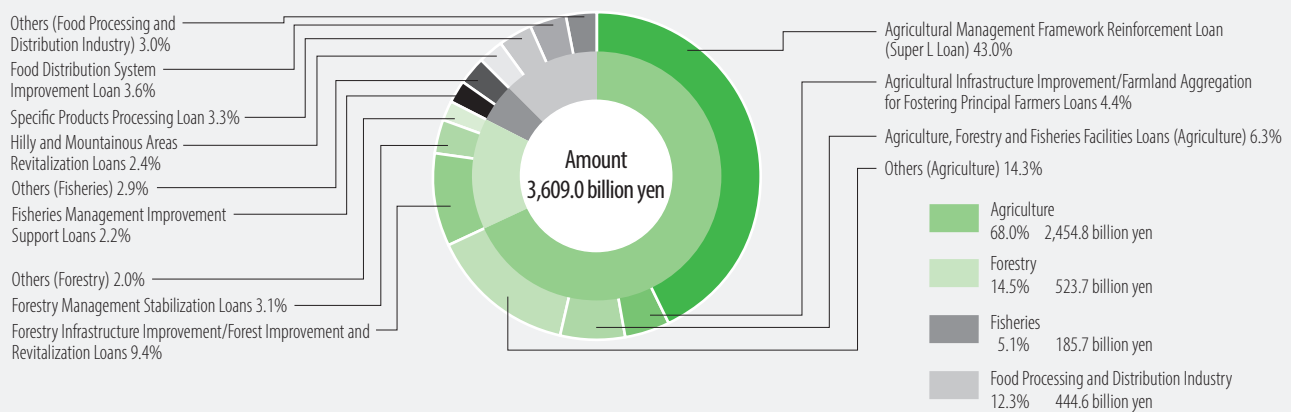
2 Breakdown of Loans by Scheme (FY2024)



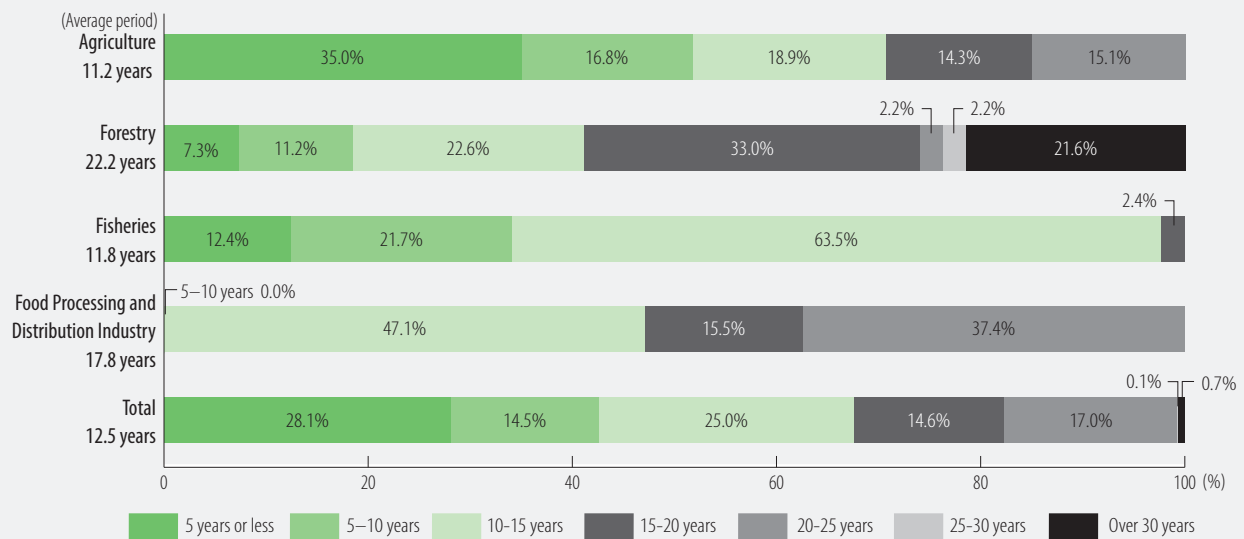
3 Changes in Outstanding Loans



4 Breakdown of Outstanding Loans by Sector and Use (End of FY2024)

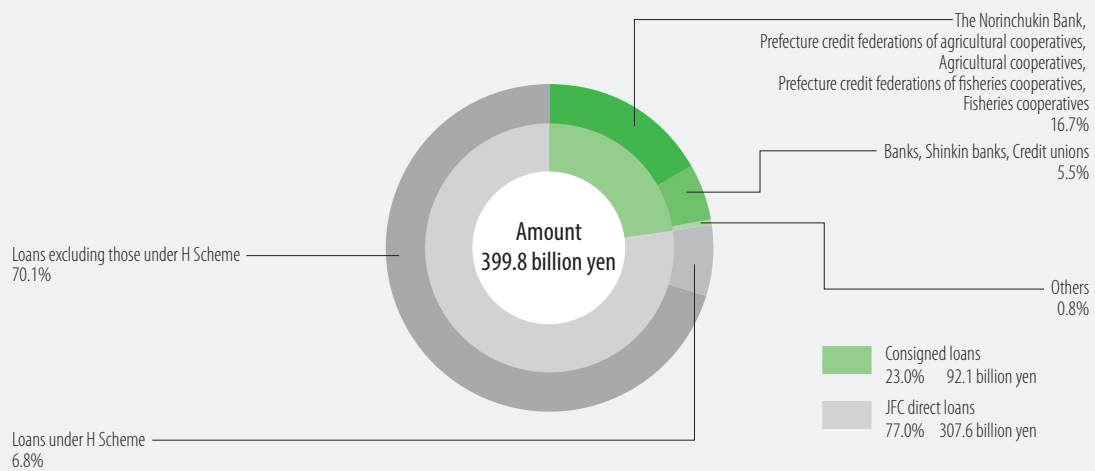


5 Loans by Repayment Period (FY2024)



Note: Aggregated by loan amount.

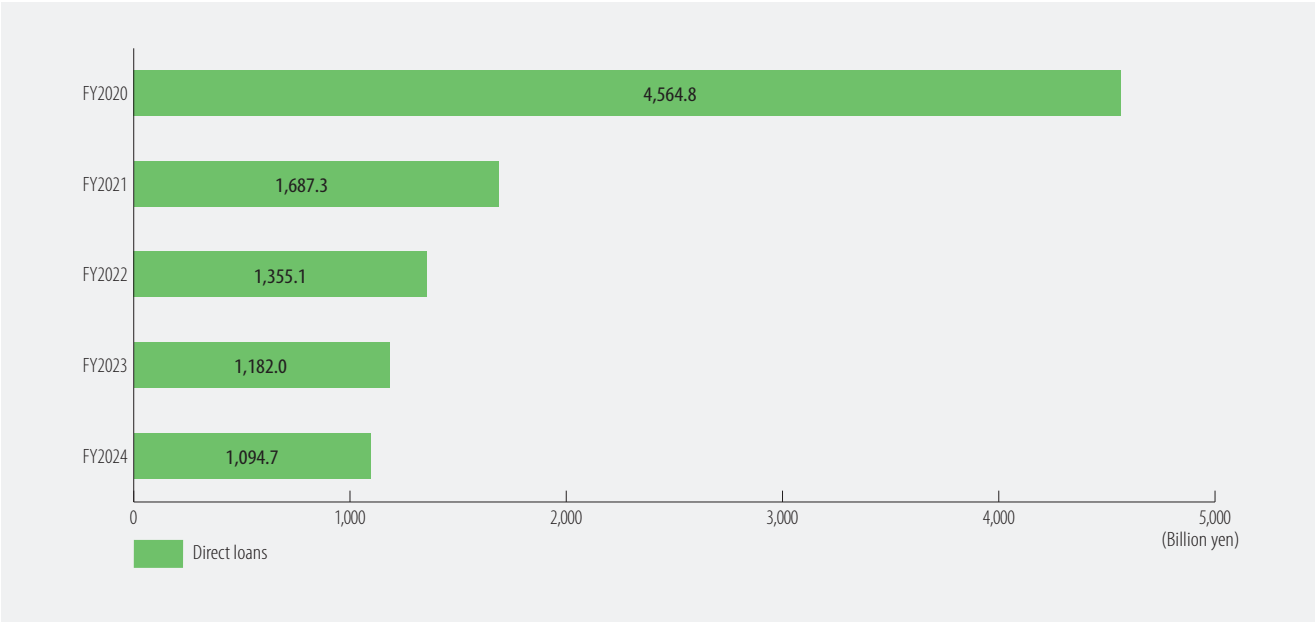
6 Loans by Commissioned Financial Institutions (FY2024)



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.

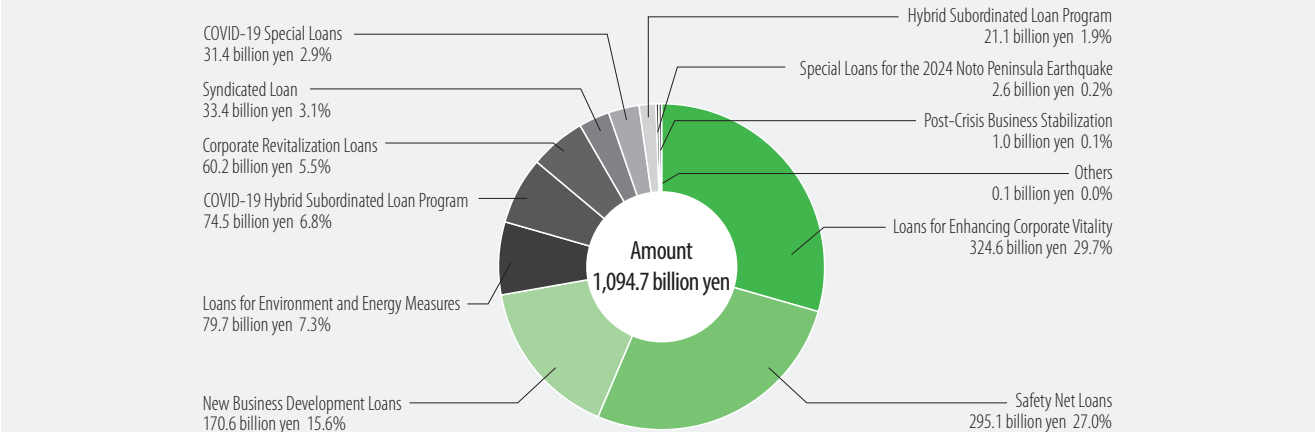
I. Loan Programs

1 Changes in Annual Loan Operations



2 Breakdown of Loans by Scheme

▼ Total Amount of Loans (FY2024)



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

3 Changes in Outstanding Loans



4 Breakdown of Outstanding Loans by Industry

(Billion yen, %)

	End of FY2020	End of FY2021	End of FY2022	End of FY2023	End of FY2024
Manufacturing	3,220.1 (39.2)	3,231.1 (38.3)	3,222.2 (38.5)	3,049.3 (38.7)	2,978.2 (38.8)
Construction	516.4 (6.3)	534.4 (6.3)	527.1 (6.3)	488.3 (6.2)	470.8 (6.1)
Wholesale & retail	1,413.7 (17.2)	1,450.1 (17.2)	1,436.4 (17.2)	1,324.4 (16.8)	1,276.2 (16.6)
Transport & telecom- munications	850.6 (10.4)	888.7 (10.5)	903.1 (10.8)	884.6 (11.2)	882.4 (11.5)
Services	1,488.9 (18.1)	1,608.2 (19.1)	1,585.4 (19.0)	1,496.1 (19.0)	1,447.4 (18.8)
Others	728.1 (8.9)	719.8 (8.5)	691.2 (8.3)	643.4 (8.2)	630.4 (8.2)
Total	8,218.0 (100.0)	8,432.6 (100.0)	8,365.7 (100.0)	7,886.3 (100.0)	7,685.4 (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 FY2020	End of FY2021	End of FY2022	End of FY2023	End of FY2024
Operating funds	5,919.4 (72.0)	6,184.6 (73.3)	6,090.7 (72.8)	5,566.1 (70.6)	5,274.8 (68.6)
Facility funds	2,298.5 (28.0)	2,247.9 (26.7)	2,274.9 (27.2)	2,320.2 (29.4)	2,410.6 (31.4)
Total	8,218.0 (100.0)	8,432.6 (100.0)	8,365.7 (100.0)	7,886.3 (100.0)	7,685.4 (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 FY2020	End of FY2021	End of FY2022	End of FY2023	End of FY2024
Number of borrowers	61,074	62,010	62,004	58,249	57,345

Note: Figures cover only businesses with direct loans.

7 Average Loan Balance per Business

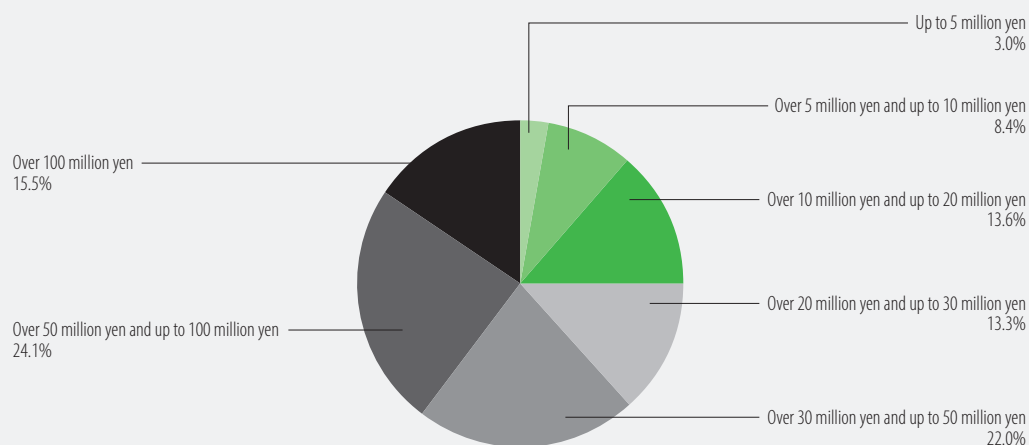
(Millions of yen)

	End of FY2020	End of FY2021	End of FY2022	End of FY2023	End of FY2024
Average loan balance per business	134	135	134	135	133

Note: Figures cover only businesses with direct loans.

8 Loans by Credit Amount

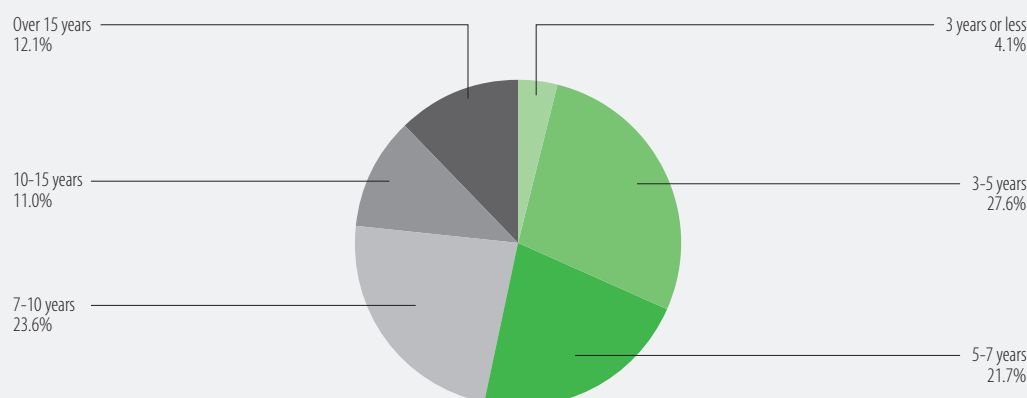
▼ Loan Percentage Breakdown (FY2024)



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

9 Loans by Repayment Period

▼ Loan Percentage Breakdown (FY2024)



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

II. Credit Insurance Programs

(Billion yen)

Items	FY2020	FY2021	FY2022	FY2023	FY2024
Amounts of insurance acceptance and loans					
Small Business Credit Insurance	33,210.6	8,768.4	7,762.0	9,555.1	8,309.6
Loans to CGCs	—	—	—	—	—
Special Insurance for Mid-size Enterprises	—	—	—	—	—
Outstanding amounts of insurance and loans					
Small Business Credit Insurance	42,416.1	42,092.3	40,671.3	36,627.6	34,525.9
Loans to CGCs	—	—	—	—	—
Special Insurance for Mid-size Enterprises	0.0	0.0	0.0	0.0	0.0
Machinery Credit Insurance	—	—	—	—	—

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, 2025.

III. Securitization Support Programs

(Billion yen)

Items	FY2020	FY2021	FY2022	FY2023	FY2024
Financing support amount					
Purchase-type	17.0	34.3	41.0	45.4	66.2
Guarantee-type	—	—	—	—	—
Outstanding amount of financing support					
Purchase-type	65.9	71.6	84.8	102.9	139.6
Guarantee-type	—	—	—	—	—
Outstanding amounts of trust beneficiary rights and guaranteed liabilities					
Purchase-type (outstanding amount of trust beneficiary rights)	12.9	15.4	23.1	20.2	19.1
Purchase-type (outstanding amounts of asset-backed securities)	17.8	21.6	23.2	22.5	23.7
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)	5.0	4.9	4.9	5.4	4.5

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, 2025.

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	FY2022	FY2023	FY2024
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	15.7	—	—
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	15.7	—	—
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	170.7	—	—
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	170.7	—	—
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	22.9	20.5	8.9

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 2025.

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 2025, with loss compensation underwritten by JFC for losses incurred until May 10, 2025.

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 2024 (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, etc. Promotion, Operations to Facilitate Business Foundation Reinforcement Promotion, Operations to Facilitate Business Introduction Promotion, and Operations to Facilitate Ensuring Supply Promotion

▼ Two-step loans

(Billion yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
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, etc. Promotion	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Operations to Facilitate Business Foundation Reinforcement Promotion	—	—	—	—	—	—	—	—	—	—	—	8.5	1.3	—	0.1
Operations to Facilitate Business Introduction Promotion	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Operations to Facilitate Ensuring Supply Promotion	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

Notes: 1. The figures for the two-step loans refer to the amounts of loans JFC provided to the designated financial institutions through the end of March 2025.

2. Day of commencement of 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, etc. Promotion: August 31, 2020; Operations to Facilitate Business Foundation Reinforcement Promotion: August 24, 2021; Operations to Facilitate Business Introduction Promotion: August 24, 2021; Operations to Facilitate Ensuring Supply Promotion: January 13, 2023.

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 Act on Strengthening Industrial Competitiveness on January 20, 2014.

▼ Interest subsidies

(Millions of yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Operations to Facilitate Business Adaptation Promotion	—	—	—	—	—	—	—	—	—	—	—	—	1	93	195

Note: The figures for interest subsidies represent the amounts of interest subsidies JFC provided to designated financial institutions for loans provided by the designated financial institutions through the end of November 2024 (in principle, disbursements pertaining to the period from December 1 each year to May 31 of the following year are made by July 31, while those pertaining to the period from June 1 to November 30 are made by January 31 of the following year).

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, 2025)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	7,925,270	Borrowed money	14,024,431
Cash	11	Borrowings	14,024,431
Due from banks	7,925,259	Bonds payable	555,916
Securities	244,985	Entrusted funds	18,953
Government bonds	220,961	Reserve for insurance policy liabilities	1,326,593
Corporate bonds	19,008	Other liabilities	29,017
Stocks	2,530	Accrued expenses	5,947
Other securities	2,485	Contract liability	7,183
Loans and bills discounted	23,907,898	Unearned revenue	76
Loans on deeds	23,907,898	Derivatives other than for trading-liabilities	820
Other assets	42,607	Lease obligations	5,130
Prepaid expenses	134	Other	9,859
Accrued income	19,628	Provision for bonuses	5,782
Derivatives other than for trading-assets	956	Provision for directors' bonuses	25
Agency accounts receivable	645	Provision for retirement benefits	97,999
Other	21,241	Provision for directors' retirement benefits	68
Property, plant and equipment	190,664	Reserve for compensation losses	29,865
Buildings	46,708	Acceptances and guarantees	28,267
Land	138,135	Total liabilities	16,116,921
Lease assets	4,221	Net assets	
Construction in progress	933	Capital stock	11,768,625
Other	665	Capital surplus	5,512,200
Intangible assets	46,887	Special reserve for administrative improvement funds	181,500
Software	31,911	Legal capital surplus	5,330,700
Lease assets	267	Retained earnings	(2,111,871)
Other	14,708	Legal retained earnings	151,119
Customers' liabilities for acceptances and guarantees	28,267	Other retained earnings	(2,262,990)
Allowance for loan losses	(1,100,826)	Retained earnings brought forward	(2,262,990)
		Total shareholders' equity	15,168,955
		Valuation difference on available-for-sale securities	(121)
		Total valuation and translation adjustments	(121)
		Total net assets	15,168,833
Total assets	31,285,755	Total liabilities and net assets	31,285,755

Data

Statement of Operations (Year ended March 31, 2025)

(Millions of yen)

Items	Amount
Ordinary income	629,051
Interest income	238,242
Interest on loans and discounts	228,261
Interest and dividends on securities	739
Interest on deposits with banks	9,240
Other interest income	0
Fees and commissions	3,330
Fees and commissions on compensation security contract	3,067
Other fees and commissions	262
Insurance premiums and other	324,022
Insurance premiums	155,419
Receipts of burden charges under the Responsibility-sharing System	12,224
Reversal of reserve for insurance policy liabilities	156,377
Other ordinary income	307
Income from derivatives other than for trading or hedging	307
Receipts from the national budget	57,938
Receipts from general account of the national budget	57,740
Receipts from special account of the national budget	197
Other income	5,209
Recoveries of written-off claims	827
Gain on sales of stocks and other securities	213
Other	4,168
Ordinary expenses	829,798
Interest expenses	30,956
Interest on call money	26
Interest on borrowings and rediscounts	27,960
Interest on bonds	2,969
Fees and commissions payments	2,759
Other fees and commissions	2,759
Expenses on insurance claims and other	369,780
Expenses on insurance claims	439,044
Recoveries of insurance claims	(69,263)
Other ordinary expenses	11,168
Loss on foreign exchange transactions	664
Amortization of bond issuance cost	165
Interest subsidies	10,338
General and administrative expenses	147,324
Other expenses	267,808
Provision of allowance for loan losses	205,009
Provision of reserve for compensation losses	20,164
Written-off of loans	32,639
Other	9,995
Ordinary loss	200,746
Extraordinary income	38
Gain on disposal of noncurrent assets	38
Extraordinary losses	150
Loss on disposal of noncurrent assets	132
Impairment loss	17
Net loss	200,858

Statement of Changes in Net Assets (Year ended March 31, 2025)

(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	11,768,477	181,500	5,284,100	5,465,600	3,216	(1,914,195)	(1,910,979)	15,323,099	112	112	15,323,211
Changes of items during the period											
Issuance of new shares	147		46,600	46,600				46,747			46,747
Provision of legal retained earnings					149,743	(149,743)	—	—			—
Reversal of legal retained earnings					(1,840)	1,840	—	—			—
Payment to the national treasury						(34)	(34)	(34)			(34)
Net income (loss)						(200,858)	(200,858)	(200,858)			(200,858)
Net changes of items other than shareholders' equity									(233)	(233)	(233)
Total changes of items during the period	147	—	46,600	46,600	147,902	(348,794)	(200,892)	(154,144)	(233)	(233)	(154,378)
Balance at the end of current period	11,768,625	181,500	5,330,700	5,512,200	151,119	(2,262,990)	(2,111,871)	15,168,955	(121)	(121)	15,168,833

Data

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method) based on the moving average method. Investments in affiliates are carried at cost based on the moving average method. 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 ¥477,401 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: ¥1,100,826 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, etc. 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. Among these, it is possible that deterioration of credit risk of borrowers, who have missed their repayment deadlines but have been provided with moratoriums of repayments due to effects from COVID-19, etc. is not properly reflected in the borrowers’ categories, and therefore, loan losses expected to occur in the future are additionally estimated.

(b) Main assumptions

While the impact of COVID-19 on economic activities has weakened, the impact on the credit risk of borrowers remains unclear due to changes in economic conditions. Because of this, JFC made necessary corrections to the anticipated loss rate by assuming that deterioration in credit risk on a level similar to that of borrowers provided with moratoriums of repayments in the past would occur for borrowers who were provided with moratoriums of repayments on loans whose repayment had been repeatedly deferred several times and loans related to COVID-19 due to the effect of COVID-19, etc., 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.

(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 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 assumption is the outlook for borrowers when determining the borrowers' categories.

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

(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 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 anticipated 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.

(b) Main assumptions

The main assumption is the outlook for borrowers when determining the borrowers' categories.

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

(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 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: ¥1,326,593 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, and 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.

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 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: ¥29,865 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.

When calculating the anticipated loss rate, in consideration of the status of compensation payments in the current fiscal year, necessary adjustments were made to the group of compensation security transactions to SME and medium-sized businesses for which the repayment performance deadline has not yet arrived and the loan conditions have not been restructured.

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.

However, in consideration of the status of compensation payments in the current fiscal year, necessary adjustments were made to the anticipated loss rate for the group of compensation security transactions to SME and medium-sized businesses for which the repayment performance deadline has not yet arrived and the loan conditions have not been restructured, with the assumption that the status of compensation payments in the current fiscal year will continue in the future as well.

c. Impacts on financial statements for the following fiscal year

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

Issued but not yet adopted accounting standards and others

Accounting Standard for Leases (ASBJ Statement No. 34, September 13, 2024) and Implementation Guidance on Accounting Standard for Leases (ASBJ Guidance No. 33, September 13, 2024), etc.

1. Overview

As part of efforts to make Japanese accounting standards internationally consistent, the Accounting Standards Board of Japan (ASBJ) conducted an examination based on international accounting standards with a view to the development of an accounting standard for leases that recognizes assets and liabilities for all leases of a lessee. As its basic policy, the ASBJ announced an accounting standard for leases, etc. whose basis would be the single lessee accounting model under IFRS 16, but would be simple and highly convenient and would aim to require basically no revisions even when IFRS 16 stipulations are applied to non-consolidated financial statements by incorporating only the main stipulations of IFRS 16 rather than all of them.

For the accounting treatment of lessees, the single lessee accounting model, in which similar to IFRS 16, depreciation on right-of-use assets and an amount equivalent to interest on lease liabilities are recorded for all leases regardless of whether the leases are finance or operating leases, will be adopted as the method of allocating the cost of the leases of a lessee.

2. Scheduled date of application

This accounting standard, etc. will be applied from the beginning of the fiscal year ending March 2028.

3. Effects of the application of this accounting standard, etc.

The impact on the financial statements from the application of this accounting standard, etc. is currently under review.

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: ¥33,738 million

The amount of claims under high risk: ¥1,040,591 million

The amount of performing claims that require monitoring by discounting the risk-adjusted principal and interest: ¥1,513,337 million

The amount of claims with interest or principal repayments more than 3 months in arrears: ¥1,282 million

The amount of restructured claims: ¥1,512,055 million

Subtotal amount: ¥2,587,667 million

The amount of normal claims: ¥21,366,249 million

Total amount: ¥23,953,916 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, 2025 is ¥93,068 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 ¥14,332 million. Of this amount, ¥1,662 million is for loans with an original contract term of one year or less.

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 ¥555,916 million.

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥52,811 million.

6. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (34,073 contracts)	1,244,368
Reserve for compensation	29,865
Net amount	1,214,503

7. Restriction in dividend distribution

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

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

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

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

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

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

9. Issued shares

For the fiscal year ended March 31, 2025, 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	21,851,825,305,741	46,747,743,000	—	21,898,573,048,741

(Note) Increase is due to the issuance of 46,747,743,000 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, certified business operators that are introducing specified ships, and certified business operators that conduct business relating to measures to ensure stable supply of specified critical materials, etc. 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, business reorganization promotion operations, business adaptation promotion operations, development and provision, etc. promotion operations, business infrastructure reinforcement promotion operations, introduction promotion operations, and ensuring supply 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 from fiscal loan funds 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, 2025 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥81,035 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 ¥77,986 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, 2025 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥9,744 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥8,949 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.

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, 2025 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥90,642 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 ¥85,873 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, 2025 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥975 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 ¥910 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 from fiscal investment and loans are secured to finance this account and deposits are not accepted. Liquidity risk is believed to be limited because the loan period and borrowing period are equal.

(4) Supplementary explanation concerning fair value of financial instruments

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, 2025, 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	7,925,270	7,804,231	(121,038)
(2) Securities			
Held-to-maturity debt securities	220,975	215,903	(5,071)
Available-for-sale securities	18,995	18,995	—
(3) Loans and bills discounted	23,907,898		
Allowance for loan losses ^(*)	(1,098,724)		
	22,809,174	22,418,041	(391,132)
Total assets	30,974,414	30,457,171	(517,243)
(1) Borrowings	14,024,431	13,535,016	(489,414)
(2) Bonds payable	555,916	549,991	(5,924)
Total liabilities	14,580,348	14,085,008	(495,339)
Derivative transactions ^(*)			
Derivative transactions not qualifying for hedge accounting	136	136	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	136	136	—

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

(*) 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 ^(*)	2,530
Partnership investments ^(*)	2,485

(*) 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.

(*) 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, June 17, 2021), Paragraph 24-16.

(Note 2) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks ^(*)	2,661,259	2,500,000	2,150,000	314,000	300,000	—
Securities						
Held-to-maturity debt securities	13	—	200,000	—	—	21,068
Available-for-sale securities	7,023	12,092	0	—	—	—
Loans and bills discounted ^(*)	3,872,250	6,502,702	4,985,006	3,367,653	2,790,427	2,094,841
Total	6,540,546	9,014,795	7,335,006	3,681,653	3,090,427	2,115,909

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

(*) Within loans, claims against bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers contain an amount of ¥295,016 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 ^(*)	2,866,001	3,962,494	2,880,030	1,726,472	1,689,707	899,725
Bonds payable	110,000	230,900	130,000	85,000	—	—
Total	2,976,001	4,193,394	3,010,030	1,811,472	1,689,707	899,725

(*) 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.

(1) Financial instruments recorded on the balance sheet for fair values (March 31, 2025)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Securities				
Available-for-sale securities				
Corporate bonds	—	—	18,995	18,995
Derivative transactions				
Credit derivatives	—	—	956	956
Total assets	—	—	19,951	19,951
Derivative transactions				
Currency related	—	14	—	14
Credit derivatives	—	—	805	805
Total liabilities	—	14	805	820

(2) Financial instruments except those recorded on the balance sheet for fair values (March 31, 2025)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	7,804,231	—	7,804,231
Securities				
Held-to-maturity debt securities				
Government bonds	215,889	—	—	215,889
Corporate bonds	—	13	—	13
Loans and bills discounted	—	2,616,802	19,801,239	22,418,041
Total assets	215,889	10,421,047	19,801,239	30,438,176
Borrowings	—	13,528,323	6,692	13,535,016
Bonds payable	—	549,991	—	549,991
Total liabilities	—	14,078,315	6,692	14,085,008

(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, with the exception of Agriculture, Forestry and Fisheries Management Capital Enhancement Loans and loans on deed 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 Agriculture, Forestry and Fisheries Management Capital Enhancement Loans and loans on deed 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

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.

f. 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, etc. 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.

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 taking into consideration actual interest rates for borrowings that have been redeemed, 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, 2025)

Classification	Valuation techniques	Important unobservable inputs	Range of inputs
Securities			
Available-for-sale securities			
Corporate bonds	Discounted present value method	Default probability	0.00%–0.15%
Derivative transactions			
Credit derivatives	Discounted present value method	Default probability	0.11%–100.00%

(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, 2025)

(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 ^(*)
		Recorded in profits and losses ^(*)	Recorded in valuation and translation adjustments ^(*)					
Securities								
Available-for-sale securities								
Corporate bonds	20,223	—	(76)	(1,151)	—	—	18,995	—
Derivative transactions								
Credit derivatives ^(*)	64	87	—	—	—	—	151	73

(*)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, 2025 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	Japanese government bonds	220,961	215,889	(5,071)
	Corporate bonds	13	13	—
Total		220,975	215,903	(5,071)

(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 does not exceed their acquisition cost	Corporate bonds	18,995	19,116	(121)
	Others	309,800	309,800	—
Total		328,795	328,916	(121)

(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	2,485

(d) Available-for-sale securities sold in the fiscal year in review (from April 1, 2024 to March 31, 2025)

	Sales amount (Millions of yen)	Total gain on sales (Millions of yen)	Total loss on sales (Millions of yen)
Stocks	4	2	—
Others	66	66	—
Total	70	69	—

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	161,347 million yen
Service cost	5,671
Interest cost	1,774
Actuarial difference	(10)
Payment of retirement benefits	(7,628)
Prior service cost	—
Other	—
Closing balance of projected benefit obligations	<u>161,154</u>

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

Opening balance of fair value of plan assets	72,521 million yen
Expected return on plan assets	1,450
Actuarial difference	(2,657)
Financing from employer	3,143
Payment of retirement benefits	(3,205)
Other	—
Closing balance of fair value of plan assets	<u>71,252</u>

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

Projected benefit obligations of funded plan	71,489 million yen
Fair value of plan assets	(71,252)
	236
Projected benefit obligations of unfunded plan	89,664
Unfunded pension obligations	89,901
Actuarial unrecognized difference	6,879
Unrecognized prior service cost	1,218
Net amount of liabilities and assets recorded on the balance sheet	97,999
Provision for retirement benefits	97,999
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	97,999

(4) Net pensions cost and breakdown of included items

Service cost	5,671 million yen
Interest cost	1,774
Expected return on plan assets	(1,450)
Amount of actuarial difference accounted for as expense	1,446
Amortization of prior service cost accounted for as expense	(345)
Other	—
Net pensions cost related to defined benefits plan	7,097

(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	28%
Debentures	61%
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	1.1%
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 ¥392 million.

14. Profit and loss on equity method

Investment in affiliates	¥2,530 million
Investment in affiliates (equity method)	¥2,389 million
Loss on investment in affiliates (equity method)	¥129 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 ¥3,001 million.
- (2) The total transaction price allocated to remaining performance obligations at the last day of the current fiscal year amounts to ¥7,183 million. 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	1,440
Over one year	5,743
Total	7,183

16. Related party transactions

Related party transactions in the fiscal year ended March 31, 2025 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, 2025
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	98.44 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	46,724	—	—
				Receipts from general account of the national budget	10,396	—	—
				Receipt of funds ^(Note iv)	1,525,160	Borrowings	13,889,964
				Repayment of borrowing	3,283,077		
				Payment of interest on borrowings	27,960	Accrued expenses	4,308
				Deposit of funds ^(Note v)	5,605,600	Due from banks	7,076,900
				Refund of funds	6,219,600		
				Guarantee for bonds payable ^(Note vi)	270,021	—	—

(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)	0.18%
-Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry)	1.35%

(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	¥8 million
-Cabinet Office	
Receipts from the national budget	¥20 million
-Ministry of Health, Labour and Welfare	
Receipts from the national budget	¥2,138 million
-Ministry of Agriculture, Forestry and Fisheries	
Receipts from the national budget	¥29,813 million
-Ministry of Economy, Trade and Industry	
Receipts from the national budget	¥249 million
-Agency for Natural Resources and Energy	
Receipts from the national budget	¥0 million
-Small and Medium Enterprise Agency	
Receipts from the national budget	¥15,311 million
-Ministry of Land, Infrastructure, Transport and Tourism	
Receipts from the national budget	¥7 million
-Ministry of Agriculture, Forestry and Fisheries	
Repayment of borrowed money	¥1,212 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 represent 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.

17. Per share information

Net assets per share	¥0.69
Net loss per share	¥0.00

18. Subsequent events

Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as set forth below pursuant to a resolution of the Board of Directors adopted on June 3, 2025.

Overview of the new shares issue

(a) Account for Agriculture, Forestry, Fisheries and Food Business Operations

Type and number of shares to be issued	64,000,000 common shares
Issue price	1 yen per share
Total issue price	64,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	64,000,000 yen
Total paid-in capital reserves	0 yen
Payment period	From June 30, 2025 to July 7, 2025
Use of capital	Funding for substantively unsecured and unguaranteed Young Farmer Business Start-up Loan, etc.

(b) Account for Credit Insurance Programs

Type and number of shares to be issued	46,100,000,000 common shares
Issue price	1 yen per share
Total issue price	46,100,000,000 yen
Paid-in capital	0 yen per share
Paid-in capital reserves	1 yen per share
Total paid-in capital	0 yen
Total paid-in capital reserves	46,100,000,000 yen
Payment period	From June 30, 2025 to July 7, 2025
Use of capital	Reinforcement of insurance foundations and stable operation of systems

(c) Account for Operations to Facilitate Crisis Responses

Type and number of shares to be issued	10,000,000 common shares
Issue price	1 yen per share
Total issue price	10,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	10,000,000 yen
Total paid-in capital reserves	0 yen
Payment period	From June 30, 2025 to July 7, 2025
Use of capital	Source of funds for compensation security

Balance Sheet (as of March 31, 2025)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	87,414	Borrowed money	4,809,224
Cash	7	Borrowings	4,809,224
Due from banks	87,407	Bonds payable	225,021
Loans and bills discounted	10,096,650	Other liabilities	11,065
Loans on deeds	10,096,650	Accrued expenses	2,457
Other assets	11,547	Lease obligations	3,172
Prepaid expenses	123	Other	5,435
Accrued income	7,494	Provision for bonuses	3,529
Agency accounts receivable	360	Provision for directors' bonuses	8
Other	3,568	Provision for retirement benefits	59,377
Property, plant and equipment	92,968	Provision for directors' retirement benefits	24
Buildings	26,100	Total liabilities	5,108,251
Land	63,545	Net assets	
Lease assets	2,607	Capital stock	5,790,633
Construction in progress	289	Capital surplus	181,500
Other	425	Special reserve for administrative improvement funds	181,500
Intangible assets	25,250	Retained earnings	(1,207,623)
Software	15,996	Other retained earnings	(1,207,623)
Lease assets	167	Retained earnings brought forward	(1,207,623)
Other	9,085	Total shareholders' equity	4,764,510
Allowance for loan losses	(441,068)	Total net assets	4,764,510
Total assets	9,872,762	Total liabilities and net assets	9,872,762

Statement of Operations (Year ended March 31, 2025)

(Millions of yen)

Items	Amount
Ordinary income	143,301
Interest income	128,016
Interest on loans and discounts	127,960
Interest on deposits with banks	55
Receipts from the national budget	13,621
Receipts from general account of the national budget	13,621
Other income	1,664
Recoveries of written-off claims	548
Other	1,115
Ordinary expenses	303,317
Interest expenses	6,197
Interest on call money	16
Interest on borrowings and rediscounts	5,884
Interest on bonds	296
Fees and commissions payments	585
Other fees and commissions	585
Other ordinary expenses	101
Amortization of bond issuance cost	101
General and administrative expenses	88,719
Other expenses	207,713
Provision of allowance for loan losses	178,465
Written-off of loans	28,939
Other	308
Ordinary loss	160,015
Extraordinary income	37
Gain on disposal of noncurrent assets	37
Extraordinary losses	150
Loss on disposal of noncurrent assets	132
Impairment loss	17
Net loss	160,128

Statement of Changes in Net Assets (Year ended March 31, 2025)

(Millions of yen)

	Shareholders' equity						Total net assets
	Capital stock	Capital surplus		Retained earnings		Total share- holders' equity	
		Special reserve for administra- tive improve- ment funds	Total capital surplus	Other retained earnings	Total retained earnings		
				Retained earnings brought forward			
Balance at the beginning of current period	5,790,568	181,500	181,500	(1,047,494)	(1,047,494)	4,924,573	4,924,573
Changes of items during the period							
Issuance of new shares	65					65	65
Net income (loss)				(160,128)	(160,128)	(160,128)	(160,128)
Total changes of items during the period	65	—	—	(160,128)	(160,128)	(160,062)	(160,062)
Balance at the end of current period	5,790,633	181,500	181,500	(1,207,623)	(1,207,623)	4,764,510	4,764,510

Data

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Depreciation basis for fixed assets

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

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

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

Buildings: 2 years to 50 years

Other: 2 years to 20 years

(ii) Intangible assets (except for lease assets)

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

(iii) Lease assets

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

(b) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

(c) Accounting policy for reserves

(i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

The allowance for claims on debtors who are legally bankrupt ("Bankrupt borrowers") or substantially bankrupt ("Substantially bankrupt borrowers") is provided based on the outstanding balance after the write-offs described in the followings and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt but are likely to become bankrupt ("Potentially bankrupt borrowers") is provided based on an assessment of the overall solvency of the debtors after deducting the amount expected to be collected through the disposal of collateral and the execution of guarantees.

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

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

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), 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 ¥329,597 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: ¥441,068 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, etc. 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. Among these, it is possible that deterioration of credit risk of borrowers, who have missed their repayment deadlines but have been provided with moratoriums of repayments due to effects from COVID-19, etc. is not properly reflected in the borrowers' categories, and therefore, loan losses expected to occur in the future are additionally estimated.

(2) Main assumptions

While the impact of COVID-19 on economic activities has weakened, the impact on the credit risk of borrowers remains unclear due to changes in economic conditions. Because of this, JFC made necessary corrections to the anticipated loss rate by assuming that deterioration in credit risk on a level similar to that of borrowers provided with moratoriums of repayments in the past would occur for borrowers who were provided with moratoriums of repayments on loans whose repayment had been repeatedly deferred several times and loans related to COVID-19 due to the effect of COVID-19, etc., 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.

(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 there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

Issued but not yet adopted accounting standards and others

Accounting Standard for Leases (ASBJ Statement No. 34, September 13, 2024) and Implementation Guidance on Accounting Standard for Leases (ASBJ Guidance No. 33, September 13, 2024), etc.

1. Overview

As part of efforts to make Japanese accounting standards internationally consistent, the Accounting Standards Board of Japan (ASBJ) conducted an examination based on international accounting standards with a view to the development of an accounting standard for leases that recognizes assets and liabilities for all leases of a lessee. As its basic policy, the ASBJ announced an accounting standard for leases, etc. whose basis would be the single lessee accounting model under IFRS 16, but would be simple and highly convenient and would aim to require basically no revisions even when IFRS 16 stipulations are applied to non-consolidated financial statements by incorporating only the main stipulations of IFRS 16 rather than all of them.

For the accounting treatment of lessees, the single lessee accounting model, in which similar to IFRS 16, depreciation on right-of-use assets and an amount equivalent to interest on lease liabilities are recorded for all leases regardless of whether the leases are finance or operating leases, will be adopted as the method of allocating the cost of the leases of a lessee.

2. Scheduled date of application

This accounting standard, etc. will be applied from the beginning of the fiscal year ending March 2028.

3. Effects of the application of this accounting standard, etc.

The impact on the financial statements from the application of this accounting standard, etc. is currently under review.

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: ¥19,713 million
 The amount of claims under high risk: ¥128,338 million
 The amount of performing claims that require monitoring by discounting the risk-adjusted principal and interest: ¥1,160,423 million
 The amount of claims with interest or principal repayments more than 3 months in arrears: ¥107 million
 The amount of restructured claims: ¥1,160,316 million
 Subtotal amount: ¥1,308,475 million
 The amount of normal claims: ¥8,795,773 million
 Total amount: ¥10,104,248 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, 2025 is ¥698 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 ¥225,021 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥29,815 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, 2025 types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	5,972,068,198,000	65,743,000	—	5,972,133,941,000

(Note) Increase is due to the issuance of 65,743,000 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, 2025 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥81,035 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 ¥77,986 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, 2025, 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	87,414	87,414	—
(2) Loans and bills discounted	10,096,650		
Allowance for loan losses ^(*)	(440,756)		
	9,655,894	9,287,735	(368,159)
Total assets	9,743,308	9,375,149	(368,159)
(1) Borrowings	4,809,224	4,693,207	(116,016)
(2) Bonds payable	225,021	220,459	(4,562)
Total liabilities	5,034,245	4,913,666	(120,579)

(*) 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 ^(*)	87,407	—	—	—	—	—
Loans and bills discounted ^(*)	1,685,105	3,078,664	2,414,793	1,406,529	1,035,197	328,427
Total	1,772,512	3,078,664	2,414,793	1,406,529	1,035,197	328,427

(*)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 contain an amount of ¥147,932 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 ^(*)	1,320,997	1,604,948	983,255	345,732	417,569	136,723
Bonds payable	65,000	100,000	10,000	50,000	—	—
Total	1,385,997	1,704,948	993,255	395,732	417,569	136,723

(*) 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, 2025)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	87,414	—	87,414
Loans and bills discounted	—	—	9,287,735	9,287,735
Total assets	—	87,414	9,287,735	9,375,149
Borrowings	—	4,693,207	—	4,693,207
Bonds payable	—	220,459	—	220,459
Total liabilities	—	4,913,666	—	4,913,666

(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	99,527 million yen
Service cost	3,450
Interest cost	1,094
Actuarial difference	(12)
Payment of retirement benefits	(4,478)
Prior service cost	—
Other	21
Closing balance of projected benefit obligations	<u>99,604</u>

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

Opening balance of fair value of plan assets	44,993 million yen
Expected return on plan assets	900
Actuarial difference	(1,690)
Financing from employer	1,920
Payment of retirement benefits	(1,978)
Other	7
Closing balance of fair value of plan assets	<u>44,152</u>

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

Projected benefit obligations of funded plan	44,299 million yen
Fair value of plan assets	<u>(44,152)</u>
	146
Projected benefit obligations of unfunded plan	<u>55,305</u>
Unfunded pension obligations	55,451
Actuarial unrecognized difference	3,088
Unrecognized prior service cost	837
Net amount of liabilities and assets recorded on the balance sheet	<u>59,377</u>
Provision for retirement benefits	59,377
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>59,377</u>

(4) Net pensions cost and breakdown of included items

Service cost	3,450 million yen
Interest cost	1,094
Expected return on plan assets	(900)
Amount of actuarial difference accounted for as expense	1,206
Amortization of prior service cost accounted for as expense	(316)
Other	—
Net pensions cost related to defined benefits plan	<u>4,535</u>

(5) Items concerning fair value of plan assets

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

Shares	28%
Debentures	61%
General account	11%
Cash and deposits	1%
Total	<u>100%</u>

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

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

(6) Items related to actuarial calculation bases

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

1) Discount rate	1.1%
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 ¥240 million.

10. Related party transactions

Related party transactions in the fiscal year ended March 31, 2025 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, 2025
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)	50	—	—
				Receipts from general account of the national budget	10,339	—	—
				Receipt of funds (Note iv)	850,000	Borrowings	4,677,924
				Repayment of borrowing	1,584,265		
				Payment of interest on borrowings	5,884	Accrued expenses	1,793
				Guarantee for bonds payable (Note v)	135,021	—	—

(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 ¥2,138 million

-Small and Medium Enterprise Agency

Receipts from the national budget ¥1,143 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 represent 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.

11. Per share information

Net assets per share ¥0.79

Net loss per share ¥0.02

12. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2025)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	102,246	Borrowed money	2,974,250
Cash	0	Borrowings	2,974,250
Due from banks	102,246	Bonds payable	164,995
Securities	5,015	Entrusted funds	18,953
Stocks	2,530	Other liabilities	3,664
Other securities	2,485	Accrued expenses	2,256
Loans and bills discounted	3,522,977	Derivatives other than for trading-liabilities	76
Loans on deeds	3,522,977	Lease obligations	585
Other assets	6,614	Other	745
Prepaid expenses	4	Provision for bonuses	697
Accrued income	5,988	Provision for directors' bonuses	8
Derivatives other than for trading-assets	2	Provision for retirement benefits	11,582
Agency accounts receivable	285	Provision for directors' retirement benefits	19
Other	334	Total liabilities	3,174,171
Property, plant and equipment	33,356	Net assets	
Buildings	7,586	Capital stock	457,799
Land	24,922	Retained earnings	3,944
Lease assets	479	Legal retained earnings	801
Construction in progress	282	Other retained earnings	3,143
Other	85	Retained earnings brought forward	3,143
Intangible assets	6,460	Total shareholders' equity	461,744
Software	5,856		
Lease assets	32		
Other	571		
Allowance for loan losses	(40,755)	Total net assets	461,744
Total assets	3,635,916	Total liabilities and net assets	3,635,916

Statement of Operations (Year ended March 31, 2025)

(Millions of yen)

Items	Amount
Ordinary income	52,653
Interest income	22,385
Interest on loans and discounts	22,223
Interest on deposits with banks	161
Other interest income	0
Other ordinary income	39
Income from derivatives other than for trading or hedging	39
Receipts from the national budget	29,774
Receipts from general account of the national budget	29,772
Receipts from special account of the national budget	1
Other income	453
Recoveries of written-off claims	123
Other	329
Ordinary expenses	49,510
Interest expenses	17,025
Interest on call money	0
Interest on borrowings and rediscounts	14,689
Interest on bonds	2,335
Fees and commissions payments	1,881
Other fees and commissions	1,881
Other ordinary expenses	27
Amortization of bond issuance cost	27
General and administrative expenses	19,017
Other expenses	11,558
Provision of allowance for loan losses	11,331
Written-off of loans	86
Other	140
Ordinary profit	3,142
Extraordinary income	0
Gain on disposal of noncurrent assets	0
Extraordinary losses	0
Loss on disposal of noncurrent assets	0
Net income	3,143

Statement of Changes in Net Assets (Year ended March 31, 2025)

(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	457,735	2,642	(1,840)	801	458,537	458,537
Changes of items during the period						
Issuance of new shares	64				64	64
Reversal of legal retained earnings		(1,840)	1,840	—	—	—
Net income (loss)			3,143	3,143	3,143	3,143
Total changes of items during the period	64	(1,840)	4,983	3,143	3,207	3,207
Balance at the end of current period	457,799	801	3,143	3,944	461,744	461,744

Data

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Investments in affiliates are carried at cost based on the moving average method. 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 ¥24,309 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: ¥40,755 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 assumption is the outlook for borrowers when determining the borrowers’ categories.

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

(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 there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

Issued but not yet adopted accounting standards and others

Accounting Standard for Leases (ASBJ Statement No. 34, September 13, 2024) and Implementation Guidance on Accounting Standard for Leases (ASBJ Guidance No. 33, September 13, 2024), etc.

1. Overview

As part of efforts to make Japanese accounting standards internationally consistent, the Accounting Standards Board of Japan (ASBJ) conducted an examination based on international accounting standards with a view to the development of an accounting standard for leases that recognizes assets and liabilities for all leases of a lessee. As its basic policy, the ASBJ announced an accounting standard for leases, etc. whose basis would be the single lessee accounting model under IFRS 16, but would be simple and highly convenient and would aim to require basically no revisions even when IFRS 16 stipulations are applied to non-consolidated financial statements by incorporating only the main stipulations of IFRS 16 rather than all of them.

For the accounting treatment of lessees, the single lessee accounting model, in which similar to IFRS 16, depreciation on right-of-use assets and an amount equivalent to interest on lease liabilities are recorded for all leases regardless of whether the leases are finance or operating leases, will be adopted as the method of allocating the cost of the leases of a lessee.

2. Scheduled date of application

This accounting standard, etc. will be applied from the beginning of the fiscal year ending March 2028.

3. Effects of the application of this accounting standard, etc.

The impact on the financial statements from the application of this accounting standard, etc. is currently under review.

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: ¥4,139 million

The amount of claims under high risk: ¥126,710 million

The amount of performing claims that require monitoring by discounting the risk-adjusted principal and interest: ¥192,767 million

The amount of claims with interest or principal repayments more than 3 months in arrears: ¥1,174 million

The amount of restructured claims: ¥191,593 million

Subtotal amount: ¥323,617 million

The amount of normal claims: ¥3,205,349 million

Total amount: ¥3,528,966 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, 2025 is ¥61,831 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 ¥164,995 million).

5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥7,494 million.

6. Restriction in dividend distribution

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

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

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

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

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

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

8. Issued shares

For the fiscal year ended March 31, 2025 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	457,735,700,000	64,000,000	—	457,799,700,000

(Note) Increase is due to the issuance of 64,000,000 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, 2025 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥9,744 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥8,949 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, 2025, 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	102,246	102,246	—
(2) Loans and bills discounted	3,522,977		
Allowance for loan losses ^{(*)1}	(40,742)		
	3,482,235	3,378,783	(103,451)
Total assets	3,584,481	3,481,029	(103,451)
(1) Borrowings	2,974,250	2,844,861	(129,388)
(2) Bonds payable	164,995	166,422	1,427
Total liabilities	3,139,245	3,011,283	(127,961)
Derivative transactions ^{(*)2}			
Derivative transactions not qualifying for hedge accounting	(74)	(74)	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	(74)	(74)	—

(*)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}	2,485

(*)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, June 17, 2021), Paragraph 24-16.

(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}	102,246	—	—	—	—	—
Loans and bills discounted ^{(*)2}	418,550	730,249	562,741	439,774	492,458	752,514
Total	520,796	730,249	562,741	439,774	492,458	752,514

(*)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 contain an amount of ¥126,687 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	394,315	673,970	546,650	421,558	408,116	529,639
Bonds payable	10,000	50,000	70,000	35,000	—	—
Total	404,315	723,970	616,650	456,558	408,116	529,639

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, 2025)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Derivative transactions				
Credit derivatives	—	—	2	2
Total assets	—	—	2	2
Derivative transactions				
Credit derivatives	—	—	76	76
Total liabilities	—	—	76	76

(2) Financial instruments except those recorded on the balance sheet for fair values (March 31, 2025)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	102,246	—	102,246
Loans and bills discounted	—	—	3,378,783	3,378,783
Total assets	—	102,246	3,378,783	3,481,029
Borrowings	—	2,841,975	2,885	2,844,861
Bonds payable	—	166,422	—	166,422
Total liabilities	—	3,008,398	2,885	3,011,283

(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, with the exception of Agriculture, Forestry and Fisheries Management Capital Enhancement Loans and loans on deed 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 Agriculture, Forestry and Fisheries Management Capital Enhancement Loans and loans on deed 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, 2025)

Classification	Valuation techniques	Important unobservable inputs	Range of inputs
Derivative transactions			
Credit derivatives	Discounted present value method	Default probability	0.70%–100.00%

(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, 2025)

(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 ^(*)
		Recorded in profits and losses ^(*)	Recorded in valuation and translation adjustments					
Derivative transactions								
Credit derivatives ^(*)	(73)	(0)	—	—	—	—	(74)	(14)

(*)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, 2025 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	27,800	27,800	—

(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	2,485

11. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a non-taxable 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	19,100 million yen
Service cost	683
Interest cost	210
Actuarial difference	15
Payment of retirement benefits	(1,176)
Prior service cost	—
Other	13
Closing balance of projected benefit obligations	<u>18,847</u>

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

Opening balance of fair value of plan assets	8,424 million yen
Expected return on plan assets	168
Actuarial difference	(306)
Financing from employer	369
Payment of retirement benefits	(371)
Other	(0)
Closing balance of fair value of plan assets	<u>8,283</u>

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

Projected benefit obligations of funded plan	8,311 million yen
Fair value of plan assets	<u>(8,283)</u>
	27
Projected benefit obligations of unfunded plan	<u>10,536</u>
Unfunded pension obligations	10,563
Actuarial unrecognized difference	869
Unrecognized prior service cost	<u>148</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>11,582</u>
Provision for retirement benefits	11,582
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>11,582</u>

(4) Net pensions cost and breakdown of included items

Service cost	683 million yen
Interest cost	210
Expected return on plan assets	(168)
Amount of actuarial difference accounted for as expense	145
Amortization of prior service cost accounted for as expense	(49)
Other	—
Net pensions cost related to defined benefits plan	<u>820</u>

(5) Items concerning fair value of plan assets

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

Shares	28%
Debentures	61%
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	1.1%
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 ¥46 million.

13. Profit and loss on equity method

Investment in affiliates	¥2,530 million
Investment in affiliates (equity method)	¥2,389 million
Loss on Investment in affiliates (equity method)	¥129 million

14. Related party transactions

Related party transactions in the fiscal year ended March 31, 2025 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, 2025
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	91.48 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	64	—	—
				Receipt of funds ^(Note iv)	330,000	Borrowings	2,971,083
				Repayment of borrowing	434,125		
				Payment of interest on borrowings	14,689	Accrued expenses	1,518

(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) 8.52%

(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	¥29,774 million
Repayment of borrowed money	¥1,212 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 represent borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.

(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, 2025
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.

15. Per share information

Net assets per share	¥1.00
Net income per share	¥0.00

16. Subsequent events

Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as set forth below pursuant to a resolution of the Board of Directors adopted on June 3, 2025.

Overview of the new shares issue

Type and number of shares to be issued	64,000,000 common shares
Issue price	1 yen per share
Total issue price	64,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	64,000,000 yen
Total paid-in capital reserves	0 yen
Payment period	From June 30, 2025 to July 7, 2025
Use of capital	Funding for substantively unsecured and unguaranteed Young Farmer Business Start-up Loan, etc.

Balance Sheet (as of March 31, 2025)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	94,492	Borrowed money	3,484,448
Cash	3	Borrowings	3,484,448
Due from banks	94,488	Bonds payable	146,700
Securities	13	Other liabilities	5,525
Corporate bonds	13	Accrued expenses	1,092
Stocks	0	Unearned revenue	76
Loans and bills discounted	7,531,761	Derivatives other than for trading-liabilities	14
Loans on deeds	7,531,761	Lease obligations	1,173
Other assets	5,088	Other	3,169
Prepaid expenses	6	Provision for bonuses	1,332
Accrued income	4,056	Provision for directors' bonuses	7
Other	1,025	Provision for retirement benefits	22,468
Property, plant and equipment	47,381	Provision for directors' retirement benefits	20
Buildings	10,202	Acceptances and guarantees	28,267
Land	35,699	Total liabilities	3,688,769
Lease assets	970	Net assets	
Construction in progress	361	Capital stock	4,047,651
Other	147	Retained earnings	(636,710)
Intangible assets	11,709	Other retained earnings	(636,710)
Software	6,669	Retained earnings brought forward	(636,710)
Lease assets	56	Total shareholders' equity	3,410,940
Other	4,982		
Customers' liabilities for acceptances and guarantees	28,267		
Allowance for loan losses	(619,002)	Total net assets	3,410,940
Total assets	7,099,710	Total liabilities and net assets	7,099,710

Statement of Operations (Year ended March 31, 2025)

(Millions of yen)

Items	Amount
Ordinary income	90,400
Interest income	75,084
Interest on loans and discounts	75,024
Interest and dividends on securities	0
Interest on deposits with banks	59
Other interest income	0
Fees and commissions	262
Other fees and commissions	262
Receipts from the national budget	14,110
Receipts from general account of the national budget	14,110
Receipts from special account of the national budget	0
Other income	943
Recoveries of written-off claims	154
Gain on sales of stocks and other securities	213
Other	575
Ordinary expenses	61,337
Interest expenses	4,651
Interest on call money	8
Interest on borrowings and rediscounts	4,334
Interest on bonds	308
Fees and commissions payments	53
Other fees and commissions	53
Other ordinary expenses	698
Loss on foreign exchange transactions	664
Amortization of bond issuance cost	33
General and administrative expenses	33,869
Other expenses	22,064
Provision of allowance for loan losses	15,211
Written-off of loans	3,613
Other	3,238
Ordinary profit	29,063
Extraordinary income	0
Gain on disposal of concurrent assets	0
Extraordinary losses	0
Loss on disposal of noncurrent assets	0
Net income	29,064

Statement of Changes in Net Assets (Year ended March 31, 2025)

(Millions of yen)

	Shareholders' equity				Valuation and translation adjustments		Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
		Other retained earnings	Total retained earnings				
		Retained earnings brought forward					
Balance at the beginning of current period	4,047,643	(665,774)	(665,774)	3,381,868	157	157	3,382,025
Changes of items during the period							
Issuance of new shares	8			8			8
Net income (loss)		29,064	29,064	29,064			29,064
Net changes of items other than shareholders' equity					(157)	(157)	(157)
Total changes of items during the period	8	29,064	29,064	29,072	(157)	(157)	28,915
Balance at the end of current period	4,047,651	(636,710)	(636,710)	3,410,940	—	—	3,410,940

Data

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method) based on the moving average method. 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 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 ¥123,495 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: ¥619,002 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 anticipated 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 assumption is the outlook for borrowers when determining the borrowers’ categories.

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

(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 there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

Issued but not yet adopted accounting standards and others

Accounting Standard for Leases (ASBJ Statement No. 34, September 13, 2024) and Implementation Guidance on Accounting Standard for Leases (ASBJ Guidance No. 33, September 13, 2024), etc.

1. Overview

As part of efforts to make Japanese accounting standards internationally consistent, the Accounting Standards Board of Japan (ASBJ) conducted an examination based on international accounting standards with a view to the development of an accounting standard for leases that recognizes assets and liabilities for all leases of a lessee. As its basic policy, the ASBJ announced an accounting standard for leases, etc. whose basis would be the single lessee accounting model under IFRS 16, but would be simple and highly convenient and would aim to require basically no revisions even when IFRS 16 stipulations are applied to non-consolidated financial statements by incorporating only the main stipulations of IFRS 16 rather than all of them.

For the accounting treatment of lessees, the single lessee accounting model, in which similar to IFRS 16, depreciation on right-of-use assets and an amount equivalent to interest on lease liabilities are recorded for all leases regardless of whether the leases are finance or operating leases, will be adopted as the method of allocating the cost of the leases of a lessee.

2. Scheduled date of application

This accounting standard, etc. will be applied from the beginning of the fiscal year ending March 2028.

3. Effects of the application of this accounting standard, etc.

The impact on the financial statements from the application of this accounting standard, etc. is currently under review.

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: ¥9,885 million

The amount of claims under high risk: ¥785,542 million

The amount of performing claims that require monitoring by discounting the risk-adjusted principal and interest: ¥160,146 million

The amount of claims with interest or principal repayments more than 3 months in arrears: ¥– million

The amount of restructured claims: ¥160,146 million

Subtotal amount: ¥955,574 million

The amount of normal claims: ¥6,608,509 million

Total amount: ¥7,564,084 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, 2025 is ¥30,539 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 ¥14,332 million. Of this amount, ¥1,662 million is for loans with an original contract term of one year or less.

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 ¥146,700 million).

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥11,884 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, 2025 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	4,047,643,000,000	8,000,000	—	4,047,651,000,000

(Note) Increase is due to the issuance of 8,000,000 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, 2025 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥90,642 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 ¥85,873 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, 2025, 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	94,492	94,492	—
(2) Securities			
Held-to-maturity debt securities	13	13	—
(3) Loans and bills discounted	7,531,761		
Allowance for loan losses ^{(*)1}	(617,225)		
	6,914,535	7,134,720	220,185
Total assets	7,009,041	7,229,226	220,185
(1) Borrowings	3,484,448	3,362,276	(122,171)
(2) Bonds payable	146,700	144,266	(2,433)
Total liabilities	3,631,148	3,506,543	(124,604)
Derivative transactions ^{(*)2}			
Derivative transactions not qualifying for hedge accounting	(14)	(14)	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	(14)	(14)	—

(*)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, 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}	94,488	—	—	—	—	—
Securities						
Held-to-maturity debt securities	13	—	—	—	—	—
Loans and bills discounted ^{(*)2}	1,208,561	1,889,986	1,383,275	1,237,203	934,726	857,611
Total	1,303,063	1,889,986	1,383,275	1,237,203	934,726	857,611

(*)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 contain an amount of ¥20,395 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	590,656	879,775	725,929	675,035	535,977	77,076
Bonds payable	35,000	61,700	50,000	—	—	—
Total	625,656	941,475	775,929	675,035	535,977	77,076

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, 2025)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Derivative transactions				
Currency related	—	14	—	14
Total liabilities	—	14	—	14

(2) Financial instruments except those recorded on the balance sheet for fair values (March 31, 2025)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	94,492	—	94,492
Securities				
Held-to-maturity debt securities				
Corporate bonds	—	13	—	13
Loans and bills discounted	—	—	7,134,720	7,134,720
Total assets	—	94,505	7,134,720	7,229,226
Borrowings	—	3,358,468	3,807	3,362,276
Bonds payable	—	144,266	—	144,266
Total liabilities	—	3,502,735	3,807	3,506,543

(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 taking into consideration actual interest rates for borrowings that have been redeemed, 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, 2025 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	13	13	—

(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

(c) Available-for-sale securities sold in the fiscal year in review (from April 1, 2024 to March 31, 2025)

	Sales amount (Millions of yen)	Total gain on sales (Millions of yen)	Total loss on sales (Millions of yen)
Stocks	4	2	—
Others	66	66	—
Total	70	69	—

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 multiemployer 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	35,619 million yen
Service cost	1,302
Interest cost	388
Actuarial difference	23
Payment of retirement benefits	(1,624)
Prior service cost	—
Other	(250)
Closing balance of projected benefit obligations	<u>35,458</u>

- (2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets
- | | |
|--|--------------------|
| Opening balance of fair value of plan assets | 15,731 million yen |
| Expected return on plan assets | 313 |
| Actuarial difference | (550) |
| Financing from employer | 735 |
| Payment of retirement benefits | (707) |
| Other | (59) |
| Closing balance of fair value of plan assets | <u>15,463</u> |
- (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet
- | | |
|--|--------------------|
| Projected benefit obligations of funded plan | 15,514 million yen |
| Fair value of plan assets | <u>(15,463)</u> |
| | 51 |
| Projected benefit obligations of unfunded plan | <u>19,944</u> |
| Unfunded pension obligations | 19,995 |
| Actuarial unrecognized difference | 2,280 |
| Unrecognized prior service cost | <u>192</u> |
| Net amount of liabilities and assets recorded on the balance sheet | <u>22,468</u> |
| Provision for retirement benefits | 22,468 |
| Prepaid pension cost | <u>—</u> |
| Net amount of liabilities and assets recorded on the balance sheet | <u>22,468</u> |
- (4) Net pensions cost and breakdown of included items
- | | |
|---|-------------------|
| Service cost | 1,302 million yen |
| Interest cost | 388 |
| Expected return on plan assets | (313) |
| Amount of actuarial difference accounted for as expense | 103 |
| Amortization of prior service cost accounted for as expense | 17 |
| Other | <u>—</u> |
| Net pensions cost related to defined benefits plan | <u>1,499</u> |
- (5) Items concerning fair value of plan assets
- 1) The percentage of each category of total fair value of plan assets is as follows.
- | | |
|-------------------|-------------|
| Shares | 28% |
| Debentures | 61% |
| General account | 11% |
| Cash and deposits | <u>1%</u> |
| Total | <u>100%</u> |
- 2) Method for setting the long-term expected rate of return on plan assets
To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.
- (6) Items related to actuarial calculation bases
- Major actuarial calculation bases at the end of the fiscal year in review
- | | |
|---|--------------|
| 1) Discount rate | 1.1% |
| 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 ¥91 million.

11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2025 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, 2025
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Notes i and ii)	96.20 (Direct)	Administration for policy based financing	Receipt of funds ^(Note iii)	345,000	Borrowings	3,484,448
				Repayment of borrowing	744,270		
				Payment of interest on borrowings	4,334	Accrued expenses	889
				Guarantee for bonds payable ^(Note iv)	135,000	—	—

(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) 3.80%

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

-Ministry of Economy, Trade and Industry
 Underwriting of capital increase ¥8 million
 -Agency for Natural Resources and Energy
 Receipts from the national budget ¥0 million
 -Small and Medium Enterprise Agency
 Receipts from the national budget ¥14,110 million

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

(iv) No guarantee fee has been paid for the guarantee of bonds.

12. Per share information

Net assets per share ¥0.84

Net income per share ¥0.00

13. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2025)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	3,925	Bonds payable	19,200
Due from banks	3,925	Other liabilities	739
Securities	40,142	Accrued expenses	2
Government bonds	21,147	Derivatives other than for trading-liabilities	728
Corporate bonds	18,995	Other	8
Other assets	964	Provision for bonuses	2
Prepaid expenses	0	Provision for directors' bonuses	0
Accrued income	6	Provision for retirement benefits	36
Derivatives other than for trading-assets	954	Provision for directors' retirement benefits	0
Other	3	Total liabilities	19,977
Prepaid pension cost	1	Net assets	
		Capital stock	24,476
		Retained earnings	702
		Legal retained earnings	608
		Other retained earnings	93
		Retained earnings brought forward	93
		Total shareholders' equity	25,178
		Valuation difference on available-for-sale securities	(121)
		Total valuation and translation adjustments	(121)
		Total net assets	25,056
Total assets	45,034	Total liabilities and net assets	45,034

Statement of Operations (Year ended March 31, 2025)

(Millions of yen)

Items	Amount
Ordinary income	568
Interest income	214
Interest and dividends on securities	214
Interest on deposits with banks	0
Other ordinary income	268
Income from derivatives other than for trading or hedging	268
Other income	86
Other	86
Ordinary expenses	475
Interest expenses	43
Interest on bonds	43
Fees and commissions payments	238
Other fees and commissions	238
Other ordinary expenses	1
Amortization of bond issuance cost	1
General and administrative expenses	106
Other expenses	85
Other	85
Ordinary profit	93
Net income	93

Statement of Changes in Net Assets (Year ended March 31, 2025)

(Millions of yen)

	Shareholders' equity					Valuation and translation adjustments		Total net assets
	Capital stock	Retained earnings			Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
		Legal retained earnings	Other retained earnings	Total retained earnings				
			Retained earnings brought forward					
Balance at the beginning of current period	24,476	574	68	642	25,118	(44)	(44)	25,073
Changes of items during the period								
Provision of legal retained earnings		34	(34)	—	—			—
Payment to National Treasury			(34)	(34)	(34)			(34)
Net income (loss)			93	93	93			93
Net changes of items other than shareholders' equity						(76)	(76)	(76)
Total changes of items during the period	—	34	25	59	59	(76)	(76)	(16)
Balance at the end of current period	24,476	608	93	702	25,178	(121)	(121)	25,056

Data

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method) based on the moving average method. 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.

Issued but not yet adopted accounting standards and others

Accounting Standard for Leases (ASBJ Statement No. 34, September 13, 2024) and Implementation Guidance on Accounting Standard for Leases (ASBJ Guidance No. 33, September 13, 2024), etc.

1. Overview

As part of efforts to make Japanese accounting standards internationally consistent, the Accounting Standards Board of Japan (ASBJ) conducted an examination based on international accounting standards with a view to the development of an accounting standard for leases that recognizes assets and liabilities for all leases of a lessee. As its basic policy, the ASBJ announced an accounting standard for leases, etc. whose basis would be the single lessee accounting model under IFRS 16, but would be simple and highly convenient and would aim to require basically no revisions even when IFRS 16 stipulations are applied to non-consolidated financial statements by incorporating only the main stipulations of IFRS 16 rather than all of them.

For the accounting treatment of lessees, the single lessee accounting model, in which similar to IFRS 16, depreciation on right-of-use assets and an amount equivalent to interest on lease liabilities are recorded for all leases regardless of whether the leases are finance or operating leases, will be adopted as the method of allocating the cost of the leases of a lessee.

2. Scheduled date of application

This accounting standard, etc. will be applied from the beginning of the fiscal year ending March 2028.

3. Effects of the application of this accounting standard, etc.

The impact on the financial statements from the application of this accounting standard, etc. is currently under review.

2. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes this operation account bonds issued to a total amount of ¥19,200 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, 2025, 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, 2025 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥975 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 ¥910 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, 2025, 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	3,925	3,925	—
(2) Securities			
Held-to-maturity debt securities	21,147	18,822	(2,324)
Available-for-sale securities	18,995	18,995	—
Total assets	44,067	41,743	(2,324)
Bonds payable	19,200	18,843	(356)
Total debt	19,200	18,843	(356)
Derivative transactions ^(*)			
Derivative transactions not qualifying for hedge accounting	226	226	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	226	226	—

(*) 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 ^(*)	3,925	—	—	—	—	—
Securities						
Held-to-maturity debt securities	—	—	—	—	—	21,068
Available-for-sale securities	7,023	12,092	0	—	—	—
Total	10,949	12,092	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	—	19,200	—	—	—	—

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, 2025)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Securities				
Available-for-sale securities				
Corporate bonds	—	—	18,995	18,995
Derivative transactions				
Credit derivatives	—	—	954	954
Total assets	—	—	19,949	19,949
Derivative transactions				
Credit derivatives	—	—	728	728
Total liabilities	—	—	728	728

(2) Financial instruments except those recorded on the balance sheet for fair values (March 31, 2025)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	3,925	—	3,925
Securities				
Held-to-maturity debt securities				
Government bonds	18,822	—	—	18,822
Total assets	18,822	3,925	—	22,747
Bonds payable	—	18,843	—	18,843
Total liabilities	—	18,843	—	18,843

(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, 2025)

Classification	Valuation techniques	Important unobservable inputs	Range of inputs
Securities			
Available-for-sale securities			
Corporate bonds	Discounted present value method	Default probability	0.00%–0.15%
Derivative transactions			
Credit derivatives	Discounted present value method	Default probability	0.11%–7.69%

(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, 2025)

(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 ^(*)
		Recorded in profits and losses ^(*)	Recorded in valuation and translation adjustments ^(*)					
Securities								
Available-for-sale securities								
Corporate bonds	20,223	—	(76)	(1,151)	—	—	18,995	—
Derivative transactions								
Credit derivatives ^(*)	137	88	—	—	—	—	226	88

(*) Included in "income from derivatives other than for trading or hedging" in the profit and loss statement.

(*) Included in "valuation difference on available-for-sale securities" on the balance sheet.

(*) 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, 2025 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	Japanese government bonds	21,147	18,822	(2,324)

(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	18,995	19,116	(121)

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	40 million yen
Service cost	3
Interest cost	0
Actuarial difference	1
Payment of retirement benefits	(1)
Prior service cost	—
Other	(4)
Closing balance of projected benefit obligations	<u>39</u>

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

Opening balance of fair value of plan assets	11 million yen
Expected return on plan assets	0
Actuarial difference	(0)
Financing from employer	1
Payment of retirement benefits	(0)
Other	(0)
Closing balance of fair value of plan assets	<u>11</u>

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

Projected benefit obligations of funded plan	11 million yen
Fair value of plan assets	<u>(11)</u>
	0
Projected benefit obligations of unfunded plan	<u>28</u>
Unfunded pension obligations	28
Actuarial unrecognized difference	6
Unrecognized prior service cost	(0)
Net amount of liabilities and assets recorded on the balance sheet	<u>34</u>
Provision for retirement benefits	36
Prepaid pension cost	(1)
Net amount of liabilities and assets recorded on the balance sheet	<u>34</u>

(4) Net pensions cost and breakdown of included items

Service cost	3 million yen
Interest cost	0
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	0
Amortization of prior service cost accounted for as expense	0
Other	—
Net pensions cost related to defined benefits plan	<u>4</u>

(5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.	
Shares	28%
Debentures	61%
General account	11%
Cash and deposits	1%
Total	<u>100%</u>

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

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

(6) Items related to actuarial calculation bases

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

1) Discount rate	1.1%
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	¥1.02
Net income per share	¥0.00

10. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2025)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	6,625,259	Reserve for insurance policy liabilities	1,326,593
Due from banks	6,625,259	Other liabilities	1,572
Securities	99,863	Accrued expenses	30
Government bonds	99,863	Lease obligations	189
Other assets	18,543	Other	1,352
Prepaid expenses	0	Provision for bonuses	208
Accrued income	1,405	Provision for directors' bonuses	1
Other	17,137	Provision for retirement benefits	4,394
Property, plant and equipment	16,951	Provision for directors' retirement benefits	3
Buildings	2,818	Total liabilities	1,332,773
Land	13,968	Net assets	
Lease assets	156	Capital surplus	5,330,700
Other	7	Legal capital surplus	5,330,700
Intangible assets	3,301	Retained earnings	100,444
Software	3,273	Legal retained earnings	149,709
Lease assets	9	Other retained earnings	(49,265)
Other	18	Retained earnings brought forward	(49,265)
		Total shareholders' equity	5,431,144
		Total net assets	5,431,144
Total assets	6,763,918	Total liabilities and net assets	6,763,918

Statement of Operations (Year ended March 31, 2025)

(Millions of yen)

Items	Amount
Ordinary income	331,249
Interest income	7,044
Interest and dividends on securities	238
Interest on deposits with banks	6,805
Insurance premiums and other	324,022
Insurance premiums	155,419
Receipts of burden charges under the Responsibility-sharing System	12,224
Reversal of reserve for insurance policy liabilities	156,377
Other income	182
Other	182
Ordinary expenses	380,514
Expenses on insurance claims and other	369,780
Expenses on insurance claims	439,044
Recoveries of insurance claims	(69,263)
General and administrative expenses	5,675
Other expenses	5,058
Other	5,058
Ordinary loss	49,265
Extraordinary losses	0
Loss on disposal of noncurrent assets	0
Net loss	49,265

Data

Statement of Changes in Net Assets (Year ended March 31, 2025)

(Millions of yen)

	Shareholders' equity						Total net assets
	Capital surplus		Retained earnings			Total shareholders' equity	
	Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings Retained earnings brought forward	Total retained earnings		
Balance at the beginning of current period	5,284,100	5,284,100	—	149,709	149,709	5,433,810	5,433,810
Changes of items during the period							
Issuance of new shares	46,600	46,600				46,600	46,600
Provision of legal retained earnings			149,709	(149,709)	—	—	—
Net income (loss)				(49,265)	(49,265)	(49,265)	(49,265)
Total changes of items during the period	46,600	46,600	149,709	(198,974)	(49,265)	(2,665)	(2,665)
Balance at the end of current period	5,330,700	5,330,700	149,709	(49,265)	100,444	5,431,144	5,431,144

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.

(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: ¥1,326,593 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, and 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.

(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 there may be a material impact on the reserve for insurance policy liabilities in the financial statements for the following fiscal year.

Issued but not yet adopted accounting standards and others

Accounting Standard for Leases (ASBJ Statement No. 34, September 13, 2024) and Implementation Guidance on Accounting Standard for Leases (ASBJ Guidance No. 33, September 13, 2024), etc.

1. Overview

As part of efforts to make Japanese accounting standards internationally consistent, the Accounting Standards Board of Japan (ASBJ) conducted an examination based on international accounting standards with a view to the development of an accounting standard for leases that recognizes assets and liabilities for all leases of a lessee. As its basic policy, the ASBJ announced an accounting standard for leases, etc. whose basis would be the single lessee accounting model under IFRS 16, but would be simple and highly convenient and would aim to require basically no revisions even when IFRS 16 stipulations are applied to non-consolidated financial statements by incorporating only the main stipulations of IFRS 16 rather than all of them.

For the accounting treatment of lessees, the single lessee accounting model, in which similar to IFRS 16, depreciation on right-of-use assets and an amount equivalent to interest on lease liabilities are recorded for all leases regardless of whether the leases are finance or operating leases, will be adopted as the method of allocating the cost of the leases of a lessee.

2. Scheduled date of application

This accounting standard, etc. will be applied from the beginning of the fiscal year ending March 2028.

3. Effects of the application of this accounting standard, etc.

The impact on the financial statements from the application of this accounting standard, etc. is currently under review.

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 ¥3,610 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 ¥5,032 million.

6. Issued shares

For the fiscal year ended March 31, 2025, 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	9,901,847,407,741	46,600,000,000	—	9,948,447,407,741

(Note) Increase is due to the issuance of 46,600,000,000 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, 2025, 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	6,625,259	6,513,212	(112,047)
(2) Securities			
Held-to-maturity debt securities	99,863	98,535	(1,328)
Total assets	6,725,123	6,611,747	(113,376)

(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 ^(*)	2,111,259	2,000,000	1,900,000	314,000	300,000	—
Securities						
Held-to-maturity debt securities	—	—	100,000	—	—	—
Total	2,111,259	2,000,000	2,000,000	314,000	300,000	—

(*) 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, 2025)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	6,513,212	—	6,513,212
Securities				
Held-to-maturity debt securities				
Government bonds	98,535	—	—	98,535
Total assets	98,535	6,513,212	—	6,611,747

(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 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 securities, classified into level 1 fair value.

Notes for securities by purpose of holding are found in "8. Fair value of securities."

8. Fair value of securities

In addition to "Government bonds" on the balance sheet, transferable deposits in "Due from banks" are also included.

The fair value of securities at March 31, 2025 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	Japanese government bonds	99,863	98,535	(1,328)

(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	127,000	127,000	—

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	6,842 million yen
Service cost	221
Interest cost	77
Actuarial difference	(41)
Payment of retirement benefits	(347)
Prior service cost	—
Other	248
Closing balance of projected benefit obligations	7,000

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets	
Opening balance of fair value of plan assets	3,308 million yen
Expected return on plan assets	67
Actuarial difference	(104)
Financing from employer	109
Payment of retirement benefits	(147)
Other	60
Closing balance of fair value of plan assets	<u>3,293</u>
(3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet	
Projected benefit obligations of funded plan	3,304 million yen
Fair value of plan assets	<u>(3,293)</u>
	10
Projected benefit obligations of unfunded plan	<u>3,695</u>
Unfunded pension obligations	3,706
Actuarial unrecognized difference	649
Unrecognized prior service cost	38
Net amount of liabilities and assets recorded on the balance sheet	<u>4,394</u>
Provision for retirement benefits	4,394
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>4,394</u>
(4) Net pensions cost and breakdown of included items	
Service cost	221 million yen
Interest cost	77
Expected return on plan assets	(67)
Amount of actuarial difference accounted for as expense	(19)
Amortization of prior service cost accounted for as expense	4
Other	—
Net pensions cost related to defined benefits plan	<u>216</u>
(5) Items concerning fair value of plan assets	
1) The percentage of each category of total fair value of plan assets is as follows.	
Shares	28%
Debentures	61%
General account	11%
Cash and deposits	1%
Total	<u>100%</u>
2) Method for setting the long-term expected rate of return on plan assets	
To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.	
(6) Items related to actuarial calculation bases	
Major actuarial calculation bases at the end of the fiscal year in review	
1) Discount rate	1.1%
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, 2025 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, 2025
Principal shareholder	Ministry of Finance (Minister of Finance)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note i)	46,600	—	—
				Deposit of funds ^(Note ii)	4,430,600	Due from banks	6,326,900
				Refund of funds	4,834,600		

(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.

12. Per share information

Net assets per share ¥0.54

Net loss per share ¥0.00

13. Subsequent events

Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as set forth below pursuant to a resolution of the Board of Directors adopted on June 3, 2025.

Overview of the new shares issue

Type and number of shares to be issued	46,100,000,000 common shares
Issue price	1 yen per share
Total issue price	46,100,000,000 yen
Paid-in capital	0 yen per share
Paid-in capital reserves	1 yen per share
Total paid-in capital	0 yen
Total paid-in capital reserves	46,100,000,000 yen
Payment period	From June 30, 2025 to July 7, 2025
Use of capital	Reinforcement of insurance foundations and stable operation of systems

Balance Sheet (as of March 31, 2025)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	1,011,745	Borrowed money	2,689,421
Due from banks	1,011,745	Borrowings	2,689,421
Securities	99,951	Other liabilities	7,335
Government bonds	99,951	Accrued expenses	80
Loans and bills discounted	2,689,421	Contract liability	7,183
Loans on deeds	2,689,421	Lease obligations	6
Other assets	747	Other	64
Prepaid expenses	0	Provision for bonuses	7
Accrued income	649	Provision for directors' bonuses	0
Other	97	Provision for retirement benefits	103
Property, plant and equipment	5	Provision for directors' retirement benefits	0
Lease assets	5	Reserve for compensation losses	29,865
Intangible assets	80	Total liabilities	2,726,732
Software	34	Net assets	
Lease assets	0	Capital stock	1,447,658
Other	45	Retained earnings	(372,431)
Prepaid pension cost	8	Other retained earnings	(372,431)
		Retained earnings brought forward	(372,431)
		Total shareholders' equity	1,075,226
		Total net assets	1,075,226
Total assets	3,801,958	Total liabilities and net assets	3,801,958

Statement of Operations (Year ended March 31, 2025)

(Millions of yen)

Items	Amount
Ordinary income	10,914
Interest income	5,416
Interest on loans and discounts	2,972
Interest and dividends on securities	286
Interest on deposits with banks	2,157
Fees and commissions	3,067
Fees and commissions on compensation security contract	3,067
Receipts from the national budget	154
Receipts from general account of the national budget	154
Other income	2,275
Other	2,275
Ordinary expenses	34,642
Interest expenses	2,956
Interest on borrowings and rediscounts	2,972
Interest on bonds	(15)
Other ordinary expenses	10,143
Amortization of bond issuance cost	1
Interest subsidies	10,142
General and administrative expenses	212
Other expenses	21,329
Provision of reserve for compensation losses	20,164
Other	1,164
Ordinary loss	23,728
Net loss	23,728

Statement of Changes in Net Assets (Year ended March 31, 2025)

(Millions of yen)

	Shareholders' equity				Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	
		Other retained earnings	Total retained earnings		
		Retained earnings brought forward			
Balance at the beginning of current period	1,447,648	(348,703)	(348,703)	1,098,944	1,098,944
Changes of items during the period					
Issuance of new shares	10			10	10
Net income (loss)		(23,728)	(23,728)	(23,728)	(23,728)
Total changes of items during the period	10	(23,728)	(23,728)	(23,718)	(23,718)
Balance at the end of current period	1,447,658	(372,431)	(372,431)	1,075,226	1,075,226

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.

(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: ¥29,865 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.

When calculating the anticipated loss rate, in consideration of the status of compensation payments in the current fiscal year, necessary adjustments were made to the group of compensation security transactions to SME and medium-sized businesses for which the repayment performance deadline has not yet arrived and the loan conditions have not been restructured.

(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.

However, in consideration of the status of compensation payments in the current fiscal year, necessary adjustments were made to the anticipated loss rate for the group of compensation security transactions to SME and medium-sized businesses for which the repayment performance deadline has not yet arrived and the loan conditions have not been restructured, with the assumption that the status of compensation payments in the current fiscal year will continue in the future as well.

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

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

Issued but not yet adopted accounting standards and others

Accounting Standard for Leases (ASBJ Statement No. 34, September 13, 2024) and Implementation Guidance on Accounting Standard for Leases (ASBJ Guidance No. 33, September 13, 2024), etc.

1. Overview

As part of efforts to make Japanese accounting standards internationally consistent, the Accounting Standards Board of Japan (ASBJ) conducted an examination based on international accounting standards with a view to the development of an accounting standard for leases that recognizes assets and liabilities for all leases of a lessee. As its basic policy, the ASBJ announced an accounting standard for leases, etc. whose basis would be the single lessee accounting model under IFRS 16, but would be simple and highly convenient and would aim to require basically no revisions even when IFRS 16 stipulations are applied to non-consolidated financial statements by incorporating only the main stipulations of IFRS 16 rather than all of them.

For the accounting treatment of lessees, the single lessee accounting model, in which similar to IFRS 16, depreciation on right-of-use assets and an amount equivalent to interest on lease liabilities are recorded for all leases regardless of whether the leases are finance or operating leases, will be adopted as the method of allocating the cost of the leases of a lessee.

2. Scheduled date of application

This accounting standard, etc. will be applied from the beginning of the fiscal year ending March 2028.

3. Effects of the application of this accounting standard, etc.

The impact on the financial statements from the application of this accounting standard, etc. is currently under review.

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: ¥2,689,500 million
 Total amount: ¥2,689,500 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. There is no balance of bonds in this operation account.

4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥4 million.

5. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (34,073 contracts)	1,244,368
Reserve for compensation	29,865
Net amount	1,214,503

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, 2025, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	1,447,648,000,000	10,000,000	—	1,447,658,000,000

(Note) Increase is due to the issuance of 10,000,000 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, 2025, 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	1,011,745	1,002,754	(8,991)
(2) Securities			
Held-to-maturity debt securities	99,951	98,532	(1,418)
(3) Loans and bills discounted	2,689,421	2,551,378	(138,042)
Total assets	3,801,117	3,652,665	(148,452)
Borrowings	2,689,421	2,569,051	(120,369)
Total liabilities	2,689,421	2,569,051	(120,369)

(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 ^(*)	261,745	500,000	250,000	—	—	—
Securities						
Held-to-maturity debt securities	—	—	100,000	—	—	—
Loans and bills discounted	545,147	773,855	608,377	282,220	325,611	154,211
Total	806,892	1,273,855	958,377	282,220	325,611	154,211

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

(Note 2) Redemption schedule for borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	545,147	773,855	608,377	282,220	325,611	154,211

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, 2025)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	1,002,754	—	1,002,754
Securities				
Held-to-maturity debt securities				
Government bonds	98,532	—	—	98,532
Loans and bills discounted	—	2,551,378	—	2,551,378
Total assets	98,532	3,554,133	—	3,652,665
Borrowings	—	2,569,051	—	2,569,051
Total liabilities	—	2,569,051	—	2,569,051

(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 securities, classified into level 1 fair value.

Notes for securities by purpose of holding are found in "9. Fair value of securities."

(3) 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

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.

9. Fair value of securities

In addition to "Government bonds" on the balance sheet, transferable deposits in "Due from banks" are also included.

The fair value of securities at March 31, 2025 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	Japanese government bonds	99,951	98,532	(1,418)

(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	155,000	155,000	—

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	142 million yen
Service cost	6
Interest cost	1
Actuarial difference	(0)
Payment of retirement benefits	—
Prior service cost	—
Other	(17)
Closing balance of projected benefit obligations	133

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

Opening balance of fair value of plan assets	34 million yen
Expected return on plan assets	0
Actuarial difference	(2)
Financing from employer	4
Payment of retirement benefits	—
Other	(4)
Closing balance of fair value of plan assets	31

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

Projected benefit obligations of funded plan	31 million yen
Fair value of plan assets	(31)
	0
Projected benefit obligations of unfunded plan	101
Unfunded pension obligations	101
Actuarial unrecognized difference	(8)
Unrecognized prior service cost	1
Net amount of liabilities and assets recorded on the balance sheet	94
Provision for retirement benefits	103
Prepaid pension cost	(8)
Net amount of liabilities and assets recorded on the balance sheet	94

(4) Net pensions cost and breakdown of included items

Service cost	6 million yen
Interest cost	1
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	6
Amortization of prior service cost accounted for as expense	(0)
Other	—
Net pensions cost related to defined benefits plan	<u>13</u>

(5) Items concerning fair value of plan assets

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

Shares	28%
Debentures	61%
General account	11%
Cash and deposits	1%
Total	<u>100%</u>

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

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

(6) Items related to actuarial calculation bases

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

1) Discount rate	1.1%
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 ¥3,001 million.

(2) The total transaction price allocated to remaining performance obligations at the last day of the current fiscal year amounts to ¥7,183 million. 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	1,440
Over one year	5,743
Total	7,183

13. Related party transactions

Related party transactions in the fiscal year ended March 31, 2025 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, 2025
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	90.14 (Direct)	Administration for policy based financing	Underwriting of capital increase ^(Note iii)	10	—	—
				Receipts from general account of the national budget	57	—	—
				Repayment of borrowings	506,251	Borrowings	2,689,421
				Payment of interest on borrowings	2,972	Accrued expenses	79
				Deposit of funds ^(Note iv)	1,175,000	Due from banks	750,000
				Refund of funds	1,385,000		

(Notes)

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

- Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries) 0.09%
- Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry) 9.78%

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

- Ministry of Agriculture, Forestry and Fisheries
 - Receipts from the national budget ¥38 million
- Small and Medium Enterprise Agency
 - Receipts from the national budget ¥57 million

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

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

14. Per share information

Net assets per share	¥0.74
Net loss per share	¥0.01

15. Subsequent events

Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as set forth below pursuant to a resolution of the Board of Directors adopted on June 3, 2025.

Overview of the new shares issue

Type and number of shares to be issued	10,000,000 common shares
Issue price	1 yen per share
Total issue price	10,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	10,000,000 yen
Total paid-in capital reserves	0 yen
Payment period	From June 30, 2025 to July 7, 2025
Use of capital	Source of funds for compensation security

Balance Sheet (as of March 31, 2025)

(Millions of yen)

Items	Amount	Items	Amount
Assets		Liabilities	
Cash and due from banks	186	Borrowed money	67,088
Due from banks	186	Borrowings	67,088
Loans and bills discounted	67,088	Other liabilities	56
Loans on deeds	67,088	Accrued expenses	28
Other assets	42	Lease obligations	3
Prepaid expenses	0	Other	24
Accrued income	27	Provision for bonuses	4
Other	14	Provision for directors' bonuses	0
Property, plant and equipment	2	Provision for retirement benefits	51
Lease assets	2	Provision for directors' retirement benefits	0
Intangible assets	85	Total liabilities	67,200
Software	80	Net assets	
Lease assets	0	Capital stock	407
Other	5	Retained earnings	(197)
Prepaid pension cost	4	Other retained earnings	(197)
Allowance for loan losses	(0)	Retained earnings brought forward	(197)
		Total shareholders' equity	209
		Total net assets	209
Total assets	67,409	Total liabilities and net assets	67,409

Statement of Operations (Year ended March 31, 2025)

(Millions of yen)

Items	Amount
Ordinary income	359
Interest income	80
Interest on loans and discounts	80
Interest on deposits with banks	0
Receipts from the national budget	278
Receipts from general account of the national budget	82
Receipts from special account of the national budget	195
Other income	0
Other	0
Ordinary expenses	396
Interest expenses	80
Interest on borrowings and rediscounts	80
Other ordinary expenses	195
Interest subsidies	195
General and administrative expenses	119
Other expenses	0
Provision of allowance for loan losses	0
Ordinary loss	37
Net loss	37

Statement of Changes in Net Assets (Year ended March 31, 2025)

(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	407	(160)	(160)	246	246
Changes of items during the period					
Net income (loss)		(37)	(37)	(37)	(37)
Total changes of items during the period	—	(37)	(37)	(37)	(37)
Balance at the end of current period	407	(197)	(197)	209	209

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.

Issued but not yet adopted accounting standards and others

Accounting Standard for Leases (ASBJ Statement No. 34, September 13, 2024) and Implementation Guidance on Accounting Standard for Leases (ASBJ Guidance No. 33, September 13, 2024), etc.

1. Overview

As part of efforts to make Japanese accounting standards internationally consistent, the Accounting Standards Board of Japan (ASBJ) conducted an examination based on international accounting standards with a view to the development of an accounting standard for leases that recognizes assets and liabilities for all leases of a lessee. As its basic policy, the ASBJ announced an accounting standard for leases, etc. whose basis would be the single lessee accounting model under IFRS 16, but would be simple and highly convenient and would aim to require basically no revisions even when IFRS 16 stipulations are applied to non-consolidated financial statements by incorporating only the main stipulations of IFRS 16 rather than all of them.

For the accounting treatment of lessees, the single lessee accounting model, in which similar to IFRS 16, depreciation on right-

of-use assets and an amount equivalent to interest on lease liabilities are recorded for all leases regardless of whether the leases are finance or operating leases, will be adopted as the method of allocating the cost of the leases of a lessee.

2. Scheduled date of application

This accounting standard, etc. will be applied from the beginning of the fiscal year ending March 2028.

3. Effects of the application of this accounting standard, etc.

The impact on the financial statements from the application of this accounting standard, etc. is currently under review.

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: ¥67,115 million

Total amount: ¥67,115 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 ¥2 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, 2025, 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	407,000,000	—	—	407,000,000

7. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

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

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

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

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

This account provides loans, 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, certified business operators that are introducing specified ships, and certified business operators that conduct business relating to measures to ensure stable supply of specified critical materials, etc. 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 reorganization promotion operations, business adaptation promotion operations, development and provision, etc. promotion operations, business infrastructure reinforcement promotion operations, introduction promotion operations, and ensuring supply 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 from fiscal loan funds 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 from fiscal investment and loans are secured to finance this account and deposits are not accepted. Liquidity risk is believed to be limited because the loan period and borrowing period are equal.

(4) Supplementary explanation concerning fair value of financial instruments

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, 2025, 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	186	186	—
(2) Loans and bills discounted	67,088		
Allowance for loan losses ^(*)	(0)		
	67,087	65,423	(1,664)
Total assets	67,274	65,609	(1,664)
Borrowings	67,088	65,619	(1,468)
Total liabilities	67,088	65,619	(1,468)

(*) General 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 ^(*)	186	—	—	—	—	—
Loans and bills discounted	14,886	29,946	15,819	1,927	2,434	2,076
Total	15,072	29,946	15,819	1,927	2,434	2,076

(*) 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	14,886	29,946	15,819	1,927	2,434	2,076

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, 2025)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Cash and due from banks	—	186	—	186
Loans and bills discounted	—	65,423	—	65,423
Total assets	—	65,609	—	65,609
Borrowings	—	65,619	—	65,619
Total liabilities	—	65,619	—	65,619

(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, etc. 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	75 million yen
Service cost	3
Interest cost	0
Actuarial difference	1
Payment of retirement benefits	—
Prior service cost	—
Other	(11)
Closing balance of projected benefit obligations	<u>70</u>

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

Opening balance of fair value of plan assets	18 million yen
Expected return on plan assets	0
Actuarial difference	(1)
Financing from employer	2
Payment of retirement benefits	—
Other	(2)
Closing balance of fair value of plan assets	<u>17</u>

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

Projected benefit obligations of funded plan	17 million yen
Fair value of plan assets	<u>(17)</u>
	0
Projected benefit obligations of unfunded plan	<u>53</u>
Unfunded pension obligations	53
Actuarial unrecognized difference	(6)
Unrecognized prior service cost	0
Net amount of liabilities and assets recorded on the balance sheet	<u>47</u>
Provision for retirement benefits	51
Prepaid pension cost	<u>(4)</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>47</u>

(4) Net pensions cost and breakdown of included items

Service cost	3 million yen
Interest cost	0
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	3
Amortization of prior service cost accounted for as expense	(0)
Other	—
Net pensions cost related to defined benefits plan	<u>7</u>

(5) Items concerning fair value of plan assets

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

Shares	28%
Debentures	61%
General account	11%
Cash and deposits	1%
Total	<u>100%</u>

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

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

(6) Items related to actuarial calculation bases

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

1) Discount rate	1.1%
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, 2025 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, 2025
Principal shareholder	Ministry of Finance (Minister of Finance) ^(Note i)	100 (Direct)	Administration for policy based financing	Receipt of funds ^(Note ii)	160	Borrowings	67,088
				Repayment of borrowings	14,166		
				Payment of interest on borrowings	80	Accrued expenses	27

(Notes)

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

- Cabinet Office
 - Receipts from the national budget ¥20 million
- Ministry of Economy, Trade and Industry
 - Receipts from the national budget ¥249 million
- Ministry of Land, Infrastructure, Transport and Tourism
 - Receipts from the national budget ¥7 million

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

11. Per share information

Net assets per share ¥0.51
Net loss per share ¥0.09

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	12.95%	9.17%	12.63%	12.21%
Risk-managed loan balance	1,308,475	323,617	955,574	2,587,667
Bankrupt or its equivalent	19,713	4,139	9,885	33,738
Doubtful loans	128,338	126,710	785,542	1,040,591
Loans with interest or principal repayments more than three months in arrears	107	1,174	—	1,282
Restructured loans	1,160,316	191,593	160,146	1,512,055
Normal	8,795,773	3,205,349	6,608,509	18,609,632
Total loan balance	10,104,248	3,528,966	7,564,123	21,197,339

(Definitions)

- **Bankrupt or its equivalent:**
Loans or loan equivalents to borrowers who have gone bankrupt for reasons such as a declaration of bankruptcy, reorganization, or revitalization proceedings.
- **Doubtful loans:**
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).

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