

Japan Finance Corporation  
ACCOUNT FOR JBIC OPERATIONS

Balance Sheets (as of March 31, 2009)

(Unit: millions of yen)

	2009		2009
<b>Assets</b>		<b>Liabilities</b>	
<b>Cash and due from banks</b>	<b>239,218</b>	<b>Borrowed money</b>	<b>4,019,847</b>
Cash	0	Borrowings	4,019,847
Due from banks	239,218	<b>Bonds payable</b>	<b>2,093,214</b>
<b>Securities</b>	<b>10,920</b>	<b>Other liabilities</b>	<b>35,448</b>
Other securities	10,920	Accrued expenses	28,175
<b>Loans and bills discounted</b>	<b>7,243,068</b>	Unearned revenue	5,250
Loans on deeds	7,243,068	Derivatives other than for trading-liabilities	1,477
<b>Other assets</b>	<b>698,794</b>	Lease obligations	463
Prepaid expenses	253	Other	80
Accrued income	44,979	<b>Provision for bonuses</b>	<b>581</b>
Derivatives other than for trading-assets	633,638	<b>Provision for directors' bonuses</b>	<b>7</b>
Other	19,923	<b>Provision for retirement benefits</b>	<b>11,611</b>
<b>Property, plant and equipment</b>	<b>38,307</b>	<b>Provision for directors' retirement benefits</b>	<b>5</b>
Buildings	3,798	<b>Acceptances and guarantees</b>	<b>1,650,329</b>
Land	33,881	<b>Total liabilities</b>	<b>7,811,046</b>
Lease assets	97	<b>Net assets</b>	
Construction in progress	123	<b>Capital stock</b>	<b>1,035,500</b>
Other	405	<b>Retained earnings</b>	<b>739,430</b>
<b>Intangible assets</b>	<b>2,821</b>	Legal retained earnings	712,592
Software	2,330	Other retained earnings	26,838
Lease assets	343	Retained earnings brought forward	26,838
Other	147	<b>Total shareholders' equity</b>	<b>1,774,930</b>
<b>Customers' liabilities for acceptances and guarantees</b>	<b>1,650,329</b>	<b>Valuation difference on available-for-sale securities</b>	<b>(1,064)</b>
<b>Allowance for loan losses</b>	<b>(126,500)</b>	<b>Deferred gains or losses on hedges</b>	<b>172,049</b>
		<b>Total valuation and translation adjustments</b>	<b>170,984</b>
		<b>Total net assets</b>	<b>1,945,915</b>
<b>Total assets</b>	<b>9,756,961</b>	<b>Total liabilities and net assets</b>	<b>9,756,961</b>

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Statements of Income (Six months ended March 31, 2009)

(Unit: millions of yen)

	2009
<b>Ordinary income</b>	<b>97,740</b>
Interest income	93,554
Interest on loans and discounts	93,512
Interest on deposits with banks	42
Fees and commissions	3,697
Other fees and commissions	3,697
Other ordinary income	259
Income from derivatives other than for trading or hedging	259
Other income	229
Other	229
<b>Ordinary expenses</b>	<b>77,810</b>
Interest expenses	66,011
Interest on borrowings and rediscounts	24,392
Interest on bonds	28,806
Interest on interest swaps	12,812
Fees and commissions payments	578
Other fees and commissions	578
Other ordinary expenses	2,852
Loss on foreign exchange transactions	2,738
Other	114
General and administrative expenses	8,145
Other expenses	222
Provision of allowance for loan losses	195
Losses on devaluation of stocks and other securities	12
Other	14
<b>Ordinary income</b>	<b>19,929</b>
<b>Extraordinary income</b>	<b>6,947</b>
Gain on disposal of noncurrent assets	0
Recoveries of written-off claims	2,372
Gain on debt assumption agreement	4,575
<b>Extraordinary losses</b>	<b>39</b>
Loss on disposal of noncurrent assets	39
<b>Net income</b>	<b>26,838</b>

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Statements of Changes in Net Assets (Six months ended March 31, 2009)

(Unit: millions of yen)

	2009		2009
<b>Shareholders' equity</b>		<b>Deferred gains or losses on hedges</b>	
<b>Capital stock</b>		Balance at the beginning of current period	—
Balance at the beginning of current period	—	Changes of items during the period	
Changes of items during the period		Succeeded based on the JFC Law	54,235
Issuance of new shares	30,000	Net changes of items other than shareholders' equity	117,814
Capital injection based on the JFC Law	1,005,500	Total changes of items during the period	172,049
Total changes of items during the period	1,035,500	Balance at the end of current period	172,049
Balance at the end of current period	1,035,500	<b>Total valuation and translation adjustments</b>	
<b>Retained earnings</b>		Balance at the beginning of current period	—
Legal retained earnings		Changes of items during the period	
Balance at the beginning of current period	—	Succeeded based on the JFC Law	54,235
Changes of items during the period		Net changes of items other than shareholders' equity	116,749
Succeeded based on the JFC Law	712,592	Total changes of items during the period	170,984
Total changes of items during the period	712,592	Balance at the end of current period	170,984
Balance at the end of current period	712,592	<b>Total net assets</b>	
Other retained earnings		Balance at the beginning of current period	—
Retained earnings brought forward		Changes of items during the period	
Balance at the beginning of current period	—	Issuance of new shares	30,000
Changes of items during the period		Net income	26,838
Net income	26,838	Capital injection based on the JFC Law	1,005,500
Total changes of items during the period	26,838	Succeeded based on the JFC Law	766,827
Balance at the end of current period	26,838	Net changes of items other than shareholders' equity	116,749
Total retained earnings		Total changes of items during the period	1,945,915
Balance at the beginning of current period	—	Balance at the end of current period	1,945,915
Changes of items during the period			
Net income	26,838		

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Succeeded based on the JFC Law	712,592
Total changes of items during the period	739,430
Balance at the end of current period	739,430
<b>Total shareholders' equity</b>	
Balance at the beginning of current period	—
Changes of items during the period	
Issuance of new shares	30,000
Net income	26,838
Capital injection based on the JFC Law	1,005,500
Succeeded based on the JFC Law	712,592
Total changes of items during the period	1,774,930
Balance at the end of current period	1,774,930
<b>Valuation and translation adjustments</b>	
<b>Valuation difference on available-for-sale securities</b>	
Balance at the beginning of current period	—
Changes of items during the period	
Net changes of items other than shareholders' equity	(1,064)
Total changes of items during the period	(1,064)
Balance at the end of current period	(1,064)

**Notes to Financial Statements**

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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 based on the moving average method. Investments in affiliates are carried at cost based on the moving average method. Available-for-sale securities, which have readily determinable fair value are stated at fair value with changes in net unrealized gains or losses, included directly in Net assets. Available-for-sale securities without a readily determinable fair value are carried at cost based on the moving average method or amortized cost 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) 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 charges**

**(i) Bond issuance costs**

Bond issuance costs are expensed as incurred.

**(ii) Organization expenses**

Organization expenses 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 mostly translated into Japanese yen at the market exchange rate prevailing at the fiscal year end.

**(f) 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 Note 3.(g) and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

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

The allowance for claims on debtors other than Bankrupt borrowers, Substantially bankrupt borrowers and Potentially bankrupt borrowers is provided primarily based on the default rate, which is calculated based on the actual defaults during a certain period in the past.

The allowance for possible losses on specific overseas loans is provided based on the expected loss amount taking into consideration the political and economic situations of these countries.

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 internal audit department, which is independent from the operational departments, reviews these self-assessments, and the allowance is provided based on the results of the assessments.

**(g) 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.

**(h) 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.

**(i) 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.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year under 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.

**(j) Provision for directors’ retirement benefits**

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

**(k) Accounting for hedges of interest rate risk**

**(i) Hedge accounting**

JBIC accounts for derivatives used for interest rate risk hedging purposes under the deferral method.

**(ii) Hedging instruments and hedged items**

Hedging instruments: interest rate swaps

Hedged items: loans, borrowings, bonds and notes

**(iii) Hedging policy**

JBIC enters into hedging transactions up to the amount of the underlying hedged assets and liabilities.

**(iv) Assessment of hedge effectiveness**

JBIC assesses the effectiveness of designated hedges by measuring and comparing the change of fair value or cumulative change of cash flows of both hedging instruments and corresponding hedged items from the date of inception of the hedges to the assessment date.

**(l) Accounting for hedges of foreign exchange risks**

Hedge instruments used to hedge foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities are accounted for using the deferral method, in accordance with the standard treatment of The Japanese Institute of Certified Public Accountants (JICPA) Industry Audit Committee Report No. 25.

The effectiveness of the hedging instruments described above, such as currency-swaps, forward contracts and similar transactions, hedging the foreign exchange risks of monetary

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assets and liabilities denominated in foreign currencies, is assessed by comparing the foreign currency position of the hedged monetary assets and liabilities with that of the hedging instruments.

**(m) Consumption and other taxes**

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

**2. Affiliated company shares and capital stock**

Affiliated company capital stock amounted to ¥763 million.

**3. Loans**

All of loans are loans on deeds. The amounts reported in the balance sheets as of March 31, 2009 include the following:

(In millions of yen)

	As of March 31, 2009 Account for JBIC Operations
Bankrupt loans	26,908
Non-accrual loans	110,674
Loans with interest or principal repayments more than three months on arrears	—
Restructured loans	92,894
<b>Total</b>	<b>230,477</b>

(Notes)

- (a) “Bankrupt loans” are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the corporate Tax Law Enforcement Ordinance (Government Ordinance No.97), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for another reason.
- (b) “Non-accrual loans” are loans on which accrued interest income is not recognized, although this excludes loans on which interest payments are deferred in order to support the borrowers’ recovery from financial difficulties.
- (c) “Loans with interest or principal repayments more than three months in arrears” are loans whose principal or interest payment is more than three months in arrears, and which do not fall under category of “Bankrupt loans” and “Non-accrual loans”.
- (d) “Restructured loans” are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers’ recovery from financial difficulties, and which do not fall under



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the category of “Bankrupt loans”, “Non-accrual loans”, and “Loans with interest or principal payments more than three months in arrears”.

(e) The amounts of loans indicated in the table above are the gross amounts prior to the deduction of allowance for possible loan losses.

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheets. The balance of unpaid amounts as of March 31, 2009 is ¥1,290,735 million.

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (“Bankrupt borrowers and substantially bankrupt borrowers”), the residual booked amount of the claims after deduction of the amount which is deemed collectable through the disposal of collateral or the execution of guarantees is written off as at March 31, 2009. The amount of accumulated write-offs is ¥10 million.

#### **4. Assets pledged as collateral**

Pursuant to Article 52 of the JFC LAW, assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes JBIC Operating Account bonds issued to a total amount of ¥2,093,214 million).

#### **5. Accumulated depreciation of fixed assets**

Accumulated depreciation of fixed assets as of March 31, 2009 amounted to ¥335 million.

#### **6. Net assets per share**

Net assets per share are ¥1.87.

#### **7. Receivable from affiliates**

The receivable balance from affiliates as at March 31, 2009 is ¥19,646 million.

#### **8. Restriction in dividend distribution**

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Law. 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 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.

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In the event that the amount of the retained earning 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.

**9. Net income per share**

Net income per share is ¥0.02.

**10. Issued shares**

Types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at end of the fiscal year
Common stocks	—	1,035,500,000,000	—	1,035,500,000,000

(Note) Increases are due to the issuance of 30,000,000,000 shares and the contribution of 1,005,500,000,000 shares based on the JFC Law.

**11. Market value of securities**

The market value of securities at March 31, 2009 is as follows:

**Held-to maturity debt securities and available-for-sale securities whose fair value is not readily determinable were as follows:**

	March 31, 2009 (In millions of yen)
Equity Securities of, or investment in subsidiaries and affiliates	763
Available-for-sale securities	
Unlisted foreign stocks	8,729
Other unlisted Japanese securities	200
Other unlisted foreign securities	1,227

**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.

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**13. Retirement benefits**

JFC has a defined benefit pension plan comprising of a welfare pension fund plan and a lump-sum severance indemnity plan.

**(a)The funded status of the pension plans**

Disposition	March 31, 2009 (In millions of yen)
Projected benefit obligation (A)	(16,329)
Fair value of plans' assets (B)	3,459
Unfunded pension obligation (C) = (A) + (B)	(12,870)
Unrecognized net obligation at transition (D)	1,259
Net amount recognized on the balance sheet (E) = (C) + (D)	(11,611)
Prepaid pension cost (F)	—
Provision for retirement benefits (G) = (E) – (F)	(11,611)

**(b)Component of pension cost**

Disposition	March 31, 2009 (In millions of yen)
Service cost	279
Interest cost	160
Expected return on plans' assets	—
Unrecognized net obligation at transition	—
Other costs	—
Net pension cost	439

(Note) Employee contributions to pension funds have been deducted from the Service cost.

**(c)Principal assumptions made**

	March 31, 2009
Discount rate	2.0%
Expected rate of return on plan assets	0.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Amortization period of net obligation at transition	10 years

**14. Related party transaction**

Related party transactions in the fiscal year ended March 31, 2009 are as follows:

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(a) Transactions with parent company and major shareholder companies

(In millions of yen)

	Corporate name	Business	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amounts of transactions	Items	Balance as of March 31, 2009
Principal shareholder	Ministry of Finance (Minister of Finance)	Administration for policy based financing	100 (Direct)	Receipt of funds etc.	Underwriting of capital increase (Note i)	30,000	—	—
					Receipt of funds (Note ii)	1,092,360	Borrowings	4,016,735
					Repayment of borrowing	528,549		
					Payment of interest on borrowings	24,261	Accrued expenses	8,900
					Guarantee for corporate bonds (Note iii)	993,457	—	—

(Notes)

(i) The underwriting of capital increase represents the increase in capital through shareholder allocation by JFC at an allocation amount of ¥1 per share. The amount does not include investments as stipulated under Article 8 of the Supplementary Provision to the JFC Law.

(ii) The receipts of funds represents borrowing under the Fiscal Investment and Loan Program (“FILP”), and for this borrowing, the interest rates are applied under the FILP agreement.

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

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

15. Subsequent events

None