Japan Finance Corporation
ACCOUNT FOR JBIC OPERATIONS

Balance Sheet（as of March 31, 2012）

(Millions of yen)

	2012		2012
Assets		**Liabilities**	
Cash and due from banks	**685,678**	**Borrowed money**	**5,255,489**
Cash	0	Borrowings	5,255,489
Due from banks	685,678	**Bonds payable**	**2,378,637**
Receivables under resale agreements	**602,725**	**Other liabilities**	**372,934**
Securities	**74,108**	Accrued expenses	28,923
Other securities	74,108	Unearned revenue	47,745
Loans and bills discounted	**8,110,356**	Derivatives other than for trading-liabilities	1,893
Loans on deeds	8,110,356	Lease obligations	135
Other assets	**927,190**	Collateral accepted for derivative transactions	293,090
Prepaid expenses	250	Other	1,146
Accrued income	31,856	**Provision for bonuses**	**496**
Derivatives other than for trading-assets	894,785	**Provision for directors' bonuses**	**6**
Other	296	**Provision for retirement benefits**	**12,481**
Property, plant and equipment	**37,425**	**Provision for directors' retirement benefits**	**24**
Buildings	3,227	**Acceptances and guarantees**	**2,378,325**
Land	33,881	**Total liabilities**	**10,398,395**
Lease assets	22	**Net assets**	
Construction in progress	13	**Capital stock**	**1,291,000**
Other	281	**Retained earnings**	**824,522**
Intangible assets	**1,642**	Legal retained earnings	772,006
Software	1,535	Other retained earnings	52,515
Lease assets	107	Retained earnings brought forward	52,515
Customers' liabilities for acceptances and guarantees	**2,378,325**	**Total shareholders' equity**	**2,115,522**
Allowance for loan losses	**（124,271）**	**Valuation difference on available-for-sale securities**	**（1,825）**
		Deferred gains or losses on hedges	**181,089**
		Total valuation and translation adjustments	**179,263**
		Total net assets	**2,294,786**
Total assets	**12,693,182**	**Total liabilities and net assets**	**12,693,182**

Japan Finance Corporation
ACCOUNT FOR JBIC OPERATIONS

Statement of Operations（Year ended March 31, 2012）

(Millions of yen)

	2012
Ordinary income	**201,695**
Interest income	176,852
Interest on loans and discounts	122,206
Interest and dividends on securities	75
Interest on receivables under resale agreements	491
Interest on deposits with banks	1,088
Interest on interest swaps	52,985
Other interest income	5
Fees and commissions	14,221
Other fees and commissions	14,221
Other income	10,621
Reversal of allowance for loan losses	10,146
Recoveries of written-off claims	244
Other	230
Ordinary expenses	**144,588**
Interest expenses	118,110
Interest on borrowings and rediscounts	56,117
Interest on bonds	61,859
Other interest expenses	133
Fees and commissions payments	1,105
Other fees and commissions	1,105
Other ordinary expenses	6,110
Loss on foreign exchange transactions	1,242
Amortization of bond issuance cost	739
Expenses on derivatives other than for trading or hedging	405
Other	3,723
General and administrative expenses	15,662
Other expenses	3,598
Losses on sales of stocks and other securities	198
Other	3,400
Ordinary profit	**57,107**
Extraordinary income	**3**
Gain on disposal of noncurrent assets	3
Extraordinary losses	**4,594**
Loss on disposal of noncurrent assets	2
Other	4,592
Net income	**52,515**

Japan Finance Corporation
ACCOUNT FOR JBIC OPERATIONS

Statement of Changes in Net Assets（Year ended March 31, 2012）

(Millions of yen)

	2012		2012
Shareholders' equity		**Deferred gains or losses on hedges**	
Capital stock		Balance at the beginning of current period	157,781
Balance at the beginning of current period	1,091,000	Changes of items during the period	
Changes of items during the period		Net changes of items other than shareholders' equity	23,308
Issuance of new shares	200,000	Total changes of items during the period	23,308
Total changes of items during the period	200,000	Balance at the end of current period	181,089
Balance at the end of current period	1,291,000	**Total valuation and translation adjustments**	
Retained earnings		Balance at the beginning of current period	156,115
Legal retained earnings		Changes of items during the period	
Balance at the beginning of current period	742,615	Net changes of items other than shareholders' equity	23,148
Changes of items during the period		Total changes of items during the period	23,148
Provision of legal retained earnings	29,391	Balance at the end of current period	179,263
Total changes of items during the period	29,391	**Total net assets**	
Balance at the end of current period	772,006	Balance at the beginning of current period	2,048,513
Other retained earnings		Changes of items during the period	
Retained earnings brought forward		Issuance of new shares	200,000
Balance at the beginning of current period	58,783	Payment to the national treasury	(29,391)
Changes of items during the period		Net income (loss)	52,515
Provision of legal retained earnings	(29,391)	Net changes of items other than shareholders' equity	23,148
Payment to the national treasury	(29,391)	Total changes of items during the period	246,272
Net income (loss)	52,515	Balance at the end of current period	2,294,786
Total changes of items during the period	(6,267)		

Balance at the end of current period	52,515
Total retained earnings	
Balance at the beginning of current period	801,398
Changes of items during the period	
Payment to the national treasury	(29,391)
Net income (loss)	52,515
Total changes of items during the period	23,124
Balance at the end of current period	824,522
Total shareholders' equity	
Balance at the beginning of current period	1,892,398
Changes of items during the period	
Issuance of new shares	200,000
Payment to the national treasury	(29,391)
Net income (loss)	52,515
Total changes of items during the period	223,124
Balance at the end of current period	2,115,522
Valuation and translation adjustments	
Valuation difference on available-for-sale securities	
Balance at the beginning of current period	(1,665)
Changes of items during the period	
Net changes of items other than shareholders' equity	(160)
Total changes of items during the period	(160)
Balance at the end of current period	(1,825)

Notes to Financial Statements

ACCOUNT FOR JBIC OPERATIONS

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 whose fair value is extremely difficult to be determined are carried at cost based on the moving average method.

(b) Valuation method for derivative financial instruments

Derivative financial instruments are carried at fair value.

(c) Depreciation basis for fixed assets

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

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) 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 (5years).

(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 primarily 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, 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 department based on internal rules for self-assessment of asset quality. The risk evaluation department, which is independent from the operational departments, reviews these self-assessments, and the allowance is provided based on the results of the assessments.

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), the residual booked amount of the claims after deduction of the amount which is deemed collectible through the disposal of collateral or the execution of guarantees is written-off. The amount of accumulated write-off is ¥8,232 million.

(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.

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 year 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.

(v) Provision for directors' retirement benefits

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

(g) Accounting for hedging transactions

(i) Accounting for hedges of interest rate risk

(a) Hedge accounting

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

(b) Hedging instruments and hedged items

Hedging instruments: interest rate swaps

Hedged items: loans, borrowings, bonds and notes

(c) Hedging policy

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

(d) Assessment of hedge effectiveness

JFC 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.

(ii) Accounting for hedges of foreign exchange risk

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 hedging instruments, such as currency swaps and foreign exchange forward contracts used for hedging the foreign exchange risks of loans, borrowings, and bonds payable denominated in foreign currencies, is assessed by comparing the foreign currency position of the hedged loans and bills discounted, borrowings, and bonds payable with that of hedging instruments.

(h) 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.

Additional information

(The Accounting Standard for Accounting Changes and Error Corrections)

JFC has applied "the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Statement No. 24, December 4, 2009) and "Guidance on the Accounting Standard for Accounting Changes and Error Corrections", (ASBJ Guidance No. 24, December 4, 2009) beginning with the treatment of accounting changes and corrections of prior period errors that are made after the beginning of this fiscal year. Based on "Practical Guidelines on Accounting Standards for Financial Instruments" (JICPA Accounting Practice

Committee Statement No. 14), “Reversal of allowance for loan losses” and “Recoveries of written-off claims” have been recorded in “Other income in Ordinary income” beginning with this fiscal year.

2. Equity securities of or investment in affiliates

Equity securities of or investment in affiliates is ¥ 50,248 million.

3. Receivables under resale agreements

Among the securities acquired under resale agreements, these securities which can be sold or pledged without restrictions amounted to ¥602,725 million.

4. Loans

All loans entered into are loans on deeds. The amounts reported in the balance sheet include the followings:

(Millions of yen)

	As of March 31, 2012 Account for JBIC Operations
Bankrupt loans	—
Non-accrual loans	101,565
Loans with interest or principal repayments more than three months in arrears	176
Restructured loans	83,014
Total	184,755

(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 other reasons.

(b) “Non-accrual loans” are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers’ recovery from financial difficulties.

(c) “Loans with interest or principal repayments more than three months in arrears” are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of “Bankrupt loans” and “Non-accrual loans”

(d) “Restructured loans” are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers’ recovery from financial difficulties, and which do not fall under the category of “Bankrupt loans”, “Non-accrual loans”, and “Loans with interest or principal repayments more than three months in arrears”.

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

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheet. The balance of unpaid amounts as of March 31, 2012 is ¥ 1,128,729 million.

5. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act, assets of JFC are pledged as general collateral for all bonds issued by JFC (which include JBIC Operating Account bonds to a total amount ¥2,378,637 million.)

6. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥1,631 million.

7. Contingent liabilities

Contingent liabilities pertaining to debt assumption agreements for bonds payable are as follows.

6th FILP Agency Bonds (the former JBIC) ¥50,000 million

8th FILP Agency Bonds (the former JBIC) ¥60,000 million

15th FILP Agency Bonds (the former JBIC) ¥50,000 million

26th FILP Agency Bonds (the former JBIC) ¥50,000 million

28th FILP Agency Bonds (the former JBIC) ¥50,000 million

31st FILP Agency Bonds (the former JBIC) ¥20,000 million

8. 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 22 (1) of the Act on Special Measures Concerning Smooth Implementation of Realignment of United States Forces in Japan (Act No. 67; 2007) and 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) and operations listed in Article 16 of the Act on Special Measures concerning Smooth Implementation of Realignment of United States Forces in Japan [hereafter referred to as “operations listed under each section of Article 41 of the same law.”

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

Ordinary expenses - Other expenses - Other: ¥2,450 million

10. Other extraordinary losses

Other extraordinary losses of ¥4,592 million occurred in the account for JBIC Operations on August 4, 2011 in the form of cancellation fee paid for the agreed invalidation of the transfer agreement of the reserved floor area with the Urban Renaissance Agency for Building A of the Otemachi 1-chome Second Area 1st Class Urban Redevelopment Project (Chiyoda-ku, Tokyo).

11. Issued shares

For the fiscal year ended March 31, 2012, 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	1,091,000,000,000	200,000,000,000	—	1,291,000,000,000

(Note) Increases is due to the issuance of 200,000,000,000 shares.

12. Financial instruments and related disclosure

1. Status of financial instruments

(1) Initiatives for financial instruments

Based on the JFC Act, we are a governmental financial institution founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the development of the Japanese and global economic society and 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, JBIC Operations, Financial Operations for Facilitating Realignment of United States Forces in Japan, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Business 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., as stipulated by The JFC Act.

The purpose of the Account for JBIC Operations is to conduct the financing required for “Promoting overseas development and acquisition of strategically important natural resources to Japan”, “Maintaining and improving the international competitiveness of Japanese industries”, “Promoting overseas projects for conserving the global environment, such as mitigating global warming”, and “Taking appropriate measures with respect to disruptions to international financial order”. Principal operations consist of export loans, import loans, investment financing, financing for business development and capital investment (including guarantees expect for “capital investment”). To conduct these operations funds are raised through borrowing from the fiscal investment funds and loans and the issuing of bonds. ALM (asset and liability management) is conducted for financial assets and liabilities in this account that are subject to interest-rate and currency fluctuations to ensure that interest-rate and currency fluctuations do not have an adverse effect on these operations. Also, derivative transactions are conducted for the purpose of mitigating risk inherent in foreign currency denominated transactions.

(2) Types of financial instruments and risks

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

The assets in this account mainly include loans to borrowers in Japan and overseas, and securities, and liabilities mainly include borrowings and bonds. The associated risks are described below.

(a) Credit risk

Credit risk is the risk that the account will suffer losses if the financial condition of the borrower deteriorates and the value of assets (including off-balance sheet assets) decrease or disappear.

The credit risks associated with this account include sovereign risk, country risk, corporate risk, and project risk. Characteristic of support for overseas economic transactions conducted in this account, much financing is conducted for overseas governments, governmental institutions, and overseas corporations. Much of the credit risk associated with the credit provided typically consists of sovereign or country risk.

As a result, if the financial condition of the individual borrower significantly deteriorates due to political and economic trends in the borrower’s country or region, the performance and financial condition of these operations can be adversely affected.

(Note) Sovereign risk refers to risk associated with credit supplied to foreign governments, country risk refers to risk associated with the country in which the corporation or project is located (risk in addition to corporate risk or project risk associated with the country in which the corporation or the project is located), corporate risk refers to the risk associated with credit to corporations, and project risk refers to the risk that the cash flow of an underlying project will not perform as planned in the case of project finance where the repayment of the borrowing is primarily secured by the cash flow of the project to which credit is supplied.

(b) Market risk

Market risk is the risk that the value of assets and liabilities (including off-balance sheet assets) will fluctuate and losses will be suffered, or profits derived from assets and liabilities (including off-balance sheet assets) will fluctuate and losses will be suffered due to the fluctuation of various market risk factors such as interest rates, exchange rates, etc.

The market risk associated with this account mainly consists of exchange rate risk and interest rate risk, and losses could be suffered from these risks from market fluctuations. However, in principle, these risks are mitigated through interest rate swaps, currency swaps, and forward exchange transactions.

In this account hedge accounting is used for interest rate hedges, where the hedging instruments are interest rate swaps to hedge the market fluctuation risk associated with loans, borrowed money and bonds. The effectiveness of the hedges is assessed by measuring and comparing the change in fair value or cumulative change in cash flows of both hedging instruments and corresponding hedged items from the date of inception of the hedges to the assessment date.

In this account hedge accounting is used for foreign exchange hedges, where currency swaps and foreign exchange forward contracts are used to hedge items such as loans, borrowings, and bonds for exchange rate fluctuation risk. The effectiveness of the hedging currency-swaps and forward contracts, hedging the foreign exchange risks of monetary 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.

(c) Liquidity risk

Long-term and stable funds, such as fiscal loan funds, government-backed bonds, and FILP agency bonds, are secured to finance this account and deposits are not accepted, with the result that JFC considers liquidity risk to be limited. However, financing costs could increase due to market disturbances and 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

The basis of credit risk management is centered on individual credit management based on the creditworthiness of the borrower during the credit approval process.

When a new credit application is processed, the relevant finance departments (sales promotion department) and credit departments collect and analyze information on the borrower. The overseas representative offices also play a part in collecting information on foreign governments and corporations. Credit appraisal takes place based on the information that has been gathered and analyzed, with the different departments ensuring appropriate check throughout the process, leading to the final decision by the management.

For lending to foreign governments and corporations, JFC makes most use of its position as a public institution and exchanges views and information with governments and other authorities in recipient countries, international institutions such as the IMF and the World Bank, other regional development banks and official export credit agencies as well as private financial institutions in the industrial countries. Using all these channels, JFC evaluates sovereign or country risk (in addition to corporate risk and project risk associated with the country in which the corporation is located) based on a broad range of information on government and government agency borrowers as well as political and economic conditions in their countries.

The relevant finance departments and credit departments conduct proper credit risk management based on the credit risk rating system for segmented risk categories and the asset self assessment system based on the Financial Inspection Manual. In addition, an Integrated Risk Management Committee is held regularly to report the status of credit management to the management. The credit management situation is also checked by an independent auditing department.

In addition, a claims protection mechanism exists based on an international framework unique to official creditors that is not contained in private sector financial institutions, for official claims on foreign governments. This mechanism consists of international financial assistance upon international approval by the Paris Club, an international group focusing on debt, to allow the debtor country to continue debt repayment when the debtor country becomes temporarily unable to service its debt due to economic conditions. As part of this international financial assistance, the debtor country conducts an economic reform program upon agreement with the IMF in order to secure the ability to sustainably service its debt. In view of JFC’s position as a public financial institution, it will use the framework of the Paris Club to preserve its official claims on foreign governments.

Besides the individual credit management outlined above, credit risks are quantified to assess the overall risk of the portfolio in these operations. To quantify credit risks, it is important to take into account the characteristic of the loan portfolio, that there are a significant proportion of long-term loans and loans involving sovereign risk or country risk. Also to be taken into account is the mechanism of securing assets, such as the framework of international financial assistance to debtor countries through the Paris Club, which is unique to official creditors. This account uses a unique model to quantify the credit risk taking account of the above explained elements and measures amount of credit risk, which are utilized for credit risk management.

(b) Market risk management

ALM is used to manage exchange rate risk and interest rate risk for these operations. Market risk management protocols contain detailed stipulations of risk management methods and procedures, which are used by the ALM Committee to assess and confirm the execution of ALM, and for discussions concerning future responses. In addition, monitoring is conducted through gap analysis and interest rate sensitivity analysis as well as Value at Risk ("VaR") to comprehensively assess the interest and terms of financial assets and liabilities. The results are regularly reported to the ALM Committee.

The basic policy for managing exchange rate risk and interest rate risk in these operations is described below.

(i) Exchange rate risk

Foreign currency-denominated loans conducted in these operations involve risks related to exchange rate fluctuations.

We have a consistent policy of managing this risk by fully hedging this risk exposure through the use of currency swaps and forward foreign exchange transactions.

(ii) Interest rate risk

Interest rate risk arises from exposure to market interest rate fluctuations for yen-denominated loan and foreign currency-denominated loan operations and the policy for managing interest rate risk is described below.

1 Yen-denominated loan operations

For the most part, funding for yen-denominated loans is managed at fixed-rate interest. Currently, interest rate risk for yen-denominated loans is limited since maturity of loans and the related funding arrangements are generally matched. In addition, swaps are used to hedge interest rate risk for portions of loans that are thought to have high exposures to interest rate fluctuation risk.

2 Foreign currency-denominated loan operations

For foreign currency-denominated loan operations, interest rate risk is hedged through the application of a consistent policy of using interest rate swaps and managing funds with floating interest rates for both loans and related funding arrangements.

(iii) Status of market risk

These operations only maintain a banking account and do not have financial instruments in a trading account. While these operations are managed by hedging operation in principle, as stated previously, market risk, such as Value at Risk is measured in order to as certain fair value assessment and risks inherent. The following represents the status of market risk in these operations in the current fiscal year as calculated using Value at Risk (VaR).

(a) VaR status (Fiscal year ended March 31, 2012)

(1) Interest rate VaR: 94.1 billions of yen

(2) Exchange rate VaR: 54.0 billions of yen

(b) VaR measurement model

(1) Interest rate VaR: Historical model

(2) Exchange rate VaR: Variance-covariance model

Quantitative standards: 1 Confidence Interval: 99%; 2 Holding period: 1 year; 3 Observation period: 5 years

(c) Risk management using VaR

VaR is a market risk measure that assesses the maximum possible profits or losses that could be incurred due to market movements within a certain period of time (or holding period) and degree of possibility (or confidence interval). These are derived statistically by employing the theory of possibility distribution based on historical market movements of interest rates or exchange rates, etc. over a specific period in the past (or observation period).

This measurement assumes actual market trends and the theory of probability distribution. Based on the possibility that future market trends could deviate from these assumptions, a back-test is performed to cross-check the model-measured interest rate VaR with actual profits or losses, in order to confirm the effectiveness of market risk measurements using VaR. In addition, a stress test, which goes beyond the probability distribution of historical market movements is conducted in order to capture risks from multifaceted perspectives.

The following bullet points represent general shortcomings of VaR models.

・Model-measured VaR may differ depending on the confidence interval, holding period, or observation period.

・The VaR value represents the maximum fluctuation of a mark-to-market profit or loss at the time of the measurement. This does not guarantee that the fluctuation will be within the limit as predicted at some future point in time, since conditions precedent, such as market trends, will vary during the time horizon.

・The VaR indicates the maximum value based on specific conditions precedent. As such, it is imperative to consider that model-measured VaR may underestimate the potential losses when using VaR as a risk management indicator in practice.

(c) Liquidity risk management related to fund procurement

Long-term and stable funds such as fiscal loan funds, government-backed bonds, and FILP agency bonds are used to finance these operations and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions are taken to maintain daily cash flows for proper risk management.

(d) Derivatives transactions

A protocol of internal checks with separate divisions executing transactions, assessing the effectiveness of hedges, and conducting office management has been established for derivatives transactions, and these transactions are conducted according to derivatives-related regulations.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2012, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine are not included in the following chart (refer to note 2).

(Millions of yen)

	Amount on Balance Sheet	Fair value	Difference
(1) Cash and due from banks	685,678	685,678	—
(2) Receivables under resale agreements	602,725	602,725	—
(3) Securities	3,795	3,795	—
Available-for sale securities	8,110,356		
(4) Loans and bills discounted	(117,656)		
Allowance for loan losses *1	7,992,700	8,069,429	76,728
Total assets	9,284,900	9,361,629	76,728
(1) Borrowings	5,255,489	5,361,694	106,205
(2) Bonds payable	2,378,637	2,472,265	93,628
(3) Collateral accepted for derivative transactions	293,090	293,090	—
Total liabilities	7,927,216	8,127,049	199,833
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	—	—	—
Derivative transactions qualifying for hedge accounting	892,892	892,892	—
Total derivative transactions	892,892	892,892	—

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

(*2) Derivative recorded in “other assets and other liabilities” are collectively displayed.

The net values of assets and liabilities arising from derivative transactions are displayed. The figures in parenthesis indicate net liabilities.

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

Assets

(1) Cash and due from banks

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

(2) Receivables under resale agreements

For securities acquired under resale agreements, the carrying amount is used as fair value because contractual terms of this item are short (i.e., within three months) and fair value resembles the carrying amount.

(3) Securities

The fair value of “Available-for sale securities” is based on the price that is indicated from other financial institution.

(4) Loans and bills discounted

For loans with variable interest rates an amount calculated by the floating rate note method to reflect market interest rates over the short term is used for fair value.

For loans with fixed interest, the total principal and interest is discounted by a risk free rate that incorporates the default ratio and coverage ratio to calculate fair value. However 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 approximates the amount 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.

<u>Liabilities</u>

(1) Borrowings

Borrowings with variable interest rates indicate that short-term market interest rates and the credit conditions of JFC are not significantly altered by borrowings. Therefore, the carrying amount is used as fair value because it is considered that the carrying amount approximates the fair value. For borrowings with a fixed interest rate, in principle, fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

(2) Bonds payable

Market value is used for fair value of bonds.

(3) Collateral accepted for derivative transactions

For Collateral accepted for derivative transactions, the carrying amount is used as fair value because fair value resembles the carrying amount.

<u>Derivative transactions</u>

Derivative transactions consist of interest rate-related transactions (interest rate swap) and currency-related transactions (currency swap and forward exchange contract). Calculation of fair value is based on the discounted cash flow.

(Note 2) Financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

They are not included in "Assets, (3) Securities", Fair value of financial instruments.

(Millions of yen)

Classification	Carrying amount on balance sheet
1) Unlisted stocks (*1)	14,958
2) Partnership investments (*2)	55,354
Total	70,312

(*1) Since unlisted stocks do not have quoted market prices available and fair value is extremely difficult to be determined, fair values are not stated.

(*2) For partnership investments composed of unlisted stocks that do not have quoted market prices available and for which fair value is extremely difficult to be determined fair values are not stated.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*1)	685,678	—	—	—	—	—
Receivables under resale agreements	602,725	—	—	—	—	—
Securities (*2) Available-for sale securities	—	2,921	878	—	—	—
Loans and bills discounted (*2)	1,030,849	2,170,354	1,640,783	1,055,416	1,224,854	885,109
Total	2,319,254	2,173,275	1,641,662	1,055,416	1,224,854	885,109

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

(*2) Within loans and securities, claims against bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers contains an amount of ¥102,988 million that is not expected to be redeemed and not included in the table above.

(Note 4) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	337,924	2,049,013	1,976,179	852,533	39,840	―
Bonds payable	554,782	624,367	878,753	222,737	80,000	20,000
Total	892,706	2,673,380	2,854,932	1,075,270	119,840	20,000

13. Market value of securities

In addition to “Other securities” on the balance sheet, transferable deposits in “Due from banks” are also included.

The market value of securities at March 31, 2012 is as follows:

(a) Equity securities of or investment in subsidiaries and affiliates

(Note) These are equity securities of, or investment in, subsidiaries and affiliates whose fair value is extremely difficult to be determined.

	Carrying amount on the balance sheet (Millions of yen)
Equity securities of or investment in affiliates	50,248

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

(b) Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount does not exceed their acquisition cost	Others	213,795	213,800	(4)

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

	Carrying amount on the balance sheet (Millions of yen)
Others	
Unlisted foreign stocks	14,958
Unlisted Japanese securities	180
Unlisted foreign securities	4,926

These are not included in the above table of "Available-for-sale securities" because there are no quoted market prices available and it is extremely difficult to determine the fair value of these securities.

14. 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; 1965).

15. 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

	March 31, 2012 (Millions of yen)
Projected benefit obligations (A)	(17,310)
Fair value of plan assets (B)	4,163
Unfunded pension obligations (C)=(A)+(B)	(13,147)
Unrecognized prior service costs (D)	73
Actuarial unrecognized difference (E)	592
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(12,481)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)–(G)	(12,481)

(b) Component of pension cost

	March 31, 2012 (Millions of yen)
Service cost	540
Interest cost	339
Expected return on plan assets	(82)
Amortization of prior service cost accounted for as expense	8
Actuarial differences accounted for as expense	83
Other costs	—
Net pensions cost	888

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

(c) Principal assumptions

	March 31, 2012
Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Terms to amortize unrecognized prior service costs	10 years
Terms to amortize actuarial unrecognized differences	10 years

16. Profit and loss on equity method

Investment in affiliates ¥50,248 million

Investment in affiliates (equity method) ¥50,248 million

Profit or Loss of Investment in affiliates (equity method) None

17. Related party transaction

Related party transactions in the fiscal year ended March 31, 2012 are as follows:

Transactions with parent company and major shareholder companies

(Millions of yen)

	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amounts of transactions	Items	Balance as of March 31, 2012
Principal shareholder	Ministry of Finance (Minister of Finance) (Note i)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase (Note i)	200,000	—	—
				Receipt of funds (Note ii)	431,423	Borrowings	5,255,489
				Repayment of borrowing	657,191		
				Payment of interest on borrowings	56,117	Accrued expenses	14,091
				Guarantee for corporate bonds (Note iii)	1,688,752	—	—

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

(ii) The receipts of funds represents borrowing under the 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.

18. Per share information

Net assets per share ¥1.77

Net income per share ¥0.04

19. Subsequent events

Based on the Japan Bank for International Cooperation Act (hereafter, the “New JBIC Act”), the Japan Bank for International Cooperation (hereinafter “New JBIC”) was established on April 1, 2012. JFC’s JBIC Operations and Financial Operations for Facilitating Realignment of United States Forces in Japan were handed over to the New JBIC as of the same date.

JFC underwrote the shares of the New JBIC, and transferred these shares without compensation to the government of Japan at the time the New JBIC was established on April 1, 2012. Effective the same day, in accordance with the New JBIC Act, assets and liabilities that belong to JFC’s JBIC operations and Financial Operations for Facilitating Realignment of United States Forces in Japan were succeeded by the New JBIC. The amount of such assets and liabilities are determined by an evaluation committee pursuant to the New JBIC Act. After the establishment of the New JBIC, profit and loss that belong to JFC’s JBIC Operations and Financial Operations for Facilitating Realignment of United States Forces in Japan are no longer recognized as profit and loss of JFC. The status of JFC’s Account for JBIC Operations and Financial Account Related to the Financial Operations for Facilitating Realignment of United States Forces in Japan is founded in the financial statements and notes of each account.