Japan Finance Corporation

FINANCIAL ACCOUNT RELATED TO THE FINANCIAL OPERATIONS FOR FACILITATING REALIGNMENT OF UNITED STATES FORCES IN JAPAN

Balance Sheet (as of March 31, 2012)

(Millions of yen)

	2012		2012
Assets		**Liabilities**	
Cash and due from banks	**180**	**Other liabilities**	**1**
Due from banks	180	Accrued expenses	1
Other assets	**0**	Other	0
Prepaid expenses	0	**Provision for bonuses**	**4**
Other	0	**Provision for directors' bonuses**	**0**
Property, plant and equipment	**0**	**Provision for retirement benefits**	**116**
Other	0	**Provision for directors' retirement benefits**	**0**
		Total liabilities	**123**
		Net assets	
		Retained earnings	**57**
		Legal retained earnings	0
		Other retained earnings	57
		Retained earnings brought forward	57
		Total shareholders' equity	**57**
		Total net assets	**57**
Total assets	**181**	**Total liabilities and net assets**	**181**

Statement of Operations（Year ended March 31, 2012）

(Millions of yen)

	2012
Ordinary income	**271**
Receipts from the national budget	271
Receipts from the general account of the national budget	271
Other income	0
Other	0
Ordinary expenses	**214**
Fees and commissions payments	45
Other fees and commissions	45
General and administrative expenses	168
Ordinary profit	**57**
Net income	**57**

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

(Millions of yen)

Shareholders' equity	
Retained earnings	
Legal retained earnings	
Balance at the beginning of current period	—
Changes of items during the period	
Provision of legal retained earnings	0
Total changes of items during the period	0
Balance at the end of current period	0
Other retained earnings	
Retained earnings brought forward	
Balance at the beginning of current period	241
Changes of items during the period	
Provision of legal retained earnings	(0)
Payment to the national treasury	(240)
Net income (loss)	57
Total changes of items during the period	(183)
Balance at the end of current period	57
Total retained earnings	
Balance at the beginning of current period	241
Changes of items during the period	
Payment to the national treasury	(240)
Net income (loss)	57
Total changes of items during the period	(183)
Balance at the end of current period	57
Total shareholders' equity	
Balance at the beginning of current period	241
Changes of items during the period	
Payment to the national treasury	(240)
Net income (loss)	57
Total changes of items during the period	(183)
Balance at the end of current period	57
Total net assets	
Balance at the beginning of current period	241
Changes of items during the period	

Payment to the national treasury	(240)
Net income (loss)	57
Total changes of items during the period	(183)
Balance at the end of current period	57

Notes to Financial Statements

FINANCIAL ACCOUNT RELATED TO THE FINANCIAL OPERATIONS FOR FACILITATING REALIGNMENT OF UNITED STATES FORCES IN JAPAN

Amounts presented are rounded down to the nearest million yen.

1. Significant accounting policies

(a) Depreciation basis for fixed assets

Property, plant and equipment

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives.

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

Other: 2 years to 20 years

(b) Accounting policy for reserves

(i) 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.

(ii) 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.

(iii) 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 straightline method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year.

(iv) Provision for directors’ retirement benefits

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

(c) Consumption and other taxes

Consumption taxes and local consumption taxes (“consumption taxes”) are excluded from transaction amounts. Amounts of 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.

2. 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. There is no issued bond in Financial Account Related to the Financial Operations for Facilitating Realignment of United States Forces in Japan.

3. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥0 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 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.”]

5. 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 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., as stipulated by the JFC Act.

In the Financial Account Related to the Financial Operations for Facilitating Realignment of United States Forces in Japan, this account conducts in this fiscal year necessary operations related to making equity investments, loans and other operations necessary for the projects to facilitate realignment of United States Forces in Japan. However, in this account there is no loan or funds for loan raised in this fiscal year.

(2) Types of financial instruments and risks

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

The only financial assets held in this account are cash deposits and since there are no financial liabilities present, accordingly the following risks are considered to be limited.

(a) 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.

In the fiscal year the only financial assets or liabilities held in this account are cash deposits, and therefore market risk is considered to be limited.

(b) Liquidity risk

The liquidity risk of this account is considered to be limited because it does not accept deposits, it secures stable funds from government grants only, and it has yet to provide a loan as of the end of the current fiscal year.

(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) 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 grants through current deposits.

In addition, this financial instrument doesn’t have material sensitivity to interest rate fluctuations since funds are managed using current deposits.

(b) Liquidity risk management related to fund procurement

Funding for these operations is procured by government grants only. Efforts are made for proper risk management through the assessment of the cash flows.

(4) Supplementary explanation concerning fair value of financial instruments

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

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2012, and the related fair value, and difference is as follows.

(Millions of yen)

	Amount on Balance Sheet	Fair value	Difference
Cash and due from banks	180	180	—

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

Assets

Cash and due from banks

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

(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	180	—	—	—	—	—

6. 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).

7. 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)	(161)
Fair value of plan assets (B)	38
Unfunded pension obligations (C)=(A)+(B)	(122)
Unrecognized prior service costs (D)	0
Actuarial unrecognized difference (E)	5
Net amount recognized on the balance sheet (F)=(C)+(D)+(E)	(116)
Prepaid pension cost (G)	—
Provision for retirement benefits (H)=(F)–(G)	(116)

(b) Component of pension cost

	March 31, 2012 (Millions of yen)
Service cost	5
Interest cost	3
Expected return on plan assets	(0)
Amortization of prior service cost accounted for as expense	0
Actuarial differences accounted for as expense	0
Other costs	—
Net pensions cost	8

(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

8. Related party transaction

No capital stock, but Receipts from the national budget (subsidy from the government) ¥271 million

9. 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.