

Report of Independent Auditors

To the Governor of  
Japan Bank for International Cooperation

We have audited the accompanying balance sheets of Japan Bank for International Cooperation as of March 31, 2004 and 2003, and the related statements of operations, equity, and cash flows for the years then ended, all expressed in Japanese Yen. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Bank for International Cooperation as of March 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying financial statements.

*ChuoAoyama PricewaterhouseCoopers*

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan

June 25, 2004

**BALANCE SHEETS****JAPAN BANK FOR INTERNATIONAL COOPERATION**

	In millions of yen		In millions of yen		In millions of U.S. dollars	
	March 31, 2004		March 31, 2003		March 31, 2004	
<b>Assets</b>						
Cash and due from banks (Note 3)	¥	217,328	¥	288,284	\$	2,056
Securities (Notes 4 and 20)		120,514		122,912		1,140
Loans (Note 5)		19,306,245		20,164,343		182,668
Miscellaneous assets (Note 6)		704,284		367,673		6,664
Premises and equipment (Note 7)		27,178		28,449		257
Deferred charges on bonds and notes (Note 8)		2,707		2,267		26
Customers' liabilities for acceptances and guarantees		724,924		629,082		6,859
Allowance for possible loan losses (Note 9)		(263,425)		(308,163)		(2,492)
<b>Total assets</b>	¥	<b>20,839,757</b>	¥	<b>21,294,849</b>	\$	<b>197,178</b>

	In millions of yen		In millions of yen		In millions of U.S. dollars	
	March 31, 2004		March 31, 2003		March 31, 2004	
<b>Liabilities and equity</b>						
<b>Liabilities</b>						
Bonds and notes (Note 10)	¥	1,561,373	¥	1,589,084	\$	14,773
Borrowings (Note 11)		10,392,925		11,218,681		98,334
Miscellaneous liabilities (Note 12)		246,191		321,126		2,329
Allowance for bonus payments		918		754		9
Allowance for employee retirement benefits (Note 13)		17,429		18,090		165
Acceptances and guarantees (Note 14)		724,924		629,082		6,859
<b>Total liabilities</b>		<b>12,943,761</b>		<b>13,776,818</b>		<b>122,469</b>

<b>Equity</b>						
Capital attributable to the International Financial Account		985,500		985,500		9,324
Capital attributable to the Overseas Economic Cooperation Account		6,704,644		6,504,344		63,437
Reserve attributable to the International Financial Account (Note 17)		638,582		608,336		6,042
Reserve attributable to the Overseas Economic Cooperation Account (Note 17)		20,667		280,719		196
Accumulated deficit		(453,398)		(860,868)		(4,290)
<b>Total equity</b>		<b>7,895,995</b>		<b>7,518,031</b>		<b>74,709</b>
<b>Total liabilities and equity</b>	¥	<b>20,839,757</b>	¥	<b>21,294,849</b>	\$	<b>197,178</b>

See accompanying "Notes to Financial Statements" which are an integral part of these statements.

**STATEMENTS OF OPERATIONS****JAPAN BANK FOR INTERNATIONAL COOPERATION**

	In millions of yen		In millions of yen		In millions of U.S.dollars	
	FY 2003		FY 2002		FY 2003	
<b>Income</b>						
Interest income	¥	519,452	¥	568,783	\$	4,915
Interest on loans		467,635		533,388		4,425
Interest and dividend income on securities		2,280		2,659		22
Interest on due from banks		1,609		3,640		15
Interest on swaps (net)		47,926		29,095		453
Fees and Commissions		6,746		5,934		64
Other operating income		309		-		3
Other ordinary income		494		201		5
Grant from general account (Note 16)		30,000		-		284
Reversal of allowance for possible loan losses		-		187,816		-
Recovery of Written-off Claims		3,084		4,119		29
Profits on sales of premises and equipment		689		11		6
<b>Total income</b>		<b>560,777</b>		<b>766,867</b>		<b>5,306</b>
<b>Expenses</b>						
Interest expenses		305,501		372,503		2,891
Interest on bonds and notes		61,145		71,881		579
Amortization of discounts on bonds and notes		-		5		-
Interest on borrowings		244,355		300,617		2,312
Fees and Commissions		5,754		4,981		54
Other operating expenses		5,123		947		49
Foreign exchange losses		4,256		193		41
Amortization of bonds and notes issuance costs		651		567		6
Others		216		186		2
General and administrative expenses		24,435		27,425		231
Other ordinary expenses		12,036		401		114
Provision for allowance for possible loan losses		9,921		-		94
Write-off of loans		122		-		1
Write-off of equities and securities, etc.		1,924		351		18
Others		67		49		1
Losses on disposal of premises and equipment		14		43		0
ODA-loan related losses (Note 16)		-		855,616		-
<b>Total expense</b>		<b>352,866</b>		<b>1,261,919</b>		<b>3,339</b>
<b>Net income (loss)</b>	¥	<b>207,910</b>	¥	<b>(495,051)</b>	\$	<b>1,967</b>

See accompanying "Notes to Financial Statements" which are an integral part of these statements.

**STATEMENTS OF CASH FLOWS****JAPAN BANK FOR INTERNATIONAL COOPERATION**

	In millions of yen		In millions of yen		In millions of U.S. dollars	
	FY 2003		FY 2002		FY 2003	
<b>Cash flows from operating activities</b>						
Net income (loss)	¥	207,910	¥	(495,051)	\$	1,967
Depreciation and amortization		1,461		1,593		14
Decrease in allowance for possible loan losses		(44,737)		(179,664)		(423)
Decrease in allowance for possible investment losses		-		(1,119)		-
Increase in allowance for bonus payments		163		158		1
(Decrease) increase in allowance for employee retirement benefits		(660)		2,065		(6)
Interest income		(519,452)		(568,783)		(4,915)
Interest expenses		305,501		372,503		2,890
Net loss on securities		1,992		1,520		19
Foreign exchange loss (gain)		299,725		(12,049)		2,836
Net (gain) loss on sales of premises and equipment		(674)		31		(6)
Net decrease in loans		316,955		1,395,069		2,999
Net increase in bonds and notes		54,212		51,465		513
Net decrease in borrowings		(825,756)		(1,055,797)		(7,813)
Net decrease in due from banks (excluding cash equivalents)		87,302		247,161		826
Interest received		630,355		551,275		5,964
Interest paid		(321,621)		(396,384)		(3,043)
Others, net		(319,839)		8,414		(3,026)
<b>Net cash used in operating activities</b>		<b>(127,160)</b>		<b>(77,589)</b>		<b>(1,203)</b>
<b>Cash flows from investing activities</b>						
Purchases of securities		(262)		(474)		(2)
Sales of securities		635		189		6
Expenditures on premises and equipment		(842)		(629)		(8)
Proceeds from sales of premises and equipment		858		37		8
<b>Net cash provided by (used in) investing activities</b>		<b>389</b>		<b>(876)</b>		<b>4</b>
<b>Cash flows from financing activities</b>						
Proceeds from issuance of capital from Government		200,300		219,100		1,895
Payment to National Treasury		(38,459)		(30,400)		(364)
<b>Net cash provided by financing activities</b>		<b>161,840</b>		<b>188,699</b>		<b>1,531</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(0)</b>		<b>(1)</b>		<b>(0)</b>
<b>Net increase in cash and cash equivalents</b>		<b>35,068</b>		<b>110,233</b>		<b>332</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>117,669</b>		<b>7,437</b>		<b>1,113</b>
<b>Cash and cash equivalents at the end of the period</b>	¥	<b>152,738</b>	¥	<b>117,669</b>	\$	<b>1,445</b>

See accompanying "Notes to Financial Statements" which are an integral part of these statements.

**STATEMENTS OF EQUITY**  
**JAPAN BANK FOR INTERNATIONAL COOPERATION**

In millions of yen

	Capital attributable to the International Financial Account	Capital attributable to the Overseas Economic Cooperation Account	Reserve attributable to the International Financial Account	Reserve attributable to the Overseas Economic Cooperation Account	Accumulated deficit	Total Equity
Balance at March 31, 2003	¥ 985,500	¥ 6,504,344	¥ 608,336	¥ 280,719	¥ (860,868)	¥ 7,518,031
Transfer from net earnings accounted under the JBIC Law to reserve	-	-	30,246	-	(30,246)	-
Transfer from reserve to net earnings accounted under JBIC Law	-	-	-	(260,051)	260,051	-
Payment to National Treasury	-	-	-	-	(30,246)	(30,246)
Issuance of capital from Government	-	200,300	-	-	-	200,300
Net income	-	-	-	-	207,910	207,910
Balance at March 31, 2004	¥ 985,500	¥ 6,704,644	¥ 638,582	¥ 20,667	¥ (453,398)	¥ 7,895,995
<b>Appropriations:</b>						
Transfer from net earnings accounted under the JBIC Law to reserve	-	-	37,675	64,823	(102,498)	-
Transfer from reserve to net earnings accounted under the JBIC Law	-	-	-	-	-	-
Payment to National Treasury	-	-	-	-	(37,675)	(37,675)
<b>Total</b>	¥ -	¥ -	¥ 37,675	¥ 64,823	¥ (140,174)	¥ (37,675)
<b>Unappropriated Accumulated deficit</b>	¥ -	¥ -	¥ -	¥ -	¥ (593,573)	¥ -

See accompanying "Notes to Financial Statements" which are an integral part of these statements.

**STATEMENTS OF EQUITY**  
**JAPAN BANK FOR INTERNATIONAL COOPERATION**

In millions of dollars

	Capital attributable to the International Financial Account	Capital attributable to the Overseas Economic Cooperation Account	Reserve attributable to the International Financial Account	Reserve attributable to the Overseas Economic Cooperation Account	Accumulated deficit	Total Equity
Balance at March 31, 2003	\$ 9,324	\$ 61,542	\$ 5,756	\$ 2,656	\$ (8,145)	\$ 71,133
Transfer from net earnings accounted under the JBIC Law to reserve	-	-	286	-	(286)	-
Transfer from reserve to net earnings accounted under JBIC Law	-	-	-	(2,460)	2,460	-
Payment to National Treasury	-	-	-	-	(286)	(286)
Issuance of capital from Government	-	1,895	-	-	-	1,895
Net income	-	-	-	-	1,967	1,967
Balance at March 31, 2004	\$ 9,324	\$ 63,437	\$ 6,042	\$ 196	\$ (4,290)	\$ 74,709
<b>Appropriations:</b>						
Transfer from net earnings accounted under the JBIC Law to reserve	-	-	356	614	(970)	-
Transfer from reserve of the Overseas Economic Cooperation Account	-	-	-	614	(614)	-
Transfer from reserve to net earnings accounted under the JBIC Law	-	-	-	-	-	-
Payment to National Treasury	-	-	-	-	(356)	(356)
<b>Total</b>	\$ -	\$ -	\$ 356	\$ 614	\$ (1,326)	\$ (356)
Unappropriated Accumulated deficit	\$ -	\$ -	\$ -	\$ -	\$ (5,616)	\$ -

See accompanying "Notes to Financial Statements" which are an integral part of these statements.

**STATEMENTS OF EQUITY**  
**JAPAN BANK FOR INTERNATIONAL COOPERATION**

In millions of yen

	Capital attributable to the International Financial Account	Capital attributable to the Overseas Economic Cooperation Account	Reserve attributable to the International Financial Account	Reserve attributable to the Overseas Economic Cooperation Account	Accumulated deficit	Total Equity
Balance at March 31, 2002	¥ 985,500	¥ 6,285,244	¥ 564,230	¥ 182,296	¥ (179,183)	¥ 7,838,088
Transfer from net earnings accounted under the JBIC Law to reserve	-	-	44,105	98,422	(142,528)	-
Transfer from reserve to net earnings accounted under JBIC Law	-	-	-	-	-	-
Payment to National Treasury	-	-	-	-	(44,105)	(44,105)
Issuance of capital from Government	-	219,100	-	-	-	219,100
Net loss	-	-	-	-	(495,051)	(495,051)
Balance at March 31, 2003	¥ 985,500	¥ 6,504,344	¥ 608,336	¥ 280,719	¥ (860,868)	¥ 7,518,031
<b>Appropriations:</b>						
Transfer from net earnings accounted under the JBIC Law to reserve	-	-	30,246	-	(30,246)	-
Transfer from reserve to net earnings accounted under JBIC Law	-	-	-	(260,051)	260,051	-
Payment to National Treasury	-	-	-	-	(30,246)	(30,246)
<b>Total</b>	¥ -	¥ -	¥ 30,246	¥ (260,051)	¥ 199,559	¥ (30,246)
<b>Unappropriated Accumulated deficit</b>	¥ -	¥ -	¥ -	¥ -	¥ (661,309)	¥ -

See accompanying "Notes to Financial Statements" which are an integral part of these statements.

## NOTES TO FINANCIAL STATEMENTS

### JAPAN BANK FOR INTERNATIONAL COOPERATION

#### **1. Basis of presentation**

The accompanying financial statements have been prepared from the accounts maintained by Japan Bank for International Cooperation ("JBIC") in accordance with the provisions set forth in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The Bank's accounts are separated into the International Financial Account and the Overseas Economic Cooperation Account as required under Article 41 of the Japan Bank for International Cooperation Law ("JBIC Law") whereby the accounting shall be separated according to the categories of international financial operations and overseas economic cooperation operations and be recorded by establishing separate account for each operation. In separating the accounts, transactions directly related to either of the operations are attributed to the account for these operations and overhead expenses and others are allocated to both of the accounts in accordance with certain pre-defined allocation rate.

Consolidated financial statements are not prepared since JBIC has no subsidiaries.

The amounts indicated in millions of yen are rounded down by omitting figures less than one million. Totals may therefore not add up exactly because of such omission.

Amounts in U.S. dollars are presented solely for the convenience of readers outside Japan. The rate of ¥105.69=\$1.00, the exchange rate as of March 31, 2004, has been used in translation. The presentation of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled into U.S. dollars at that rate or any other rate.

#### **2. Significant accounting policies**

##### **(a) Cash and cash equivalents**

"Cash and cash equivalents" as stated in the statements of cash flows consists of cash in hand and due from Bank of Japan included in "Cash and due from banks" in the balance sheets.

##### **(b) Securities**

All securities are classified as "Available-for-sale Securities" which have no market value and are carried at cost based on a moving average cost valuation.

##### **(c) Valuation method for derivative financial instruments**

All derivative financial instruments are carried at fair value, except for certain derivatives that are designated as hedging instruments as discussed below.

##### **(d) Hedge accounting for interest rate risks**

###### **(i) Hedge accounting**

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

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

Hedging instruments: interest rate swaps

Hedged items: loans, bonds and notes

###### **(iii) Hedging policy**

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

###### **(iv) Assessment of hedge effectiveness**

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

##### **(e) Hedge accounting for foreign exchange risks**

Hedge instruments used to hedge foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities are measured using the deferral method. In the previous fiscal year, the transitional treatments stated in The Japanese Institute of Certified Public Accountants (JICPA) Industry Audit Committee Report No. 25 were applied to these transactions. Effective from the current fiscal year, in accordance with the standard treatments of JICPA Industry Audit Committee Report No. 25, hedge accounting is applied to currency-swap transactions, exchange swap transactions and similar transactions intended to hedge risks of borrowing and lending in different currencies by swapping the borrowing currency for the lending currency.

The effectiveness of the hedging instruments described above, such as currency-swap, exchange swap and similar transactions, 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.

##### **(f) Foreign currency translation and revaluation method**

JBIC 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.

With regard to derivatives, JBIC has applied hedge accounting from this fiscal year as stated in Note 2 (d) and (e) above.

As a result, currency-swap, exchange swap and similar transactions which had previously been accounted for on an accrual basis are stated at market value and net assets or liabilities are recorded on the balance sheets. Consequently, the captions "Accrued income" and "Other assets" have decreased by ¥11,310 million (\$107 million) and ¥307,674 million (\$2,911 million) respectively, "Derivatives" included in "Miscellaneous assets" has increased by ¥459,846 million (\$4,351 million), "Derivatives" included in "Miscellaneous liabilities" has decreased by ¥20,531 million (\$194 million), "Deferred hedged losses" has decreased by ¥8,269 million (\$78 million), and "Deferred hedged gains" has increased by ¥153,123 million (\$1,449 million). These changes have no effects on the results of operations.

**(g) Depreciation basis for fixed assets**

**(i) Premises and equipment**

Premises and equipment are depreciated on the declining balance basis over their useful economic lives except for buildings (excluding installed facilities) acquired on or after April 1, 1998, which are depreciated on a straight-line basis.

The principal estimated useful economic lives are as follows:

Buildings: 38 years to 50 years

Equipment: 2 years to 20 years

**(ii) Software**

Software used by JBIC is amortized on a straight-line basis over its useful economic life (5 years).

**(h) Accounting standard for impairment of fixed assets**

On August 9, 2002, the Business Accounting Council in Japan issued the "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss shall be recognized in the statements of operations by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal year beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

JBIC has not yet applied this new standard nor has determined the effect of applying it on the financial statements.

**(i) Method of amortization for deferred charges**

"Discounts on bonds and notes" are amortized over terms of redemption, and "Bonds and notes issuance costs" are amortized over 3 years, on a straight-line basis in accordance with the Commercial Code of Japan.

Until the fiscal year ended March 31, 2003, the amounts of amortization of discounts on bonds and notes had been presented in "Amortization of discounts on bonds and notes" as their own account. In accordance with the amendment of the applicable law which regulates the reporting standards, from April 1, 2003, they are presented in "Interest on bonds and notes" combined with interest.

**(j) Allowance for possible loan losses**

JBIC provides "Allowance for possible loan losses" as follows:

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 5 (h) 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 or 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 secondly 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 assessment.

**(k) Allowance for bonus payments**

"Allowance for bonus payments" is calculated and provided for based on estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet. Allowance for bonus payments to executive directors are included in the account as of March 31, 2004 but not included in the previous fiscal year.

**(l) Allowance for employee retirement benefits**

Allowance for employee retirement benefits represents the future payment for pension and retirement to employees

and executive directors, and is accrued based on the projected benefit obligations and the estimated pension plan assets at fiscal year end.

The actuarial gain or loss is recognized in the year in which it arises.

**(m) Consumption taxes**

Consumption taxes including local consumption tax are excluded from the transaction amounts.

**3. Cash and cash equivalents**

The reconciliation between the balance of cash and cash equivalents at the end of each fiscal year and the amount of cash and due from banks reported in the balance sheets as of March 31, 2004, and 2003 is as follows:

	March 31, 2004 ( In millions of yen )	March 31, 2003 ( In millions of yen )	March 31, 2004 (In millions of U. S. dollars)
	¥	¥	\$
Cash and due from banks	217,328	288,284	2,056
Due from banks (*)	(64,590)	(170,614)	(611)
Cash and cash equivalents	¥ 152,738	¥ 117,669	\$ 1,445

(\*) Excluding Due from Bank of Japan

**4. Securities**

Securities as of March 31, 2004 and 2003 are as follows:

	March 31, 2004 ( In millions of yen )	March 31, 2003 ( In millions of yen )	March 31, 2004 (In millions of U. S. dollars)
	¥	¥	\$
Equity	119,902	122,269	1,134
Other securities	612	642	6
	¥ 120,514	¥ 122,912	\$ 1,140

**5. Loans**

All loans are loans on deeds. The amounts reported in the balance sheets as of March 31, 2004 and 2003 are as follows:

International Financial Account	March 31, 2004 ( In millions of yen )	March 31, 2003 ( In millions of yen )	March 31, 2004 (In millions of U. S. dollars)
	¥	¥	\$
Bankrupt loans	83	665	1
Non-accrual loans	216,429	147,029	2,048
Past due loans (3 months or more)	16,032	92,620	151
Restructured loans	385,225	372,451	3,645
	¥ 617,770	¥ 612,767	\$ 5,845

  

Overseas Economic Cooperation Account	March 31, 2004 ( In millions of yen )	March 31, 2003 ( In millions of yen )	March 31, 2004 (In millions of U. S. dollars)
	¥	¥	\$
Bankrupt loans	-	-	-
Non-accrual loans	51,584	90,596	488
Past due loans (3 months or more)	54,245	51,186	513
Restructured loans	730,673	-	6,914
	¥ 836,504	¥ 141,783	\$ 7,915

**(a)** "Bankrupt loans," which are classified as non-accrual (i.e. interest receivable is admitted to be no longer accrued), are loans to borrowers who fall into the following categories:

- who have begun bankruptcy, settlement, reorganization, winding-up or special liquidation proceedings under the Bankruptcy Law, the Corporate Reorganization Law, the Civil Rehabilitation Law, the Commercial Code or other

similar laws of Japan

- who have had their transactions with the promissory note clearinghouse suspended
- who have begun similar proceedings under any foreign law.

These loans are categorized as loans to "Bankrupt borrowers" under the self-assessment of asset quality.

- (b) "Non-accrual loans" are loans that are classified as non-accrual and which do not fall into the "Bankrupt loans" category. These loans are categorized as loans to "Substantially bankrupt borrowers" or "Potentially bankrupt borrowers" under the self-assessment of asset quality.
- (c) "Past due loans (3 month or more)" are loans whose principal and/or interest is past due three months or more counted from the date following the scheduled payment date, and which do not fall into the "Bankrupt loans" and "Non-accrual loans" categories. These loans are also categorized as loans to "Watchlist borrowers" under the self-assessment of asset quality.
- (d) "Restructured loans" are loans whose contracts were amended in favor of obligors (e.g. reduction of or exemption from stated interest, deferral of interest payments, extension of maturity dates, renunciation of claims) in order to assist or facilitate the restructuring processes of the obligors in financial difficulties, and which do not fall into the "Bankrupt loans," "Non-accrual loans," and "Past due loans (3 month or more)" categories. These loans are also categorized as loans to "Watchlist borrowers" under the self-assessment of asset quality.
- (e) The amounts of Loans indicated in the table above are shown the gross amounts prior to deduction of allowance for possible loan losses.
- (f) In the event that a debtor country encounters temporary payment difficulties and requests debt rescheduling with respect to external public debt (whose creditors are Sovereigns, Trade Insurance Institutions and Export Credit Institutions, etc.) due to an unfavorable balance of international payment, meetings of creditor countries (the "Paris Club") would be held to discuss debt relief measures (rescheduling). When creditor countries agree on debt relief measures, debt-rescheduling agreements between the creditors and a debtor are agreed. Under such temporary liquidity assistance, the debtor carries out Economic Restructuring Program that was agreed with the International Monetary Fund ("IMF") and continues to make repayments of the debt. The principal amount of loans for which JBIC has agreed to provide debt relief pursuant to the Paris Club agreements is as follows:

	March 31, 2004 ( In millions of yen )	March 31, 2003 ( In millions of yen )	March 31, 2004 (In millions of U. S. dollars)
	¥	¥	\$
International Financial Account	463,600	363,922	4,386
Overseas Economic Cooperation Account	1,251,786	1,203,975	11,844

In the past, JBIC had not categorized the loans rescheduled under the Paris Club agreements, indicated above, under "Restructured loans." This was based on the assumption that, unlike loans provided by private financial institutions, their nature as public creditor provides an asset securing mechanism under the international framework which accords a high probability of repayment.

However, in order to facilitate comparison with private financial institutions, effective from the current fiscal year, JBIC now classifies those loans to borrowers classified under the self assessment as "Watchlisted" (but not "Past due loans (3 months or more)") that were rescheduled under the Paris Club as "Restructured loans." The amount of such loans, included in "Restructured loans" in the above table, is ¥115,380 million (\$1,092 million) of which ¥78,955 million (\$747 million) represents original principal attributable to the International Financial Account and ¥730,673 million (\$6,913 million) of which ¥565,183 million (\$5,348 million) represents original principal attributable to the Overseas Economic Cooperation Account..

- (g) As JBIC's debtors mainly require long-term loans, JBIC generally enters into commitment line contracts with these debtors. JBIC provides commitment lines under which it lends necessary funds up to a predetermined amount, that is within the borrowers' financing needs for the projects and up to the agreed maximum to lend, upon borrowers' request, provided that the request meets terms and conditions for disbursement prescribed in the Loan Agreement. The total balance of unused commitment lines as of March 31, 2004 and 2003 are ¥5,486,046 million (\$51,907 million) and ¥5,907,279 million, respectively.
- (h) 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 against the respective claims. The amounts of the accumulated write-offs as of March 31, 2004 and 2003 are ¥18,092 million (\$171 million) and ¥7,870 million, respectively.

## 6. Miscellaneous assets

Miscellaneous assets as of March 31, 2004 and 2003 are as follows:

	March 31, 2004 ( In millions of yen )	March 31, 2003 ( In millions of yen )	March 31, 2004 (In millions of U. S. dollars)
	¥	¥	\$
Prepaid expenses	1,174	1,644	11
Accrued income (a)	184,799	295,431	1,748
Derivatives	495,869	57,733	4,692
Preliminary payment to the National Treasury (b)	19,185	10,971	182
Others (c)	3,255	1,891	31
	¥ 704,284	¥ 367,673	\$ 6,664

(Notes)

- (a) "Accrued income" includes ¥183,144 million (\$1,733 million) of accrued interest on loans and others as of March 31, 2004, and ¥278,593 million of accrued interest on loans and ¥15,011 million of accrued interests on swaps and others as of March 31, 2003.
- (b) Pursuant to Article 44 of the JBIC Law, a portion of the net earnings on the General Account of the International Financial Account is paid to the National Treasury. Preliminary payment to the National Treasury, made on a best estimate basis, is accounted on an accrual basis.
- (c) "Others" includes ¥1,720 million (\$16 million) of suspense payments and ¥303 million (\$3 million) of other accounts receivable and others as of March 31, 2004, and ¥607 million of other accounts receivable and others as of March 31, 2003.

## 7. Premises and equipment

Premises and equipment as of March 31, 2004 and 2003 are as follows:

	March 31, 2004 ( In millions of yen )	March 31, 2003 ( In millions of yen )	March 31, 2004 (In millions of U. S. dollars)
	¥	¥	\$
Tangible fixed assets			
Land	12,576	12,672	119
Buildings	26,698	26,235	253
Equipment	5,208	5,234	49
Construction in progress	218	237	2
Total	¥ 44,701	¥ 44,379	\$ 423
Less-accumulated depreciation	18,024	17,127	171
Net book value	¥ 26,677	¥ 27,252	\$ 252
Intangible fixed assets			
Software	1,124	1,081	11
Guarantee deposit	491	497	5
Others	66	66	0
Total	¥ 1,682	¥ 1,646	\$ 16
Less-accumulated depreciation	660	438	6
Net book value	¥ 1,022	¥ 1,207	\$ 10

## 8. Deferred charges on bonds and notes

Deferred charges on bonds and notes as of March 31, 2004 and 2003 are as follows:

	March 31, 2004 (In millions of yen)	March 31, 2003 (In millions of yen)	March 31, 2004 (In millions of U. S. dollars)
	¥	¥	\$
Deferred discounts on bonds and notes	1,291	1,302	12
Deferred bonds and notes issuance costs	1,416	965	14
	¥ 2,707	¥ 2,267	\$ 26

## 9. Allowance for possible loan losses

Allowance for possible loan losses as of March 31, 2004 and 2003 are as follows:

	March 31, 2004 (In millions of yen)	March 31, 2003 (In millions of yen)	March 31, 2004 (In millions of U. S. dollars)
	¥	¥	\$
General allowance for possible loan losses	124,683	172,304	1,180
Specific allowance for possible loan losses	128,208	132,346	1,213
Allowance for possible losses on specific overseas loans	10,533	3,512	99
	¥ 263,425	¥ 308,163	\$ 2,492

## 10. Bonds and notes

Bonds and notes as of March 31, 2004 and 2003 are as follows:

Description of bonds and notes	Date of issuance	Currency and amounts		Interest rate (%)	Maturity date	March 31,	March 31,	March 31,
		March 31, 2004 (In millions)	March 31, 2004 (In millions)			2004 (In millions of yen)	2003 (In millions of yen)	2004 (In millions of U. S. dollars)
Export-Import Bank of Japan Bonds guaranteed by Japanese govt. 27, 32, 33, 35-37, 39, 40, 42, 46	May 1993- June 1999	JPY	60,000	2.875-	June 2004-	¥ 490,423	¥ 843,484	\$ 4,640
		USD	1,600	8.250	June 2008			
		EUR	1,428					
		GBP	400					
Japan Bank for International Cooperation Bonds guaranteed by Japanese govt. 1-6	November 1999- December 2003	JPY	60,000	0.350-	June 2005-	505,950	420,600	4,787
		USD	3,000	7.125,	December			
		EUR	1,000	LIBOR	2013			
				+0.0625				
FILP Agency Bonds 1-10 (*)	October 2001- February 2004	JPY	540,000	0.240- 1.520	September 2006- December 2013	540,000	300,000	5,109
Overseas Economic Cooperation Fund Bonds guaranteed by Japanese govt. 8,9	December 1995- November 1996	JPY	25,000	2.9- 3.0	December 2005- November 2006	25,000	25,000	237
						¥ 1,561,373	¥ 1,589,084	\$ 14,773

(\*) Non-government guaranteed bonds issued in domestic market

Scheduled redemptions of bonds and notes for each of the next five years as of March 31, 2004 are as follows:

	In millions of yen	In millions of U.S. dollars
	¥	\$
Fiscal year 2004	133,973	1,268
2005	265,242	2,510
2006	292,926	2,772
2007	205,366	1,943
2008	213,735	2,022

## 11. Borrowings

Borrowings as of March 31, 2004 and 2003 are as follows:

	Average interest rate	Due date of repayment	March 31, 2004 (In millions of yen)	March 31, 2003 (In millions of yen)	March 31, 2004 (In millions of U. S. dollars)
			¥	¥	\$
Long-term borrowings					
Borrowings from the Government Fund for Fiscal Investment and Loan Program	2.14	May 2004- December 2018	10,176,101	10,934,283	96,283
Borrowings from the Government Post Office Life Insurance Fund	2.34		216,824	284,398	2,051
			¥ 10,392,925	¥ 11,218,681	\$ 98,334

Long-term borrowings with maturities for the next five years as of March 31, 2004 are as follows:

	In millions of yen	In millions of U.S. dollars
	¥	\$
Fiscal year 2004	1,302,190	12,321
2005	1,264,845	11,967
2006	1,294,297	12,246
2007	1,593,977	15,082
2008	1,743,656	16,498

## 12. Miscellaneous liabilities

Miscellaneous liabilities as of March 31, 2004 and 2003 are as follows:

	March 31, 2004 (In millions of yen)	March 31, 2003 (In millions of yen)	March 31, 2004 (In millions of U. S. dollars)
	¥	¥	\$
Accrued expenses (a)	68,881	84,471	651
Unearned income	2,199	2,398	21
Derivatives	16,790	34,770	159
Deferred hedge gains (b)	153,571	15,371	1,453
Others (c)	4,747	184,114	45
	¥ 246,191	¥ 321,126	\$ 2,329

(Notes)

- (a) "Accrued expenses" includes ¥45,499 million (\$430 million) of accrued interest on borrowings and ¥22,069 million (\$209 million) of accrued interest on bonds and notes and others as of March 31, 2004, and ¥52,575 million of accrued interest on borrowings and ¥26,320 million of accrued interest on bonds and notes and others as of March 31, 2003.
- (b) "Deferred hedge gains" are net realized or unrealized gains from hedging instruments. The gross amounts of deferred hedge gains and losses before netting as of March 31, 2004 are ¥169,900 million (\$1,608 million) and ¥16,328 million (\$154 million) respectively, and as of March 31, 2003 are ¥273,907 million and ¥258,536 million respectively.

- (c) "Others" includes ¥4,643 million (\$44 million) of suspense receipts and others as of March 31, 2004, and ¥178,104 million of deferred foreign exchange and ¥5,947 million of suspense receipts and others as of March 31, 2003.

### 13. Employee retirement benefits

JBIC has a defined benefits pension plan comprising welfare pension fund plan and lump-sum severance indemnity plan.

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

Disposition		March 31, 2004	March 31, 2003	March 31, 2004
		( In millions of yen )	( In millions of yen )	(In millions of U. S. dollars)
		¥	¥	\$
Projected benefit obligation	(A)	(22,690)	(22,334)	(215)
Fair value of plans assets	(B)	5,261	4,244	50
Unfunded pension obligation	(C) = (A) + (B)	(17,429)	(18,090)	(165)
Unrecognized net obligation at transition	(D)	-	-	-
Unrecognized net actuarial gains/losses	(E)	-	-	-
Unrecognized prior service cost	(F)	-	-	-
Net amount recognized on the balance sheet	(G) = (C) + (D) + (E) + (F)	(17,429)	(18,090)	(165)
Prepaid pension cost	(H)	-	-	-
Allowance for employee retirement benefits	(G) – (H)	¥ (17,429)	¥ (18,090)	\$ (165)

(Note) The projected benefit obligation above includes a portion in which the pension fund acts for the government welfare program.

#### (b) Component of pension cost

Disposition		March 31, 2004	March 31, 2003	March 31, 2004
		( In millions of yen )	( In millions of yen )	(In millions of U. S. dollars)
		¥	¥	\$
Service cost		934	945	9
Interest cost		443	510	4
Expected return on plan assets		(63)	(68)	(0)
Amortization of prior service cost		-	(300)	-
Amortization of net actuarial gains/losses		(625)	2,172	(6)
Amortization of net obligation at transition		-	-	-
Other Costs		-	-	-
Net pension cost		¥ 688	¥ 3,258	\$ 7

#### (c) Principal assumptions made

	March 31, 2004	March 31, 2003
Discount rate		2.0%
Expected rate of return on plan assets		1.5%
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis
Amortization period of prior service costs	-	Prior service cost is charged to net income for the year
Amortization period of actuarial gains/losses	Gains/losses are charged to net income for the year	Gains/losses are charged to net income for the year
Amortization period of net obligation at transition	-	-

#### 14. Acceptances and guarantees

Acceptances and Guarantees as of March 31, 2004 and 2003 are as follows:

	March 31, 2004 ( In millions of yen )	March 31, 2003 (In millions of yen)	March 31, 2004 ( In millions of U.S. dollars )
Acceptances	¥ -	¥ -	\$ -
Guarantees	724,924	629,082	6,859
	¥ 724,924	¥ 629,082	\$ 6,859

#### 15. Assets pledged as collateral

There were no assets pledged as collateral as of March 31, 2004 and 2003.

#### 16. Grant from general account

In accordance with the "Changes of the Debt Relief Method" announced by the Japanese government on December 10, 2002, JBIC reported the extraordinary loss ("ODA-loan related losses") in the previous fiscal year. Under the policy to maintain the financial soundness of JBIC, the government provided JBIC a grant totaling ¥30 billion (\$284 million) corresponding to "ODA-loan related losses" out of its general account for the current fiscal year.

#### 17. Reserve

Pursuant to Article 44 of the JBIC Law, the reserve attributable to the International Financial Account is provided from net earnings from the International Financial Account, and the reserve attributable to the Overseas Economic Cooperation Account is provided from or reversed to net earnings from the Overseas Economic Cooperation Account, respectively.

#### 18. Lease transactions

Lease transactions in the fiscal year ended March 31, 2004 and 2003 are as follows:

(a) **Finance lease transactions, excluding leases that ownership of the property are deemed to be transferred to the lessee:**

• Acquisition cost, accumulated depreciation and net balance of leased property as of March 31, 2004 and 2003 are as follows:

	March 31, 2004 ( In millions of yen )	March 31, 2003 ( In millions of yen )	March 31, 2004 ( In millions of U.S. dollars )
Acquisition cost	¥	¥	\$
Equipment	322	-	3
Others	506	-	5
Total	¥ 828	¥ -	\$ 8
Accumulated depreciation			
Equipment	38	-	0
Others	50	-	1
Total	¥ 89	¥ -	\$ 1
Net balance			
Equipment	283	-	3
Others	455	-	4
Total	¥ 738	¥ -	\$ 7



- Future lease payment obligations as of March 31, 2004 and 2003 are summarized below:

	March 31, 2004 ( In millions of yen )	March 31, 2003 ( In millions of yen )	March 31, 2004 ( In millions of U.S. dollars )
	¥	¥	\$
Due within 1 year	162	-	2
Due after 1 year	579	-	5
<b>Total</b>	<b>¥ 742</b>	<b>¥ -</b>	<b>\$ 7</b>

- Lease payment, depreciation expenses and interest expense for the fiscal year ended March 31, 2004 are ¥95 million (\$1 million), ¥91 million (\$1 million) and ¥7 million (\$0 million) respectively. There are no corresponding amounts for the fiscal year ended March 31, 2003.

- Depreciation expense is calculated using the straight-line method over the useful economic life of the respective leased assets with zero residual value.

- The difference between total lease payments and the acquisition cost of leased assets is debited to interest expenses, and is allocated to each fiscal year using the interest method.

**(b) Operating lease transactions:**

- Future lease payment obligations as of March 31, 2004 and 2003 are summarized below:

	March 31, 2004 ( In millions of yen )	March 31, 2003 ( In millions of yen )	March 31, 2004 ( In millions of U.S. dollars )
	¥	¥	\$
Due within 1 year	1	9	0
Due after 1 year	-	2	-
<b>Total</b>	<b>¥ 1</b>	<b>¥ 11</b>	<b>\$ 0</b>

## 19. Derivative transactions

Notes to derivative transactions in the fiscal year ended March 31, 2004 are as follows:

**(a) Policy for derivative transactions**

JBIC engages in derivative transactions solely for the purpose of hedging foreign exchange rate risks and interest rate risks that are incurred in respect of its lending and funding operations.

**(b) Transactions**

Derivative transactions include interest rate and currency swaps and forward exchange contracts.

**(c) Risks involved in derivative transactions**

Derivative transactions involve the following risks:

(i) Credit risk

Potential loss from the failure of a counterparty to perform its obligations in accordance with terms and conditions under the contract governing transactions due to bankruptcy or deteriorating business.

(ii) Market risk

Potential loss from the changes in the market value of financial products due to fluctuations in interest rates or exchange rates.

**(d) Policies for risk management on derivative transactions**

(i) Credit risk

JBIC constantly monitors the market value of its derivative transactions with each counterparty and the amount of its credit exposure, and creditworthiness of each counterparty in order to ascertain the appropriateness of entering into or maintaining a transaction with each counterparty.

(ii) Market risk

JBIC uses derivative transactions solely for the purpose of hedging. Therefore, the market risk on derivative transactions and that on hedged (lending or funding) transactions basically offset each other.

Credit risk amounts of derivative etc.	(In 100 millions of yen)		(In 100 millions of U.S. dollars)	
	Contract amount/notional amount	Credit risk	Contract amount/notional amount	Credit risk
	¥	¥	\$	\$
Interest rate swaps	19,950	838	189	8
Currency swaps	41,997	7,902	397	75
Forward exchange contracts	14	0	0	0
Other derivatives	-	-	-	-
Credit risk reductions through nettings	-	(1,806)	-	(17)
<b>Total</b>	<b>¥ 61,962</b>	<b>¥ 6,934</b>	<b>\$ 586</b>	<b>\$ 66</b>

(Note) Credit risk amounts are calculated under Uniform International Standards in accordance with the Banking Law of Japan and the related regulations.

**(e) Interest rate-related transactions**

Gains or losses arising from changes in fair value of interest rate related derivatives are not included in the statement of operations.

Hedge accounting is applied to all interest rate-related derivative transactions.

**(f) Currency-related transactions**

Gains or losses arising from changes in fair value of currency related derivatives are not included in the statement of operations.

Hedge accounting is applied to all currency-related derivative transactions.

**(g) Equity-related transactions**

Not applicable

**(h) Bond-related transactions**

Not applicable

**(i) Commodity-related transactions**

Not applicable

**(j) Credit Derivatives transactions**

Not applicable

Notes to derivative transactions in the fiscal year ended March 31, 2003 are as follows:

**(a) Policy for derivative transactions**

JBIC engages in derivative transactions solely for the purpose of hedging foreign exchange rate risks and interest rate risks that are incurred in respect of its lending and funding operations.

**(b) Transactions**

Derivative transactions include interest rate and currency swaps and forward exchange contracts.

**(c) Risks involved in derivative transactions**

Derivative transactions involve the following risks:

(i) Credit risk

Potential loss from the failure of a counterparty to perform its obligations in accordance with terms and conditions under the contract governing transactions due to bankruptcy or deteriorating business.

(ii) Market risk

Potential loss from the changes in the market value of financial products due to fluctuations in interest rates or exchange rates.

**(d) Policies for risk management on derivative transactions**

(i) Credit risk

JBIC constantly monitors the market value of its derivative transactions with each counterparty and the amount of its credit exposure and creditworthiness of each counterparty in order to ascertain the appropriateness of entering into or maintaining a transaction with each counterparty.

(ii) Market risk

JBIC uses derivative transactions solely for the purpose of hedging. Therefore, the market risk on derivative transactions and that on hedged (lending or funding) transactions basically offset each other.

(In 100 millions of yen)

Credit risk amounts of derivative etc.	Contract amount/notional amount		Credit risk
	¥	¥	
Interest rate swaps	17,001		1,093
Currency swaps	45,528		5,456
Forward exchange contracts	14		0
Other derivatives	-		-
Credit risk reductions through nettings	-		(2,526)
Total	¥ 62,543	¥	4,023

(Note) Credit risk amounts are calculated under Uniform International Standards in accordance with the Banking Law of Japan and the related regulations.

**(e) Interest rate-related transactions**

Gains or losses arising from changes in fair value of interest rate related derivatives are not included in the statement of operations.

Hedge accounting is applied to all interest rate-related derivative transactions.

**(f) Currency-related transactions**

Gains or losses arising from changes in fair value of currency related derivatives are not included in the statement of operations.

Certain currency swaps have been accounted for by using the accrual method of accounting based on the transitional applications described in "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry." The contractual amount, market value and unrealized gain/(loss) of such currency swaps accounted for on accrual method are as follows:

Type	March 31, 2003 (In millions of yen)		
	Contractual amount	Market value	Unrealized gain/(loss)
	¥	¥	¥
Currency swaps	4,536,027	118,779	-

**(g) Equity-related transactions**

Not applicable

**(h) Bond-related transactions**

Not applicable

**(i) Commodity-related transactions**

Not applicable

**(j) Credit Derivatives transactions**

Not applicable

## 20. Market value of securities

Notes to market value of securities as March 31, 2004 are as follows:

**(a) Trading securities**

Not applicable

**(b) Held-to-maturity debt securities**

Not applicable

**(c) Available-for-sale securities with market value**

Not applicable

**(d) Held-to-maturity debt securities sold**

Not applicable

**(e) Available-for-sale securities sold**

Not applicable

**(f) Held-to maturity debt securities and available-for-sale securities whose market value is not readily determinable are as follows:**

	March 31, 2004 ( In millions of yen )	March 31, 2004 ( In millions of U.S. dollars)
	¥	\$
Held-to-maturity debt securities		
Unlisted foreign securities	-	-
Available-for-sale securities		
Unlisted Japanese equities other than over-the-counter	117,110	1,108
Unlisted foreign equities	2,791	26
Unlisted Japanese local government bonds	-	-
Unlisted Japanese corporate bonds	-	-
Unlisted foreign bonds	-	-
Other Japanese securities	-	-
Other unlisted foreign securities	612	6
Total	¥ 120,514	\$ 1,140

**(g) Change of classification of securities**

Not applicable

**(h) Redemption schedule of available-for-sale securities with maturity**

Not applicable

**(i) Money held in trust**

Not applicable

**(j) Net unrealized gain (loss) on available-for-sale securities**

Not applicable

Notes to market value of securities as March 31, 2003 are as follows:

**(a) Trading securities**

Not applicable

**(b) Held-to-maturity debt securities**

Not applicable

**(c) Available-for-sale securities with market value**

Not applicable

**(d) Held-to-maturity debt securities sold**

Not applicable

**(e) Available-for-sale securities sold**

Not applicable

**(f) Held-to maturity debt securities and available-for-sale securities whose market value is not readily determinable are as follows:**

	March 31, 2003	
	( In millions of yen )	
	¥	
Held-to-maturity debt securities		
Unlisted foreign securities		-
Available-for-sale securities		
Unlisted Japanese equities other than over-the-counter		119,084
Unlisted foreign equities		3,184
Unlisted Japanese local government bonds		-
Unlisted Japanese corporate bonds		-
Unlisted foreign bonds		-
Other Japanese securities		-
Other unlisted foreign securities		642
Total	¥	<u>122,912</u>

**(g) Change of classification of securities**

Not applicable

**(h) Redemption schedule of available-for-sale securities with maturity**

Not applicable

**(i) Money held in trust**

Not applicable

**(j) Net unrealized gain (loss) on available-for-sale securities**

Not applicable