

### 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, 2006 and 2005, 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, 2005 and 2006, 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

Tokyo, Japan

June 23, 2006

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

	In millions of yen		In millions of yen		In millions of U.S. dollars	
	March 31, 2006		March 31, 2005		March 31, 2006	
<b>Assets</b>						
Cash and due from banks (Note 3)	¥	655,517	¥	170,029	\$	5,580
Securities (Notes 4 and 20)		119,535		119,980		1,018
Loans (Note 5)		19,023,649		19,187,414		161,945
Miscellaneous assets (Note 6)		276,038		599,982		2,350
Premises and equipment (Note 7)		25,873		26,186		220
Deferred charges on bonds and notes (Note 8)		4,230		3,719		36
Customers' liabilities for acceptances and guarantees		1,066,099		899,389		9,075
Allowance for possible loan losses (Note 9)		(273,120)		(353,664)		(2,325)
<b>Total assets</b>	¥	<b>20,897,824</b>	¥	<b>20,653,038</b>	\$	<b>177,899</b>
<b>Liabilities and equity</b>						
<b>Liabilities</b>						
Bonds and notes (Note 10)	¥	2,053,963	¥	1,776,254	\$	17,485
Borrowings (Note 11)		8,926,789		9,559,735		75,992
Miscellaneous liabilities (Note 12)		207,097		224,079		1,763
Allowance for bonus payments		1,020		960		9
Allowance for employee retirement benefits (Note 13)		16,473		17,276		140
Acceptances and guarantees (Note 14)		1,066,099		899,389		9,075
<b>Total liabilities</b>		<b>12,271,443</b>		<b>12,477,695</b>		<b>104,464</b>
<b>Equity</b>						
Capital attributable to the International Financial Account		985,500		985,500		8,389
Capital attributable to the Overseas Economic Cooperation Account		7,065,644		6,891,244		60,149
Reserve attributable to the International Financial Account (Note 17)		709,148		676,258		6,037
Reserve attributable to the Overseas Economic Cooperation Account (Note 17)		111,324		85,490		948
Accumulated deficit		(245,236)		(463,150)		(2,088)
<b>Total equity</b>		<b>8,626,381</b>		<b>8,175,343</b>		<b>73,435</b>
<b>Total liabilities and equity</b>	¥	<b>20,897,824</b>	¥	<b>20,653,038</b>	\$	<b>177,899</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 2005		FY 2004		FY 2005	
<b>Income</b>						
Interest income	¥	574,315	¥	488,620	\$	4,889
Interest on loans		562,289		458,984		4,787
Interest and dividend income on securities		5,728		3,638		49
Interest on due from banks		6,297		2,458		53
Interest on swaps (net)		-		23,538		-
Fees and Commissions		8,783		6,334		75
Other operating income		3,985		13,152		34
Foreign exchange gains		3,751		1,662		32
Gains on derivative instruments		-		11,353		-
Others		234		136		2
Other ordinary income		354		202		3
Grant from general account (Note 16)		30,000		30,000		255
Reversal of allowance for possible loan losses		34,644		-		295
Recovery of Written-off Claims		3,179		1,406		27
Profits on sales of premises and equipment		6		21		0
<b>Total income</b>		<b>655,270</b>		<b>539,738</b>		<b>5,578</b>
<b>Expenses</b>						
Interest expenses		315,669		284,575		2,687
Interest on bonds and notes		64,137		64,003		546
Interest on borrowings		180,350		220,571		1,535
Interest on swaps (net)		71,181		-		606
Fees and Commissions		5,870		5,668		50
Other operating expenses		1,292		2,211		11
Amortization of bonds and notes issuance costs		1,053		990		9
Others		238		1,220		2
General and administrative expenses		22,636		22,963		193
Other ordinary expenses		247		93,886		2
Provision for allowance for possible loan losses		-		90,992		-
Write-off of loans		-		11		-
Write-off of equities and securities, etc.		217		2,867		2
Others		29		14		0
Losses on disposal of premises and equipment		27		9		0
<b>Total expense</b>		<b>345,742</b>		<b>409,315</b>		<b>2,943</b>
<b>Net income</b>	¥	<b>309,527</b>	¥	<b>130,423</b>	\$	<b>2,635</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 2005		FY 2004		FY 2005	
<b>Cash flows from operating activities</b>						
Net income	¥	309,527	¥	130,423	\$	2,635
Depreciation and amortization		1,398		1,355		12
Increase (decrease) in allowance for possible loan losses		(80,544)		90,239		(686)
Increase in allowance for bonus payments		60		42		1
Decrease in allowance for employee retirement benefits		(803)		(152)		(7)
Interest income		(574,315)		(488,620)		(4,889)
Interest expenses		315,669		284,575		2,687
Net loss on securities		200		2,875		2
Foreign exchange gain		(335,141)		(60,081)		(2,853)
Net loss (gain) on sales of premises and equipment		20		(11)		0
Net decrease in loans		557,202		213,818		4,743
Net increase in bonds and notes		214,542		179,225		1,826
Net decrease in borrowings		(632,945)		(833,190)		(5,388)
Net increase in due from banks (excluding cash equivalents)		(232,846)		(33,909)		(1,982)
Interest received		593,469		506,306		5,052
Interest paid		(317,173)		(291,548)		(2,700)
Others, net		290,237		68,579		2,471
<b>Net cash provided by (used in) operating activities</b>		<b>108,557</b>		<b>(230,073)</b>		<b>924</b>
<b>Cash flows from investing activities</b>						
Purchases of securities		(421)		(2,527)		(4)
Sales of securities		690		693		6
Expenditures on premises and equipment		(711)		(184)		(6)
Proceeds from sales of premises and equipment		27		92		0
<b>Net cash used in investing activities</b>		<b>(414)</b>		<b>(1,927)</b>		<b>(4)</b>
<b>Cash flows from financing activities</b>						
Proceeds from issuance of capital from Government		174,400		186,600		1,485
Payment to National Treasury		(34,726)		(36,547)		(296)
<b>Net cash provided by financing activities</b>		<b>139,673</b>		<b>150,052</b>		<b>1,189</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>0</b>		<b>0</b>		<b>0</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>247,817</b>		<b>(81,947)</b>		<b>2,109</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>70,790</b>		<b>152,738</b>		<b>603</b>
<b>Cash and cash equivalents at the end of the period</b>	¥	<b>318,608</b>	¥	<b>70,790</b>	\$	<b>2,712</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, 2005	¥ 985,500	¥ 6,891,244	¥ 676,258	¥ 85,490	¥ (463,150)	¥ 8,175,343
Transfer from net earnings accounted under the JBIC Law to reserve	-	-	32,889	25,833	(58,723)	-
Payment to National Treasury	-	-	-	-	(32,889)	(32,889)
Issuance of capital from Government	-	174,400	-	-	-	174,400
Net income	-	-	-	-	309,527	309,527
Balance at March 31, 2006	¥ 985,500	¥ 7,065,644	¥ 709,148	¥ 111,324	¥ (245,236)	¥ 8,626,381
<b>Appropriations:</b>						
Transfer from net earnings accounted under the JBIC Law to reserve	-	-	36,087	54,737	(90,825)	-
Payment to National Treasury	-	-	-	-	(36,087)	(36,087)
Total	¥ -	¥ -	¥ 36,087	¥ 54,737	¥ (126,913)	¥ (36,087)
Unappropriated Accumulated deficit	¥ -	¥ -	¥ -	¥ -	¥ (372,149)	¥ -

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, 2005	\$ 8,389	\$ 58,664	\$ 5,757	\$ 728	\$ (3,943)	\$ 69,595
Transfer from net earnings accounted under the JBIC Law to reserve	-	-	280	220	(500)	-
Payment to National Treasury	-	-	-	-	(280)	(280)
Issuance of capital from Government	-	1,485	-	-	-	1,485
Net income	-	-	-	-	2,635	2,635
Balance at March 31, 2006	\$ 8,389	\$ 60,149	\$ 6,037	\$ 948	\$ (2,088)	\$ 73,435
Appropriations:						
Transfer from net earnings accounted under the JBIC Law to reserve	-	-	307	466	(773)	-
Payment to National Treasury	-	-	-	-	(307)	307
Total	\$ -	\$ -	\$ 307	\$ 466	\$ (1,080)	\$ 307
Unappropriated Accumulated deficit	\$ -	\$ -	\$ -	\$ -	\$ (3,168)	\$ -

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, 2004	¥ 985,500	¥ 6,704,644	¥ 638,582	¥ 20,667	¥ (453,398)	¥ 7,895,995
Transfer from net earnings accounted under the JBIC Law to reserve	-	-	37,675	64,823	(102,498)	-
Payment to National Treasury	-	-	-	-	(37,675)	(37,675)
Issuance of capital from Government	-	186,600	-	-	-	186,600
Net income	-	-	-	-	130,423	130,423
Balance at March 31, 2005	¥ 985,500	¥ 6,891,244	¥ 676,258	¥ 85,490	¥ (463,150)	¥ 8,175,343
<b>Appropriations:</b>						
Transfer from net earnings accounted under the JBIC Law to reserve	-	-	32,889	25,833	(58,723)	-
Payment to National Treasury	-	-	-	-	(32,889)	(32,889)
<b>Total</b>	¥ -	¥ -	¥ 32,889	¥ 25,833	¥ (91,613)	¥ (32,889)
Unappropriated Accumulated deficit	¥ -	¥ -	¥ -	¥ -	¥ (554,763)	¥ -

*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 accounts 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 ¥117.47=\$1.00, the exchange rate as of March 31, 2006 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 on 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 available market quotations and are carried at cost based on weighted average method.

##### **(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 accounts for 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 accounted for using the deferral method, in accordance with the standard treatment of The Japanese Institute of Certified Public Accountants (JICPA) Industry Audit Committee Report No. 25.

The effectiveness of the hedging instruments described above, such as currency-swaps, exchange swaps 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.



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

**(i) Premises and equipment**

Premises and equipment are depreciated on the declining balance basis over their estimated 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 the straight-line basis over its estimated 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.

JBIC has applied this new standard from the fiscal year beginning April 1, 2005, which has no effect on net income.

**(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 the straight-line basis in accordance with the Commercial Code of Japan.

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

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 (i) 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 assessments.

**(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 is included in the account.

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

Allowance for employee retirement benefits represents the future payment for pension and retirement benefits to employees and executive directors, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal year end.

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

**(m) Lease transactions**

Finance leases that do not involve the transfer of ownership to the lessee at the end of the lease term are accounted for as operating lease.

**(n) 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 and the amount of cash and due from banks reported on the balance sheets as of March 31, 2006 and 2005 are as follows:

	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U. S. dollars)
Cash and due from banks	¥ 655,517	¥ 170,029	\$ 5,580
Due from banks (*)	(336,909)	(99,239)	(2,868)
Cash and cash equivalents	¥ 318,608	¥ 70,790	\$ 2,712

(\*) Excluding Due from Bank of Japan

### 4. Securities

Securities as of March 31, 2006 and 2005 are as follows:

	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U. S. dollars)
Equity	¥ 117,870	¥ 118,699	\$ 1,004
Other securities	1,665	1,280	14
	¥ 119,535	¥ 119,980	\$ 1,018

### 5. Loans

All of loans are loans on deeds. The amounts reported on the balance sheets as of March 31, 2006 and 2005 are as follows:

International Financial Account	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U. S. dollars)
Bankrupt loans	¥ 47,333	¥ -	\$ 403
Non-accrual loans	156,454	265,797	1,332
Past due loans (3 months or more)	2,714	2,714	23
Restructured loans	141,007	325,428	1,200
	¥ 347,510	¥ 593,940	\$ 2,958

Overseas Economic Cooperation Account	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U. S. dollars)
Bankrupt loans	¥ -	¥ -	\$ -
Non-accrual loans	96,998	122,764	826
Past due loans (3 months or more)	-	-	-
Restructured loans	184,691	724,275	1,572
	¥ 281,689	¥ 847,039	\$ 2,398

(a) "Bankrupt loans" refer to loans, after write-offs, on which accrued interest income is not recognized as there is substantial doubt about the ultimate collectability of either principal or interest because they are past due for a considerable period of time or for other reasons, and 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; or
- who have begun similar proceedings under any foreign law

(b) "Non-accrual loans" are loans on which accrued interest income is not recognized, excluding loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

- (c) "Past due loans (3 months or more)" are loans whose principal or interest payment is past due for over three months, 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 "Past due loans (over 3 months)."
- (e) The amounts of Loans indicated in the table above are gross 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 payments, 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 the 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, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U. S. dollars)
	¥	¥	\$
International Financial Account	417,943	487,301	3,558
Overseas Economic Cooperation Account	1,262,313	1,282,521	10,746

In terms of repayment probability of the loans rescheduled in the Paris Club, their nature as public debt, unlike loans provided by private financial institutions, provides an asset securing mechanism under such an international framework. Nonetheless, in order to facilitate comparison with private financial institutions, JBIC classifies those loans to borrowers classified under the 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 ¥20,470 million (\$174 million) of which ¥10,890 million (\$93 million) represents original principal attributable to the International Financial Account and ¥184,691 million (\$1,572 million) of which ¥96,407 million (\$821 million) represents original principal attributable to the Overseas Economic Cooperation Account for the fiscal year ended March 31, 2006, and ¥77,863 million of which ¥74,580 million represents original principal attributable to the International Financial Account and ¥724,275 million of which ¥570,270 million represents original principal attributable to the Overseas Economic Cooperation Account for the fiscal year ended March 31, 2005 respectively.

- (g) Upon special request, major creditor countries, including Japan, agreed at the Paris Club to offer a grace period ("Moratorium") for countries affected by the Sumatra Earthquake and India Tsunami in December 2004, in order to support their reconstruction and recovery. During this Moratorium period creditor countries will not expect any debt payment on the due dates up to December 31, 2005, and will reschedule the repayment period of deferred debts for 5 years including a 1 year grace period.

As of the end of March 2006, of the affected countries, Indonesia and Sri Lanka had requested the Paris Club for the Moratorium. The amounts rescheduled repayment period for affected countries who requested the Moratorium are ¥9,410 million (\$80 million) in the International Financial Account and ¥168,017 million (\$1,430 million) in the Overseas Economic Cooperation Account.

Loans related to this Moratorium are not included in the loans described in (a) to (d) above, since lending terms has been modified based on an international agreement under this Moratorium to offer a grace period in order to support reconstruction and recovery of affected countries, and is therefore irrelevant to their debt-repayment ability.

- (h) 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, which 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, 2006 and 2005 are ¥5,056,325 million (\$43,044 million) and ¥5,213,942 million, respectively.
- (i) 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, 2006 and 2005 are ¥5,489 million (\$47 million) and ¥16,824 million, respectively.

## 6. Miscellaneous assets

Miscellaneous assets as of March 31, 2006 and 2005 are as follows:

	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U. S. dollars)
	¥	¥	\$
Prepaid expenses	867	1,055	8
Accrued income (a)	150,268	169,984	1,279
Derivatives	96,560	406,902	822
Deferred hedge losses(b)	3,912	-	33
Preliminary payment to the National Treasury (c)	19,892	18,056	169
Other (d)	4,537	3,983	39
	¥ 276,038	¥ 599,982	\$ 2,350

(Notes)

- (a) "Accrued income" includes ¥148,324 million (\$1,263 million) and ¥168,219 million of accrued interest on loans and other as of March 31, 2006 and 2005, respectively.
- (b) "Deferred hedge losses" are net unrealized losses from hedging instruments. The gross amounts of deferred hedge gains and losses before netting as of March 31, 2006 are ¥40,822 million (\$348million) and ¥44,734 million (\$381 million), respectively (March 31, 2005: ¥135,610 million and ¥2,458 million, respectively).
- (c) 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 for on an accrual basis.
- (d) "Other" includes ¥168 million (\$1 million) of suspense payments and other as of March 31, 2006, and ¥3,165 million of suspense payments as of March 31, 2005.

## 7. Premises and equipment

Premises and equipment as of March 31, 2006 and 2005 are as follows:

	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U. S. dollars)
	¥	¥	\$
Tangible fixed assets			
Land	12,551	12,551	107
Buildings	26,768	26,702	228
Equipment	4,965	5,133	42
Construction in progress	584	286	5
Total	¥ 44,869	¥ 44,673	\$ 382
Less-accumulated depreciation	19,495	18,972	166
Net book value	¥ 25,374	¥ 25,701	\$ 216
Intangible fixed assets	¥	¥	\$
Software	5,292	1,453	45
Guarantee deposit	493	478	4
Other	66	66	1
Total	¥ 5,852	¥ 1,998	\$ 50
Less-accumulated depreciation	1,345	922	12
Net book value	¥ 4,506	¥ 1,075	\$ 38

## 8. Deferred charges on bonds and notes

Deferred charges on bonds and notes as of March 31, 2006 and 2005 are as follows:

	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U. S. dollars)
	¥	¥	\$
Deferred discounts on bonds and notes	2,536	2,188	22
Deferred bonds and notes issuance costs	1,694	1,530	14
	¥ 4,230	¥ 3,719	\$ 36

## 9. Allowance for possible loan losses

Allowance for possible loan losses as of March 31, 2006 and 2005 are as follows:

	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U. S. dollars)
	¥	¥	\$
General allowance for possible loan losses	86,390	134,550	735
Specific allowance for possible loan losses	172,888	203,781	1,472
Allowance for possible losses on specific overseas loans	13,841	15,332	118
	¥ 273,120	¥ 353,664	\$ 2,325

## 10. Bonds and notes

Bonds and notes as of March 31, 2006 and 2005 are as follows:

Description of bonds and notes	Date of issuance	Currency and amounts		Interest rate (%)	Maturity date	March 31, 2006	March 31, 2005	March 31, 2006
		March 31, 2006 (In millions)	March 31, 2006 (In millions)			(In millions of yen)	(In millions of yen)	(In millions of U. S. dollars)
Export-Import Bank of Japan Bonds guaranteed by Japanese govt. 37, 39, 40, 42	May 1996- December 1997	EUR	1,044	5.750-	February 2007- June 2008	¥ 231,280	¥ 371,824	\$ 1,969
Japan Bank for International Cooperation Bonds guaranteed by Japanese govt. 1, 3-13	November 1999- March 2006	JPY	60,000	0.350-	December 2006-	982,683	759,430	8,365
		USD	5,650	7.000,	March 2016			
		EUR	1,750	LIBOR				
		THB	3,000	+0.0625				
FILP Agency Bonds 1-4, 6, 8, 10, 12-23(*)	October 2001- March 2006	JPY	830,000	0.510- 2.090	September 2006- December 2025	830,000	620,000	7,066
Overseas Economic Cooperation Fund Bonds guaranteed by Japanese govt. 9	November 1996	JPY	10,000	2.9	November 2006	10,000	25,000	85
						¥ 2,053,963	¥ 1,776,254	\$ 17,485

(\*) 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, 2006 are as follows:

	In millions of yen	In millions of U.S. dollars
	¥	\$
Fiscal year 2006	309,534	2,635
2007	165,674	1,410
2008	114,947	979
2009	167,470	1,426
2010	285,265	2,428

Based on debt assumption agreements with financial institutions, JBIC has transferred the debt repayment obligation for certain bonds to such financial institutions. As of March 31, 2006, JBIC had contingent obligations in respect to the following bonds.

	In millions of yen	In millions of U. S. dollars
FILP Agency Bond 5	50,000	426
FILP Agency Bond 7	60,000	511
FILP Agency Bond 9	50,000	426
FILP Agency Bond 11	50,000	426

## 11. Borrowings

Borrowings as of March 31, 2006 and 2005 are as follows:

	Average interest rate	Due date of repayment	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U. S. dollars)
Long-term borrowings			¥	¥	\$
Borrowings from the Government Fund for Fiscal Investment and Loan Program	1.80	April 2006- December 2020	8,822,933	9,404,317	75,108
Borrowings from the Government Post Office Life Insurance Fund	2.05		103,856	155,418	884
			¥ 8,926,789	¥ 9,559,735	\$ 75,992

Long-term borrowings with maturities for the next five years as of March 31, 2006 are as follows:

	In millions of yen	In millions of U.S. dollars
	¥	\$
Fiscal year 2006	1,269,159	10,804
2007	1,527,235	13,001
2008	1,600,381	13,624
2009	1,038,349	8,839
2010	890,816	7,583

## 12. Miscellaneous liabilities

Miscellaneous liabilities as of March 31, 2006 and 2005 are as follows:

	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U. S. dollars)
	¥	¥	\$
Accrued expenses (a)	61,424	62,738	523
Unearned income	5,041	4,649	43
Derivatives	137,705	20,484	1,172
Deferred hedge gains	-	133,151	-
Other (b)	2,925	3,055	25
	¥ 207,097	¥ 224,079	\$ 1,763

(Notes)

- (a) "Accrued expenses" includes ¥34,648 million (\$295 million) of accrued interest on borrowings and ¥26,271 million (\$224 million) of accrued interest on bonds and notes and other as of March 31, 2006 (March 31, 2005: ¥37,737 million and ¥24,095 million, respectively).
- (b) "Other" includes ¥2,850 million (\$24 million) of suspense receipts and other as of March 31, 2006 (March 31, 2005: ¥2,895 million).

### 13. Employee retirement benefits

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

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

Disposition		March 31, 2006	March 31, 2005	March 31, 2006
		(In millions of yen)	(In millions of yen)	(In millions of U. S. dollars)
		¥	¥	\$
Projected benefit obligation	(A)	(23,222)	(22,945)	(198)
Fair value of plans' assets	(B)	6,748	5,668	58
Unfunded pension obligation	(C) = (A) + (B)	(16,473)	(17,276)	(140)
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)	(16,473)	(17,276)	(140)
Prepaid pension cost	(H)	-	-	-
Allowance for employee retirement benefits	(G) - (H)	¥ (16,473)	¥ (17,276)	\$ (140)

(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, 2006	March 31, 2005	March 31, 2006
	(In millions of yen)	(In millions of yen)	(In millions of U. S. dollars)
	¥	¥	\$
Service cost	939	958	8
Interest cost	456	451	4
Expected return on plans' assets	(85)	(78)	(1)
Amortization of prior service cost	-	-	-
Amortization of net actuarial gains/losses	(909)	59	(8)
Amortization of net obligation at transition	-	-	-
Other costs	-	-	-
Net pension cost	¥ 402	¥ 1,390	\$ 3

#### (c) Principal assumptions made

	March 31, 2006	March 31, 2005
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	1.5%	1.5%
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis
Amortization period of prior service costs	-	-
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, 2006 and 2005 are as follows:

	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U.S. dollars)
Acceptances	¥ -	¥ -	\$ -
Guarantees	1,066,099	899,389	9,075
	¥ 1,066,099	¥ 899,389	\$ 9,075

#### 15. Assets pledged as collateral

There were no assets pledged as collateral as of March 31, 2006 and 2005.

#### 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 (\$255 million) corresponding to "ODA-loan related losses" out of its general account for the fiscal year ended March 31, 2006 and 2005, respectively.

#### 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, 2006 and 2005 are as follows. There are no impairment losses for the leased asset.

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

· Acquisition cost, accumulated depreciation and net balance of leased property as of March 31, 2006 and 2005 are as follows:

	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U.S. dollars)
Acquisition cost	¥	¥	\$
Equipment	624	630	5
Other	506	506	4
Total	¥ 1,131	¥ 1,136	\$ 9
Accumulated depreciation			
Equipment	316	152	3
Other	253	151	2
Total	¥ 569	¥ 304	\$ 5
Net balance			
Equipment	308	478	3
Other	253	354	2
Total	¥ 561	¥ 832	\$ 5



- Future lease payment obligations as of March 31, 2006 and 2005 are summarized below:

	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U.S. dollars)
	¥	¥	\$
Due within 1 year	269	268	2
Due after 1 year	304	574	3
<b>Total</b>	<b>¥ 574</b>	<b>¥ 842</b>	<b>\$ 5</b>

- Lease payment, depreciation expense and interest expense for the fiscal year ended March 31, 2006 and 2005 are as follows:

	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U.S. dollars)
	¥	¥	\$
Lease payment	283	229	2
Depreciation expense	270	219	2
Interest expense	15	16	0

- 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 effective interest expense and is allocated to each fiscal year using the interest method.

**(b) Operating lease transactions:**

- Future lease payment obligations as of March 31, 2006 and 2005 are summarized below:

	March 31, 2006 (In millions of yen)	March 31, 2005 (In millions of yen)	March 31, 2006 (In millions of U.S. dollars)
	¥	¥	\$
Due within 1 year	6	2	0
Due after 1 year	1	4	0
<b>Total</b>	<b>¥ 8</b>	<b>¥ 7</b>	<b>\$ 0</b>

## 19. Derivative transactions

Notes to derivative transactions in the fiscal year ended March 31, 2006 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	25,003	502	213	4
Currency swaps	44,152	3,969	376	34
Forward exchange contracts	60	1	0	0
Other derivatives	-	-	-	-
Credit risk reductions through nettings	-	(2,081)	-	(18)
Total	¥ 69,217	¥ 2,392	\$ 589	\$ 20

(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**

There are no interest rate related derivative transactions recorded at fair value as of the balance sheet date since hedge accounting is applied to all interest rate-related derivative transactions outstanding at year end.

(f) **Currency-related transactions**

There are no currency-related derivative transactions, recorded at fair value as of the balance sheet date, since hedge accounting is applied to all currency-related derivative transactions outstanding at year end.

(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, 2005 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		23,098	572
Currency swaps		41,679	7,063
Forward exchange contracts		13	0
Other derivatives		-	-
Credit risk reductions through nettings		-	(1,680)
Total	¥	64,791	¥ 5,956

(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**

There are no interest rate-related derivative transactions recorded at fair value as of the balance sheet date, since hedge accounting is applied to all interest rate-related derivative transactions outstanding at year end.

**(f) Currency-related transactions**

There are no currency-related derivative transactions recorded at fair value as of the balance sheet date, since hedge accounting is applied to all currency-related derivative transactions outstanding at year end.

**(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, 2006 are as follows:

**(a) Trading securities**

Not applicable

**(b) Held-to-maturity debt securities with market value**

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**

	March 31, 2006		March 31, 2006	
	(In millions of yen)		(In millions of U.S. dollars)	
	¥	\$		
Sales amount		128		1
Gains on sales		53		0
Losses on sales		-		-

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

	March 31, 2006 (In millions of yen)	March 31, 2006 (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	115,817	986
Unlisted foreign equities	2,053	18
Other unlisted Japanese securities	250	2
Other unlisted foreign securities	1,414	12
Total	¥ 119,535	\$ 1,018

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

Not applicable

- (h) **Redemption schedule of available-for-sale securities with maturity and held-to maturity debt securities.**

Not applicable

- (i) **Equity securities of subsidiaries and affiliates with market value**

Not applicable

- (j) **Money held in trust**

Not applicable

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

Not applicable

Notes to market value of securities as March 31, 2005 are as follows:

- (a) **Trading securities**

Not applicable

- (b) **Held-to-maturity debt securities with market value**

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, 2005 (In millions of yen)	
	¥	
Held-to-maturity debt securities		
Unlisted foreign securities		-
Available-for-sale securities		
Unlisted Japanese equities other than over-the-counter		115,892
Unlisted foreign equities		2,807
Other unlisted Japanese securities		30
Other unlisted foreign securities		1,250
Total	¥	<u>119,980</u>

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

Not applicable

- (h) **Redemption schedule of available-for-sale securities with maturity and held-to maturity debt securities.**

Not applicable

- (i) **Equity securities of subsidiaries and affiliates with market value**

Not applicable

- (j) **Money held in trust**

Not applicable

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

Not applicable