

## 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, 2007, and the related statements of operations, changes in net assets, and cash flows for the year 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 audit.

We conducted our audit 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, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.



*Ernst & Young ShinNihon*

June 22, 2007

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

|   | In millions of yen |                   | In millions of yen |                   | In millions of U.S. dollars |                |
|---|--------------------|-------------------|--------------------|-------------------|-----------------------------|----------------|
|   | March 31, 2007     |                   | March 31, 2006     |                   | March 31, 2007              |                |
| <b>Assets</b>   |                    |                   |                    |                   |                             |                |
| Cash and due from banks (Note 3)                                | ¥                  | 328,991           | ¥                  | 655,517           | \$                          | 2,787          |
| Securities (Notes 4 and 20)                                     |                    | 110,079           |                    | 119,535           |                             | 932            |
| Loans (Note 5)  |                    | 18,828,849        |                    | 19,023,649        |                             | 159,499        |
| Miscellaneous assets (Note 6)                                   |                    | 261,162           |                    | 276,038           |                             | 2,212          |
| Premises and equipment (Note 7)                                 |                    | -                 |                    | 25,873            |                             | -              |
| Tangible fixed assets (Note 7)                                  |                    | 25,060            |                    | -                 |                             | 212            |
| Intangible fixed assets (Note 7)                                |                    | 3,514             |                    | -                 |                             | 30             |
| Deferred charges on bonds and notes (Note 8)                    |                    | 1,066             |                    | 4,230             |                             | 9              |
| Customers' liabilities for acceptances and guarantees (Note 14) |                    | 1,496,958         |                    | 1,066,099         |                             | 12,681         |
| Allowance for possible loan losses (Note 9)                     |                    | (232,959)         |                    | (273,120)         |                             | (1,973)        |
| <b>Total assets</b>   | ¥                  | <b>20,822,723</b> | ¥                  | <b>20,897,824</b> | \$                          | <b>176,389</b> |

|  | In millions of yen |                   | In millions of yen |                   | In millions of U.S. dollars |               |
|--|--------------------|-------------------|--------------------|-------------------|-----------------------------|---------------|
|  | March 31, 2007     |                   | March 31, 2006     |                   | March 31, 2007              |               |
| <b>Liabilities and equity</b>                      |                    |                   |                    |                   |                             |               |
| <b>Liabilities</b>                                 |                    |                   |                    |                   |                             |               |
| Bonds and notes (Note 10)                          | ¥                  | 1,976,086         | ¥                  | 2,053,963         | \$                          | 16,739        |
| Borrowings (Note 11)                               |                    | 8,094,826         |                    | 8,926,789         |                             | 68,571        |
| Miscellaneous liabilities (Note 12)                |                    | 208,734           |                    | 207,097           |                             | 1,768         |
| Reserve for bonus payments                         |                    | 1,027             |                    | 1,020             |                             | 9             |
| Reserve for employee retirement benefits (Note 13) |                    | 16,179            |                    | 16,473            |                             | 137           |
| Acceptances and guarantees (Note 14)               |                    | 1,496,958         |                    | 1,066,099         |                             | 12,681        |
| <b>Total liabilities</b>                           |                    | <b>11,793,812</b> |                    | <b>12,271,443</b> |                             | <b>99,905</b> |

**Equity****Capital:**

|   |  |   |  |           |  |   |
|---|--|---|--|-----------|--|---|
| Capital attributable to the International Financial Account       |  | - |  | 985,500   |  | - |
| Capital attributable to the Overseas Economic Cooperation Account |  | - |  | 7,065,644 |  | - |
|   |  |   |  | 8,051,144 |  |   |

**Retained earnings:**

|   |  |   |  |           |  |   |
|---|--|---|--|-----------|--|---|
| Reserve attributable to the International Financial Account (Note 17)       |  | - |  | 709,148   |  | - |
| Reserve attributable to the Overseas Economic Cooperation Account (Note 17) |  | - |  | 111,324   |  | - |
| Accumulated deficit   |  | - |  | (245,236) |  | - |
|   |  |   |  | 575,236   |  |   |

|                                     |   |   |   |                   |    |   |
|-------------------------------------|---|---|---|-------------------|----|---|
| <b>Total equity</b>                 |   | - |   | <b>8,626,381</b>  |    | - |
| <b>Total liabilities and equity</b> | ¥ | - | ¥ | <b>20,897,824</b> | \$ | - |

**Net assets****Capital:**

|   |  |           |  |   |  |        |
|---|--|-----------|--|---|--|--------|
| Capital attributable to the International Financial Account       |  | 985,500   |  | - |  | 8,348  |
| Capital attributable to the Overseas Economic Cooperation Account |  | 7,231,508 |  | - |  | 61,258 |
|   |  | 8,217,008 |  | - |  | 69,606 |

**Retained earnings:**

|   |  |          |  |   |  |       |
|---|--|----------|--|---|--|-------|
| Other retained earnings   |  |          |  |   |  |       |
| Reserve attributable to the International Financial Account (Note 17)       |  | 745,236  |  | - |  | 6,313 |
| Reserve attributable to the Overseas Economic Cooperation Account (Note 17) |  | 166,062  |  | - |  | 1,407 |
| Accumulated deficit   |  | (98,273) |  | - |  | (833) |
|   |  | 813,025  |  | - |  | 6,887 |

|  |   |                   |   |   |    |                |
|--|---|-------------------|---|---|----|----------------|
| <b>Total stockholders' equity</b>                              |   | <b>9,030,033</b>  |   | - |    | <b>76,493</b>  |
| Net deferred losses on hedges                                  |   | (1,122)           |   | - |    | (9)            |
| <b>Total valuation differences and translation adjustments</b> |   | <b>(1,122)</b>    |   | - |    | <b>(9)</b>     |
| <b>Total net assets</b>  |   | <b>9,028,911</b>  |   | - |    | <b>76,484</b>  |
| <b>Total liabilities and net assets</b>                        | ¥ | <b>20,822,723</b> | ¥ | - | \$ | <b>176,389</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 2006            |                | FY 2005            |                | FY 2006                     |              |
| <b>Income</b>                                  |                    |                |                    |                |                             |              |
| Interest income                                | ¥                  | 587,793        | ¥                  | 574,315        | \$                          | 4,979        |
| Interest on loans                              |                    | 572,467        |                    | 562,289        |                             | 4,849        |
| Interest and dividend income on securities     |                    | 6,781          |                    | 5,728          |                             | 58           |
| Interest on due from banks                     |                    | 8,544          |                    | 6,297          |                             | 72           |
| Fees and commissions                           |                    | 8,320          |                    | 8,783          |                             | 70           |
| Other operating income                         |                    | 1,123          |                    | 3,985          |                             | 10           |
| Foreign exchange gains                         |                    | 1,123          |                    | 3,751          |                             | 10           |
| Gains on derivative instruments                |                    | 0              |                    | -              |                             | 0            |
| Others   |                    | -              |                    | 234            |                             | -            |
| Other ordinary income                          |                    | 363            |                    | 354            |                             | 3            |
| Grant from general account (Note 16)           |                    | 30,000         |                    | 30,000         |                             | 254          |
| Reversal of allowance for possible loan losses |                    | 40,160         |                    | 34,644         |                             | 340          |
| Recovery of written-off claims                 |                    | 2,647          |                    | 3,179          |                             | 23           |
| Profits on sales of premises and equipment     |                    | -              |                    | 6              |                             | -            |
| Profits on sales of tangible fixed assets      |                    | 21             |                    | -              |                             | 0            |
| <b>Total income</b>                            |                    | <b>670,431</b> |                    | <b>655,270</b> |                             | <b>5,679</b> |
| <b>Expenses</b>                                |                    |                |                    |                |                             |              |
| Interest expenses                              |                    | 361,859        |                    | 315,669        |                             | 3,065        |
| Interest on bonds and notes                    |                    | 72,236         |                    | 64,137         |                             | 612          |
| Interest on borrowings                         |                    | 157,505        |                    | 180,350        |                             | 1,334        |
| Interest on swaps (net)                        |                    | 132,117        |                    | 71,181         |                             | 1,119        |
| Fees and commissions                           |                    | 5,917          |                    | 5,870          |                             | 50           |
| Other operating expenses                       |                    | 1,203          |                    | 1,292          |                             | 10           |
| Amortization of bonds and notes issuance costs |                    | 979            |                    | 1,053          |                             | 8            |
| Losses on derivative instruments               |                    | 17             |                    | -              |                             | 0            |
| Others   |                    | 206            |                    | 238            |                             | 2            |
| General and administrative expenses            |                    | 25,951         |                    | 22,636         |                             | 220          |
| Other ordinary expenses                        |                    | 1,540          |                    | 247            |                             | 13           |
| Write-off of equities, securities, etc.        |                    | 1,481          |                    | 217            |                             | 12           |
| Others   |                    | 59             |                    | 29             |                             | 1            |
| Losses on disposal of premises and equipment   |                    | -              |                    | 27             |                             | -            |
| Losses on disposal of tangible fixed assets    |                    | 81             |                    | -              |                             | 1            |
| <b>Total expenses</b>                          |                    | <b>396,554</b> |                    | <b>345,742</b> |                             | <b>3,359</b> |
| <b>Net income</b>                              | ¥                  | <b>273,876</b> | ¥                  | <b>309,527</b> | \$                          | <b>2,320</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 2006            |                  | FY 2005            |                | FY 2006                     |                |
| <b>Cash flows from operating activities</b>                            |                    |                  |                    |                |                             |                |
| Net income   | ¥                  | 273,876          | ¥                  | 309,527        | \$                          | 2,320          |
| Depreciation and amortization  |                    | 1,919            |                    | 1,398          |                             | 16             |
| Decrease in allowance for possible loan losses                         |                    | (40,160)         |                    | (80,544)       |                             | (340)          |
| Increase in reserve for bonus payments                                 |                    | 7                |                    | 60             |                             | 0              |
| Decrease in reserve for employee retirement benefits                   |                    | (294)            |                    | (803)          |                             | (2)            |
| Interest income  |                    | (587,793)        |                    | (574,315)      |                             | (4,979)        |
| Interest expenses  |                    | 361,859          |                    | 315,669        |                             | 3,065          |
| Net loss on securities   |                    | 1,479            |                    | 200            |                             | 13             |
| Foreign exchange gain  |                    | (10,453)         |                    | (335,141)      |                             | (89)           |
| Net loss on sales of premises and equipment                            |                    | -                |                    | 20             |                             | -              |
| Net loss on sales of tangible fixed assets                             |                    | 59               |                    | -              |                             | 1              |
| Net decrease in loans  |                    | 260,239          |                    | 557,202        |                             | 2,204          |
| Net increase (decrease) in bonds and notes                             |                    | (132,204)        |                    | 214,542        |                             | (1,120)        |
| Net decrease in borrowings   |                    | (831,963)        |                    | (632,945)      |                             | (7,048)        |
| Net decrease (increase) in due from banks (excluding cash equivalents) |                    | 108,035          |                    | (232,846)      |                             | 915            |
| Interest received  |                    | 600,014          |                    | 593,469        |                             | 5,083          |
| Interest paid  |                    | (368,651)        |                    | (317,173)      |                             | (3,123)        |
| Others, net  |                    | 7,691            |                    | 290,237        |                             | 65             |
| <b>Net cash (used in) provided by operating activities</b>             |                    | <b>(356,339)</b> |                    | <b>108,557</b> |                             | <b>(3,019)</b> |
| <b>Cash flows from investing activities</b>                            |                    |                  |                    |                |                             |                |
| Purchases of securities  |                    | (573)            |                    | (421)          |                             | (5)            |
| Sales of securities  |                    | 8,443            |                    | 690            |                             | 72             |
| Purchases of premises and equipment                                    |                    | -                |                    | (711)          |                             | -              |
| Purchases of tangible fixed assets                                     |                    | (719)            |                    | -              |                             | (6)            |
| Purchases of intangible fixed assets                                   |                    | (305)            |                    | -              |                             | (3)            |
| Proceeds from sales of premises and equipment                          |                    | -                |                    | 27             |                             | -              |
| Proceeds from sales of tangible fixed assets                           |                    | 28               |                    | -              |                             | 0              |
| <b>Net cash provided by (used in) investing activities</b>             |                    | <b>6,873</b>     |                    | <b>(414)</b>   |                             | <b>58</b>      |
| <b>Cash flows from financing activities</b>                            |                    |                  |                    |                |                             |                |
| Proceeds from issuance of capital stocks to government                 |                    | 165,864          |                    | 174,400        |                             | 1,405          |
| Payment to National Treasury   |                    | (36,314)         |                    | (34,726)       |                             | (308)          |
| <b>Net cash provided by financing activities</b>                       |                    | <b>129,549</b>   |                    | <b>139,673</b> |                             | <b>1,097</b>   |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>    |                    | <b>0</b>         |                    | <b>0</b>       |                             | <b>0</b>       |
| <b>Net (decrease) increase in cash and cash equivalents</b>            |                    | <b>(219,915)</b> |                    | <b>247,817</b> |                             | <b>(1,863)</b> |
| <b>Cash and cash equivalents at the beginning of the period</b>        |                    | <b>318,608</b>   |                    | <b>70,790</b>  |                             | <b>2,699</b>   |
| <b>Cash and cash equivalents at the end of the period</b>              | ¥                  | <b>98,692</b>    | ¥                  | <b>318,608</b> | \$                          | <b>836</b>     |

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

**STATEMENTS OF CHANGES IN NET ASSETS**  
**JAPAN BANK FOR INTERNATIONAL COOPERATION**

For the year ended March 31, 2007

(In millions of yen)

|  | Stockholders' equity  |   |                     |   |   |                     |                         | Valuation differences and translation adjustments |                               | Total net assets |   |
|--|---|---|---------------------|---|---|---------------------|-------------------------|---|-------------------------------|------------------|---|
|  | Capital   |   |                     | Retained earnings   |   |                     |                         | Total stockholders' equity                        | Net deferred losses on hedges |                  | Total valuation differences and translation adjustments |
|  | Capital attributable to the International Financial Account | Capital attributable to the Overseas Economic Cooperation Account | Total capital stock | Other retained earnings                                     |   |                     | Total retained earnings |   |                               |                  |   |
|  |   |   |                     | Reserve attributable to the International Financial Account | Reserve attributable to the Overseas Economic Cooperation Account | Accumulated deficit |                         |   |                               |                  |   |
| Balance at March 31, 2006  | 985,500   | 7,065,644   | 8,051,144           | 709,148   | 111,324   | (245,236)           | 575,236                 | 8,626,381   | -                             | -                | 8,626,381   |
| Changes during the accounting period:  |   |   |                     |   |   |                     |                         |   |                               |                  |   |
| Proceeds from issuance of capital stocks attributable to the International Financial Account           | -   | -   | -                   | -   | -   | -                   | -                       | -   | -                             | -                | -   |
| Proceeds from issuance of capital stocks attributable to the Overseas Economic Cooperation Account     | -   | 165,864   | 165,864             | -   | -   | -                   | -                       | 165,864   | -                             | -                | 165,864   |
| Transfer to reserve attributable to the International Financial Account from accumulated deficit       | -   | -   | -                   | 36,087  | -   | (36,087)            | -                       | -   | -                             | -                | -   |
| Payment to National Treasury from the International Financial Account                                  | -   | -   | -                   | -   | -   | (36,087)            | (36,087)                | (36,087)  | -                             | -                | (36,087)  |
| Transfer to reserve attributable to the Overseas Economic Cooperation Account from accumulated deficit | -   | -   | -                   | -   | 54,737  | (54,737)            | -                       | -   | -                             | -                | -   |
| Net income   | -   | -   | -                   | -   | -   | 273,876             | 273,876                 | 273,876   | -                             | -                | 273,876   |
| Net changes in the items other than stockholders' equity   | -   | -   | -                   | -   | -   | -                   | -                       | -   | (1,122)                       | (1,122)          | (1,122)   |
| Net changes during the accounting period   | -   | 165,864   | 165,864             | 36,087  | 54,737  | 146,962             | 237,788                 | 403,652   | (1,122)                       | (1,122)          | 402,529   |
| Balance at March 31, 2007  | 985,500   | 7,231,508   | 8,217,008           | 745,236   | 166,062   | (98,273)            | 813,025                 | 9,030,033   | (1,122)                       | (1,122)          | 9,028,911   |

**STATEMENTS OF CHANGES IN NET ASSETS**  
**JAPAN BANK FOR INTERNATIONAL COOPERATION**

For the year ended March 31, 2007

(In millions of U.S. dollars)

|  | Stockholders' equity  |   |                     |   |   |                     |                         |                            | Valuation differences and translation adjustments |   | Total net assets |
|--|---|---|---------------------|---|---|---------------------|-------------------------|----------------------------|---|---|------------------|
|  | Capital   |   |                     | Retained earnings   |   |                     |                         | Total stockholders' equity | Net deferred losses on hedges                     | Total valuation differences and translation adjustments |                  |
|  | Capital attributable to the International Financial Account | Capital attributable to the Overseas Economic Cooperation Account | Total capital stock | Other retained earnings                                     |   |                     | Total retained earnings |                            |   |   |                  |
|  |   |   |                     | Reserve attributable to the International Financial Account | Reserve attributable to the Overseas Economic Cooperation Account | Accumulated deficit |                         |                            |   |   |                  |
| Balance at March 31, 2006  | 8,348   | 59,853  | 68,201              | 6,007   | 943   | (2,077)             | 4,873                   | 73,074                     | -   | -   | 73,074           |
| Changes during the accounting period   |   |   |                     |   |   |                     |                         |                            |   |   |                  |
| Proceeds from issuance of capital stocks attributable to the International Financial Account           | -   | -   | -                   | -   | -   | -                   | -                       | -                          | -   | -   | -                |
| Proceeds from issuance of capital stocks attributable to the Overseas Economic Cooperation Account     | -   | 1,405   | 1,405               | -   | -   | -                   | -                       | 1,405                      | -   | -   | 1,405            |
| Transfer to reserve attributable to the International Financial Account from accumulated deficit       | -   | -   | -                   | 306   | -   | (306)               | -                       | -                          | -   | -   | -                |
| Payment to National Treasury from the International Financial Account                                  | -   | -   | -                   | -   | -   | (306)               | (306)                   | (306)                      | -   | -   | (306)            |
| Transfer to reserve attributable to the Overseas Economic Cooperation Account from accumulated deficit | -   | -   | -                   | -   | 464   | (464)               | -                       | -                          | -   | -   | -                |
| Net income   | -   | -   | -                   | -   | -   | 2,320               | 2,320                   | 2,320                      | -   | -   | 2,320            |
| Net changes in the items other than stockholders' equity   | -   | -   | -                   | -   | -   | -                   | -                       | -                          | (9)   | (9)   | (9)              |
| Net changes during the accounting period   | -   | 1,405   | 1,405               | 306   | 464   | 1,244               | 2,014                   | 3,419                      | (9)   | (9)   | 3,410            |
| Balance at March 31, 2007  | 8,348   | 61,258  | 69,606              | 6,313   | 1,407   | (833)               | 6,887                   | 76,493                     | (9)   | (9)   | 76,484           |

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

In millions of yen

|  | Capital<br>attributable to<br>the International<br>Financial Account | Capital<br>attributable to<br>the Overseas<br>Economic<br>Cooperation<br>Account | Reserve<br>attributable to<br>the International<br>Financial Account | Reserve<br>attributable to<br>the Overseas<br>Economic<br>Cooperation<br>Account | Accumulated<br>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.

## **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" or the "Bank") 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 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 a 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 ¥118.05=\$1.00, the exchange rate as of March 31, 2007 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 market value and are carried at cost based on the moving 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) Accounting for hedges of interest rate risks**

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

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

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

Hedging instruments: interest rate swaps

Hedged items: loans, borrowings, bonds and notes

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

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

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

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

##### **(e) Accounting for hedges of foreign exchange risks**

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

The effectiveness of the hedging instruments described above, such as currency-swaps, 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 for fixed assets (premises and equipment)**

###### **(i) Tangible fixed assets**

Tangible fixed assets are depreciated under the declining balance method over their useful economic lives except for buildings (excluding installed facilities) acquired on or after April 1, 1998, which are depreciated under the straight-line method, and the applicable share of estimated annual depreciation costs for the fiscal year is recorded



based on the following range of useful lives.

The principal estimated useful economic lives are as follows:

Buildings: 38 years to 50 years  
Equipment: 2 years to 20 years

(ii) Intangible fixed assets

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JBIC is amortized over its useful life (5 years).

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

Until the previous fiscal year, discounts and premiums on bonds and notes had been separately capitalized and amortized under the straight-line method over the terms of redemption. However, in accordance with the partial revision of "Accounting Standards for Financial Instruments" as of August 11, 2006 (the Accounting Standards Board of Japan ("ASBJ") Statement No.10), which should be applied from the fiscal period ending upon or after its public announcement, JBIC adopted the revised accounting standard effective this fiscal period, and Bonds and notes were stated at amortized cost (the straight line method). As a result, discounts on bonds and notes in "Deferred charges on bonds and notes", premiums in "Miscellaneous liabilities" and "Bonds and notes" decreased by ¥2,213 million, ¥103 million and ¥2,109 million respectively.

Discounts on bonds and notes recorded on the balance sheet as of March 31, 2006 are amortized under the straight-line method over the terms of the bonds and notes by applying the previous accounting method and the unamortized balance is directly deducted from Bonds and notes, based on the tentative measure stipulated in the "Tentative Solution on Accounting for Deferred Assets" (ASBJ Report No.19, August 11, 2006).

Until the previous fiscal year, Bonds and notes issuance costs were separately capitalized and amortized over 3 years by the Regulations of the Commercial Code of Japan. However, in accordance with the application of the "Tentative Solution on Accounting for Deferred Assets" (ASBJ Report No.19, August 11, 2006) which should be applied from the fiscal period ending upon or after its public announcement, JBIC adopted the new accounting standard effective this fiscal period. As a result, Bonds and notes issuance costs in "Miscellaneous assets" and Net income increased by ¥45 million and Amortization of bonds and notes issuance costs in "Other operating expenses" decreased by ¥45 million.

Bonds and notes issuance costs recorded on the balance sheet as of March 31, 2006 are amortized over 3 years by applying the previous accounting method based on the tentative measure stipulated in the ASBJ report.

**(i) Change in presentation on balance sheets**

The appendix forms of "Banking Law Enforcement Regulations" (Ministry of Finance Ordinance No.10, 1982) have been revised by the "Cabinet Office Ordinance to Amend Part of Detailed Enforcement Regulations on Mutual Loan Business Law and Banking Law" (Cabinet Office Ordinance No.60, April 28, 2006). In accordance with the application of the revised "Banking Law Enforcement Regulations" effective this fiscal period, presentation of account items has been changed as follows:

- (i) "Reserve attributable to the International Financial Account", "Reserve attributable to the Overseas Economic Cooperation Account" and "Accumulated deficit" which had been included in "Retained earnings" was presented as "Reserve attributable to the International Financial Account", "Reserve attributable to the Overseas Economic Cooperation Account" and "Accumulated deficit" in "Other retained earnings", respectively.
- (ii) The net realized and unrealized losses (gains) from hedging instruments formerly included in "Miscellaneous assets" ("Miscellaneous liabilities") as deferred hedge losses (gains) are presented as "Net deferred gains(losses) on hedges" included in Valuation differences and translation adjustments.
- (iii) "Premises and equipment" was divided into "Tangible fixed assets", "Intangible fixed assets" and "Miscellaneous assets."
- (iv) "Software" was reclassified from "Miscellaneous assets" to "Intangible fixed assets."

**(j) Change in presentation on cash flows**

Former "Net loss (gain) on sales of premises and equipment" is presented as "Net loss (gain) on sales of tangible fixed assets" following the change in description of former "Premises and equipment" on the balance sheet to "Tangible fixed assets", "Intangible fixed assets" and others.

Former "Expenditures on premises and equipment" is presented as "Purchases of tangible fixed assets" and others, and former "Proceeds from sales of premises and equipment" is presented as "Proceeds from sales of tangible fixed assets" and others.

**(k) 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 the execution of guarantees.

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

The allowance for claims on debtors other than Bankrupt borrowers, Substantially bankrupt borrowers and Potentially bankrupt borrowers is provided primarily based on the default rate, which is calculated based on the actual defaults

during a certain period in the past.

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

All claims are assessed initially by the operational departments and 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.

**(l) Reserve for bonus payments**

Reserve for bonus payment 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. Reserve for bonus payments to executive directors is included in the account.

**(m) Reserve 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 period end.

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

**(n) 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 an operating lease.

**(o) Consumption taxes**

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

**(p) Significant changes in accounting policies**

In accordance with newly effective Accounting Standards Board Statement No.5 "Accounting Standards for Presentation of Net Assets on Balance Sheet" (December 9, 2005) and Accounting Standards Board Guidance No.8 "Guidance on Accounting Standards for Presentation of Net Assets on Balance Sheet" (December 9, 2005), "Total equity" was renamed as "Net assets" and divided into "Stockholders' equity" and "Valuation differences and translation of adjustment". The amount corresponding to conventional "Total equity" was ¥9,030,033 million at the balance sheet date.

Net assets portion of the financial statements are presented in accordance with revised "Ordinance Regarding Financial Statements."

"Practical Solution on Investors' Accounting for Limited-Liability Partnership and Limited-Liability Companies" (Practical Issues Task Force No.21, issued on September 8, 2006) is applicable for the fiscal period ending on or after September 8, 2006, the announcement date, and JBIC applied the new accounting pronouncement. This accounting change had no material impact on the financial statements.

### 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, 2007 and 2006 were as follows:

|                           | March 31, 2007<br>( In millions<br>of yen ) | March 31, 2006<br>( In millions<br>of yen ) | March 31, 2007<br>(In millions of<br>U. S. dollars) |
|---------------------------|---|---|---|
| Cash and due from banks   | ¥ 328,991                                   | ¥ 655,517                                   | \$ 2,787  |
| Due from banks (*)        | (230,299)                                   | (336,909)                                   | (1,951)   |
| Cash and cash equivalents | ¥ 98,692                                    | ¥ 318,608                                   | \$ 836  |

(\*) Excluding Due from Bank of Japan

### 4. Securities

Securities as of March 31, 2007 and 2006 were as follows:

|                  | March 31, 2007<br>( In millions<br>of yen ) | March 31, 2006<br>( In millions<br>of yen ) | March 31, 2007<br>(In millions of<br>U. S. dollars) |
|------------------|---|---|---|
| Equity           | ¥ 108,008                                   | ¥ 117,870                                   | \$ 915  |
| Other securities | 2,070                                       | 1,665                                       | 17  |
|                  | ¥ 110,079                                   | ¥ 119,535                                   | \$ 932  |

## 5. Loans

All of loans are loans on deeds. The amounts reported in the balance sheets as of March 31, 2007 and 2006 were as follows:

| International Financial Account   | March 31, 2007<br>( In millions<br>of yen ) | March 31, 2006<br>( In millions<br>of yen ) | March 31, 2007<br>(In millions of<br>U. S. dollars) |
|-----------------------------------|---|---|---|
|                                   | ¥   | ¥   | \$  |
| Bankrupt loans                    | 47,333                                      | 47,333                                      | 401   |
| Non-accrual loans                 | 126,610                                     | 156,454                                     | 1,073   |
| Past due loans (3 months or more) | -   | 2,714                                       | -   |
| Restructured loans                | 112,868                                     | 141,007                                     | 956   |
|                                   | ¥ 286,813                                   | ¥ 347,510                                   | \$ 2,430  |

  

| Overseas Economic Cooperation Account | March 31, 2007<br>( In millions<br>of yen ) | March 31, 2006<br>( In millions<br>of yen ) | March 31, 2007<br>(In millions of<br>U. S. dollars) |
|---------------------------------------|---|---|---|
|                                       | ¥   | ¥   | \$  |
| Bankrupt loans                        | -   | -   | -   |
| Non-accrual loans                     | 76,876                                      | 96,998                                      | 651   |
| Past due loans (3 months or more)     | -   | -   | -   |
| Restructured loans                    | 185,191                                     | 184,691                                     | 1,569   |
|                                       | ¥ 262,068                                   | ¥ 281,689                                   | \$ 2,220  |

- (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, the Corporate Law 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 three months or more, 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 (3 months or more)."
- (e) The amounts of Loans indicated in the table above are 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 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, 2007<br>( In millions<br>of yen ) | March 31, 2006<br>( In millions<br>of yen ) | March 31, 2007<br>(In millions of<br>U. S. dollars) |
|---------------------------------------|---|---|---|
|                                       | ¥   | ¥   | \$  |
| International Financial Account       | 347,972                                     | 417,943                                     | 2,948   |
| Overseas Economic Cooperation Account | 1,246,893                                   | 1,262,313                                   | 10,562  |

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 ¥7,753 million (\$66 million) of which ¥3,838 million (\$33 million) represents original principal attributable to the International Financial Account and ¥185,191 million (\$1,569 million) of which ¥101,267 million (\$858 million) represents original principal attributable to the Overseas Economic Cooperation Account as of March 31, 2007, and ¥20,470 million of which ¥10,890 million represents original principal attributable to the International Financial Account and ¥184,691 million of which ¥96,407 million represents original principal attributable to the Overseas Economic Cooperation Account as of March 31, 2006 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 2007, of the affected countries, Indonesia and Sri Lanka had requested the Paris Club for the Moratorium. The amounts rescheduled repayment period for affected countries, as of the end of March 2007, were ¥7,460 million (\$63 million) in the International Financial Account and ¥144,968 million (\$1,228 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, 2007 and 2006 are ¥4,899,076 million (\$41,500 million) and ¥5,056,325 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, 2007 and 2006 were ¥5,472 million (\$46 million) and ¥5,489 million respectively.

## 6. Miscellaneous assets

Miscellaneous assets as of March 31, 2007 and 2006 were as follows:

|   | March 31, 2007<br>( In millions<br>of yen ) | March 31, 2006<br>( In millions<br>of yen ) | March 31, 2007<br>(In millions of<br>U. S. dollars) |
|---|---|---|---|
|   | ¥   | ¥   | \$  |
| Prepaid expenses                                    | 666   | 867   | 5   |
| Accrued income (a)                                  | 138,786                                     | 150,268                                     | 1,176   |
| Derivatives   | 100,569                                     | 96,560                                      | 852   |
| Deferred hedge losses                               | -   | 3,912                                       | -   |
| Preliminary payment to the National Treasury<br>(b) | 20,119                                      | 19,892                                      | 170   |
| Other (c)   | 1,021                                       | 4,537                                       | 9   |
|   | ¥ 261,162                                   | ¥ 276,038                                   | \$ 2,212  |

(Notes)

- (a) "Accrued income" includes ¥136,970 million (\$1,160 million) and ¥148,324 million of accrued interest on loans and other as of March 31, 2007 and 2006 respectively.
- (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 for on an accrual basis.
- (c) "Other" includes ¥27 million (\$0 million) of suspense payments and other as of March 31, 2007, and ¥168 million of suspense payments as of March 31, 2006.

## 7. Fixed assets(Premises and equipment)

Fixed assets(Premises and equipment) as of March 31, 2007 and 2006 were as follows:

|                               | March 31, 2007<br>( In millions<br>of yen ) | March 31, 2006<br>( In millions<br>of yen ) | March 31, 2007<br>(In millions of<br>U. S. dollars) |
|-------------------------------|---|---|---|
| Tangible fixed assets         | ¥   | ¥   | \$  |
| Land                          | 12,551                                      | 12,551                                      | 106   |
| Buildings                     | 26,349                                      | 26,768                                      | 223   |
| Equipment                     | 5,045                                       | 4,965                                       | 43  |
| Construction in progress      | 73  | 584   | 1   |
| Total                         | ¥ 44,019                                    | ¥ 44,869                                    | \$ 373  |
| Less-accumulated depreciation | 18,958                                      | 19,495                                      | 161   |
| Net book value                | ¥ 25,060                                    | ¥ 25,374                                    | \$ 212  |
| Intangible fixed assets       | ¥   | ¥   | \$  |
| Software                      | 5,734                                       | 5,292                                       | 49  |
| Guarantee deposit             | -   | 493   | -   |
| Other                         | 66  | 66  | 0   |
| Total                         | ¥ 5,801                                     | ¥ 5,852                                     | \$ 49   |
| Less-accumulated depreciation | 2,286                                       | 1,345                                       | 19  |
| Net book value                | ¥ 3,514                                     | ¥ 4,506                                     | \$ 30   |

## 8. Deferred charges on bonds and notes

Deferred charges on bonds and notes as of March 31, 2007 and 2006 were as follows:

|                                | March 31, 2007<br>( In millions<br>of yen ) | March 31, 2006<br>( In millions<br>of yen ) | March 31, 2007<br>(In millions of<br>U. S. dollars) |
|--------------------------------|---|---|---|
| Discounts on bonds and notes   | ¥ -   | ¥ 2,536                                     | \$ -  |
| Bonds and notes issuance costs | 1,066                                       | 1,694                                       | 9   |
|                                | ¥ 1,066                                     | ¥ 4,230                                     | \$ 9  |

## 9. Allowance for possible loan losses

Allowance for possible loan losses as of March 31, 2007 and 2006 were as follows:

|  | March 31, 2007<br>( In millions<br>of yen ) | March 31, 2006<br>( In millions<br>of yen ) | March 31, 2007<br>(In millions of<br>U. S. dollars) |
|--|---|---|---|
| General allowance for possible loan losses               | ¥ 73,933                                    | ¥ 86,390                                    | \$ 626  |
| Specific allowance for possible loan losses              | 146,727                                     | 172,888                                     | 1,243   |
| Allowance for possible losses on specific overseas loans | 12,299                                      | 13,841                                      | 104   |
|  | ¥ 232,959                                   | ¥ 273,120                                   | \$ 1,973  |

## 10. Bonds and notes

Bonds and notes as of March 31, 2007 and 2006 were as follows:

| Description of bonds and notes  | Date of issuance         | Currency and amounts            |                                   | Interest rate (%) | Maturity date                | March 31, 2007         | March 31, 2006         | March 31, 2007                 |
|---|--------------------------|---------------------------------|-----------------------------------|-------------------|------------------------------|------------------------|------------------------|--------------------------------|
|   |                          | March 31, 2007<br>(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, 40, 42           | May 1996-December 1997   | EUR                             | 1,044                             | 5.750-6.625       | May 2007-June 2008           | 164,477                | 231,280                | 1,393                          |
| Japan Bank for International Cooperation Bonds guaranteed by Japanese govt. 1, 4-14 | November 1999-March 2007 | JPY<br>USD<br>EUR<br>THB        | 60,000<br>5,399<br>1,750<br>3,000 | 0.350-7.000       | March 2008-March 2016        | 981,901                | 982,683                | 8,318                          |
| FILP Agency Bonds 2, 4, 6, 8, 10, 12-25 (*)   | October 2001-May 2006    | JPY                             | 829,706                           | 0.540-2.090       | September 2009-December 2025 | 829,706                | 830,000                | 7,028                          |
| Overseas Economic Cooperation Fund Bonds guaranteed by Japanese govt. 9             | November 1996            |                                 | -                                 | 2.9               | November 2006                | -                      | 10,000                 | -                              |
|   |                          |                                 |                                   |                   |                              | ¥                      | ¥                      | \$                             |
|   |                          |                                 |                                   |                   |                              | 1,976,086              | 2,053,963              | 16,739                         |

(\*) 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, 2007 were as follows:

|                  | In millions of yen |         | In millions of U.S. dollars |       |
|------------------|--------------------|---------|-----------------------------|-------|
|                  | ¥                  |         | \$                          |       |
| Fiscal year 2007 |                    | 176,518 |                             | 1,495 |
| 2008             |                    | 126,616 |                             | 1,073 |
| 2009             |                    | 167,919 |                             | 1,422 |
| 2010             |                    | 287,746 |                             | 2,437 |
| 2011             |                    | 356,265 |                             | 3,018 |

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, 2007, 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             | 424                          |
| FILP Agency Bond 7  | 60,000             | 508                          |
| FILP Agency Bond 9  | 50,000             | 424                          |
| FILP Agency Bond 11 | 50,000             | 424                          |

## 11. Borrowings

Borrowings as of March 31, 2007 and 2006 were as follows:

|  | Average interest rate | Due date of repayment     | March 31, 2007<br>( In millions of yen ) | March 31, 2006<br>( In millions of yen ) | March 31, 2007<br>(In millions of U. S. dollars) |
|--|-----------------------|---------------------------|--|--|--|
| Long-term borrowings   |                       |                           | ¥  | ¥  | \$   |
| Borrowings from the Government Fund for Fiscal Investment and Loan Program | 1.66                  | May 2007-<br>October 2021 | 8,030,213                                | 8,822,933                                | 68,024   |
| Borrowings from the Government Post Office Life Insurance Fund             | 1.99                  |                           | 64,613                                   | 103,856                                  | 547  |
|  |                       |                           | ¥ 8,094,826                              | ¥ 8,926,789                              | \$ 68,571  |

Long-term borrowings with maturities for the next five years as of March 31, 2007 were as follows:

|                  | In millions of yen | In millions of U.S. dollars |
|------------------|--------------------|-----------------------------|
|                  | ¥                  | \$                          |
| Fiscal year 2007 | 1,444,506          | 12,236                      |
| 2008             | 1,428,273          | 12,099                      |
| 2009             | 1,030,028          | 8,725                       |
| 2010             | 920,464            | 7,797                       |
| 2011             | 739,804            | 6,267                       |

## 12. Miscellaneous liabilities

Miscellaneous liabilities as of March 31, 2007 and 2006 were as follows:

|                      | March 31, 2007<br>( In millions of yen ) | March 31, 2006<br>( In millions of yen ) | March 31, 2007<br>(In millions of U. S. dollars) |
|----------------------|--|--|--|
|                      | ¥  | ¥  | \$   |
| Accrued expenses (a) | 54,985                                   | 61,424                                   | 466  |
| Unearned income      | 7,780                                    | 5,041                                    | 66   |
| Derivatives          | 143,734                                  | 137,705                                  | 1,217  |
| Other (b)            | 2,234                                    | 2,925                                    | 19   |
|                      | ¥ 208,734                                | ¥ 207,097                                | \$ 1,768   |

(Notes)

(a) "Accrued expenses" includes ¥28,485 million (\$241 million) of accrued interest on borrowings and ¥25,546 million (\$216 million) of accrued interest on bonds and notes and other as of March 31, 2007 (March 31, 2006: ¥34,648 million and ¥26,271 million respectively).

(b) "Other" includes ¥2,181 million (\$18 million) of suspense receipts and other as of March 31, 2007 (March 31, 2006: ¥2,850 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, 2007            | March 31, 2006            | March 31, 2007                    |
|--|--------------------------------|---------------------------|---------------------------|-----------------------------------|
|  |                                | ( In millions<br>of yen ) | ( In millions<br>of yen ) | (In millions of<br>U. S. dollars) |
|  |                                | ¥                         | ¥                         | \$                                |
| Projected benefit obligation               | (A)                            | (23,416)                  | (23,222)                  | (198)                             |
| Fair value of plans' assets                | (B)                            | 7,236                     | 6,748                     | 61                                |
| Unfunded pension obligation                | (C) = (A) + (B)                | (16,179)                  | (16,473)                  | (137)                             |
| 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)<br>+ (E) + (F) | (16,179)                  | (16,473)                  | (137)                             |
| Prepaid pension cost                       | (H)                            | -                         | -                         | -                                 |
| Allowance for employee retirement benefits | (G) - (H)                      | ¥ (16,179)                | ¥ (16,473)                | \$ (137)                          |

(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, 2007            | March 31, 2006            | March 31, 2007                    |
|--|--|---------------------------|---------------------------|-----------------------------------|
|  |  | ( In millions<br>of yen ) | ( In millions<br>of yen ) | (In millions of<br>U. S. dollars) |
|  |  | ¥                         | ¥                         | \$                                |
| Service cost                                 |  | 883                       | 939                       | 8                                 |
| Interest cost                                |  | 462                       | 456                       | 4                                 |
| Expected return on plans' assets             |  | (101)                     | (85)                      | (1)                               |
| Amortization of prior service cost           |  | -                         | -                         | -                                 |
| Amortization of net actuarial gains/losses   |  | 37                        | (909)                     | 0                                 |
| Amortization of net obligation at transition |  | -                         | -                         | -                                 |
| Other costs                                  |  | -                         | -                         | -                                 |
| Net pension cost                             |  | ¥ 1,281                   | ¥ 402                     | \$ 11                             |

#### (c) Principal assumptions made

|   | March 31, 2007                                      | March 31, 2006                                      |
|---|---|---|
| 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, 2007 and 2006 were as follows:

|             | March 31, 2007            | March 31, 2006          | March 31, 2007                     |
|-------------|---------------------------|-------------------------|------------------------------------|
|             | ( In millions of<br>yen ) | (In millions of<br>yen) | ( In millions of<br>U.S. dollars ) |
|             | ¥                         | ¥                       | \$                                 |
| Acceptances | -                         | -                       | -                                  |
| Guarantees  | 1,496,958                 | 1,066,099               | 12,681                             |
|             | ¥ 1,496,958               | ¥ 1,066,099             | \$ 12,681                          |



## 15. Assets pledged as collateral

There were no assets pledged as collateral as of March 31, 2007 and 2006.

## 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") for the year ended March 31, 2003. Under the policy to maintain the financial soundness of JBIC, the government provided JBIC a grant totaling ¥30 billion (\$254 million) corresponding to "ODA-loan related losses" out of its general account for the fiscal year ended March 31, 2007 and 2006 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, 2007 and 2006 were 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, 2007 and 2006 were as follows:

|                          | March 31, 2007<br>( In millions of<br>yen ) | March 31, 2006<br>( In millions of<br>yen ) | March 31, 2007<br>( In millions of<br>U.S. dollars ) |
|--------------------------|---|---|--|
|                          | ¥   | ¥   | \$   |
| Acquisition cost         |   |   |  |
| Equipment                | 658   | 624   | 5  |
| Other                    | 549   | 506   | 5  |
| Total                    | ¥ 1,207                                     | ¥ 1,131                                     | \$ 10  |
| Accumulated depreciation |   |   |  |
| Equipment                | 476   | 316   | 4  |
| Other                    | 357   | 253   | 3  |
| Total                    | ¥ 833                                       | ¥ 569                                       | \$ 7   |
| Net balance              |   |   |  |
| Equipment                | 182   | 308   | 1  |
| Other                    | 191   | 253   | 2  |
| Total                    | ¥ 373                                       | ¥ 561                                       | \$ 3   |

· Future lease payment obligations as of March 31, 2007 and 2006 are summarized below:

|                   | March 31, 2007<br>( In millions of<br>yen ) | March 31, 2006<br>( In millions of<br>yen ) | March 31, 2007<br>( In millions of<br>U.S. dollars ) |
|-------------------|---|---|--|
|                   | ¥   | ¥   | \$   |
| Due within 1 year | 237   | 269   | 2  |
| Due after 1 year  | 146   | 304   | 1  |
| Total             | ¥ 384                                       | ¥ 574                                       | \$ 3   |

- Lease payment, depreciation expense and interest expense for the fiscal year ended March 31, 2007 and 2006 were as follows:

|                      | March 31, 2007<br>( In millions of<br>yen ) | March 31, 2006<br>( In millions of<br>yen ) | March 31, 2007<br>( In millions of<br>U.S. dollars ) |
|----------------------|---|---|--|
|                      | ¥   | ¥   | \$   |
| Lease payment        | 285   | 283   | 2  |
| Depreciation expense | 273   | 270   | 2  |
| Interest expense     | 10  | 15  | 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, 2007 and 2006 are summarized below:

|                   | March 31, 2007<br>( In millions of<br>yen ) | March 31, 2006<br>( In millions of<br>yen ) | March 31, 2007<br>( In millions of<br>U.S. dollars ) |
|-------------------|---|---|--|
|                   | ¥   | ¥   | \$   |
| Due within 1 year | 5   | 6   | 0  |
| Due after 1 year  | -   | 1   | -  |
| Total             | ¥ 5   | ¥ 8   | \$ 0   |

## 19. Derivative transactions

Notes to derivative transactions in the fiscal year ended March 31, 2007 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 associated with 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                     | 26,097                          | 441            | 221                               | 3            |
| Currency swaps                          | 45,921                          | 3,987          | 389                               | 34           |
| Forward exchange contracts              | 23                              | 0              | 0                                 | 0            |
| Other derivatives                       | -                               | -              | -                                 | -            |
| Credit risk reductions through nettings | -                               | (2,010)        | -                                 | (17)         |
| <b>Total</b>                            | <b>¥ 72,042</b>                 | <b>¥ 2,418</b> | <b>\$ 610</b>                     | <b>\$ 20</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**

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

**(f) Currency-related transactions**

There were no currency-related derivative transactions, recorded at fair value as of the balance sheet date, since hedge accounting was 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, 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 for 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                     | 25,003                          |   | 502         |
| Currency swaps                          | 44,152                          |   | 3,969       |
| Forward exchange contracts              | 60                              |   | 1           |
| Other derivatives                       | -                               |   | -           |
| Credit risk reductions through nettings | -                               |   | (2,081)     |
| Total                                   | ¥ 69,217                        | ¥ | 2,392       |

(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, 2007 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, 2007<br>( In millions of yen ) | March 31, 2007<br>( In millions of<br>U.S. dollars) |
|-----------------|--|---|
|                 | ¥  | \$  |
| Sales amount    | 5,000                                    | 42  |
| Gains on sales  | -  | -   |
| Losses on sales | -  | -   |

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

|  | March 31, 2007<br>( In millions of yen ) | March 31, 2007<br>( In millions of<br>U.S. dollars) |
|--|--|---|
|  | ¥  | \$  |
| Held-to-maturity debt securities                       |  |   |
| Unlisted foreign securities                            | -  | -   |
| Available-for-sale securities                          |  |   |
| Unlisted Japanese equities other than over-the-counter | 107,194                                  | 908   |
| Unlisted foreign equities                              | 814                                      | 7   |
| Other unlisted Japanese securities                     | 253                                      | 2   |
| Other unlisted foreign securities                      | 1,817                                    | 15  |
| <b>Total</b>   | <b>¥ 110,079</b>                         | <b>\$ 932</b>                                       |

**(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, 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<br>( In millions of yen ) | March 31, 2006<br>( In millions of<br>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 were as follows:**

|  | March 31, 2006         |                |
|--|------------------------|----------------|
|  | ( In millions of yen ) |                |
|  | ¥                      |                |
| Held-to-maturity debt securities                       |                        |                |
| Unlisted foreign securities                            |                        | -              |
| Available-for-sale securities                          |                        |                |
| Unlisted Japanese equities other than over-the-counter |                        | 115,817        |
| Unlisted foreign equities                              |                        | 2,053          |
| Other unlisted Japanese securities                     |                        | 250            |
| Other unlisted foreign securities                      |                        | 1,414          |
| Total  | ¥                      | <u>119,535</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