

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86 / 2

153 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

<u>Borrower</u>	<u>Purpose and Year Granted</u>	<u>Final Maturity</u>	<u>Amount Outstanding</u>	<u>Total Commitment</u>
			(000 omitted)	
SUPRA AB.....	consolidation of fertiliser production facilities.....1970	1982	\$19,483	\$20,782
Sydsvenska Kraft AB.....	nuclear power plant.....1969	1983	17,115	30,562
Angfartygs AB Tirfing.....	obo carrier ship1970	1983	13,509	15,892
Uddeholms AB.....	papermill for production of kraftliner.....1968	1983	13,350	15,892
Uddeholms AB.....	as above and for specialty steel mill1971	1983	13,203	14,670
Obbola Linerboard AB.....	papermill for production of kraftliner.....1973	1986	12,225	18,337
Skogsägarnas Industri AB	sawmill1972	1988	12,225	12,225
Trelleborgs Gummifabriks AB	industrial rubber production equipment1974	1984	11,614	12,225
AB Statens Skogsindustrier.....	sawmill1970	1982	11,491	15,892
Norrlands Skogsägares Cellulosa AB	conversion (from sulphite to sulphate) and enlargement of pulp mill.....1972	1985	9,780	14,670
Bank Handlowy w Warszawie (1).....	construction of slaughterhouse (export)1973	1984	9,142	31,174
Rederi AB Transatlantic.....	ship1968	1985	8,254	11,247
Bank Handlowy w Warszawie (1).....	construction of office building (export)1973	1982	6,320	9,291
AB Statens Skogsindustrier	fibre board plant.....1974	1980	6,112	12,225
Kockums Mekaniska Verkstads AB...	expansion of ship production facility1974	1985	6,112	6,112
Eskilstuna kommun.....	purchase of industrial real estate1974	1994	6,112	6,112

(1) Under Polish foreign trade regulations, the Bank's credit is extended to Bank Handlowy w Warszawie, the Polish state-owned foreign trade bank, for re-lending to the Polish purchaser.

Loan Losses

The following table shows the loans charged against the Bank's loan loss reserve since the Bank's inception:

<u>Year</u>	<u>Number of Defaulting Borrowers</u>	<u>Amount Charged (000 omitted)</u>	<u>Amount as percentage of outstanding loans at year end</u>
1967-68	—	—	—
1969	1	\$ 49	0.12
1970	—	—	—
1971	1	3,102	1.32
1972	3	76	0.02
1973	8	1,461	0.36
1974	5	1,694	0.33

At 31st December, 1974 the Bank had accumulated a reserve of \$48.9 million as a general provision for loan losses. See note 1 of Notes to Financial Statements for a discussion of the accounting policy used in the determination of this reserve; see also note 5 of Notes to Financial Statements.

Sources of Funds

The Bank has supported its lending activities from equity investments by the Kingdom, additions to reserves and retained earnings, loan repayments, borrowings in Sweden (principally from the National Pension Insurance Fund) and borrowings outside Sweden.

The Bank commenced business in 1967 with a \$122 million equity investment by the Kingdom, \$110 million of which was allocated to share capital and \$12 million of which was allocated to a statutory reserve which is available only to cover losses or for distribution on dissolution. Subsequent investments by the Kingdom and transfers to the statutory reserve have raised the Bank's share capital and statutory reserve to \$220 million and \$30.6 million, respectively, as of 31st December, 1974. Earnings of \$20.3 million had been retained through 31st December, 1974 and at that date the Bank's total equity capital amounted to \$270.9 million.

The Articles authorise the Bank to borrow funds and issue guarantees aggregating not more than five times its equity capital, including its share capital, statutory reserve and retained earnings but excluding all loss reserves. This limitation on borrowings does not apply to subordinated borrowings which, up to an amount equal to the Bank's share capital, may in general be treated as share capital for the purpose of the Bank's borrowing limitation. To date the Bank has not made any subordinated borrowings.

The following table indicates the Bank's sources of funds for each of its fiscal years since commencement of operations:

Fiscal year ended 31st December	Borrowings (net of repayments)						Additions to Reserves	Net Income	Total
	Government Investment	Long-Term (1)		Other (000 omitted)	Sub Total	Loan Repayments Received			
		Domestic	Foreign						
1968	\$171,149	\$ —	\$ —	\$ 587	\$ 587	\$ —	\$ 7,107	\$ —	\$178,843
1969	73,350	—	—	3,178	3,178	180	7,562	3,733	88,003
1970	—	—	—	5,044	5,044	1,008	9,780	6,526	27,558
1971	—	—	—	20,879	20,879	23,929	7,335	5,907	58,050
1972	—	36,675	71,600	3,748	112,023	21,247	7,335	6,079	146,684
1973	—	124,694	53,549	(7,391)	170,852	47,303	8,557	11,018	237,730
1974	—	21,760	(1,159)	(3,453)	17,148	75,081(2)	12,958	10,218	115,405
	\$244,499	\$183,129	\$123,990	\$22,592	\$329,711	\$168,748	\$60,634	\$43,481	\$847,073

(1) As used in this table Long-Term Borrowings are borrowings with an original term of 10 years or more.

(2) Includes prepayment of a single loan of \$21,612,000.

The following table indicates total scheduled payments of principal and interest on the Bank's long-term borrowings (i.e., borrowings with an original term of 10 years or more) outstanding at 31st December, 1974:

Due in	Long-Term Borrowings Payable In				
	Swedish Kronor	German marks(1)	U.S. \$ (000 omitted)	Swiss francs(1)	Total
1975	\$ 16,107	\$ 5,717	\$ 3,173	\$ 1,284	\$ 26,281
1976	15,909	5,717	3,096	1,284	26,006
1977	15,711	5,717	3,020	1,284	25,732
1978	19,620	9,875	2,944	1,284	33,723
1979	23,076	13,753	2,868	1,284	40,981
1980	26,984	13,181	3,291	1,284	44,740
1981	25,823	12,609	3,677	1,284	43,393
1982	24,661	12,037	4,024	1,284	42,006
1983 and thereafter	105,667	56,061	22,027	24,891	208,646
Total	\$273,558	\$134,667	\$48,120	\$35,163	\$491,508

(1) Amounts translated at rates prevailing at 31st December, 1974: DM 2.405 = U.S. \$ 1; Sfr. 2.531 = U.S. \$ 1.

At 31st December, 1974 the Bank had accumulated a reserve for unrealised foreign exchange losses totalling \$11.7 million, representing the difference between the exchange rates prevailing at the dates of the

Bank's long-term German mark and Swiss franc borrowings and those prevailing at 31st December, 1974. It is the current policy of the Bank to evaluate its foreign currency position annually and, if necessary, increase the amount of this reserve.

Although the Swedish medium- and long-term capital market is expected to be the principal and preferred source of funds, the Bank expects to obtain medium- and long-term foreign borrowings from time to time. The proceeds of the Bank's foreign borrowings are converted almost entirely to Kronor for lending in that currency.

Liquidity

The Bank's current assets consist of bank deposits, short-term investments and marketable securities, which totalled \$137.5 million at 31st December, 1974 and included \$85.5 million in National Debt Office notes; \$47.1 million in deposits, primarily in Swedish banks but also in foreign banks; and \$4.9 million in short-term notes of Swedish financial institutions. The ratio of liquid assets to total assets at that date was higher than would have otherwise been the case because of the National Debt Office notes held by the Bank. Such notes represented the difference between the Bank's borrowing from the National Pension Insurance Fund which was made concurrently with the issuance of the Bank's commitment for the TVO project in 1973, and the disbursements for such project.

In the interest of providing reserve liquidity to the Bank relative to its loan commitments and debt service, legislation was enacted in 1971 authorising the Riksbank to grant to the Bank an overdraft facility of \$48.9 million. To date the Bank has not required this facility and no terms have been negotiated with the Riksbank for its use.

Subsidiaries and Affiliates

The Bank's subsidiaries and affiliates include: AB Strukturgaranti, wholly-owned, which was formed in 1972 to evaluate applications for and issue guarantees of the Kingdom; Svensk Företags Garanti AB, 50 per cent. owned by the Bank, which issues loan guarantees in small amounts; SIBTEC AB, wholly-owned, which was originally concerned with development and marketing of an industrial filter system but recently has also been active as technical consultant to the Bank and some of its borrowers; and AB Svensk Petrokemisk Utveckling, 20 per cent. owned by the Bank, which is investigating the prospects of further developing the Swedish petrochemical industry. It is anticipated that the functions of AB Strukturgaranti will be transferred to a government agency in July, 1975. See note 3 of Notes to Financial Statements.

The Bank at present has three additional wholly-owned subsidiaries which were acquired as a result of its lending activities. During 1974 the Bank acquired Sandviken Heat Production AB and Liquid Processing AB, each of which was operating at a loss, had defaulted on its loan from the Bank and is continuing to operate at a loss. Investments in and advances to these companies at 31st December, 1974 aggregated \$208,000. In March, 1975 the Bank acquired Sweteco (Textile Products) AB, a Swedish textile group which operated at a loss in 1974, in order to protect the Bank's loans and to continue the operations of the group. The group continues to operate at a loss. At present the Bank's investments in and advances to the group aggregate \$6.5 million and in addition the Bank has guaranteed \$3.7 million of borrowings by the group from others.

The Bank is also a joint venture partner in a company constructing an office building in central Stockholm in which it expects to occupy office space in 1975. See "Property".

Property

The Bank's offices are presently located in 8,794 sq. ft. of leased space in central Stockholm. The lease for this space calls for annual rental payments of \$102,688 and will terminate in September, 1975. A company, Fastighets AB SIBOS, 50 per cent. owned by the Bank and 50 per cent. by Byggnadsfirman Ohlsson & Skarne AB, a construction and development firm, currently has under construction a 10-storey office building and shopping mall in central Stockholm, which is estimated to cost approximately \$12 million. Financing during construction is being provided by the Bank and permanent financing with a conventional real estate lender is planned following completion, although no definite arrangements for such financing presently exist. In the autumn of 1975 the Bank expects to relocate its offices to leased facilities occupying two floors in this new building. The terms of this lease have not yet been determined.

Employees

The Bank has 31 employees of whom 22 are managerial or professional. In certain credit evaluations and loan transactions the Bank engages special consultants and spent \$171,638 for this purpose in 1974.

Legal Status of the Bank

The Proposition on the basis of which Parliament approved the establishment of and appropriated funds for the Bank does not have the force of law, but broadly states the political and economic policies governing the Bank and its purposes. Parliamentary approval would be required in any event for any substantial deviation from the terms of the Proposition.

The Bank was incorporated in 1967 under the Swedish Stock Companies Act of 1944. It has a legal existence separate from the Kingdom and is not entitled to claim sovereign immunity.

The Kingdom exercises its rights as owner of the Bank's stock through its Department of Industry. The Department's exercise of control over the Bank has been essentially limited to exercise of its prerogatives as shareholder, including annual election of the Bank's Board of Directors (see "Management").

The Bank is formally a credit company subject to the Swedish Credit Companies Act of 1963 under which amendments to the Articles must be approved by the Government. The Articles have been amended only once, relating to the Bank's engaging in export financing, and this amendment was approved by Parliament as well as the Government. The Bank has been exempted from examination, regulation and supervision by the Swedish Bank Inspection Board which is generally provided by such Act.

In common with other Swedish companies, the Bank must obtain the Riksbank's approval for long-term borrowings in the Swedish domestic capital market (other than in the limited Swedish private long-term market) under general domestic capital market regulations, and for external borrowings under exchange control regulations.

MANAGEMENT

The Articles provide that the Board of Directors shall consist of not less than seven nor more than nine Directors and an equal number of Deputy Directors, and that the Board shall appoint one of its members Managing Director. All of the foregoing positions (other than Managing Director) are filled by shareholder election. The present Directors, Deputy Directors and executive officers of the Bank are as follows:

Directors

<u>Directors</u>	<u>Principal Occupation</u>
Arne S. Lundberg ¹	Managing Director of Luossavaara-Kiirunavaara AB
Harry Hjalmarson ²	Retired, former Managing Director of The Co-operative Union and Wholesale Society
Arne Callans	Managing Director of the Bank
Hans Cavalli-Björkman	Managing Director of Skandinaviska Endskilda Banken, Malmö
Olle Göransson	Member of Parliament
Tony Hagström	Under Secretary of the Ministry of Industry
Sigurd Ljungcrantz	Director of various companies, former Managing Director of Corona-verken AB
Sven Wehlin	Vice Chairman of the Swedish Metal Workers' Union
Arne H. Nilstein	Managing Director of the Swedish Industrial Salaried Employees Association

Deputy Directors

Erik Grafström	Chairman of the State Power Board
Harald Håkansson	Managing Director of the Federation of Swedish Farmers
Birger Ekström	Managing Director of Uppåkra Mekaniska Verkstads AB
Sture Ulvskog	Managing Director of Östgötabanken
Sven Sundin	Farmer, former Member of Parliament
Bengt Dennis	Under Secretary of the Ministry of Commerce
Nils Landqvist	President of Korsnäs-Marma AB
Gunnar Nilsson	Chairman of the Swedish Confederation of Trade Unions
Lennart Lundgren	General Secretary of Swedish Bank Employees Union

Executive Officers

<u>Executive Officers</u>	<u>Position</u>
Arne Callans	Managing Director
Dag Persson	Chief Legal Officer and Deputy Managing Director
Kai Holmbeck	Senior Lending Officer
Krister Wallin	Chief Financial Officer
Lars-Olof Gustavsson	Senior Lending Officer
Robert Helleday	Senior Lending Officer

¹ Chairman of Board of Directors.

² Deputy Chairman of Board of Directors.

GUARANTEE OF THE KINGDOM OF SWEDEN

In 1967, pursuant to Parliamentary authority, the National Debt Office of the Kingdom of Sweden issued a letter on behalf of the Kingdom undertaking to guarantee the obligations of the Bank up to and including 450 million Kronor (\$110 million). In 1968, the guarantee was increased to 630 million Kronor (\$154 million) and in June, 1969 the guarantee was increased to 900 million Kronor (\$220 million). On 19th June, 1975 the amount of the guarantee was increased to 2,000 million Kronor (\$489 million) pursuant to a proposal approved by the Parliament on 13th May, 1975. The Bank's total obligations presently are in excess of 2,000 million Kronor (\$489 million).

In the opinion of G. Sandströms Advokatbyrå, special Swedish counsel for the Bank, the Kingdom's guarantee applies to the Bank's obligations evidenced by the Bonds and is irrevocable with respect to those obligations. The Kingdom's guarantee is a guarantee of collection and not a guarantee of payment and accordingly would be enforceable against the Kingdom only after all means of legal recourse against the Bank have been exhausted without satisfaction in full of a guaranteed obligation. Were the Bank to become insolvent and be liquidated, the claims of holders of the Bonds for payment under the guarantee of the Kingdom would be aggregated with claims of other creditors of the Bank entitled to the benefit of the guarantee. If the aggregate amount of such claims exceeded the amount of the guarantee, all creditors would be entitled to receive a proportionate distribution of the amount guaranteed.

KINGDOM OF SWEDEN

The Kingdom of Sweden covers an area of approximately 174,000 square miles (which is approximately twice the size of the United Kingdom) and its population at the end of 1974 was estimated at 8,177,000. The largest cities are Stockholm (1,353,000 inhabitants), Göteborg (688,000 inhabitants) and Malmö (453,000 inhabitants). Approximately half of Sweden is covered by forest. The average population density per square mile at the end of 1974 was 47.

General Political Information

Sweden's constitution provides for a parliamentary government system and a King who performs only ceremonial duties and functions as the official representative of Sweden. Executive authority rests with the Cabinet of Ministers headed by the Prime Minister. Legislative power rests with the Parliament, which has consisted of a single house since 1971. There are 350 members of Parliament who are elected every three years by direct ballot, 310 from local constituencies and 40 on an "at large" basis. There are five political parties which have been represented since the general election in September 1973 as follows:

	<u>Number of seats</u>
Social-Democratic	156
Centre	90
Conservative	51
Liberal	34
Communist	19

Since 1932 the Social-Democratic Party has formed the Cabinet either alone or in coalition with other parties. The present Prime Minister of the Social-Democratic government is Mr. Olof Palme who became Prime Minister in 1969. Prior to Mr. Palme, Mr. Tage Erlander was Prime Minister since 1946.

International organisations of which Sweden is a member include the United Nations, International Monetary Fund (IMF), International Bank for Reconstruction and Development (World Bank), General Agreement on Tariffs and Trade (GATT), Organisation for Economic Co-operation and Development (OECD) and European Free Trade Association (EFTA). Sweden is not a member of any military alliance and has a policy of neutrality. Sweden has not engaged in a war since 1815.

Industry

Sweden has a diversified but highly industrialised economy. Swedish industry is generally concentrated in the southern half of the country, principally around the major cities of Stockholm, Göteborg and Malmö, but a significant amount of mining and energy production as well as certain timber activities are located in the northern half.

Manufacturing is the largest component of Sweden's industrial sector, accounting for the major portion of its share of gross domestic product and employing the majority of its labour force. The principal characteristic of Sweden's manufacturing industry is its reliance on technology, and most of its products are based on Swedish inventions or developments. Because of the small size of the domestic market, Sweden's manufactured products are largely exported. Among the more important Swedish manufacturing industries are automobiles, electronic equipment, machine tools and shipbuilding. Sweden is the third largest shipbuilding nation in the world.

Mining in Sweden is centred around the large iron ore deposits in the north, and Sweden accounts for approximately 6 per cent. of world iron ore production and 13 per cent. of world exports. Other important minerals found in Sweden are zinc, copper, lead and manganese. Because of Sweden's large iron ore deposits, the country also has a highly developed iron and steel industry which produces a wide variety of products for domestic use and export sale.

Although Sweden has less than 1 per cent. of the world's forests, certain climatic conditions and other factors have made its forest products particularly desirable in the domestic and export markets. Forest products account for about one-fourth of Sweden's total exports and its exported forest products constitute approximately 3 per cent. of world volume and 13 per cent. of world export value of such products. Sweden's principal forest products include pulp, paper, wallboard and lumber. Sweden is the fourth largest producer of wood pulp and the second largest producer of wallboard in the world.

While still relatively small, Sweden's chemical industry has expanded rapidly in the post-war period and now employs nearly 8 per cent. of the labour force and accounts for almost 10 per cent. of industrial output. Sweden's chemical production consists primarily of organic chemicals, plastics, pharmaceuticals and petrochemicals and a substantial portion is exported.

Over 80 per cent. of all passenger traffic and approximately 65 per cent. of all goods in Sweden are transported by road. Railroads, while extensive, have been declining in importance in recent years with respect to passenger transportation but continue to carry a large share of Sweden's raw and manufactured products. Shipping is also important in Sweden due to its large coastline, and Swedish ships are also active in world sea trade. Within Sweden aviation is not a significant means of transportation.

Corporate Ownership

Most Swedish industry is privately owned. Kingdom ownership is primarily limited to a few special sectors of the economy such as iron ore, mining, public utilities and transportation where Kingdom-owned enterprises account for over half of the produced goods and services. In most cases, Kingdom-owned companies have not been established for commercial or control purposes, but rather to create employment and encourage regional development. The Kingdom also has important ownership interests in certain Swedish financial institutions.

Agriculture

Total arable land at the end of 1973 was about seven million acres, which is 7 per cent. of Sweden's total land area. During the last 10 years the agricultural labour force has been reduced by an average yearly rate of 7 per cent. but total agricultural production has changed very little.

The Swedish farmers' producer cooperatives collaborate nationwide and about 80 per cent. of the sales of agricultural products are handled by their economic associations. Through these associations the farmers own a significant part of the Swedish food industry, thus exercising an important influence on the market.

Labour Force

As in most industrialised countries, the trend in occupation has been away from agriculture with an increasing percentage of workers engaged in manufacturing and services. Immigration into Sweden and the entry of married women into the labour force has satisfied demand for workers while, generally, the proportion of the Swedish population of the ages which contribute to the labour force has declined. Women account for approximately 40 per cent. of the labour force and foreigners approximately 5 per cent.

The Swedish labour market is characterised by strongly centralised organisations, both on the employer and the employee side. The Swedish Confederation of Trade Unions consists of 25 trade unions and more than 90 per cent. of the blue-collar workers in Sweden belong to trade unions which are members of the confederation. About 70 per cent. of the white-collar workers are members of the 23 unions constituting the Central Organisation of Salaried Employees. Union labour negotiations are conducted with employer organisations in which the Swedish Employers' Confederation is dominant with over 26,000 member firms employing some 1,250,000 people.

Gross Domestic Product

The value of Sweden's gross domestic product at constant 1968 market prices for each of the years 1969 through 1973 is set forth in the following table:

	1969	1970	1971	1972	1973	1973 translated to S
	(in millions)					
Gross domestic product at constant 1968 market prices	Skr148,560	Skr155,283	Skr156,096	Skr160,232	Skr165,449	\$40,452
Annual percentage growth	5.1	4.5	0.5	2.6	3.3	—
GDP COMPONENTS FROM THE PRODUCTION SIDE						
Agriculture, hunting, forestry, fishing	5,839	6,142	6,698	6,630	6,583	1,609
Mining and quarrying	1,199	1,191	1,285	1,299	1,408	344
Manufacturing	37,843	40,146	40,507	41,467	44,235	10,815
Construction	14,210	14,395	14,250	14,965	14,715	3,598
Electricity, gas and water	3,158	3,283	3,531	3,822	4,045	989
Transport and communication	9,148	9,317	9,808	10,173	10,477	2,562
Wholesale and retail trade, restaurants and hotels	15,610	15,931	15,352	15,872	16,034	3,920
Financing, insurance, real estate and business services	20,202	20,691	21,575	21,934	22,360	5,467
Community, social and personal services	5,694	5,513	5,457	5,666	5,946	1,454
Products of government services	21,443	23,182	24,056	25,038	25,660	6,274
GDP COMPONENTS FROM THE USE SIDE						
Private consumption	82,573	84,171	83,562	85,679	87,312	21,348
Public consumption	29,889	32,344	33,493	34,239	35,088	8,579
Total consumption	112,462	116,515	117,055	119,918	122,400	29,927
Private domestic gross capital formation, excl. permanent residential housing	13,177	13,559	13,638	14,715	15,595	3,813
Public domestic gross capital formation, excl. permanent residential housing	12,054	13,293	12,773	13,687	12,859	3,144
Permanent residential housing, gross capital formation	9,637	9,282	9,329	9,655	9,503	2,323
Domestic gross capital formation total	34,868	36,134	35,740	38,057	37,957	9,280
Change in stocks	+1,875	+4,134	+1,173	-28	-627	-153

SOURCE: National Institute of Economic Research, Stockholm.

The average annual rate of increase in Sweden's gross domestic product at constant 1968 market prices during the above five years has been 3.2 per cent. and the estimated growth for 1974 is 4.2 per cent. The forecast for 1975 in the Government budget is 2.5 per cent.

According to published OECD data, the gross domestic product per capita in Sweden in 1973 was \$5,860 and was exceeded in that year only by that of the United States of America (\$6,150).

The gross domestic product implicit price level index, the import price index, the volume index of production in mining and manufacturing and the consumer price index for the years 1969 through 1973 are given below. The base year for these indices is 1968 except for the consumer price index which utilises 1949 as the base year.

	1969	1970	1971	1972	1973
GDP implicit price level	103.2	109.8	117.4	124.2	132.5
Import prices	101.8	110.2	116.3	118.3	133.1
Volume of production in mining and manufacturing.....	107.5	114.1	115.5	118.3	126.8
Consumer prices	221	236	254	269	287

SOURCE: National Institute of Economic Research, Stockholm.

The consumer price index for 1974, as reported by the National Institute of Economic Research, Stockholm, was 316 (1949 base year).

Social Welfare

Sweden has developed a comprehensive social welfare programme which, to a large extent, is financed by tax revenues. Most social benefits are available to everyone without regard to personal income. Every citizen is covered by the compulsory health insurance programme which pays substantially all of the expenses of doctors, hospitalisation and medicine and a major portion of dental expenses. The national old-age pension, starting at age 67, is paid to all Swedish citizens and to foreigners resident in Sweden for a certain period. In addition, an increasing number of persons are becoming entitled to the national supplementary pension which is funded by premiums paid by employers. Sweden also has unemployment insurance, rent allowances for low income persons and a system of laws prescribing a mandatory four weeks' vacation and a 40-hour work week.

Foreign Trade

The Swedish economy is highly dependent on foreign trade as the Swedish home market is relatively small. Sweden's large natural reserves, such as timber and iron ore, and its industrial production are the basic materials for exported products. Western Europe takes almost three-quarters of Sweden's total exports, as illustrated by the following table:

REGIONAL DISTRIBUTION OF FOREIGN TRADE IN 1973

	Exports (f.o.b.)	Imports (c.i.f.)
EFTA	22%	18%
Norway	9%	7%
Finland	7%	6%
EEC	50%	55%
United Kingdom	15%	12%
Germany	10%	20%
Denmark	10%	8%
USA	6%	7%
Developing countries	10%	10%
Other	12%	10%
	100%	100%

SOURCE: Sveriges Riksbank.

Sweden participated in the establishment of the Organisation for European Economic Cooperation (now the OECD) and the convention establishing the European Free Trade Association (EFTA) was signed in Stockholm in November 1959. Original members of EFTA were Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom. Subsequently Denmark and the United Kingdom withdrew from EFTA and joined the European Economic Community (EEC) and Iceland has become an EFTA member and Finland an associated member. Virtually all tariffs and restrictive quotas have been abolished on trade in industrial goods among EFTA members.

On 22nd July, 1972 Sweden entered into agreements with the EEC and the European Coal and Steel Community ("ECSC"). The essential feature of the agreement with the EEC is that a free trade area is gradually created for industrial goods (agricultural products are excluded) through the progressive diminution of the existing tariffs between Sweden and the EEC, in step with the tariff reductions between the EEC and its new members. An initial tariff reduction of 20 per cent. took place on 1st April, 1973 and was followed by two other equal reductions on 1st January, 1974 and 1st January, 1975. The two remaining 20 per cent. reductions will take place on 1st January, 1976 and 1st July, 1977. In case of certain so-called "sensitive" products, however, some exceptions have been made extending the transitional period to 1st January, 1980 for special steels, certain metals and rayon wool and to 1st January, 1984 for paper and paper board (except fibre building board), paper products and printed matter. During the extended transitional period reductions in customs duties may be restricted to certain annual quantities. Customs duties on paper products are being gradually and temporarily reintroduced for exports from Sweden to the United Kingdom and Denmark until superseded by overall EEC reductions. These countries have, however, undertaken to set annual duty-free quotas for their imports from Sweden for the period 1974-1983.

The provisions on tariff abolition and other matters in the Swedish agreement with the ECSC coincide with those of the EEC agreement. Under the agreements with the EEC and the ECSC Sweden maintains her autonomy to make trade agreements independently and to continue her long standing low-tariff policy.

The EEC and ECSC agreements give Sweden potential access to a duty-free market for industrial goods with 300 million inhabitants, covering practically the whole of Western Europe. Swedish exports to EEC members will be relieved of tariffs amounting to Skr 500 million and goods imported from the European Communities will be spared Skr 600 million in tariffs (both based on 1973 trade figures).

The following table gives the percentage of Sweden's foreign trade in various categories of goods in 1973:

<u>Exports (f.o.b.)</u>		<u>Imports (c.i.f.)</u>	
Machinery, instruments	25%	Machinery, instruments	25%
Transport equipment	16	Metal, metal goods	12
Metal, metal goods	13	Fuel	11
Paper, paper goods	9	Food	9
Pulp	8	Textile goods, shoes	10
Timber	8	Chemicals	9
Other	21	Transport equipment	10
	<u>100%</u>	Other	14
			<u>100%</u>

SOURCE: Sveriges Riksbank.

Balance of Payments

The value of Swedish exports and imports, the balance of trade and other Balance of Payments data for the calendar years 1969 through 1974 are shown in the following table:

	1969	1970	1971	1972	1973	1974	1974 translated to S
	(in millions)						
CURRENT TRANSACTIONS							
Exports f.o.b.	Skr29,459	Skr35,150	Skr38,224	Skr41,749	Skr53,153	Skr70,391	\$17,211
Imports c.i.f.	-30,571	-36,251	-36,192	-38,618	-46,336	-72,850	-17,812
Balance of trade	-1,112	-1,101	2,032	3,131	6,817	-2,459	-601
Adjustment of trade returns....	151	136	16	49	-111	-95	-23
Net shipping	2,016	2,114	2,325	2,432	2,989	3,813	932
Travel	-1,229	-1,748	-1,927	-2,400	-2,275	-2,254	-551
Other services	-104	13	-444	-633	-778	-1,494	-365
Transfers (net)	-741	-781	-908	-1,207	-1,356	-1,907	-466
Balance on current account....	-1,019	-1,367	1,094	1,372	5,286	-4,396	-1,075
CAPITAL TRANSACTIONS							
Government capital transactions	-240	-214	-180	47	-201	-465	-114
Security transactions	-127	246	378	830	445	97	24
Private long-term loans.....							
Abroad	579	1,002	944	870	428	1,536	376
In Sweden	-60	-107	-42	-4	-35		
Direct investment							
Abroad	-1,225	-1,103	-899	-1,251	-1,227	-1,557	-381
In Sweden	799	557	423	325	303		
Other	150	771	-54	621	702	1,817	444
Balance of capital	-124	1,152	570	1,438	415	1,428	349
SDR ALLOCATION	—	196	180	178	—	—	—
ERRORS AND OMISSIONS	-543	637	443	39	-62	1,178	288
MONETARY INSTITUTIONS							
Foreign exchange reserve.....	-1,853	394	1,208	2,251	3,884	-3,292	-805
Authorised exchange banks:							
time position	167	224	193	678	1,755	1,502	367
Total	-1,686	618	1,401	2,929	5,639	-1,790	-438

SOURCE: Sveriges Riksbank.

Foreign Exchange Reserves

The following table shows the net foreign exchange holdings of the Sveriges Riksbank and the sight holdings of the authorised exchange banks as well as Sweden's position in respect of gold, SDRs and the IMF at the end of each year from 1970 through 1974.

	31st December					1974 translated to \$
	1970	1971	1972	1973	1974	
	(in millions)					
Sveriges Riksbank						
Gold.....	Skr 1,035	Skr 1,046	Skr 1,047	Skr 1,115	Skr 1,115	\$ 273
Special Drawing Rights.....	196	376	554	589	589	144
IMF position.....	654	432	465	484	490	120
Foreign exchange.....	1,739	3,211	5,254	9,057	5,527	1,351
Total.....	<u>3,624</u>	<u>5,065</u>	<u>7,320</u>	<u>11,245</u>	<u>7,721</u>	<u>1,888</u>
Authorised exchange banks						
Sight balance.....	648	415	411	370	602	147
Total.....	<u>4,272</u>	<u>5,480</u>	<u>7,731</u>	<u>11,615</u>	<u>8,323</u>	<u>2,035</u>

SOURCE: Sveriges Riksbank.

At the end of 1974 the Sveriges Riksbank agreed with the Bank for International Settlements ("BIS") in Basle on a stand-by credit for \$300 million. Under this agreement the BIS will during 1975 upon request immediately place foreign currency up to this amount at the disposal of the Sveriges Riksbank. The agreement provides for the possibility of prolongation after the end of 1975, in which case a credit drawn under the facility may also be prolonged.

Energy

Sweden is not an oil-producing country and extensive exploration in the last few years has been largely unsuccessful. The Swedish balance of trade has therefore taken the full burden of the increased prices of oil and oil products which took effect in the latter part of 1973.

The following table shows the import and export values of oil and fuel for 1973 and preliminary figures for 1974 as well as projected figures for 1975 and 1976 based on oil and fuel prices as of December, 1974:

	1973	1974	1975	1976
	(in millions)			
Imports:				
Crude oil.....	Skr 1,260	Skr 3,680	Skr 6,340	Skr 6,270
Fuel oil.....	3,290	8,020	5,910	5,950
	<u>4,550</u>	<u>11,700</u>	<u>12,250</u>	<u>12,220</u>
Exports:				
Fuel oil.....	197	540	620	640
Impact on balance of trade.....	<u>4,353</u>	<u>11,160</u>	<u>11,630</u>	<u>11,580</u>

SOURCE: National Institute of Economic Research, Stockholm.

State Budget and National Debt

The sources and uses of funds of the Central Government of Sweden for the calendar years 1970 through 1973 are summarised in the following table.

	1970	1971	1972	1973	1973 translated to \$
	(in millions)				
REVENUES					
Direct and indirect taxes	Skr35,979	Skr40,799	Skr43,059	Skr46,910	\$11,469
Other	3,294	3,903	4,447	4,900	1,198
	<u>39,273</u>	<u>44,702</u>	<u>47,506</u>	<u>51,810</u>	<u>12,667</u>
EXPENDITURES					
Transfers	23,395	27,096	31,167	34,470	8,428
Consumption	13,257	15,178	15,799	17,290	4,227
Gross fixed investments	1,865	1,926	2,311	2,470	604
Residual	134	-830	468	250	61
	<u>38,701</u>	<u>43,370</u>	<u>49,745</u>	<u>54,480</u>	<u>13,320</u>
LENDING ETC	3,625	4,535	4,348	3,500	856
EXTRA BUDGETARY TRANS- ACTIONS (expendi- ture in	-152	567	242	20	5

SOURCE: National Institute of Economic Research, Stockholm.

The following table sets forth the National Debt of the Central Government of Sweden:

	1970	1971	1972	1973	1973 translated to \$
	(in millions)				
NATIONAL DEBT (at year- end) (1)					
Funded	Skr24,812	Skr27,399	Skr29,948	Skr34,218	\$8,366
Floating (2)	11,343	11,387	15,188	17,069	4,173
	<u>36,155</u>	<u>38,786</u>	<u>45,136</u>	<u>51,287</u>	<u>12,539</u>

(1) All payable in Swedish Kronor.

(2) Original maturity of one year or less.

SOURCE: National Institute of Economic Research, Stockholm.

The Kingdom of Sweden has guaranteed the principal of and interest on obligations of others (both internal and external) aggregating approximately Skr 17,758 million (\$4,342 million) at 31st December, 1974.

All payments on its public debts, internal or external, have been made when due by the Kingdom of Sweden since the establishment of the present state in 1809.

ACCOUNTANTS' REPORT

The Board of Directors
Sveriges Investeringsbank Aktiebolag:

We have examined the balance sheet of Sveriges Investeringsbank Aktiebolag as of 31st December, 1974, and the related statement of income for the five years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Sveriges Investeringsbank Aktiebolag at 31st December, 1974, and the results of its operations for the five years then ended, in conformity with generally accepted accounting principles applicable in Sweden, applied on a consistent basis.

The accompanying financial statements expressed in U.S. dollars have been translated into dollars solely for the convenience of the reader. We have reviewed the translation, and, in our opinion, the financial statements expressed in Kronor have been translated into dollars on the basis set forth in note 2 of Notes to Financial Statements.

Stockholm, Sweden

24th February, 1975 (except as to
note 9 of Notes to Financial
Statements which is as of 11th June,
1975)

TORRE HENCKEL
Authorised Public Accountant

BRUNO SVENSSON
Authorised Public Accountant

SVERIGES INVESTERINGSBANK AKTIEBOLAG

BALANCE SHEET

31st December, 1974

ASSETS

	In thousands of Swedish Kronor	Translation into thousands of U.S. dollars
Cash and due from banks	Skr 1,968	\$ 481
Interest bearing deposits with banks and investments	560,625	137,072
Loans	2,116,985	517,600
Investments in subsidiaries and affiliates (3)	3,890	951
Advances to subsidiaries and affiliates (3)	10,308	2,521
Office equipment, net	101	25
Accrued interest and commissions	47,154	11,529
Own bonds repurchased	10,432	2,550
Other assets	229	56
Total assets	<u>Skr 2,751,692</u>	<u>\$672,785</u>

LIABILITIES, RESERVES AND EQUITY CAPITAL

Borrowed funds (4)		
Short term	Skr 60,924	\$ 14,896
Medium term	29,078	7,109
Long term	1,256,120	307,120
	<u>1,346,122</u>	<u>329,125</u>
Accrued expenses		
Interest and other	45,000	11,002
Income taxes	1,590	389
Pension	244	59
	<u>46,834</u>	<u>11,450</u>
Advances from subsidiary and affiliate (3)	2,900	709
Total liabilities	<u>1,395,856</u>	<u>341,284</u>
Reserves for losses		
Loans (5)	200,000	48,900
Foreign exchange	48,000	11,736
Total reserves	<u>248,000</u>	<u>60,636</u>
Equity capital (6)		
Share capital	900,000	220,049
Statutory reserve	125,000	30,562
Retained earnings	82,836	20,254
Total equity capital	<u>1,107,836</u>	<u>270,865</u>
Commitments and contingent liabilities (7)		
Total liabilities, reserves and equity capital	<u>Skr 2,751,692</u>	<u>\$672,785</u>

See accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

(1) Statement of Accounting Policies

In order to facilitate an understanding of the data included in the financial statements, summarised below are the more significant accounting policies of Sveriges Inlåningsbank Aktiebolag (the "Bank"). These policies are in conformity with principles and procedures generally followed in Sweden.

Basis of Presentation

The Bank does not consolidate its subsidiaries, all of which are wholly-owned. Investments in subsidiaries, an affiliate, and corporate joint ventures are carried at cost. The Bank assumes the losses of its non-profitable subsidiaries through periodic contributions which are charged to income. In the aggregate, the subsidiaries, affiliate, and joint ventures are not significant to the result of operations and financial position of the Bank.

Foreign Currency Translation

The Bank maintains foreign currency assets and liabilities at historical rates, except for cash on hand and in banks, its own bonds repurchased and accrued interest receivable and payable which are converted at rates prevailing at each year end. As a result of major currency revaluations, commencing in 1973 the Bank provided a reserve for future exchange losses in an amount which approximates the difference between historical and current rates applicable to long-term borrowings having a translation loss. Such provision is reflected in the statement of income as provision for foreign exchange losses. Other realised and unrealised exchange gains and losses are reflected in the statement of income as foreign exchange losses (gains) - net.

Income Taxes

The Bank and its subsidiaries file separate income tax returns and provide taxes based on taxable income as determined under Swedish tax law. For all years presented, the Bank's taxable income was substantially the same as financial income reduced in 1973 and 1974 for a dividends-paid deduction and as to the national income tax reduced in each year by a deduction for local tax essentially on a cash basis.

Swedish law permits the Bank to reduce taxable income annually for dividends paid, limited to an amount equal to 5 per cent. of capital paid-in. This annual deduction is available for each of ten years, which need not be consecutive; however, it can only be taken within 15 years from the date the capital was paid-in. The deduction utilised in both 1973 and 1974 was Skr 35,000,000 (\$8,557,000). Based on capital paid-in to date the deduction available each year through 1981 amounts to Skr 50,000,000 (\$12,225,000) and decreases to Skr 25,000,000 (\$6,112,000) and Skr 15,000,000 (\$3,667,000) in 1982 and 1983, respectively.

The national statutory income tax rate was 40 per cent. for the years 1970 to 1974. The local income tax rate rose progressively from 19.03 per cent. in 1970 to 23.09 per cent. in 1974. The combined effective income tax rate for the Bank, which was approximately 54 per cent. for the years 1970 to 1972, declined to 7.4 per cent. in 1973 and 15.8 per cent. in 1974, primarily due to the dividends-paid deduction referred to above.

Reserve for Loan Losses

The provision for loan losses charged to operating expenses is computed to provide a reserve which is approximately 6 per cent. of total outstanding loans plus commitments issued but not yet disbursed which is the maximum reserve accepted under Swedish tax law.

Office Equipment

Office equipment is stated at cost less accumulated depreciation. Depreciation expense is charged to operating expense on a straight-line basis over a five-year life.

Organisation and Bond Issuance Costs

Organisation and bond issuance costs are charged to operating expense in the year incurred.

(2) Basis of Translation into U.S. Dollars

The financial statements presented herein are expressed in Swedish Kronor and, solely for the convenience of the reader, have been translated into United States dollars at the rate of Skr 4.09 = U.S. \$1, the rate prevailing as of 31st December, 1974. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars.

(3) Investments

A summary of the Bank's investments in and advances to and from subsidiaries, an affiliate and joint ventures, including the Bank's equity in their underlying net assets, is as follows:

Name	Percentage of ownership	Carrying Value		Equity in underlying net assets		At 31st December, 1974 Advances to (from) investee		Interest rate
		Skr	\$	Skr	\$	Amount		
		(000)		(000)		Skr	\$	
AB Strukturgaranti	100	500	122	500	122	(500)	(122)	5.00%
Sibtec AB	100	600	147	602	147	920	225	—
Svensk Företags Garanti AB	50	2,400	587	2,600	636	(2,400)	(587)	—
AB Svensk Petrokemisk Utveckling	20	120	29	120	29	—	—	—
Fastighets AB Sibos	50	100	24	100	24	8,702	2,128	10.25%
Sandviken Heat Production AB	100	100	24	258	63	26	6	—
Liquid Processing AB	100	70	17	40	10	660	161	—
		<u>3,890</u>	<u>951</u>	<u>4,220</u>	<u>1,031</u>	<u>7,408</u>	<u>1,811</u>	

Operating losses of AB Strukturgaranti and Sibtec AB for the year ended 31st December, 1974 aggregated Skr 668,000 (\$163,000) and were recorded by the Bank through contribution charges to income. During 1974 the Bank acquired Sandviken Heat Production AB and Liquid Processing AB, each of which was operating at a loss and had defaulted on its loan from the Bank. With respect to these acquisitions, in 1974 the Bank wrote off loans aggregating Skr 6,703,000 (\$1,639,000) which amount exceeded their operating losses for the year.

The Bank's proportionate part of the earnings of its investments in affiliate and joint ventures for the year ended 31st December, 1974 aggregated Skr 26,000 (\$6,000).

(4) Borrowed Funds

Short-term borrowings (consisting of demand and other notes with final maturities of one year or less) amounted to Skr 60,924,000 (\$14,896,000) at 31st December, 1974 and had an average interest rate of 7.68 per cent. The average amount outstanding during 1974 was Skr 57,000,000 (\$13,936,000) having an approximate average interest rate of 6.82 per cent. The maximum month-end balance was Skr 78,000,000 (\$19,071,000).

Medium-term borrowings (i.e., those with final maturities of more than one but less than ten years) aggregated Skr 29,078,000 (\$7,109,000) at 31st December, 1974 and had an average interest rate of 10.81 per cent. At 31st December, 1974 all medium-term borrowings had maturities of less than three years.

Long-term borrowings (i.e., those with a final maturity of ten years or more), including current maturities, at 31st December, 1974 were as follows:

	Outstanding	
	(Skr 000)	(\$000)
6.75 per cent. bonds due in ten annual instalments of DM 10,000,000, commencing in 1978. At date of issue, Skr 1.5042 = DM 1.....	150,420	36,777
7.75 per cent. bonds due in annual instalments of \$500,000 (1975-1979), \$1,000,000 (1980, 1981), \$1,500,000 (1982-1986), and \$2,000,000 (1987). At date of issue, Skr 4.7475 = \$1.....	66,465	16,251
7.50 per cent. bonds due in annual instalments of \$500,000 (1975-1980), \$1,000,000 (1981, 1982), \$1,500,000 (1983-1987), and \$2,000,000 (1988). At date of issue, Skr 4.73 = \$1.....	68,585	16,769
6.50 per cent. bonds due in five annual instalments of Sfr 10,000,000, commencing in 1984. At the date of issue, Skr 1.381 = Sfr 1.....	69,050	16,883
7.00 per cent. bonds due in ten annual instalments of DM 10,000,000, commencing in 1979. At date of issue, Skr 1.5260 = DM 1.....	152,600	37,310
Total foreign.....	507,120	123,990
Total domestic.....	749,000	183,130
Total long-term.....	1,256,120	307,120

The combined maturities of short-, medium- and long-term borrowed funds for the five-year period ending 31st December, 1979 are as follows:

	(Skr 000)	(\$000)
1975.....	98,423	24,064
1976.....	20,741	5,071
1977.....	18,052	4,414
1978.....	47,580	11,633
1979.....	79,640	19,471

All of the above are general obligations of the Bank. With respect to the foreign bond issues, the Bank or its agents may purchase bonds on the open market for the purpose of meeting the redemption provisions. All foreign issues are subject to early call at various dates commencing in 1978. The Bank's unsubordinated borrowing authority is limited to five times its equity capital and amounts to Skr 5,539 million (\$1,354 million) at 31st December, 1974.

(5) Reserve for Loan Losses

	1972		1973		1974	
	(Skr 000)	(\$000)	(Skr 000)	(\$000)	(Skr 000)	(\$000)
Balance at beginning of year.....	130,000	31,785	160,000	39,120	160,000	39,120
Provision.....	30,313	7,411	4,264	1,043	46,513	11,372
	160,313	39,196	164,264	40,163	206,513	50,492
Loan losses.....	313	76	5,974	1,461	6,927	1,694
Less recoveries.....	—	—	1,710	418	414	102
Net loan losses.....	313	76	4,264	1,043	6,513	1,592
Balance at end of year.....	160,000	39,120	160,000	39,120	200,000	48,900

(6) Equity Capital

The Bank was established in 1967 under the Swedish Companies Act of 1944 (the act governing Swedish limited liability companies). The Bank has an outstanding fully-paid share capital of Skr 900 million (\$220 million), the whole of which is owned by the Kingdom of Sweden.

Under the Companies Act of 1944, 10 per cent. of net income must be transferred annually to a statutory reserve, until such reserve equals 20 per cent. of share capital (Skr 180,000,000; \$44,016,000). At 31st December, 1974, this statutory reserve amounted to Skr 125,000,000 (\$30,562,000), of which Skr 100,000,000 (\$24,000,000) was paid in by the Kingdom of Sweden and the balance transferred from earnings. The reserve is available for distribution only upon dissolution.

An additional reserve is required to be created through annual transfers of 10 per cent. of net income when the aforementioned statutory reserve equals 20 per cent. of share capital. This additional statutory reserve is also restricted as to distribution until such time as total share capital and statutory reserves exceed the Bank's liabilities. Such excess may be returned to distributable retained earnings ratably over a five-year period; however, if the total share capital and initial statutory reserve exceed liabilities for five consecutive years, the entire additional reserve may be returned to distributable retained earnings.

When the Bank's liabilities are greater than the total of share capital and both statutory reserves, dividends declared in an amount exceeding 5 per cent. of net assets require an additional transfer to either statutory reserve of an amount equivalent to such excess.

(7) Commitments and Contingencies

At 31st December, 1974 the Bank had undisbursed loan commitments of Skr 1,406,000,000 (\$343,766,000) and was contingently liable on guarantees aggregating Skr 64,758,000 (\$15,833,000).

The Bank has a 50 per cent. interest in a corporate joint venture, Fastighets AB SIBOS, formed for the purpose of constructing a commercial building in Stockholm. Under the joint venture agreement, the Bank is financing the construction and at 31st December, 1974 had advanced Skr 8,702,000 (\$2,128,000). The Bank's commitment under this agreement is estimated to be Skr 48,000,000 (\$11,736,000). The Bank expects to move its operations to the new building in the autumn of 1975; however, no lease arrangement has been negotiated. Presently the Bank is committed under a lease at a quarterly rental of Skr 105,000 (\$25,672) which expires in September, 1975.

(8) Government Guarantee

The Kingdom of Sweden has guaranteed the obligations of the Bank up to Skr 900,000,000 (\$220,049,000).

(9) Subsequent Events

In January and February, 1975 the Bank made short-term borrowings of Swiss francs aggregating Sfr 30,000,000 (Skr 47,997,600, \$11,735,000).

In February and April, 1975 the Bank made long-term domestic borrowings aggregating Skr 225,000,000 (\$55,012,000).

In April, 1975 the Bank made a medium-term borrowing of Dutch guilders in the amount of Gld 50,000,000 (Skr 82,140,000, \$20,083,000).

In April, 1975 the Bank made two medium-term borrowings of Swiss Francs in an aggregate amount of Sfr 100,000,000 (Skr 155,025,000, \$37,903,000).

In June, 1975 the Bank made a medium-term borrowing of German marks in the amount of DM 100,000,000 (Skr 167,100,000, \$40,856,000).

On 25th March, 1975 a proposal was presented to the Parliament that the amount of the guarantee of the Kingdom of Sweden referred to in note (8) be increased to Skr 2,000,000,000 (\$489,000,000).

UNDERWRITING AND SUBSCRIPTION

Credit Suisse White Weld Limited, Swiss Bank Corporation (Overseas) Limited, Union Bank of Switzerland (Securities) Limited, Kredietbank S.A. Luxembourgeoise, Dresdner Bank Aktiengesellschaft, S. G. Warburg & Co. Ltd., Post-och Kreditbanken, PKbanken, Skandinaviska Enskilda Banken and Svenska Handelsbanken (the "Managers") have, pursuant to a Subscription Agreement dated 19th June, 1975, agreed with the Bank to procure subscribers for the Bonds as agents of the Bank. The Bank has agreed to pay commission aggregating $\frac{3}{4}\%$ of the principal amount of the Bonds to the Managers and the Underwriters. On behalf of the Bank, the Managers are inviting certain banks, brokers and dealers (the "Selling Group") to subscribe Bonds at the Offering Price less a concession of $1\frac{1}{2}\%$ of the principal amount of the Bonds, plus accrued interest. The Selling Group may concede a reallowance of $\frac{1}{2}\%$ out of such concession to recognised securities dealers. Payment for the Bonds subscribed will be made in U.S. dollars at a subscription price of \$1,246.48 per Bond, plus accrued interest, which has been computed on the basis of the principal amount of the Bonds, multiplied by the value of one IMF special drawing right in terms of the U.S. dollar, as determined by the IMF as of 19th June, 1975. It is expected that delivery of the Bonds will be made at the offices of Credit Suisse White Weld Limited, 122 Leadenhall Street, London EC3V 4QH, on or about 8th July, 1975.

The Subscription Agreement provides that the obligations of the Managers are subject to approval of certain legal matters by counsel and to certain other conditions precedent. The Bank has agreed to indemnify the Managers against certain liabilities and to reimburse the Managers for certain expenses.

The Bonds have not been registered under the Securities Act of 1933 of the United States of America and may not be offered or sold directly or indirectly in the United States (which term includes the territories, possessions and all areas subject to the jurisdiction of the United States of America) or to nationals or residents thereof as part of the distribution of the Bonds. Any reoffers and resales of Bonds in the United States or to nationals or residents thereof after distribution of the Bonds has been completed must be made in compliance with the registration requirements of the Securities Act of 1933 or pursuant to an exemption therefrom; and the availability of any such exemption would depend upon the facts and circumstances existing at the time of such reoffers and resales.

The Managers have represented and agreed that in connection with the distribution of the Bonds, except for offers or sales to Underwriters and to recognised securities dealers who agree and represent that they are subscribing for distribution in conformity with these provisions, they have not offered or sold and will not offer or sell any Bonds directly or indirectly in the United States or to nationals or residents thereof. Each Underwriter and member of the Selling Group must represent and agree that in connection with the distribution of the Bonds it has not offered or sold and will not offer or sell any Bonds directly or indirectly in the United States or to nationals or residents thereof. However, offers or sales of Bonds may be made on certain conditions to persons outside the United States who are not nationals or residents thereof through United States agents or fiduciaries.

Purchasers of Bonds may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase.

On behalf of the Bank, the Managers have entered into underwriting agreements in respect of the issue with, amongst others, the following Underwriters:

Austria
Creditanstalt-Bankverein
Girozentrale und Bank der österreichischen
Sparkassen AG

Bahamas
Euramerica Finanziaria Internazionale S.p.A.
Handelsbank in Zurich (Overseas) Limited

Belgium
Banque de Bruxelles S.A.
Banque de Commerce S.A.

Crédit Général Société Anonyme de Banque
Dewaay, Cortvriendt International S.A.
Kredietbank N.V.
Peterbroeck, van Campenhout Securities S.A.
Société Générale de Banque S.A.

Denmark
Andelsbanken A/S
Den Danske Landmandsbank
Kjøbenhavns Handelsbank
Privatbanken A/S

Finland

Helsingfors Aktiebank
Kansallis-Osake-Pankki
Nordiska Föreningsbanken AB

France

Banque Européenne de Tokyo
Banque Française du Commerce Extérieur
Banque Française de Dépôts et de Titres
Banque Nationale de Paris
Banque de Neufize, Schlumberger, Mallet
Banque de Paris et des Pays-Bas
Banque Rothschild
Banque de Suez et de l'Union des Mines
Banque de l'Union Européenne
Banque Worms
Caisse de Dépôts et de Consignations
Crédit Commercial de France
Crédit Industriel et Commercial
Crédit Lyonnais
Crédit du Nord et Union Parisienne—Union Bancaire
Finacor
Lazard Frères & Cie
Morgan & Cie International S.A.
Société Générale
Société Séquanaise de Banque
Union de Banques Arabes et Françaises—U.B.A.F.

Germany

Bayerische Hypotheken-und Wechsel-Bank
Bayerische Vereinsbank
Berliner Handels-Gesellschaft—Frankfurter Bank—
Deutsche Bank Aktiengesellschaft
Deutsche Girozentrale-Deutsche Kommunalbank
Commerzbank Aktiengesellschaft
Effectenbank-Warburg Aktiengesellschaft
Hessische Landesbank—Girozentrale
Merck, Finck & Co.
Norddeutsche Landesbank Girozentrale
Sal. Oppenheim Jr. & Cie
C. G. Trinkhaus & Burkhardt
Vereins-und Westbank Aktiengesellschaft
M.M. Warburg-Brinckmann, Wirtz & Co.
Westdeutsche Landesbank Girozentrale

Hong Kong

Ayala Finance (HK) Limited
Jardine Fleming & Company Limited
Schroders & Chartered Limited
Sumitomo & East Asia Limited

Italy

Banca Commerciale Italiana
Banca Nazionale del Lavoro
Banco di Roma
Capitalfin Internazionale S.p.A.
Compagnia Finanziaria Interbancaria S.p.A.
Credito Italiano

Japan

Daiwa Europe N.V.
The Nikko Securities Co., (Europe) Ltd.

Nomura Europe N.V.
Yamaichi International (Europe) Ltd.

Luxembourg

Banque Générale du Luxembourg S.A.
Banque Internationale à Luxembourg S.A.
Banque Lambert-Luxembourg S.A.
Compagnie de Banque et d'Investissements (Underwriters) S.A.
Compagnie Luxembourgeoise de Banque S.A.
Mercur-Bank S.A.

Netherlands

Algemene Bank Nederland N.V.
Amsterdam-Rotterdam Bank N.V.
Bank Mees & Hope N.V.
H. Albert de Bary & Co. N.V.
Pierson, Heldring & Pierson

Norway

Andresens Bank A/S
Bergens Privatbank
Christiania Bank og Kreditkasse
Den norske Creditbank
Fellesbanken A/S

Sweden

Götabanken

United Kingdom

Julius Baer International Limited
Banco Urquijo Limited
Bank of America (International) Limited
Bankers Trust International Limited
Baring Brothers & Co., Limited
Citicorp International Bank Limited
Dillon, Read Overseas Corporation
European Banking Company Limited
First Boston (Europe) Limited
Robert Fleming & Co. Limited
Antony Gibbs Holdings Ltd.
Goldman Sachs International Corp.
Hambros Bank Limited
Hill Samuel & Co. Limited
International Marine Banking Co. Limited
Kidder, Peabody International Limited
Kleinwort, Benson Limited
Lazard Brothers & Co., Limited
Lloyds Bank International Limited
London Multinational Bank (Underwriters) Limited
Manufacturers Hanover Limited
Samuel Montagu & Co. Limited
Morgan Grenfell & Co. Limited
National Westminster Bank Limited
Orion Bank Limited
Nordic Bank Limited
N. M. Rothschild & Sons Limited
Scandinavian Bank Limited
J. Henry Schroder Wagg & Co. Limited
Singer & Friedlander Limited

Strauss, Turnbull & Co.
Sumitomo White Weld Limited
Williams, Glyn & Co.
Wood Gundy Limited

United States

ABD Securities Corporation
Arnhold & S. Bleichroeder LLC
Basle Securities Corp.
Blyth Eastman Dillon & Co. Incorporated
Kuhn Loeb & Co. International
Lazard Frères & Co.
Lehman Brothers Incorporated

Merrill Lynch, Pierce, Fenner & Smith Securities
Underwriter Limited
Salomon Brothers
Shields Model Roland Incorporated
Smith, Barney & Co. Incorporated
SoGen Swiss International Corp.
UBS-DB Corporation
Warburg Paribas Becker Inc.
White, Weld & Co. Incorporated

Others

Bank Leu Limited
Clariden Bank
J. Vontobel & Co.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

Institution: Japan Development Bank

Location: Main office in Tokyo. Other offices in 9 cities in Japan and in Washington, D. C., New York City, London and Frankfurt.

Size: 3/31/76

Assets: ¥ 3,521,391 million (\$11,433 million)
Capital: ¥ 233,971 million (\$759.6 million)

Purpose: Established in 1951 as a Japanese Government financial institution pursuant to the Japan Development Bank Law. Purpose is to supply long-term funds for the promotion of industrial development and economic and social progress. JDB makes loans to provide funds: (1) for acquisition and construction or improvement of plant and equipment; (2) for reclamation of land; (3) for acquisition of land and construction of buildings and equipment for urban redevelopment projects. A related authority (which JDB has not yet exercised) permits JDB to provide funds by subscription to corporate debentures issued to raise funds for above purposes. JDB can guarantee repayments of loans and has authority to make equity investments in large-scale industrial complexes in underdeveloped regions in Japan.

Source of Funds: Principal sources are borrowings from Japanese Government, repayment of loans and internal sources. Outstanding government loans to JDB as of 3/31/76 amounted to \$9.3 billion. Other sources have consisted of foreign currency borrowings from the World Bank, all guaranteed by the Japanese Government. Also, there have been 6 dollar issues (including 5 registered issues publicly offered in U. S.), 1 Swiss franc issue and 1 Deutsche Mark issue of external loan bonds and notes. JDB is authorized to borrow an amount equal to 10x its capital and statutory reserve.

Management Structure: JDB is managed by a Governor, a Deputy Governor and 8 Executive Directors. JDB also has 2 auditors and 6 Counsellors. The Governor, the Deputy and the Auditors are appointed by the Prime Minister for terms of 4 years. The Executive Directors and Counsellors are appointed by the Governor for terms of 4 years and 2 years, respectively. The Governor is the CEO. The Executive Directors exercise various management functions in accordance with delegations from the Governor. Final authority to make decisions for JDB in all matters resides exclusively with the Governor.

Management of Funds: JDB makes its loans at fixed rates no greater than rates charged by private financial lenders and in most cases at lower rates. Maximum rate has been 9.2% since 11-75. JDB has limited foreign currency loans to amount of borrowings from the World Bank and charges the same interest rate plus 0.3%. JDB charges 0.2% to 0.3% per annum on outstanding amounts of foreign credits guaranteed by it. JDB makes most of its loans with original maturity of 10 - 15 years. Most of JDB's lending operations involve the financing of projects in cooperation with private financial institutions, with JDB taking the intermediate and longer term maturities and private banks taking the shorter maturities.

Portfolio: From inception to late 1960's, JDB's lending activities were directed primarily to electrical power, ocean shipping, coal mining, and the iron and steel industry. In the late 1960's and 1970's, JDB began to become more involved in urban development and pollution control. As of 3/31/76, portfolio was as follows: urban development 16.9%; regional development 12.5%; pollution control 14.2%; quality of life improvement projects 2.8%; resources and energy 15.7%; ocean shipping 21.6%; technological development 7.6%; other 8.2%; foreign currency loans 0.5%.

Capital Structure:	3/31/76	(\$ Millions)	%
Long-term borrowing from government		\$ 9,299	84.4%
Guaranteed long-term borrowing from World Bank		55	0.5
Guaranteed external loan bonds and notes		228	2.1
Capital and statutory reserve		<u>1,437</u>	<u>13.0</u>
Total capital		\$11,019	100.0%

Income: For fiscal year ending 3/31/76 JDB earned \$105.6 million. Of net earnings, \$78.9 million were put into the statutory reserve, and \$26.7 million was paid to the Japanese National Treasury.

PROSPECTUS

\$100,000,000

The Japan Development Bank

8 $\frac{1}{4}$ % Guaranteed Notes Due July 15, 1981

Interest is payable on January 15 and July 15.

Unconditionally Guaranteed as to Payment of Principal and Interest by

Japan

The Notes are not redeemable prior to maturity.

Application has been made to list the Notes on the New York Stock Exchange.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public(1)	Underwriting Discounts and Commissions(2)	Proceeds to the Bank(1)(3)
Per Note	99.80%	0.90%	98.90%
Total	\$99,800,000	\$900,000	\$98,900,000

(1) Plus accrued interest, if any, from July 15, 1976.

(2) The Japan Development Bank and Japan have agreed severally to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

(3) Before deduction of expenses payable by The Japan Development Bank estimated at \$275,000, including \$75,000 payable to the Underwriters in lieu of reimbursement of any of their expenses.

The Notes are offered by the several Underwriters when, as and if issued by The Japan Development Bank and accepted by the Underwriters and subject to their right to reject orders in whole or in part. It is expected that the Notes will be ready for delivery on or about July 15, 1976.

The First Boston Corporation

Dillon, Read & Co. Inc.

Smith Barney, Harris Upham & Co.
Incorporated

The Nikko Securities Co.
International, Inc.

The date of this Prospectus is July 8, 1976.

No person has been authorized to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized. This Prospectus does not constitute an offer of any securities other than the registered securities to which it relates, or an offer to any person in any jurisdiction where such offer would be unlawful.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE NOTES OFFERED HEREBY AND OF THE BANK'S 8½% GUARANTEED NOTES DUE MARCH 15, 1980 AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

In the Prospectus, all amounts are expressed in Japanese Yen ("¥" or "yen"), except as otherwise specified, and in certain cases are also expressed for convenience in United States Dollars ("\$" or "dollars"). Unless otherwise indicated, all dollar amounts expressed herein have been translated from yen at the rate of ¥308 to the dollar. This is the central rate of the yen as communicated by Japan to the International Monetary Fund (the "IMF") on December 19, 1971. Central rates are rates communicated to the IMF pursuant to a Decision of the Executive Board of the IMF dated December 18, 1971 (which was issued immediately following the realignment of exchange rates provided for by the so-called Smithsonian Agreement of the Group of Ten) by member countries which have temporarily ceased to maintain rates based on par values in accordance with the IMF Articles of Agreement but which continue to maintain stable rates as the bases for exchange transactions in their territories. On February 14, 1973, Japan ceased to maintain a stable rate and the yen was floated. Since the floating of the yen, the exchange rate of the yen to the dollar has at all times been less than ¥308 to the dollar. Since January 1, 1976, the daily closing selling rate as reported by The Bank of Tokyo, Ltd. in New York City has ranged from a low of ¥295.90 to a high of ¥305.90 to the dollar. On July 7, 1976, such reported closing selling rate was ¥296.34 to the dollar. The central rate of ¥308 to the dollar has been used in the Prospectus (except as otherwise indicated) because The Japan Development Bank continues to use this rate for translation of yen amounts into dollars in its Annual and Semi-Annual Reports, as does the Japanese Government in a number of its official publications.

The Japanese fiscal year ("JFY") commences annually on April 1, and each fiscal year is identified by the calendar year in which it begins. Thus the most recent complete fiscal year, which ended on March 31, 1976, is referred to as JFY 1975. Certain data, such as those appearing under "Foreign Trade and Balance of Payments" in the portion of the Prospectus relating to Japan which are designed to comply with international reporting requirements, are maintained on a calendar year basis. All annual periods not specifically labelled "JFY" are calendar years.

PROSPECTUS SUMMARY

THE JAPAN DEVELOPMENT BANK

The Japan Development Bank (the "Bank") was established in 1951 as a Japanese Government financial institution pursuant to The Japan Development Bank Law (the "JDB Law"). The Bank's purpose is to supply long-term funds for the promotion of industrial development and economic and social progress.

The Bank's capital is wholly owned by the Government of Japan, and the Bank is subject to Government control and supervision in conducting its operations. The Minister of Finance has supervisory powers over the Bank and determines, with the approval of the Diet, the amount of Government funds to be loaned to the Bank for its lending. The Economic Planning Agency prepares for adoption by the Cabinet a Basic Policy for the Bank each year to outline the principal project areas for the Bank's activities, and the Bank's annual budget of revenues and expenditures is subject to approval by the Diet. In addition, the Governor, Deputy Governor and Auditors of the Bank are appointed by the Prime Minister.

The Bank's equity capital is \$760 million. In addition, under the JDB Law, the Bank must set aside as a reserve out of the net earnings of each fiscal year the greater of (i) 20% of the Bank's net earnings or (ii) 0.7% of the Bank's aggregate loans outstanding at the close of the fiscal year (but not in excess of net earnings). Consequently, the total capital and statutory reserve of the Bank has grown to \$1.4 billion. By law, the Bank may borrow up to ten times the amount of its capital and statutory reserve. At March 31, 1976, the Bank's total borrowings, principally from the Government, amounted to \$9.5 billion, compared to the Bank's borrowing authority at that date of \$14.4 billion. At March 31, 1976, the Bank's reserve for loan losses totaled \$261.0 million, while the amount of loans written off during the five years ended March 31, 1976 totaled \$1.3 million. For the fiscal year ended March 31, 1976, the Bank recorded net earnings of \$105.7 million. The Bank has operated at a profit and has made payments to the Japanese National Treasury out of its net earnings in every year since its establishment.

Under the JDB Law, the Bank must fix its interest rates and guarantee fees on a basis such that the Bank's revenues will cover all of its expenditures and losses. The Bank makes its own decisions on loans and loan terms and satisfies itself that there are reasonable assurances of repayment. As a matter of policy, the Bank makes its loans at rates no higher than the rates charged by private financial institutions and in most cases at lower rates. Most of the Bank's loans are made in cooperation with private financial institutions.

In its early years, the Bank's lending activities were directed primarily toward basic industries such as electric power, ocean shipping, coal mining and the iron and steel industry. In the late 1960's and early 1970's, reflecting Japan's achievement of a high level of industrial development, the Bank began to direct its lending activities toward projects such as urban and regional development and pollution prevention. In addition, the Bank has guaranteed foreign currency indebtedness incurred by Japanese corporations in connection with the procurement of plant and equipment, principally from foreign sources.

JAPAN

Japan is a mountainous island country in the western Pacific, with a population of 112 million. Japan has a parliamentary form of government based upon a constitution which became effective May 3, 1947. The ruling Liberal Democratic Party has remained in power since 1955 and presently holds 56% of the seats in the House of Representatives and a narrow majority in the House of Councillors.

Gross national product at constant prices increased at compound annual growth rates of 8.1% and 4.7% for the ten and five year periods, respectively, ending JFY 1975. These rates of growth surpassed those of any other developed country and were due in part to the high level of savings and investment in both the private and public sectors. The percentage of gross domestic investment to gross national product averaged 37% during the ten year period. Gross national product at current prices for JFY 1975 was \$484.1 billion, ranking third after the United States and the Soviet Union.

Japan has achieved its economic success in spite of limited domestic supplies of most of the natural resources required for an industrialized economy. As a leading trading nation, Japan has been able to secure and develop foreign markets for its manufactured products and earn enough foreign exchange to purchase industrial raw materials. During 1975, exports and imports totaled \$54.7 billion and \$49.7 billion, respectively, each accounting for approximately 12% and 11% of gross national product, respectively. Japan's \$5.0 billion surplus in its balance of trade for 1975 was due in part to a decreased volume of imports. Although the basic balance of payments, which had been in surplus prior to 1973, recorded a record deficit of \$9.9 billion in 1973, this deficit was reduced to \$1.0 billion by 1975. As of June 30, 1976, Japan's official foreign exchange reserves totaled \$15.4 billion.

In the latter part of 1973, Japan's economy was adversely affected by unexpected price increases for a number of raw materials, particularly crude oil, over 99% of which is imported. As a result, during the first half of 1974, Japan's balance of trade recorded a deficit, and the domestic rate of inflation increased substantially. The Government responded with a series of measures which were successful in curtailing domestic demand, but which resulted in a 0.2% decrease in gross national product at constant prices during JFY 1974. In response to the easing of inflation in 1975 and an accompanying decline in economic activity, the Government adopted a series of budgetary, monetary and other measures designed to initiate a moderate economic recovery. There is evidence of such a recovery, and in JFY 1975 gross national product at constant prices registered a 3.1% increase over JFY 1974.

APPLICATION OF PROCEEDS

The net proceeds from the sale of the Bank's 8¼% Guaranteed Notes Due July 15, 1981 (the "Notes") will be converted into yen and will be used by the Bank to make loans in Japan. See discussion of the Bank's lending operations under "Business—Loan Operations" in the portion of the Prospectus relating to The Japan Development Bank.

THE ISSUE IN BRIEF

THE OFFERING

Issuer:	The Japan Development Bank
Guarantor:	Japan
Securities:	\$100,000,000 8¼% Guaranteed Notes Due July 15, 1981
Redemption:	Non-redeemable prior to maturity
Proposed Listing:	New York Stock Exchange
Application of Proceeds:	Conversion into yen to make loans in Japan

THE JAPAN DEVELOPMENT BANK

(dollar amounts in thousands)

	Fiscal Years ended March 31,	
	1975	1976
Operating Earnings	\$619,718	\$729,604
Interest Expense	482,315	578,565
Net Earnings	91,987	105,653
Earnings Added to Statutory Reserve	68,419	78,907
	<u>March 31, 1976</u>	
Loans Outstanding (including undisbursed balance)	<u>\$11,272,490</u>	
Borrowings (including the Notes offered hereby)	\$ 9,581,623	87.0%
Capital and Statutory Reserve	1,437,056	13.0
Total Capitalization	<u>\$11,018,679</u>	<u>100.0%</u>

JAPAN

(dollar amounts in millions)

The Economy

	JFY 1973	JFY 1974	JFY 1975
Gross National Product (current prices)	\$375,339	\$442,660	\$484,066 (provisional)
% change (current prices) from prior year	22.0%	17.9%	9.4%
% change (constant prices) from prior year	6.4%	(0.2)%	3.1%
Wholesale Price Index (calendar 1970=100) ...	125.4	154.8	158.1
Consumer Price Index (calendar 1970=100) ...	131.0	159.6	176.2

Balance of Payments

	1973	1974	1975
Exports (f.o.b.)	\$ 36,264	\$ 54,480	\$ 54,734
Imports (f.o.b.)	(32,576)	(53,044)	(49,706)
Trade Balance	3,688	1,436	5,028
Current Balance	(136)	(4,693)	(682)
Basic Balance	(9,886)	(8,574)	(954)
Foreign Exchange Reserves (end of period)	12,246	13,519	12,815

Government Finance

	JFY 1975 Budget	JFY 1976 Budget
General Account		
Total Revenues	\$67,653	\$78,883
(Revenues derived from Public Bonds) (17,792) (23,620)*		
Total Expenditures	67,653	78,883

Public Debt

	March 31, 1976
Direct and Guaranteed Funded Debt	
Internal	\$60,411
External	2,127
Total	<u>\$62,538**</u>

* Includes bonds the issuance of which is subject to Diet approval. See "Government Finance—Revenues, Expenditures and Budgets".

** Does not include obligations described under "Japan Public Debt—Miscellaneous Obligations".

The above summary is qualified in its entirety by the detailed information and financial statements appearing elsewhere in the Prospectus.

THE JAPAN DEVELOPMENT BANK

CAPITALIZATION

The capitalization of the Bank as of March 31, 1976, as adjusted to give effect to the sale of the principal amount of the Notes offered hereby, is as follows:

	(in millions of yen)	(in thousands of dollars)
Long-term borrowings from the Government:		
Trust Fund Bureau 6.2%-8.7% loans due 1976 to 1991	¥2,848,851	\$ 9,249,516
Industrial Investment Special Account 6.5%-7.5% loans due 1979 to 1983	15,152	49,195
Total borrowings from the Government	2,864,003	9,298,711
Guaranteed long-term borrowings from the International Bank for Reconstruction and Development ("World Bank") (1):		
5¾%-5¾% U. S. dollar obligations due 1983 (\$30,887)	9,417	30,575
5¾%-5¾% other foreign currency obligations due 1981 to 1983 ..	7,588	24,636
Total borrowings from the World Bank	17,005	55,211
Guaranteed external loan bonds and notes(1):		
Dollar obligations		
6% Guaranteed External Loan Bonds Due 1976 (\$2,397) ...	730	2,371
6% Guaranteed External Loan Bonds Due 1977 (\$4,050) ...	1,235	4,009
6% Guaranteed External Loan Bonds Due 1978 (\$6,054) ...	1,846	5,993
5¾% Guaranteed External Loan Bonds Due 1979 (\$8,380) ..	2,555	8,296
8½% Guaranteed Notes Due March 15, 1980 (\$50,000)	14,260	46,298
6½% Guaranteed External Loan Bonds Due 1980 (\$9,870) ..	3,009	9,771
8¼% Guaranteed Notes Due 1981 offered hereby (\$100,000)	30,800	100,000
Swiss franc obligation		
5¾% Guaranteed External Loan Bonds Due 1985	3,977	12,912
Deutsche mark obligation		
7¼% Guaranteed External Loan Bonds Due 1983	11,720	38,051
Total external loan bonds and notes	70,132	227,701
Total long-term borrowings(2)	2,951,140	9,581,623
Capital and statutory reserve:		
Capital	233,971	759,646
Statutory reserve	208,642	677,410
Total capital and statutory reserve	442,613	1,437,056
Total capitalization	¥3,393,753	\$11,018,679

(1) The actual dollar amounts of obligations are set forth in parentheses (in thousands of dollars) for dollar borrowings.

(2) The amounts shown under long-term borrowings include current maturities and sinking fund payments. The Bank had contingent liabilities in the aggregate amount of ¥362,801 million (\$1,177,924 thousand) under outstanding guarantees of foreign currency indebtedness, principally in dollars, incurred by Japanese companies and with respect to special payments to the Government.

Total borrowings from the Government, translated into dollars using the exchange rate in effect in New York City on March 31, 1976, were \$9,561,337 thousand. Total guaranteed borrowings from the World Bank and guaranteed external loan bonds and notes, translated into dollars and retranslated into yen at rates in effect in New York City on March 31, 1976 were \$299,346 thousand and ¥89,666 million, respectively.

For more detailed information see Notes 4 and 8 of "Notes to Financial Statements".

STATEMENT OF EARNINGS

In preparing the following statement of earnings for purposes of this Prospectus certain changes in classification and form of presentation have been made from the statements of earnings appearing in the annual reports of the Bank. See "Report of Board of Audit" elsewhere herein. This statement should be read in conjunction with the other financial statements and "Notes to Financial Statements" included in this Prospectus.

	Fiscal Years ended March 31,					1976 (in thousands of dollars)
	1972	1973	1974	1975	1976	
	(in millions of yen)					
Operating Earnings(A) :						
Interest on loans in Japanese currency	¥128,866	¥143,049	¥163,641	¥188,443	¥222,423	\$722,153
Interest on loans in foreign currencies	2,608	1,846	1,521	1,390	1,136	3,688
Commission on guarantees of credit	389	422	436	458	512	1,662
Income on Government securities	140	247	1,173	582	647	2,101
Total Operating Earnings	132,003	145,564	166,771	190,873	224,718	729,604
Interest Expense(B) :						
On borrowings from the Government	91,146	106,686	124,733	146,023	174,793	567,509
On borrowings from the World Bank	2,355	1,755	1,447	1,323	1,081	3,511
On external loan bonds and notes	1,614	1,253	1,117	1,207	2,324	7,545
Total Interest Expense	95,115	109,694	127,297	148,553	178,198	578,565
Earnings before Administrative and Other Expenses	36,888	35,870	39,474	42,320	46,520	151,039
Administrative and Other Expenses:						
Salaries and related expenses	2,687	3,005	3,731	5,076	5,826	18,916
Other administrative expenses	1,369	1,507	1,693	2,090	2,344	7,610
Depreciation	224	220	244	238	225	730
Other (income) and expenses—net(C)	(3,890)	(85)	(308)	(275)	(215)	(618)
Total Administrative and Other Expenses ..	390	4,647	5,360	7,129	8,180	26,558
Earnings before Provision for Possible Loan Losses	36,498	31,223	34,114	35,191	38,340	124,481
Provision for Possible Loan Losses(D)	5,010	5,644	7,320	6,859	5,799	18,828
Net Earnings(E)	¥ 31,484	¥ 25,579	¥ 26,794	¥ 28,332	¥ 32,541	\$105,653
For addition to Statutory Reserve	¥ 14,483	¥ 16,270	¥ 18,466	¥ 21,073	¥ 24,303	\$ 78,907
For payment to National Treasury	17,001	9,309	8,328	7,259	8,238	26,746
	¥ 31,484	¥ 25,579	¥ 26,794	¥ 28,332	¥ 32,541	\$105,653

(A) Effective April 1, 1967, the Bank adopted the policy of recording interest on loans on an accrual basis; formerly interest was recognized on a cash basis. In accordance with the Cabinet Order and regulations thereunder applicable to the Bank, the effect of the change was recognized incrementally over the five years ending March 31, 1972. Had the accrual basis been adopted completely on April 1, 1967, net earnings for the fiscal year ended March 31, 1972 would have been ¥28,435 million.

(B) Interest expense is charged on an accrual basis.

(C) As of March 31, 1972, the Bank adjusted its foreign currency obligations (primarily in dollars) to a rate of ¥304.9 to the dollar, causing a credit to "Other (income) and expenses—net" of ¥3,493 million in the fiscal year ended March 31, 1972. See Note 4 of "Notes to Financial Statements".

(D) See Note 5 of "Notes to Financial Statements".

(E) The Bank is required to pay to the Japanese National Treasury all net earnings in excess of the amount required to be added to the Statutory Reserve, as described in Note 7 of "Notes to Financial Statements". The Bank is exempt from taxes including income taxes, except that it is subject to certain local assessments.

The increases in "Total Operating Earnings" over the periods presented are attributable to the combined effects of increases in lending rates and in the overall size of the Bank's loan portfolio. Total interest expense has increased due to higher interest rates and increases in the amount of borrowed funds. Notwithstanding the favorable effect on net earnings of the incremental adoption of the accrual basis for recognition of interest on loans for the year ended March 31, 1972 (as explained in Note A to the "Statement of Earnings") and the extraordinary adjustment in 1972 of foreign currency obligations (as explained in Note C to the "Statement of Earnings"), "Net Earnings" as a percent of "Total Operating Earnings" has declined compared to the prior year in each year presented because interest expense has increased at a greater rate than operating earnings.

The annual interest requirement on the Notes offered hereby is \$8,250,000.

BUSINESS

Purpose and Authority

The Japan Development Bank was established on April 20, 1951, pursuant to The Japan Development Bank Law, "to supplement and encourage the credit operation of ordinary financial institutions by supplying long-term funds in order to promote economic reconstruction and industrial development". In June 1972, reflecting a fundamental change in Government policy which had been evolving over a period of years, the Bank's purpose in supplying long-term funds was changed from the promotion of "economic reconstruction and industrial development" to "industrial development and economic and social progress". This change in the Bank's purpose reflects the fact that Japan, having achieved a high degree of industrial development, is in the process of changing its national priorities.

As amended from time to time, the JDB Law and the Bank's Articles of Incorporation (the "Articles") authorize the Bank to carry on certain specific types of financial operations. The Bank's principal authority is to make loans to provide funds ("Development Funds") (i) for the acquisition and construction of new plant and equipment (including aircraft, ships and rolling stock) or the improvement of existing plant and equipment, where such acquisition or improvement will contribute to industrial development and economic and social progress; (ii) for the reclamation of land for similar purposes; and (iii) for the acquisition of land and construction of buildings and equipment for urban redevelopment projects not primarily designed for housing purposes. Most of the Bank's activities have been carried out pursuant to this authority. A related authority (which the Bank has not as yet exercised) permits the Bank to provide Development Funds by subscription to corporate debentures issued for the acquisition of Development Funds for the above purposes. The Bank has authority (which it has not exercised since 1963) to make loans to industry for the repayment of Development Fund loans previously obtained from private financial institutions. The Bank is also authorized to guarantee the repayment of Development Fund loans or credits. Since 1972, the Bank has had authority (which it has not as yet exercised) to make equity investments in large-scale industrial complexes in underdeveloped regions in Japan.

The JDB Law and the Articles specify that all loans and guarantees extended by the Bank and all debentures subscribed to by the Bank shall have an original maturity of not less than one year and that the Bank shall not compete with private financial institutions in conducting its business.

Since 1951, the JDB Law has been amended on several occasions, generally in order to strengthen and broaden the scope of the Bank's operations in response to changing social and economic conditions. In June 1972, the Bank's borrowing authority was increased from six times to ten times its capital and statutory reserve. The Bank's total investment, loan and guarantee authority is limited to the sum of its borrowing authority and capital and statutory reserve.

Government Control and Supervision

The Bank's capital is wholly owned by the Government, and the Bank is subject in a number of respects to control and supervision by the Government. As indicated under "Sources of Funds", the most important source of the Bank's funds is Government loans. Accordingly, the Government's determination in each fiscal year as to the amount to be loaned to the Bank is the major factor in determining

the aggregate amount of Japanese currency which the Bank will be able to lend. For each fiscal year, the Minister of Finance draws up a "Fiscal Investment and Loan Program" by which the Government determines the allocation of Government funds to be made on a long-term basis (five years or more) among certain Government agencies, including the Bank, which are engaged in development financing and public works and services. Such allocation is then included in the Government Special Accounts Budget for the fiscal year. See "Government Finance" in the portion of the Prospectus relating to Japan. In addition, the budget of revenues and expenditures of the Bank is included in the Government Agencies Budget for each fiscal year. Each year these budgets are subject to approval by the Diet.

Prior to JFY 1972, the Economic Planning Agency prepared, and the Cabinet adopted, each year a Basic Policy outlining objectives to be pursued by Government agencies. Starting in JFY 1972, an annual Basic Policy has been prepared and adopted specifically for the Bank. This Basic Policy is project-oriented and for JFY 1976 describes in broad terms the following principal project areas for the Bank's activities: (i) urban development and modernization of the merchandise distribution system; (ii) regional development; (iii) improvement of the quality of life, primarily through pollution prevention and safety measures; (iv) development of stable supplies and efficient utilization of energy and resources; (v) development of the ocean shipping industry; and (vi) development of technology and promotion of knowledge-intensive industries such as computers and electronics.

The Minister of Finance is given supervisory powers with regard to the Bank and may require the Bank to make reports as to its operations or may examine the Bank's books and records at any time. On the basis of any such reports or examination, the Minister may issue to the Bank such orders concerning its business as he deems necessary for the enforcement of the JDB Law. To the extent that the Bank engages in foreign currency lending and foreign credit guarantee operations, such operations are subject to approval by the Minister of Finance under laws and regulations relating to foreign exchange controls.

As indicated under "Management", the Governor, Deputy Governor and Auditors of the Bank are appointed by the Prime Minister. The Board of Audit, an independent body created by the Constitution of Japan, also has certain supervisory functions. See "Board of Audit".

Loan Operations

In its early years, the Bank's lending activities were directed primarily to the assistance of the electric power, ocean shipping, coal mining and iron and steel industries. In the late 1960's and early 1970's, reflecting Japan's achievement of a high level of industrial development, the Bank began to direct its lending activities toward projects more characteristic of a highly developed economy, such as urban development and pollution control. This evolution in the nature of the Bank's lending activities was formalized in 1972 in amendments to the JDB Law described under "Purpose and Authority".

The following table sets forth, as of the ends of the periods indicated, the total amount of loans outstanding for various categories of industries classified in accordance with the Bank's historical system of classification by industry:

	LOANS OUTSTANDING BY INDUSTRY							
	Fiscal Years ended March 31,							
	1967	1972	1973	1974	1975	1976		
	(in billions of yen)					(in millions of dollars)		(as % of total)
Electric Power	¥ 385	¥ 407	¥ 430	¥ 461	¥ 508	¥ 581	\$ 1,836	16.7%
Transportation	394	872	976	1,070	1,120	1,154	3,748	33.3
Mining	91	90	85	83	80	81	262	2.3
Metal	54	89	101	127	161	215	698	6.2
Chemical	67	120	124	128	180	230	746	6.6
Machinery	44	84	86	102	119	150	424	3.8
Agriculture, Forestry and Fishery	3	11	15	18	17	18	58	0.5
Textile	14	35	39	46	50	52	168	1.5
Other	104	361	468	603	776	1,011	3,280	29.1
Total	<u>¥1,156</u>	<u>¥2,069</u>	<u>¥2,324</u>	<u>¥2,638</u>	<u>¥3,011</u>	<u>¥3,472</u>	<u>\$11,272</u>	<u>100.0%</u>

The increase in the amounts classified as "Other" in the preceding table reflects the evolution of the Bank's lending activities from industry orientation to project orientation. The following table sets forth, for the periods indicated, the total amount of loans outstanding for various categories of projects classified in accordance with the Bank's current system of classification:

LOANS OUTSTANDING BY PROJECT

	Fiscal Years ended March 31,					1976	
	1972	1973	1974	1975	(in millions of dollars)		(as % of total)
	(in billions of yen)						
LOANS IN YEN							
Urban Development							
Redevelopment of large city areas	¥ 167	¥ 222	¥ 301	¥ 383	¥ 483	\$ 1,568	13.9%
Modernization of merchandise distribution ..	52	61	72	86	105	340	3.0
Sub-total	219	283	373	469	588	1,908	16.9
Regional Development	235	272	312	369	435	1,412	12.5
Improvement of the Quality of Life							
Pollution prevention ...	32	73	145	300	492	1,597	14.2
Safety measures	—	—	—	5	14	47	0.4
City gas	4	16	29	38	54	176	1.6
Food supply	12	20	27	30	29	94	0.8
Sub-total	48	109	201	373	589	1,914	17.0
Resources and Energy							
Electric power	349	356	371	389	398	1,291	11.5
Petroleum	69	82	103	119	131	426	3.8
Efficient utilization of resources and energy ..	0	0	0	4	16	51	0.4
Sub-total	418	438	474	512	545	1,768	15.7
Ocean Shipping	670	743	771	772	750	2,434	21.6
Development of Technology	174	184	203	223	265	861	7.6
Other	270	266	280	273	283	920	8.2
Total	2,034	2,295	2,614	2,991	3,455	11,217	99.5
LOANS IN FOREIGN CURRENCIES							
Total Loans Outstanding	35	29	24	20	17	55	0.5
Total Loans Outstanding	¥2,069	¥2,324	¥2,638	¥3,011	¥3,472	\$11,272	100.0%

During the fiscal year ended March 31, 1976, total loans extended by the Bank increased 21% over the prior year. The following table sets forth the new loans by the Bank's current system of classification for the periods indicated:

NEW LOANS BY PROJECT

	Fiscal Years ended March 31,					
	1973	1974	1975	1976		
	(in billions of yen)			(in millions of dollars)		(as % of total)
Urban Development	¥ 73.8	¥100.9	¥109.3	¥139.0	\$ 451.2	18.1%
Regional Development	74.1	81.0	99.9	112.1	363.9	14.6
Improvement of the Quality of Life	64.6	97.8	182.7	235.5	764.7	30.7
Resources and Energy	45.3	64.8	64.8	69.5	225.5	9.1
Ocean Shipping	135.6	96.7	78.6	75.6	245.3	9.9
Development of Technology	40.3	57.1	62.9	87.5	284.2	11.4
Other	26.8	45.6	33.5	47.0	152.8	6.2
Total	¥460.5	¥543.9	¥631.7	¥766.2	\$2,487.6	100.0%

The loans for urban development consisted of loans to projects for the improvement of private railroads in large cities, urban development in large city areas and modernization of the merchandise distribution system. Improvement of private railroads was directed toward improvement of safety features as well as increasing capacity. Urban development (which was carried out by the financing of private developers) involved urban renewal in business districts, certain land development projects, provision of central air conditioning facilities for particular areas and construction of parking facilities, airport facilities and common tunnels for the distribution of electricity, gas and other utility services. Modernization of distribution systems was effected by financing the construction of merchandise distribution centers, warehouses, harbor-related facilities and other distribution facilities.

Projects included under the regional development category involved improvement of services and facilities in provincial city areas and the relocation of industries. In this latter area, the Bank endeavored to encourage the relocation of industries to underdeveloped areas, as well as to encourage the establishment of industries to take advantage of particular local resources. Other projects included in regional development were parking facilities, hotels, distribution centers, truck terminals, warehouses, silos, harbor facilities and ferry boats.

Nearly 87% of the loan amount under the category improvement of the quality of life was allocated to various pollution control and prevention projects required by law or necessary to conform to environmental standards. The balance of this project category consisted of loans for safety facilities for public buildings and factories, liquefied natural gas (LNG) processing and storage facilities, urban gas distribution and projects relating to food supply.

Resources and energy projects were related primarily to nuclear power facilities, petroleum industry facilities and facilities for the efficient utilization of resources and energy. Such projects included the construction of nuclear power generating plants. Petroleum industry loans were mainly for the construction of refineries and distribution systems by independent domestic oil companies, for the construction of crude oil storage facilities and for facilities related to the development of the oil resources of Japan's continental shelf. Loans for efficient utilization of resources and energy were mainly for heat conservation and recovery and waste recycling projects.

The Bank has for many years been a significant lender to the ocean shipping industry in order to assist it in meeting Government objectives for the construction of new vessels. During the fiscal year ended March 31, 1976, the Bank continued to make loans to this industry. However, such new loans have significantly declined over the past three years as shipowners in general, affected by the recession following the oil crisis and by continuing excess capacity, have been forced to postpone or cancel planned investment in new vessels, particularly in the tanker segment of the industry. The Bank believes that its loans to that industry, taken as a whole, are adequately protected, and it does not believe that any losses in respect of such loans would be material to the Bank.

The Bank's role in the area of technological development consisted of lending for projects related to leasing domestically produced electronic computers, developing domestic technology and increasing the use of high technology in certain lines of business of the electronic and machinery industries. Specific projects included development of pollution control technology, more efficient automobile engines and other resource conservation technology.

Other general areas to which the Bank's loans were related included decentralization of industrial plants to remedy over-congestion in large cities and promote optimum location of industries, improvement of drug manufacturing processes and development of ocean resources.

Guarantee Operations

The Bank also has the authority to guarantee borrowings incurred for purposes consistent with those of the Bank. The Bank has limited the use of its guarantee power to foreign currency indebtedness incurred by Japanese companies in connection with purchases by them of plant and equipment, prin-

cipally from foreign sources. Guarantees have been issued both to guarantee the payment of principal and interest on borrowings by Japanese companies from foreign banks (principally the Export-Import Bank of the United States) and on long-term credits from foreign suppliers. Of total guarantees outstanding at March 31, 1976, 63% consisted of guarantees issued with respect to indebtedness incurred by five electric power companies, primarily for nuclear power equipment, and 36% consisted of guarantees issued with respect to indebtedness incurred by two air transportation companies. The remaining 1% consisted of the guarantee of borrowings by a company in the computer industry.

The following table sets forth, as of the end of the periods indicated, the amount of guarantees outstanding:

GUARANTEES OUTSTANDING						
Fiscal Years ended March 31,						
1967	1972	1973	1974	1975	1976	
(in billions of yen)					(in millions of dollars)	
¥144	¥270	¥337	¥301	¥302	¥340	\$1,105

The Bank's new guarantee activities vary from year to year depending upon economic factors such as Japan's balance of payments position and the amount of foreign currency funds which may be available to Japanese companies from other sources.

Loan and Guarantee Terms

The JDB Law and the Articles provide that (i) interest rates and guarantee charges shall be fixed "in consideration of the interest rates and guarantee charges of ordinary banks" on a basis such that the Bank's revenues will cover its expenditures and losses and (ii) loans and guarantees shall be extended by the Bank only if the credit is deemed "reliable". Accordingly, the Bank carefully investigates the financial position of each prospective borrower and the technical aspects of the project to be financed, and a loan or guarantee is extended only if there is reasonable assurance of repayment. As a matter of policy, the Bank makes its loans at fixed rates no greater than the rates charged by private financial institutions and in most cases at lower rates.

The Bank itself determines the interest rates, maturities, loan participation percentages, security and other terms on which it lends its funds or extends its guarantees. A maximum interest rate is set from time to time by the Governor of the Bank after taking into consideration general monetary conditions. This rate generally corresponds to the rate for borrowers of the highest credit standing from private banks and other institutions extending long-term loans. The maximum rate has been 9.2% since November 1975. The minimum rate is the Bank's borrowing rate from the Government, which has been 7.5% since December 1975. The actual interest rate charged on a loan depends on the nature of the project to be financed. All of the Bank's loan agreements covering its Japanese currency loans provide that the Bank may change the interest rates payable under such agreements in light of the general money and banking situation. However, the Bank's policy is not to change the rate of interest on its outstanding loans.

The Bank has limited its foreign currency loans to the amount of borrowings the Bank has made from the International Bank for Reconstruction and Development ("World Bank") and has followed the practice of charging the same interest rates as the rates charged by the World Bank to the Bank, plus 0.3% per annum. For its foreign credit guarantees the Bank charges 0.2% or 0.3% per annum on the outstanding principal amount of such guarantees.

The Bank is required by law to make loans with an original maturity of at least one year and, in practice, makes most of its loans with an original maturity of 10 to 15 years. Most of the Bank's lending operations involve the financing of projects in cooperation with private financial institutions, with

the Bank taking the intermediate and longer maturities and private banks taking the shorter maturities. The Bank requires a mortgage or collateral agreement on all of its loans. The Bank's participation in any one project averaged about 35% of the total cost of the project for loans originated during the five fiscal years ended March 31, 1976.

The following table sets forth information concerning the maturities of the Bank's outstanding yen loans:

YEN LOANS OUTSTANDING
(as of March 31, 1976)

<u>Remaining Term to Maturity</u>	<u>(in billions of yen)</u>	<u>(in millions of dollars)</u>	<u>(as % of total)</u>
Less than 5 years	¥ 625	\$ 2,028	18.1%
From 5 to less than 10 years	1,719	5,582	49.8
From 10 to less than 15 years	599	1,944	17.3
From 15 to less than 20 years	473	1,537	13.7
20 years or more	39	126	1.1
Total	<u>¥3,455</u>	<u>\$11,217</u>	<u>100.0%</u>

Reserve for Loan Losses and Loans in Arrears

The Bank provides a reserve for loan losses pursuant to an ordinance of the Minister of Finance. See Note 5 of "Notes to Financial Statements" for a more complete description of the manner in which this provision is determined. As of March 31, 1976, the reserve totaled ¥80,382 million (\$260,981 thousand) or 2.35% of the total loans outstanding at that date.

In cases where borrowers are unable to meet interest, installment or maturity payments on their loans, the Bank, when it considers it to be appropriate, cooperates with the borrowers and other banks in revising the borrowers' business plans and in revising the terms of the Bank's loans in order to improve the borrowers' ability to make repayment. However, when a default occurs in payment of principal or interest, the Bank considers the related loan to be in arrears immediately to the extent of such default. Although the Bank has the right to accelerate the maturity of the outstanding balances of such loans, in practice it has done so only in cases where the borrower has applied for bankruptcy or reorganization in a court proceeding, and accordingly, in ordinary cases, arrearages continue to increase as defaults occur on further payments unless the defaulted loan is subsequently renegotiated or written off.

As of March 31, 1976, principal payments aggregating ¥45,852 million (\$148,870 thousand) were in arrears representing 1.32% of the total loans outstanding. Nearly half of such arrearages reflected defaults in JFY 1975 on secured loans to an ocean shipping borrower which had applied to a court for reorganization. Over half of the remaining arrearages reflected defaults on loans to borrowers in the coal mining industry, and pursuant to special legislation most of these arrearages will be repaid by the Government. Aggregate principal payments in arrears at March 31, 1976 represented 57.0% of the reserve for possible loan losses.

In addition, at March 31, 1976 interest payments aggregating ¥2,776 million (\$9,013 thousand) were in arrears.

The Bank makes final write-offs of loan amounts due only after the exhaustion of all available remedies, including realization on any security. Write-offs are made at fiscal year ends and only with the approval of the Minister of Finance. The amount of loans written off during the five years ended March 31, 1976 was ¥402 million (\$1,305 thousand).

All amounts due to the Bank in foreign currency have been paid in accordance with the loan agreements.

Sources of Funds

The principal sources of funds for the Bank's lending operations are borrowings from the Government, repayments of loans and internal sources. See "Statement of Changes in Financial Position". Outstanding Government loans to the Bank amounted to ¥2,864,003 million (\$9,298,711 thousand) as of March 31, 1976. Within the authorization of the Special Accounts Budget, funds are available from the Government on short notice. The current borrowing rate from the Government is 7.5% (8.3% for certain regional development loans), and the term of such borrowings is 15 years.

Other sources of funds have consisted of borrowings in foreign currencies from the World Bank and issuances of external loan bonds and notes, all of which have been guaranteed by the Government. Borrowings from the World Bank have been reloaned in the currency and principal amount of the borrowing and with the same maturity. The last such borrowing was in 1961, and the outstanding amount of such borrowings as of March 31, 1976 was ¥17,005 million (\$55,211 thousand). There have been six dollar issues (including five registered issues publicly offered in the United States), one Swiss franc issue and one Deutsche mark issue of external loan bonds and notes, and the outstanding amount of such issues as of March 31, 1976 was ¥39,332 million (\$127,701 thousand). See Note 4 of "Notes to Financial Statements".

As indicated under "Purpose and Authority", the Bank is presently authorized to borrow an amount equal to ten times its capital and statutory reserve. As of March 31, 1976, the Bank's capital amounted to ¥233,971 million (\$759,646 thousand). The Bank's statutory reserve has been established under a provision of the JDB Law which requires the Bank to set aside as a reserve out of the net earnings of each fiscal year the greater of: (i) 20% of such earnings or (ii) 0.7% of the Bank's aggregate loans outstanding at the close of the fiscal year (but not in excess of such earnings). As of March 31, 1976, such reserve amounted to ¥208,642 million (\$677,410 thousand). Accordingly, the Bank's borrowing authority amounted to ¥4,426,133 million (\$14,370,563 thousand) compared to total borrowings at that date of ¥2,920,340 million (\$9,481,623 thousand).

PROPERTY

The main office building of the Bank is owned by the Bank and houses its executive offices and other Tokyo operations. The Bank occupies leased space under long-term agreements in nine cities in Japan, where it operates branches and representative offices, and in Washington, D. C., New York City, London and Frankfurt am Main, where it maintains representative offices.

EMPLOYEES

As of March 31, 1976, the Bank employed 1,058 persons of whom 704 were located at the Tokyo office. Over one-half of the Bank's employees are university graduates. Substantially all of the Bank's employees are members of an independent union, which has the exclusive right to represent such employees and the membership of which is limited to such employees.

The Bank provides housing, medical and other facilities, as well as certain welfare benefits, including lump sum retirement allowances.

MANAGEMENT

The Bank is managed by a Governor, a Deputy Governor and eight Executive Directors. In addition to these officers, the Bank has two Auditors and six Counsellors. The Governor, the Deputy Governor and the Auditors are appointed by the Prime Minister for terms of four years. The Executive Directors and Counsellors are appointed by the Governor for terms of four years and two years, respectively. These persons may be reappointed for successive terms of office.

The Governor is the Bank's chief executive officer, and the Deputy Governor is his alternate. The Executive Directors exercise various management functions in accordance with delegations from the Governor. The Governor, the Deputy Governor and the Executive Directors together comprise an administrative and executive board of the Bank, but final authority to make decisions for the Bank in all matters resides exclusively with the Governor.

The Auditors review the business of the Bank. The Counsellors advise the Governor of their views and opinions with regard to the business of the Bank and related matters.

The names of the Governor, the Deputy Governor, the Executive Directors, the Auditors and the Counsellors, and the principal affiliations of the Counsellors, are set forth below:

Governor

Eiichi Yoshioka

Deputy Governor

Takatomo Watanabe

Executive Directors

Jin Komiya	Executive Director in charge of Loan Department IV and Credit Analysis Department
Kiyoto Iwata	Executive Director in charge of Loan Department II and Accounting and Treasury Department
Kazuhiko Nomura	Executive Director in charge of Loan Department for Urban Development and of Library and Information Services
Reitaro Yonemoto	Executive Director in charge of Bureau for Regional Development (comprising Planning Department and Loan Department) and Systems Planning and Computer Services Department
Toshio Maruyama	Executive Director and General Manager of Osaka Branch
Masatoshi Kitamura	Executive Director in charge of Loan Department I and Economic and Industrial Research Department
Kenichi Azuma	Executive Director in charge of Loan Department III and General Services Department
Kenji Atsumi	Executive Director in charge of Programming and Coordination Department, Operations Planning Department and International Department

Auditors

Toshio Fujita

Chuichi Takemura

Counsellors

Shigeo Nagano	Director and Honorary Chairman, Nippon Steel Corporation
Kogoro Uemura	Honorary President, The Federation of Economic Organizations
Seiichi Tobata	Advisor, Institute of Developing Economies
Yoshiya Ariyoshi	Chairman, Nippon Yusen Kaisha, Ltd.
Saburo Okita	President, The Overseas Economic Cooperation Fund
Kiyoshi Nakatsukasa	Advisor, Kanegafuchi Chemical Industry Co., Ltd.

Mr. Yoshioka, who had been President of the Small Business Finance Corporation, and Mr. Watanabe, who had been Executive Director of The Bank of Japan, were appointed Governor and Deputy Governor, respectively, in April 1975. Mr. Azuma has been actively engaged in the business of the Bank since 1951, and Messrs. Komiya, Iwata, Maruyama and Fujita since early 1952. Mr. Nomura, appointed Executive Director in September 1973, had been Director General of the Maritime Safety Agency of the Ministry of Transportation and had held other administrative positions with that Ministry. Mr. Yonemoto, appointed Executive Director in November 1973, had been Chief of the Issue Department at The Bank of Japan and had held other positions with that institution. Mr. Kitamura, appointed Executive Director in August 1974, had been Deputy Director General of the Agency of Natural Resources and Energy at the Ministry of International Trade and Industry and had held other administrative positions with that Ministry. Mr. Atsumi, appointed Executive Director in December 1975, had been Director General of the Mint Bureau of the Ministry of Finance and had held other administrative positions with that Ministry. Mr. Takemura, appointed Auditor of the Bank in October 1974, had previously been Managing Director of the National Public Service Personnel Association, which position he had taken after occupying a series of positions at the Ministry of Finance.

During the fiscal year ended March 31, 1976, the aggregate direct remuneration received from the Bank by the Governor, Deputy Governor, Executive Directors, Auditors and Counsellors as a group was ¥146,007,300 (\$474,050).

BOARD OF AUDIT

The accounts of the Bank are not audited by independent public accountants as that term is understood in the United States but by the Board of Audit. The Board of Audit is a supervisory body created by the Constitution of Japan and organized under the Board of Audit Law of Japan. The final accounts of the Government and of the Government Agencies, which include the Bank, are audited annually by the Board of Audit, and the Audit Reports thereon are submitted to the Diet through the Cabinet. In addition, the JDB Law requires the Bank to prepare financial statements twice a year, to append an opinion of the Auditors of the Bank thereto and to submit them to the Minister of Finance. The Bank makes an annual report and a six month report available to the public.

The Bank's financial statements appearing in the Prospectus were prepared in accordance with accounting principles and procedures required by the JLB Law and regulations thereunder and other accounting principles and procedures generally followed by banks in Japan. Such principles and procedures differ in some respects from generally accepted accounting practices in the United States. The only difference which would materially affect the financial statements is the Bank's practice of recording a provision for possible loan losses based on a percentage of outstanding loans, subject to limitations established by the Minister of Finance. See Note 5 of "Notes to Financial Statements".

REPORT OF BOARD OF AUDIT

MR. EIICHI YOSHIOKA, *Governor*
THE JAPAN DEVELOPMENT BANK
9-1, Otemachi 1-Chome
Chiyoda-ku, Tokyo

We have audited the balance sheet of The Japan Development Bank as of March 31, 1975 and 1976 and the related statement of earnings for the five fiscal years ended March 31, 1976. Our audit was made in accordance with the Board of Audit Law and the regulations thereunder.

The accounting principles and procedures followed by The Japan Development Bank are in accordance with The Japan Development Bank Law and the regulations thereunder and with accounting principles and procedures generally followed by banks in Japan. The balance sheet as of March 31, 1975 and 1976 and the statement of earnings for the five fiscal years ended March 31, 1976 have been prepared in conformity with the aforesaid principles and procedures.

The accompanying balance sheet as of March 31, 1975 and 1976 and statements of earnings and of changes in financial position for the five fiscal years ended March 31, 1976 have been prepared by reclassifying the aforesaid financial statements. We have reviewed the reclassifications made in preparing the accompanying financial statements and, in our opinion, such statements as reclassified present fairly the financial position of The Japan Development Bank as of March 31, 1975 and 1976 and the results of its operations for the five fiscal years ended March 31, 1976 on a consistent basis except for the change in the method of recognizing interest income on loans, with which we concur, as more fully described in Note A to the statement of earnings.

HIDEO KAMADA
Secretary General
BOARD OF AUDIT, JAPAN

Tokyo, Japan 17, 1976

THE JAPAN DEVELOPMENT BANK

BALANCE SHEET

	March 31,		
	1975	1976	
	(in millions of yen)	(in thousands of dollars)	
ASSETS:			
Cash in banks	¥ 1,624	¥ 2,855	\$ 9,270
Government securities, at cost which approximates market (Note 2)	18,111	11,584	37,610
Loans in Japanese currency, including undisbursed balance (Notes 3 and 5)	2,990,779	3,454,922	11,217,279
Loans in foreign currencies (Notes 4 and 5)	19,689	17,005	55,211
Land, buildings and miscellaneous equipment, at cost	7,202	7,918	25,708
Accumulated depreciation	(2,276)	(2,468)	(8,013)
Accrued interest receivable	24,532	28,084	91,182
Other assets	1,139	916	2,974
Unamortized discount on external loan bonds	340	575	1,867
TOTAL ASSETS	<u>¥3,061,140</u>	<u>¥3,521,391</u>	<u>\$11,433,088</u>
LIABILITIES, RESERVES AND CAPITAL:			
Liabilities:			
Long-term borrowings (Note 4):			
From the Government, including borrowings due within one year	¥2,461,054	¥2,864,003	\$ 9,298,711
From the International Bank for Reconstruction and Development, including borrowings due within one year	19,689	17,005	55,211
External loan bonds and notes, including borrowings due within one year	29,793	39,332	127,701
Undisbursed balance of loans in Japanese currency (Note 3)	41,033	47,376	153,818
Accrued interest payable	9,378	22,098	71,747
Payable to the National Treasury (Note 7)	576	1,193	3,874
Other liabilities	6,724	7,389	23,989
TOTAL LIABILITIES	<u>2,568,247</u>	<u>2,998,396</u>	<u>9,735,051</u>
Reserve for possible loan losses (Note 5)	74,583	80,382	260,981
Capital and statutory reserve:			
Capital (Note 6)	233,971	233,971	759,646
Statutory reserve (Note 7)	184,339	208,642	677,410
TOTAL CAPITAL AND STATUTORY RESERVE	<u>418,310</u>	<u>442,613</u>	<u>1,437,056</u>
TOTAL LIABILITIES, RESERVES AND CAPITAL	<u>¥3,061,140</u>	<u>¥3,521,391</u>	<u>\$11,433,088</u>
(Contingent liabilities) (Note 8)	¥ 325,729	¥ 362,801	\$ 1,177,924

See "Notes to Financial Statements".

THE JAPAN DEVELOPMENT BANK
STATEMENT OF CHANGES IN FINANCIAL POSITION

	Fiscal Years ended March 31,					1976 (in thousands of dollars)
	1972	1973	1974	1975	1976	
	(in millions of yen)					
Funds Provided:						
Operations						
Net earnings	¥ 31,484	¥ 25,579	¥ 26,794	¥ 28,332	¥ 32,541	\$ 105,653
Accrued interest income	(17,265)	(19,268)	(23,528)	(24,510)	(27,621)	(89,679)
Collection of accrued interest income	11,975	17,246	19,354	23,509	24,048	78,078
Accrued interest expense	5,948	5,413	5,427	9,378	22,098	71,747
Provision of accrued interest expense	(6,384)	(5,948)	(5,413)	(5,428)	(9,378)	(30,448)
Reserve for possible loan losses	5,014	5,644	7,320	6,859	5,799	18,828
Depreciation and amortization of discount ..	344	312	317	297	312	1,013
Unrealized exchange gain on debt payable in foreign currencies	(3,493)	—	—	—	—	—
Other	64	91	4	(252)	(93)	(302)
Total Funds Provided by Operations ..	27,687	29,069	30,275	38,185	47,706	154,890
Borrowings	336,000	352,500	385,400	462,211	552,198	1,792,850
Loan principal collections	166,082	205,227	230,226	258,752	304,712	989,325
Collection of deferred interest receivable	1,251	1,201	1,201	1,459	1,766	5,734
Other	824	1,017	1,701	1,292	967	3,139
Total Funds Provided	¥531,844	¥589,014	¥648,803	¥761,899	¥907,349	\$2,945,938
Funds Used:						
Disbursement of loans	¥420,655	¥460,019	¥540,903	¥624,479	¥759,828	\$2,466,974
Repayment of borrowings	91,073	103,067	113,380	122,361	142,715	463,360
Special payments to the Government	1,251	1,201	1,201	1,201	1,721	5,588
Payment to the National Treasury	12,931	14,046	8,763	7,977	7,621	24,744
Other	868	401	306	873	760	2,467
Total Funds Used	¥526,778	¥578,734	¥664,553	¥756,891	¥912,645	\$2,963,133
Increase (decrease) in cash and Government securities	¥ 5,066	¥ 10,280	(¥ 15,750)	¥ 5,008	(¥ 5,296)	(\$ 17,195)

See "Notes to Financial Statements".

THE JAPAN DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS

1. Basis of Preparation of Financial Statements

The Bank's official annual financial statements are prepared in conformity with the JDB Law and the regulations thereunder and with accounting principles and procedures generally followed by banks in Japan. Except for the change in the method of recognizing interest income on loans as more fully described in Note A to the "Statement of Earnings", no changes have been made in these accounting principles and procedures.

In the preparation of financial statements for the purposes of the Prospectus, certain amounts have been reclassified and the form of presentation has been changed in certain respects, but no changes have been made in the accounting principles and procedures upon which the official financial statements and underlying records were based.

The principal reclassifications included:

(a) Eliminating the asset account for possible claims for the Bank's guarantees at March 31, 1975 and 1976 of ¥301,615 million and ¥340,408 million, respectively, and the contra liability account for guarantees in identical amounts; the amounts of contingent liability are set forth in Note 8.

(b) Transferring the balance sheet account for net profits in the following periods to "Statutory Reserve" and "Payable to the National Treasury" and offsetting such payables against the asset account for interim payments to the National Treasury as follows:

	Net Profit	Statutory Reserve	Payable to the National Treasury
	(in millions of yen)		
Year ended March 31, 1975	¥28,332	¥21,073	¥7,259
Year ended March 31, 1976	32,541	24,303	8,238

(c) Offsetting accounts related to deferred interest receivable from shipping companies with accounts related to the amounts payable to the Government and thereby reducing other assets and other liabilities by ¥47,293 million at March 31, 1975 and by ¥43,806 million at March 31, 1976.

(d) Eliminating deferred interest currently receivable from shipping companies and payable to the Government from interest income and expense.

Dollar amounts shown in the financial statements have been included solely for convenience and are stated, as a matter of arithmetical translation only, at the rate of ¥308 to \$1.00.

2. Government Securities

The weighted average interest rate on the Bank's Government securities was 6.84% at March 31, 1976. The interest on Government bonds is credited to earnings as "Income on Government Securities" on a cash basis. The effect of the departure from the accrual basis is not material. Under the JDB Law, the Bank may not make use of surplus cash funds except for the purchase of Government bonds, deposits with the Trust Fund Bureau and deposits with The Bank of Japan.

3. Loans

Loans in Japanese currency include undisbursed funds in an amount identical to that shown in "Undisbursed balance of loans in Japanese currency" included in liabilities.

THE JAPAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS—(Continued)

4. Long-term Borrowings

Long-term borrowings comprise:

	March 31,		
	1975 (in millions of yen)	1976 (in millions of yen)	(in thousands of dollars)
Long-term borrowings from the Government:			
Trust Fund Bureau—			
6.2% loans due 1987	¥ 337,500	¥ 337,500	\$1,095,779
6.5% loans due 1976 to 1988	1,319,908	1,183,451	3,842,373
6.75% loans due 1988	115,000	115,000	373,377
7.5% loans due 1989 to 1990	366,200	683,000	2,217,533
8.0% loans due 1990	243,200	394,600	1,281,169
8.2% loans due 1990	18,700	18,700	60,714
8.3% loans due 1991	—	43,500	141,234
8.6% loans due 1990	—	29,100	94,480
8.7% loans due 1990	44,000	44,000	142,857
Industrial Investment Special Account—			
4% loans due 1975	22	—	—
6.5% loans due 1983	4,700	4,700	15,260
6.7% loans due 1979 to 1980	6,156	5,492	17,831
7.5% loans due 1983	5,668	4,960	16,104
Total borrowings from the Government	<u>2,461,054</u>	<u>2,864,003</u>	<u>9,298,711</u>
Guaranteed long-term borrowings from the International Bank for Reconstruction and Development ("World Bank"), 5¾%-5¼% obligations due 1981 to 1983:			
U. S. dollars	9,893	9,417	30,575
Deutsche marks	3,818	2,137	6,938
Swiss francs	1,155	1,155	3,750
Indian rupees	1,893	1,893	6,146
Other foreign currencies	2,930	2,403	7,802
Total borrowings from the World Bank	<u>19,689</u>	<u>17,005</u>	<u>55,211</u>
Guaranteed external loan bonds and notes:			
Dollar obligations			
6% bonds due 1976	1,097	730	2,371
6% bonds due 1977	1,631	1,235	4,009
6% bonds due 1978	2,355	1,846	5,993
5¾% bonds due 1979	3,009	2,555	8,296
8½% notes due 1980	14,260	14,260	46,298
6½% bonds due 1980	3,464	3,009	9,771
Swiss franc obligation			
6¾% bonds due 1985	3,977	3,977	12,912
Deutsche mark obligation			
7¼% bond due 1983	—	11,720	38,051
Total external loan bonds and notes ..	<u>29,793</u>	<u>39,332</u>	<u>127,701</u>
Total long-term borrowings	<u>¥2,510,536</u>	<u>¥2,920,340</u>	<u>\$9,481,623</u>

THE JAPAN DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS—(Continued)

The aggregate annual maturities and sinking fund requirements of long-term borrowings outstanding as of March 31, 1976 were as follows:

<u>Fiscal Years ending March 31,</u>	<u>Japanese currency</u>	<u>Foreign currencies</u> (in millions of yen)	<u>Total</u>
1977	¥ 162,098	¥ 4,584	¥ 166,682
1978	212,677	5,220	217,897
1979	245,998	3,147	249,145
1980	277,936	18,253	296,189
1981	269,966	3,654	273,620
1982-1991	1,695,328	21,599	1,716,927

All borrowings from the International Bank for Reconstruction and Development are guaranteed by the Government and are repayable in foreign currencies. These borrowings have been concurrently loaned to Japanese companies in the same foreign currencies, and any profit or loss resulting from changes in the exchange rates of foreign currencies is for the account of such companies.

The external loan bonds and notes are also guaranteed by the Government and are repayable in foreign currencies. The proceeds from these bonds and notes were converted into yen and loaned to Japanese companies. Any profit or loss resulting from changes in the exchange rates of foreign currencies is for the account of the Bank. The Bank has followed the practice of initially recording foreign currency obligations at the exchange rate in effect at the time of conversion and has made adjustments, by a charge or credit to net earnings, for changes in the central exchange rates. Following the establishment of the new central rate of ¥308=\$1.00, which was communicated to the IMF on December 19, 1971, the Bank adjusted its foreign currency obligations contracted for prior to October 1, 1972 to the Telegraphic Transfer Selling rates in effect on March 31, 1972. Such rate for dollars on that date was ¥304.9=\$1.00. For borrowings contracted for on and after October 1, 1972 the Telegraphic Transfer Selling rate in effect on the date of each contract has been used to express yen amounts.

5. Reserve for Possible Loan Losses

A provision for possible loan losses is made in each fiscal year in order to adjust the reserve for possible loan losses to an amount determined to be adequate by the Bank, subject to limitations established by an ordinance of the Minister of Finance. Until April 1, 1975, the Ministry ordinance permitted the Bank to hold a reserve for possible loan losses in an amount up to 3% of the outstanding loans (excluding undisbursed loans) at the end of each fiscal year. For the fiscal year ended March 31, 1976, the Ministry ordinance was revised so that the maximum permissible reserve was an amount equal to (i) the amount of the reserve as of March 31, 1975 less loans written off during the fiscal year ended March 31, 1976 plus (ii) 1.8% of the increase in outstanding loans (excluding undisbursed loans) during the fiscal year. For the fiscal year ending March 31, 1977, the 1.8% factor will be reduced to 1.6%. The amount of the reserve at fiscal year end as a percentage of loans then outstanding for each of the five years ended March 31, 1976 was as follows:

<u>March 31,</u>	
1972	2.71%
1973	2.65
1974	2.62
1975	2.51
1976	2.35

THE JAPAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS—(Continued)

Loans are written off at the end of a fiscal year with the approval of the Minister of Finance and for the five years ended March 31, 1976 were as follows:

Fiscal Years ended March 31,	(in millions of yen)
1972	¥ 2
1973	—
1974	—
1975	400
1976	—

6. Capital

As set forth in the JDB Law, the capital of the Bank is ¥233,971 million. The Government is the sole owner of the equity interest, which is not evidenced by documents such as stock certificates, but is evidenced at the Registration Office of the Legal Affairs Bureau of Japan.

Capital has been provided as follows:

	(in millions of yen)
Cash contributions	¥ 30,000
Contributions of other assets, principally loans in connection with taking over the operations of:	
The Reconversion Finance Bank	85,220
United States Aid Counterpart Fund Special Account	132,804
Less—Reduction in connection with the transfer of certain operations to the Agriculture, Forestry and Fishery Finance Corporation, the Small Business Finance Corporation and Electric Power Development Company	(14,053)
Total Capital	¥233,971

7. Statutory Reserve

In accordance with the provisions of the JDB Law, the Bank each year must provide out of net earnings, as a reserve, the larger of (i) an amount equivalent to 20% of net earnings or (ii) an amount equivalent to 0.7% of loans outstanding at the end of the fiscal year (if this amount is in excess of the amount of net earnings for the year, then the amount of such net earnings). The reserve so provided may only be used to cover net losses. The balance of the net earnings remaining each year, after provision for this reserve, is to be paid to the National Treasury of Japan by May 31 of the following fiscal year. Interim payments are provided for under the Cabinet Order. The account titled "Payable to the National Treasury" represents the amount payable to the National Treasury for the fiscal year

THE JAPAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS—(Concluded)

less the semi-annual interim payment made during the fiscal year and is to be settled on May 31 of the following fiscal year. Except for ¥3,730 million taken over from the Reconversion Finance Bank, the Statutory Reserve represents additions of reserved net earnings.

8. Contingent Liabilities

Contingent liabilities consist of outstanding guarantees of foreign currency indebtedness, principally in dollars, incurred by Japanese companies, and special payments to the Government.

(a) The outstanding amounts of guaranteed obligations were ¥301,615 million and ¥340,408 million (*\$1,105,219 thousand*) at March 31, 1975 and 1976, respectively, and will mature as follows:

Fiscal Years ending March 31,	(in millions of yen)
1977	¥ 33,865
1978	41,939
1979	39,824
1980	39,369
1981	29,667
thereafter	155,744
Total	¥340,408

Translations of foreign currency guarantee amounts into yen amounts on contracts entered into prior to October 1, 1972 have been made at ¥304.9=\$1.00, the Telegraphic Transfer Selling rate on March 31, 1972. On and after October 1, 1972 the Telegraphic Transfer Selling rate in effect on the date of each contract has been used to express yen amounts.

(b) The outstanding amounts of special payments to the Government were ¥24,114 million and ¥22,393 million (*\$72,705 thousand*) at March 31, 1975 and 1976, respectively. Under the provisions of the Law for Temporary Measures Concerning Consolidation of the Shipping Industry of July 1, 1963, qualifying ocean shipping companies were permitted to defer the payment of interest (accruing during a period of five years from the date of qualification) on the Bank's loans made prior to March 31, 1962. In lieu thereof, the Bank received payments from the Government in an amount equivalent to the deferred interest. Deferred interest unpaid at the end of the fifth year by the qualifying ocean shipping companies was payable annually to the Bank during the succeeding fifteen years. The Bank is required to pay to the Government the amount equivalent to the deferred interest due and payable to the Bank, which the Bank carries as "Special payments to the Government".

JAPAN

GENERAL

Area, Location and Population

The Japanese Archipelago consists of about 3,900 islands which form part of a long chain of mountainous islands in the western Pacific. The four main islands (Hokkaido, Honshu, Kyushu and Shikoku) cover the same approximate range of latitude and the same general range of climate as the east coast of the United States north of Florida. The total area of Japan is approximately 146,000 square miles, or slightly less than that of California and about 4% of that of the United States. It is bordered by the Sea of Japan to the west and north and by the Pacific Ocean to the east and south.

Japan, with a total population of 112 million, has one of the highest population densities in the world. Approximately 23% of the total population of Japan is concentrated in the three metropolitan areas of Tokyo, Osaka and Nagoya. Japan's average annual rate of population increase during the years 1965-1974 was 1.2% as compared with 1.0%, 0.6% and 0.8% for the United States, the Federal Republic of Germany and France, respectively, as set forth in Japanese Government statistics and *The Demographic Yearbook, 1974*, published by the United Nations.

Government

Under Japan's present Constitution, which became effective on May 3, 1947, legislative power is vested in the Diet, which consists of a House of Representatives having 491 members and a House of Councillors having 252 members. Members of both Houses are elected by direct universal suffrage. The executive power is vested in the Cabinet consisting of a Prime Minister, appointed from among the members of the Diet by the Emperor upon designation by the Diet, and other Ministers, a majority of whom must be members of the Diet, appointed by the Prime Minister. The judicial power is vested in the Supreme Court and such lower courts as are established by law. In general, one District Court has been established in each prefecture. Appeals from District Court decisions are taken to a regional High Court, of which there are eight, and, within certain limits, appeals from the decisions of a High Court may be made to the Supreme Court.

Japan's prefectures, cities, towns and villages have a certain degree of local autonomy through popularly elected legislative bodies and chief executives (the prefectural governors and, in the case of cities, towns and villages, the mayors). The central government exercises its influence on local governments indirectly through financial aid and prescription of standards of local administration.

Political Parties

The five major political parties represented in the Diet are the ruling Liberal Democratic Party, the Japan Socialist Party (the largest opposition party), the Japan Communist Party, the Komeito (Clean

Government Party) and the Japan Democratic Socialist Party. Japan has been governed nationally by conservative political parties for more than 25 years. The ruling Liberal Democratic Party has remained in power nationally since its formation in 1955, although its percentage of the popular vote has declined in recent national elections.

The present Cabinet has been headed since December 9, 1974 by Prime Minister Takeo Miki who has served as a member of the Diet continuously since 1937.

Members of the House of Representatives are elected for terms of four years unless the House of Representatives is dissolved prior to the expiration of their full elected terms. The present term of the members of the House of Representatives expires in December 1976. Members of the House of Councillors are elected for terms of six years with one half of the membership being elected every three years.

The following table compares the results of the most recent general elections for the House of Representatives and for the House of Councillors with results of the elections for those Houses in 1963 and 1965, respectively. Intervening elections were held for the House of Representatives in 1967 and 1969 and for the House of Councillors in 1968 and 1971. The table also shows the number of seats held by each party on July 1, 1976.

	House of Representatives					House of Councillors				
	November 1963	December 1972	Seats held July 1, 1976		July 1965	July 1974	Seats held July 1, 1976			
(percentages of the popular vote and numbers of members)										
Liberal Democratic Party	54.7%	294	46.8%	284	269	45.7%	141	41.9%	127	128
Japan Socialist Party	29.0	144	21.9	118	114	28.1	73	20.6	62	62
Japan Communist Party	4.0	5	10.5	39(a)	39(a)	5.7	4	10.7	20	20
Komeito (Clean Government Party)	—	—	8.5	29	30	9.4	20	12.3	24	24
Japan Democratic Socialist Party	7.4	23	7.0	20	19	6.0	7	5.2	10	10
Others	4.9	1	5.3	1	6	5.1	5	9.3	9	8
Total	<u>100.0%</u>	<u>467</u>	<u>100.0%</u>	<u>491</u>	<u>477(b)</u>	<u>100.0%</u>	<u>250</u>	<u>100.0%</u>	<u>252</u>	<u>252</u>

(a) Includes one allied member.

(b) On July 1, 1976, there were fourteen vacancies.

Treaty Relationships

Japan is a party to many important treaties. Since the end of World War II, the Treaty of Peace with Japan has been ratified by Japan, the United States and 43 other countries. Diplomatic relations now also exist with the Soviet Union, the Republic of Korea and the People's Republic of China. Japan and the United States are parties to a mutual security treaty.

In 1955, Japan became a party to the General Agreement on Tariffs and Trade. As a major trading nation, Japan has also entered into many treaties and agreements concerning commerce and trade and conventions for the avoidance of double taxation.

International Organizations

Japan is a member of the United Nations and other international organizations, including the International Monetary Fund, the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Asian Development Bank,

the African Development Fund and the Organisation for Economic Co-operation and Development, and Japan will also become a member of the Inter-American Development Bank on July 9, 1976. See "Japan Public Debt—Subscriptions to International Financial Organizations".

THE ECONOMY

General

Japan has a highly developed and diversified economy. Over the past 25 years, Japan experienced significant economic development and during the ten and five year periods ending JFY 1975, Japan's gross national product at constant prices increased at compound annual growth rates of 8.1% and 4.7%, respectively. The increase in gross national product was sustained by a high level of savings and investment in both the private and public sectors. The percentage of gross domestic investment to gross national product averaged 37% during the ten year period ending JFY 1975. Savings by individuals, expressed as a percentage of personal disposable income, averaged approximately 21% during the ten year period ending JFY 1974.

In 1973 and 1974, Japan's economy was beset by a number of adverse factors including increases in costs of imported materials (particularly oil), shortages of supply and excess demand. In order to cope with the resulting high rate of inflation, the Government pursued fiscal and monetary policies designed to restrain total demand and sought to maintain price stability through legislation and administrative guidance. Although inflation has moderated, Japan's growth trend was reversed and gross national product at constant prices decreased by 0.2% in JFY 1974.

Recessionary conditions in Japan caused the Government in 1975 to adopt a series of budgetary, monetary and other measures designed to initiate a moderate economic recovery. As these measures began to take effect, the economic decline was halted in the first quarter of 1975. There is evidence of an economic recovery which has recently begun to increase in pace, and in JFY 1975 gross national product at constant prices registered a 3.1% increase over JFY 1974.

Role of Government in the Economy

Japan's economy is a market economy in which industry and commerce are predominantly privately owned and operated. However, ever since the beginning of Japan's industrialization approximately a hundred years ago, the Government has continued to be highly involved in establishing and meeting objectives for developing the economy and improving the standard of living of its people. This involvement can be attributed in part to the need to allocate effectively the limited supply of capital and, in view of Japan's dependence upon foreign sources of raw materials, the need to direct trade and manage foreign exchange reserves.

In order to achieve its economic objectives, the Government has generally relied on providing the prerequisite business environment and administrative guidance. The homogeneity of Japanese society and the tendency of Japanese people to reach important decisions by consensus have generally resulted in agreement between the Government and the private sector on major economic policy matters. Consensus arises from intense and sustained communication and mutual recognition of the importance of steady and sound economic growth. The agencies of the Government primarily concerned with economic policy and its implementation are the Economic Planning Agency, the Ministry of Finance and the Ministry of International Trade and Industry. The Bank of Japan, Japan's central bank, also acts in this field.

The Economic Planning Agency is responsible for formulating basic policy and preparing national economic programs. Overall direction of the economy is exercised by the Ministry of Finance by means of fiscal policy in cooperation with the respective ministries and by means of monetary policy in association with The Bank of Japan. The Ministry of International Trade and Industry, as well as other ministries such as the Ministry of Agriculture and Forestry and the Ministry of Construction, develop special industry objectives within the broad economic framework. In order to provide a favorable environment for the development of specific industries, the Government often uses administrative measures as well as fiscal measures such as loans from Government financial institutions.

Gross National Product and National Income

Data pertaining to gross national product for JFY 1970 through JFY 1975 are set forth in the following table.

Gross National Product

	JFY 1970	JFY 1971	JFY 1972	JFY 1973	JFY 1974	JFY 1975 Provisional	Percentages of JFY 1975 GNP
(in billions of yen)							
Total Consumption							
Private	¥37,521	¥42,459	¥49,082	¥ 59,361	¥ 73,449	¥ 84,772	56.9%
Public	6,029	7,130	8,440	10,411	14,172	16,609	11.1
	43,550	49,589	57,522	69,772	87,621	101,381	68.0
Total Gross Investment							
Private							
Producers' Durable Equipment	14,495	14,908	16,724	22,387	22,820	20,454	13.7
Addition to Business Inventories	3,057	1,957	2,021	4,009	3,861	1,554	1.0
Residential Construction	4,828	5,215	7,038	9,878	9,667	11,044	7.4
	22,380	22,080	25,782	36,274	36,348	33,052	22.1
Public	6,188	7,668	9,480	10,595	12,920	14,504	9.7
	28,568	29,748	35,262	46,869	49,268	47,556	31.8
Surplus of the Nation on Current Account							
Exports of Goods and Services and Other Receipts from Abroad	8,657	10,001	10,728	13,178	20,563	20,778	13.9
Less: Imports of Goods and Services and Other Payments Abroad	(7,729)	(7,761)	(8,783)	(14,215)	(21,112)	(20,623)	(13.8)
Surplus of the Nation on Current Account	928	2,240	1,945	(1,036)	(549)	155	0.1
Gross National Product at Current Prices	¥73,046	¥81,577	¥94,729	¥115,605	¥136,339	¥149,092	100.0%
Gross National Product at Constant Prices (a)	¥72,144	¥77,400	¥84,981	¥ 90,435	¥ 90,268	¥ 93,057	
Percentage Increase of GNP Over Previous Year							
At Current Prices	17.3%	11.7%	16.1%	22.0%	17.9%	9.4%	
At Constant Prices (a)	10.4	7.3	9.8	6.4	(0.2)	3.1	
Deflator	6.3	4.1	5.8	14.7	18.2	6.1	

(a) Constant prices are based on calendar year 1970.

Source: Economic Planning Agency, *Annual Report on National Income Statistics*.

The following table sets forth the proportions of national income (computed by subtracting depreciation and indirect taxes from gross national product and adding Government subsidies) contributed by major sectors of the economy for JFY 1970 through JFY 1974.

National Income by Sectors					
	JFY 1970	JFY 1971	JFY 1972	JFY 1973	JFY 1974
Agriculture, Forestry and Fishing	7.4%	6.5%	6.7%	6.8%	6.3%
Industry					
Mining	0.6	0.6	0.5	0.4	0.6
Construction	7.5	7.9	8.3	8.6	8.5
Manufacturing	30.4	29.5	28.3	27.6	28.2
Total	38.5	38.0	37.1	36.6	37.3
Services and Other					
Wholesale and Retail Trade	18.1	18.5	18.0	18.0	19.8
Finance, Insurance and Real Estate ...	11.3	11.1	12.1	13.4	11.4
Transportation, Communication and Other Public Utilities	8.0	8.0	7.8	7.1	6.6
Services	13.3	13.9	14.0	13.9	14.1
Public Administration	3.7	4.1	4.2	4.2	4.8
Total	54.4	55.6	56.1	56.6	56.7
Net Income from Abroad	(0.3)	(0.1)	(0.1)	(0.0)	(0.3)
Total	100.0%	100.0%	100.0%	100.0%	100.0%
(in billions of yen)					
National Income at Current Prices	¥59,141	¥65,898	¥76,310	¥91,535	¥112,757
Percentage Increase in National Income at Current Prices over the Preceding Fiscal Year	18.7%	11.4%	15.8%	20.3%	22.8%

Source: Economic Planning Agency, *Annual Report on National Income Statistics*.

Industry

Industry in Japan is almost entirely privately owned and operated. The principal exceptions are the main part of the railroad system, the telegraph and telephone system and the tobacco and salt monopolies, all of which are operated by public corporations wholly-owned by the Government. In addition, the major airline and a corporation which constructs large-scale hydro-electric projects are partly owned by the Government.

The table below sets forth various average indices of industrial production for specified periods:

Average Indices of Industrial Production						
	JFY 1970	JFY 1971	JFY 1972	JFY 1973	JFY 1974	JFY 1975
(calendar year 1970 = 100)						
All Industry (except public utilities)	101.4	103.4	113.9	129.3	117.1	112.9
Capital Goods	101.9	100.1	110.4	130.4	123.9	111.7
Construction Materials	100.7	102.3	117.1	133.0	110.7	104.5
Durable Consumer Goods	101.2	109.9	123.4	138.0	130.1	136.3
Non-durable Consumer Goods	101.4	102.1	105.7	116.8	113.1	114.4
Producers' Goods	101.3	104.0	115.3	129.8	113.1	109.5

Source: Ministry of International Trade and Industry, *Industrial Statistics Monthly*.

Manufacturing. Japan is a leading manufacturing nation. Its economy is characterized by large-scale, capital-intensive industries and products in which the relative content of imported raw materials is low and the relative content of value added through manufacture is high. Japan is noted for the manufacture of such products as automobiles, electric and electronic equipment, precision optical goods and ships.

Mining. Japan is very heavily dependent on imports of basic extracted raw materials. In JFY 1974, 75% of Japan's overall coal requirements and 99% of iron ore requirements were imported. Import percentages for other extracted raw materials were 93% for copper, 73% for lead, 67% for zinc, 100% for bauxite and 100% for nickel. See "Energy and Electric Power" for a discussion of Japan's dependence on imports of oil.

Transportation. Domestic transportation is provided by railways, coastal shipping, motor vehicles and airlines, with a marked increase during the past ten years in motor vehicle transportation. Of total freight transported in JFY 1974, railways accounted for 14.0%, coastal shipping for 51.2% and motor vehicles for 34.8%. Of total passenger transportation in JFY 1974, railways accounted for 46.7%, motor vehicles (including buses) for 49.6% and domestic airlines for 2.5%.

Japan's extensive railway system is generally considered to be excellent, and its national road system is continually being improved. Japan's merchant marine fleet is one of the largest in the world and has been expanded from 12.0 million gross tons in July 1965 to 39.7 million in July 1975.

Energy and Electric Power

The following table sets forth total primary energy supplied and total energy consumed and the major sources of primary energy expressed as a percentage of total primary energy supplied for JFY 1970-1974.

JFY	Total Primary Energy Supplied (tens of trillions of calories)	Sources of Primary Energy Supplied				Total Energy Consumed (tens of trillions of calories)
		Oil	Coal	Hydro-Electric	Other	
1970	310,468	70.8%	20.7%	6.3%	2.2%	284,091
1971	320,611	73.5	17.5	6.7	2.3	297,385
1972	344,338	74.9	16.6	6.3	2.2	321,509
1973	382,576	77.6	15.5	4.6	2.3	354,051
1974	383,529	74.4	16.6	5.4	3.6	338,721

Source: Agency of Natural Resources and Energy, *Energy Statistics* (not published in English).

Since Japan's production and reserves of oil are nominal, over 99% of its crude oil requirements in JFY 1974 were imported, with the principal source being the Middle East. The following table sets forth information regarding imports of crude oil:

	JFY 1970	JFY 1971	JFY 1972	JFY 1973	JFY 1974	JFY 1975
Volume of imports (millions of bbls/day)	3.5	3.9	4.4	5.0	4.8	4.5
Cost of imports (c.i.f. in millions of dollars)	\$2,372	\$3,288	\$4,154	\$8,673	\$19,995	\$19,756
Average price (c.i.f. in dollars per barrel)	\$ 1.84	\$ 2.30	\$ 2.57	\$ 4.75	\$ 11.51	\$ 12.05

Source: Ministry of Finance, *The Summary Report of Trade of Japan*.

Because of Japan's dependence upon imported oil, any substantial increases in oil prices, such as those in the fall of 1973, have a large negative impact on Japan's economy and its balance of payments. The Government is considering various measures to promote energy conservation and to reduce Japan's dependence on imported crude oil.

In 1974, Japan ranked third among the world's nations (after the United States and the Soviet Union) in the generation of electricity. In addition, Japan has one of the highest rates of household electrification in the world. Total generating capacity and electric power generation for JFY 1970 through JFY 1974 are set forth in the table below.

	JFY 1970	JFY 1971	JFY 1972	JFY 1973	JFY 1974
	(megawatts)				
Generating capacity (a):					
Hydro-electric	19,994	20,176	20,734	22,589	23,546
Fossil Fuel	46,932	54,964	62,726	70,617	76,755
Nuclear	1,336	1,336	1,836	2,296	3,905
Total	<u>68,262</u>	<u>76,475</u>	<u>85,296</u>	<u>95,502</u>	<u>104,207</u>
	(thousands of megawatt hours)				
Electric power generation:					
Hydro-electric	80,090	86,753	87,923	71,678	84,780
Fossil Fuel	274,868	290,804	331,074	388,902	354,562
Nuclear	4,581	8,010	9,480	9,707	19,699
Total	<u>359,539</u>	<u>385,567</u>	<u>428,477</u>	<u>470,287</u>	<u>459,041</u>

(a) At end of fiscal year.

Agriculture, Forestry and Fishing

While only one-fifth of its total land area is arable, Japan has a high overall degree of self-sufficiency in food for human consumption. In the production of rice, which is a staple food grain of the Japanese people, Japan has achieved almost complete self-sufficiency. However, growing demands for a variety of food items have caused a decline in overall self-sufficiency in food for human consumption from 81% in JFY 1965 to about 72% in JFY 1974. The principal imported agricultural foodstuffs are wheat and sugar. Japan also imports all of its requirements of cotton and a large portion of its requirements of soybeans and maize.

An estimated two-thirds of Japan's area is forested and produces lumber of good quality. Nevertheless, fast growing demand for wood and wood products, particularly for use in construction and for pulp and paper, has resulted in a steady increase in imports. Imports of such products increased from 26.3% of total consumption in 1965 to 64.8% in 1974.

Japan is one of the world's leading fishing nations and has a high per capita fish consumption. The Japanese deep-sea fishing industry operates on a world-wide basis but is subject to extensive restrictions, generally imposed by bilateral agreements with other countries.

Price Indices

Information concerning changes in Japan's wholesale and consumer price indices is set forth below.

JFY	Wholesale Index(a)		Consumer Index(b)	
	Index(c)	Annual % Change	Index(c)	Annual % Change
1971	99.1	(0.8)%	107.2	5.7%
1972	102.3	3.2	112.8	5.2
1973	125.4	22.6	131.0	16.1
1974	154.8	23.4	159.6	21.8
1975	158.1	2.1	176.2	10.4

(a) All commodities. Source: The Bank of Japan, *Wholesale Price Index*.

(b) Source: Office of the Prime Minister, *Consumer Price Index*.

(c) Calendar year 1970=100. Indices calculated on the basis of monthly averages.

The increases in wholesale and consumer prices in JFY 1973 and 1974 were due in part to the general shortage of supply in relation to demand and to the unprecedented increase in imported oil prices.

Labor

Japan's employed population was estimated to be 51.4 million at the end of 1975. Of this number, 10% was employed in agriculture, forestry and fishing, 37% in mining, construction and manufacturing industries and 53% in trade, finance, transportation and other service industries. The contributions made to the JFY 1974 national income by these industries were 6%, 37% and 57%, respectively.

The unemployment rate in Japan averaged 1.5% during the JFY 1971-1975 period and was 2.0% in April 1976. However, Japan's low rate of unemployment results primarily from the custom of Japanese companies not to reduce their work forces during periods of recession and for workers to remain with a single company for their entire careers. The ratio of the number of job openings to the number of job applicants, which averaged 1.14 during the JFY 1971-1975 period and was 0.64 in May 1976, is also used in Japan as an indicator of the availability of employment.

In recent years, wage increases have been granted by manufacturing and other industries at rates which have exceeded gains in labor productivity. Substantial wage increases occurring in JFY 1974 were accompanied by a decline in productivity. Because it is not customary for companies to reduce their work forces during recessionary periods, productivity tends to decline with industrial production.

The following table sets forth information regarding the wage and productivity indices for the indicated periods:

JFY	Wage Index(a)		Productivity Index(b)	
	Index(c)	Annual % Change	Index(c)	Annual % Change
1970	103.1	18.1%	101.3	8.6%
1971	117.5	14.0	106.2	4.8
1972	136.8	16.4	121.5	14.4
1973	166.5	21.7	142.7	17.4
1974	214.4	28.8	135.6	(5.0)
1975	240.4	12.1	136.7	0.8

(a) Source: Ministry of Labor, *Monthly Labor Statistics*.

(b) Source: Japan Productivity Center, *Quarterly Journal of Productivity*.

(c) Calendar year 1970=100. Indices calculated on the basis of monthly averages.

Education, Social Welfare and Housing

Japan has traditionally maintained a high level of education which, since World War II, has been reflected in substantial expansion of its educational facilities. Education is compulsory between the ages of 6 and 15, and the proportion of students entering senior high school thereafter has risen from 71% in 1965 to 92% in 1975. The proportion of senior high school graduates who enroll in institutions of higher education has risen from 25% in 1965 to 34% in 1975. In the JFY 1976 budget, 12% of expenditures are allocated to education and science.

Japan has been expanding budget expenditures for a social welfare program providing old age pensions for the entire working population (including the self-employed), national health insurance and unemployment insurance. In the JFY 1976 budget, 19.8% of expenditures are allocated to such programs (excluding pensions for veterans and Government officials). Government sponsored pension and social security programs are thus generally as extensive in scope as those of most other developed countries. However, Government social welfare expenditure as a percent of national income is relatively low because the percentage of older persons in the population is low and the pension system is not fully developed.

Since 1956, the Ministry of Construction has established Five Year Plans for the construction of housing, including construction by private industry. During the first four years (JFY 1971-1974) of the second Five Year Plan of Housing Construction, approximately 6.77 million new housing units were built, of which 1.39 million were built in JFY 1974. The central and local governments provide assistance in the form of loans and subsidies for the construction of housing, including grants for low income housing.

FOREIGN TRADE AND BALANCE OF PAYMENTS

Foreign Trade*

Overseas trade is vital to Japan's economy. For the five year period ended December 31, 1975, exports and imports averaged approximately 10.5% and 10.3% of gross national product, respectively. Since the latter part of 1973, Japan's terms of trade deteriorated, primarily as a result of increases in the price of oil.

Foreign Trade of Japan

	Value Index(a)		Volume Index(a)		Unit Value Index(a)		Terms of Trade(b)	Japan as % of World Trade(a)	
	Exports	Imports	Exports	Imports	Exports	Imports		Exports	Imports
1971	124.3	104.4	120.2	99.9	103.4	104.5	98.9	7.6%	6.0%
1972	148.0	124.4	128.5	112.9	115.2	110.2	104.5	7.6	6.1
1973	191.2	202.9	134.9	144.5	141.7	140.4	100.9	7.1	7.3
1974	287.5	329.0	158.0	141.2	182.0	233.0	78.1	7.2	8.1
1975	288.6	306.5	161.2	123.5	179.0	248.2	72.1	—	—

(a) Statistics upon which the indices are based are expressed in dollars and have been translated at the rate of ¥360 to the dollar for periods prior to August 1971, at the rate of ¥308 to the dollar for the period from January 1972 to January 1973 and on a floating rate basis for all other periods. Calendar year 1970=100.

(b) Unit value of exports divided by unit value of imports.

Source: Ministry of Finance, *The Summary Report of Trade of Japan*; International Monetary Fund, *International Financial Statistics*.

* In this section exports are stated on an f.o.b. basis and imports on a c.i.f. basis. Monetary figures are based on actual movements of goods as calculated by the Ministry of Finance. This method of computation differs from that used in determining balance of payments, in which both exports and imports are stated on an f.o.b. basis.

Composition of Japan's Exports and Imports(a)

	1971		1972		1973		1974		1975	
	(dollar amounts in millions)									
Japan's Exports										
Textiles	\$ 2,772	12%	\$ 2,926	10%	\$ 3,279	9%	\$ 4,065	7%	\$ 3,719	
Metal & Metal Products	4,570	19	4,871	17	6,821	18	13,691	25	12,518	2
Machinery & Equipment:										
Ships	1,849	8	2,399	8	3,819	10	5,600	10	5,998	1
Motor Vehicles	2,373	10	2,965	10	3,612	10	5,227	9	6,190	1
Radio Receivers	791	3	1,033	4	1,243	3	1,359	2	1,324	
Motorcycles	612	2	830	3	855	2	1,394	3	1,157	
Others	6,249	26	8,150	29	10,835	30	14,311	26	15,335	2
Total	11,874	49	15,377	54	20,365	55	27,891	50	30,004	5
Chemicals	1,486	6	1,784	6	2,147	6	4,059	7	3,889	
Foods & Beverages	679	3	666	2	841	2	846	2	760	
Other Exports	2,638	11	2,967	11	3,477	10	4,984	9	4,863	
Total	<u>\$24,019</u>	<u>100%</u>	<u>\$28,591</u>	<u>100%</u>	<u>\$36,930</u>	<u>100%</u>	<u>\$55,536</u>	<u>100%</u>	<u>\$55,753</u>	<u>100%</u>
Japan's Imports										
Foods & Beverages	\$ 2,917	15%	\$ 3,607	15%	\$ 6,009	16%	\$ 8,122	13%	\$ 8,815	1
Textile Materials	958	5	1,348	6	2,187	6	1,861	5	1,524	
Chemicals	999	5	1,148	5	1,865	5	2,668	4	2,057	
Mineral Fuels:										
Petroleum	3,048	15	3,927	17	6,000	16	18,898	30	19,644	3
Others	1,703	9	1,788	7	2,327	6	5,997	10	5,997	1
Total	4,751	24	5,715	24	8,327	22	24,895	40	25,641	4
Metal Ores & Scrap	2,527	13	2,488	11	4,033	10	5,328	9	4,417	
Lumber	1,459	7	1,727	7	3,411	9	3,683	6	2,621	
Machinery & Equipment	2,409	12	2,592	11	3,486	9	4,748	8	4,286	
Other Imports	3,692	19	4,846	21	8,996	23	10,805	17	8,502	1
Total	<u>\$19,712</u>	<u>100%</u>	<u>\$23,471</u>	<u>100%</u>	<u>\$38,314</u>	<u>100%</u>	<u>\$62,110</u>	<u>100%</u>	<u>\$57,863</u>	<u>100%</u>

(a) Dollar amounts have been translated as set forth in Note (a) on page 33.

Source: Ministry of Finance, *The Summary Report of Trade of Japan*.

Geographic Distribution of Japan's Exports and Imports(a)

	1971		1972		1973		1974		1975	
	(dollar amounts in millions)									
Japan's Exports										
Developed Areas										
U.S.A.	\$ 7,493	31%	\$ 8,848	31%	\$ 9,449	26%	\$12,799	23%	\$11,149	20%
E.E.C. (9 countries)	2,296	10	3,299	12	4,400	12	5,968	11	5,675	10
Australia	719	3	728	3	1,193	3	1,998	4	1,739	3
Canada	876	3	1,104	4	999	3	1,587	3	1,151	2
Others	1,641	7	1,980	6	3,005	8	4,069	7	3,720	7
Total	13,027	54	15,959	56	19,046	52	26,421	48	23,434	42
Developing Areas										
Asia	5,763	24	6,310	22	8,931	24	12,695	23	12,543	23
Middle East	825	3	1,174	4	1,774	5	3,680	7	6,075	11
Latin America	1,592	7	1,980	7	2,761	8	5,069	9	4,765	9
Africa	1,536	6	1,586	6	2,305	6	3,539	6	4,087	7
Others	118	1	137	—	158	—	204	—	162	—
Total	9,834	41	11,187	39	15,929	43	25,187	45	27,632	50
Communist Areas										
Soviet Union	377	2	504	2	484	1	1,096	2	1,626	3
China	578	2	609	2	1,039	3	1,984	4	2,259	4
Others	193	1	329	1	431	1	847	1	798	1
Total	1,148	5	1,442	5	1,954	5	3,927	7	4,683	8
Total	\$24,019	100%	\$28,591	100%	\$36,930	100%	\$55,536	100%	\$55,753	100%
Japan's Imports										
Developed Areas										
U.S.A.	\$ 4,979	25%	\$ 5,852	25%	\$ 9,270	24%	\$12,682	20%	\$11,608	20%
E.E.C. (9 countries)	1,605	8	1,959	8	3,177	8	3,982	6	3,371	6
Australia	1,752	9	2,205	9	3,495	9	4,025	7	4,156	7
Canada	1,004	5	1,149	5	2,015	5	2,676	4	2,499	4
Others	938	5	1,167	6	1,828	6	2,417	5	2,260	4
Total	10,278	52	12,332	53	19,785	52	25,782	42	23,894	41
Developing Areas										
Asia	3,404	17	4,171	18	7,953	21	12,497	20	10,586	18
Middle East	3,013	15	3,491	15	4,941	13	15,920	26	16,477	29
Latin America	1,338	7	1,418	6	1,955	5	2,713	4	2,524	5
Africa	590	3	692	3	1,067	3	1,583	3	1,111	2
Others	145	1	140	—	326	—	461	—	264	—
Total	8,490	43	9,912	42	16,242	42	33,174	53	30,962	54
Communist Areas										
Soviet Union	496	3	594	3	1,078	3	1,418	2	1,170	2
China	323	2	491	2	974	3	1,305	2	1,531	3
Others	125	—	141	—	234	—	418	1	305	—
Total	944	5	1,226	5	2,286	6	3,141	5	3,006	5
Total	\$19,712	100%	\$23,471	100%	\$38,314	100%	\$62,110	100%	\$57,863	100%

(a) Dollar amounts have been translated as set forth in Note (a) on page 33.

Source: Ministry of Finance, *The Summary Report of Trade of Japan*.

Balance of Payments

The following table indicates Japan's balance of payments for the years 1971 through 1975:

Balance of Payments of Japan

	1971	1972	1973	1974	1975	Three months ended March 31,	
						1975(a)	1976(a)
(in millions of dollars)							
Current Account							
Goods							
Exports (f.o.b.)..	\$23,566	\$28,032	\$36,264	\$54,480	\$54,734	\$14,666	\$15,703
Imports (f.o.b.)..	(15,779)	(19,061)	(32,576)	(53,044)	(49,706)	(12,744)	(12,988)
Balance	7,787	8,971	3,688	1,436	5,028	1,922	2,715
Services	(1,738)	(1,883)	(3,510)	(5,842)	(5,354)	(1,512)	(1,519)
Transfers	(252)	(464)	(314)	(287)	(356)	(68)	(64)
Balance on Current Account	5,797	6,624	(136)	(4,693)	(682)	342	1,132
Long-term Capital							
Assets(b)	(2,231)	(5,020)	(8,468)	(4,063)	(3,392)	(630)	(966)
Liabilities(b)	1,149	533	(1,282)	182	3,120	837	1,155
Balance	(1,082)	(4,487)	(9,750)	(3,881)	(272)	207	189
Basic Balance	4,715	2,137	(9,886)	(8,574)	(954)	549	1,321
Short-term Capital Balance	2,435	1,966	2,407	1,778	(1,138)	(5)	(105)
Errors and Omissions	527	638	(2,595)(c)	(43)	(584)	33	241
Overall Balance	<u>\$ 7,677</u>	<u>\$ 4,741</u>	<u>\$(10,074)</u>	<u>\$(6,839)</u>	<u>\$(2,676)</u>	<u>\$ 577</u>	<u>\$ 1,457</u>

(a) Seasonally adjusted for recurring intra-year patterns of variation.

(b) Parentheses indicate outflows of capital either as increases in assets or decreases in liabilities.

(c) This deficit is estimated to have been caused principally by the readjustment of payment provisions made by exporters and importers as a result of the floating of the yen.

Source: The Bank of Japan, *Balance of Payments Monthly Report*.

The balance on current account registered a deficit for 1974 of \$4,693 million largely due to the increased cost of oil imports. In 1975 such deficit was reduced as a result of an overall decrease in imports. Long-term capital movements reached a record \$9,750 million deficit in 1973 as a result of capital outflows principally consisting of direct investments and loans and net sales of portfolio investments by non-residents. In 1974 the deficit in the net long-term capital balance was reduced as the result of relaxation of controls on capital inflows and modifications of measures which had encouraged capital outflows and in 1975 because of portfolio investments by non-residents and the issuance of Japanese securities abroad. The 1975 deficit in the short-term capital balance principally reflected a decline in import credits. As a result of the increased trade surpluses in 1975 and the first quarter of 1976 and the various developments described above, the overall balance of payments has shown considerable improvement since 1973.

Official Foreign Exchange Reserves

Japan's official foreign exchange reserves totaled \$14.18 billion equivalent on March 31, 1976. This compares with official foreign exchange reserves of \$16.46 billion, \$34.69 billion and \$11.14 billion for the United States, the Federal Republic of Germany and France, respectively, on the same

date, as set forth in *International Financial Statistics* of the International Monetary Fund. The following table indicates the breakdown of Japan's official foreign exchange reserves as of the end of the years indicated:

Official Foreign Exchange Reserves of Japan(a)

As of December 31,	Gold	Foreign Exchange	IMF Reserve Position	Special Drawing Rights	Total
	(in millions of dollars)				
1971	\$738	\$13,783	\$532	\$307	\$15,360
1972	802	16,482	620	461	18,365
1973	891	10,203	639	513	12,246
1974	905	11,347	739	529	13,519
1975	865	10,627	804	520	12,815

(a) These reserves do not include: (i) net balance of bilateral accounts between The Bank of Japan and foreign central banks, (ii) certain balances held by the Ministry of Finance with Japanese banks to serve as working balances for the latter and (iii) foreign exchange holdings of commercial banks. All data are given in dollar values calculated in accordance with IMF methods of calculation. Gold is valued at SDR 35 per ounce, equivalent to \$40.97 as of December 31, 1975.

Source: International Monetary Fund, *International Financial Statistics*.

External Position of Banks

Other than official reserves, the total external short-term assets and liabilities (due within one year) of Japan, both private and public, consist principally of the external assets and liabilities of banks in Japan.

As indicated in the following table, the net deficit in the external short-term position of banks increased substantially in 1974. This increase resulted largely from borrowing by the banks to finance higher priced oil imports. In 1975 this position increased, due principally to increased borrowings by resident foreign banks to finance loans to Japanese firms. As a result of such borrowings, the official reserve position of Japan has remained relatively stable since the beginning of 1974.

Short-term External Assets and Liabilities of Japanese Banks(a)

As of December 31,	Assets(b)	Liabilities(c)	Net Position
	(in millions of dollars)		
1971	\$ 6,020	\$ 7,491	\$ (1,471)
1972	8,864	8,356	508
1973	10,003	13,468	(3,465)
1974	13,085	24,676	(11,591)
1975	12,947	26,418	(13,471)

(a) Indicates assets and liabilities arising out of claims on and liabilities due to non-residents by Japanese banks. Branches of foreign banks in Japan are considered to be Japanese banks. Foreign branches of Japanese banks are considered to be non-residents.

(b) Includes foreign deposits, export credits and loans to banks and agencies abroad but excludes assets related to official deposits which constitute a part of foreign exchange reserves.

(c) Includes only the external liabilities of banks. Therefore, official liabilities, current maturities of long-term debt and short-term borrowings outside the banking system are not included.

Source: The Bank of Japan, *Economic Statistics Monthly*.

Foreign Exchange Rates and Exchange Controls

The par value of the yen agreed to with the IMF on May 11, 1953 was ¥360 to the dollar of the weight and fineness of gold then in effect. On December 19, 1971, pursuant to the Smithsonian Agreement, a central rate of ¥308 to the dollar was established. See the first paragraph on page 3 of the Prospectus for information regarding exchange rates after that date.

Japan has accepted the obligations of Article VIII of the International Monetary Fund Agreement, and is a member of the Organisation for Economic Co-operation and Development, subscribing to its Liberalization Codes.

With respect to current transactions, exports can generally be made without specific licenses, although exporters are required to present export declaration forms to foreign exchange banks. Imports can generally be made upon declaration to foreign exchange banks, except in cases involving non-liberalized items. Invisible transactions can generally be made without specific licenses, provided their genuineness and legality are verified by foreign exchange banks.

Restrictions on foreign capital investments in Japan have been progressively relaxed. Direct investments are now fully liberalized with certain exceptions, and foreign portfolio investments are correspondingly liberalized. However, new issuances by Japanese corporations of securities payable in foreign currencies may only be made upon receipt of specific licenses from the Ministry of Finance.

Direct investments abroad by Japanese residents are subject to individual licensing by The Bank of Japan. In principle, such licenses are granted automatically. Acquisitions by residents of listed foreign securities through securities dealers are generally permitted. Foreign loans by Japanese banks other than short-term loans must be specifically licensed and are presently permitted on a selective basis.

FINANCIAL SYSTEM

The Bank of Japan and Monetary Policy

The Bank of Japan, the central bank and sole bank of issue, was established in 1882, and its capital is owned 55% by the Government and 45% by private subscribers, who have no voting power. At March 31, 1976, The Bank of Japan had total assets of ¥15,877 billion. The central bank acts as depository and fiscal agent for the Government.

The functions of The Bank of Japan are similar to those of central banks in other industrialized countries. In addition to issuing bank notes, it serves as the principal instrument for the execution of monetary policy by means of its lending policy, open market operations and deposit reserve requirements. Of these, the lending policy is the most important. In addition, The Bank of Japan gives guidance to private banks regarding their lending policies and related matters. Due in part to the high debt to equity ratios of Japanese companies and their heavy reliance generally on bank financing, such administrative guidance tends to be particularly effective.

The principal discount rate now in effect is 6.5%, which is applied to commercial bills, loans secured by Government securities and other designated securities. An additional 0.25% is charged for other securities discounted.

The deposit reserve requirements for banks and certain other financial institutions are subject to the approval of the Minister of Finance. The legal maximum reserve requirement is 20% (100% on resident foreign currency deposits and liabilities relating to non-residents). Within this limit, The Bank of Japan may fix different ratios for different categories of designated accounts and financial institutions. At present, the reserve requirement for demand deposits of leading banks is 3.0%.

Monetary policy has played a particularly important role in the Japanese economy. In 1972 sharply increasing economic activity created a condition of excess demand which caused prices to increase. In response to this situation The Bank of Japan in 1973 adopted a policy of monetary restraint implemented

by, among other things, increases in the official discount rate and increases in the deposit reserve requirements. This policy was maintained through 1974. Although price stabilization was achieved, the Japanese economy entered into a recession and in early 1975 The Bank of Japan began to raise monetary restraint measures.

The following table sets forth the principal economic indicators relating to monetary policy from 1971 through 1975:

	Discount Rate(a)		Reserve Requirements(b)		Money Supply(c)		Loans and Discounts All Banks	
	High	Low	High	Low	Total(d)	Annual % Change	Total(d)	Annual % Change
	(yen amounts in billions)							
1971	6.00%	4.75%	1.50%	1.50%	¥ 67,398	24.3%	¥49,048	24.2%
1972	4.75	4.25	1.50	1.50	84,041	24.7	61,599	25.6
1973	9.00	4.25	3.75	1.50	98,189	16.8	71,853	16.6
1974	9.00	9.00	4.25	4.25	109,494	11.5	79,614	10.8
1975	9.00	6.50	4.25	3.75	125,330	14.5	88,767	11.5

(a) The Bank of Japan discount rate for commercial bills.

(b) Reserve requirements for demand deposits of leading banks.

(c) Cash and demand, savings and time deposits, generally referred to as "M2".

(d) As of December 31.

Source: The Bank of Japan, *Economic Statistics Monthly*.

Government Financial Institutions

A number of financial institutions supplement the activities of private institutions. These are corporations under Government supervision, whose senior officials are appointed by the Government and whose funds are supplied principally by the Government. Among these are The Japan Development Bank, The Export-Import Bank of Japan, whose purpose is to supplement and encourage the private financing of exports, imports and overseas investments, the Small Business Finance Corporation, the Housing Loan Corporation and the Agriculture, Forestry and Fishery Finance Corporation, whose purposes are to supplement private financing in their respective fields of activity.

Private Financial Institutions

The private banking system includes 75 ordinary banks (12 city banks and 63 local banks), seven trust banks, whose business corresponds roughly to that of commercial banks in the United States, and one bank specializing in the foreign exchange field. In addition, three long-term credit banks supply long-term funds to industry for plant and equipment expenditures.

The mutual loan and savings banks, credit associations, credit cooperative associations, labor credit associations, the national federations of each of such associations and the Central Bank for Commercial and Industrial Cooperatives are mainly engaged in making small business loans. Agricultural cooperative associations, federations of such associations and the Central Cooperative Bank for Agriculture and Forestry operate in the field of agricultural credit.

Securities Markets

Japan has extensive markets for both equity and debt securities. There are eight stock exchanges, 257 securities companies and nine investment trust management companies. The Tokyo Stock Exchange is the second largest in the world after the New York Stock Exchange in terms of value of shares traded. As of May 31, 1976, securities of 1,429 issuers were listed on the Tokyo Stock Exchange, including securities of 16 private foreign companies, six foreign governments, the World Bank and the Asian Development Bank.

GOVERNMENT FINANCE

Revenues, Expenditures and Budgets

The responsibility for the preparation of the budget and the administration of Government finances rests with the Ministry of Finance. The fiscal year commences on April 1, and the Cabinet usually submits the budget to the Diet for its decision in January. New taxes may not be imposed nor expenditures made nor obligations assumed without the authorization of the Diet. Supplementary budgets revising the original budget may be submitted to the Diet from time to time during the fiscal year.

The fiscal and financial operations of the Government and its agencies are budgeted and recorded in three sets of accounts, namely, the General Account, the Special Accounts and the Government Agencies. The three are closely interrelated and should be analyzed in light of their combined fiscal and monetary impact.

The General Account is used primarily to record operations in traditional areas of governmental operations.

Special Accounts are set up for the purpose of segregating the accounts of certain functions of the Government in order to achieve more effective budgetary control and administration. Special Accounts can be grouped into the following general classifications: (i) Government activities of a specialized nature such as postal services, postal savings, national forest services and road improvement, (ii) control programs under which basic foodstuffs, other commodities and foreign exchange are bought, financed and sold, (iii) insurance funds which transact all Government insurance business including welfare insurance, unemployment insurance and postal life insurance, (iv) investment accounts which invest in various loans and securities including obligations of the Government and Government Agencies and (v) a consolidated debt service account, a reparations account and an account for transfers of tax moneys to local governments. Substantial transfers of funds are made from the General Account to Special Accounts.

Government Agencies are Government-owned corporations which conduct activities such as railway service, telegraph and telephone service, the tobacco and salt monopolies and certain banking functions. Some Government Agencies remit their profits to the General Account; other Agencies, including The Japan Development Bank, remit profits to Special Accounts; and still others retain all profits.

According to law, no debt, except short-term debt to be repaid within the fiscal year, may be issued by the Government except for public works expenditures, investments or loans. However, in December 1975, the Law Concerning a Special Treatment in the Issue of Public Bonds for JFY 1975 was enacted, pursuant to which public bonds in the amount of ¥2,090.5 billion were issued to finance the shortfall in tax revenues. The Government has presented to the Diet for approval a similar measure for JFY 1976 providing for the issuance of up to ¥3,750 billion of public bonds. This measure was approved by the House of Representatives and was submitted to the House of Councillors before the Diet ended its ordinary session on May 24, 1976. However, no final action can be taken on the measure by the Diet unless it is convoked.

Each fiscal year an amount equivalent to 1.6% of the total outstanding debt at the beginning of the preceding fiscal year and not less than one-half (one-fifth in the case of JFY 1975) of any surplus recorded in the General Account for the year preceding the last fiscal year must be applied toward the retirement of the Government debt. Redemption and interest payments on the national debt and related administrative expenses are transferred from the General Account to the Debt Consolidation Fund Special Account. The total amount estimated to be transferred for JFY 1975 is ¥1,102 billion, of which ¥322 billion is for redemptions, ¥752 billion for interest payments and the remainder for administrative expenses.

The settlement of accounts for revenues and expenditures is made by the Ministry of Finance, based on reports submitted by the respective Ministers. The settlement of accounts is required by law to be audited annually in detail by the Board of Audit, an organ independent of the Cabinet. An audit report must be made by the Cabinet to the Diet in the following fiscal year.

The following tables set forth information with respect to the General Account, the Special Accounts and the Government Agencies on a settlement basis for JFY 1971 through JFY 1974. The information for JFY 1975 represents the revised budget as approved by the Diet on November 7, 1975. The information for JFY 1976 represents the budget as approved by the Diet on May 8, 1976.

Summary of Consolidated General and Special Accounts(a)

	JFY 1971	JFY 1972	JFY 1973	JFY 1974	JFY 1975 Budget	JFY 1976 Budget
	(in billions of yen)					
Revenues						
Total Revenues, General Account	¥ 9,970	¥12,793	¥16,761	¥20,379	¥20,837	¥24,296(b)
Total Revenues, Special Accounts	19,627	22,567	27,130	33,593	40,202	50,151
Less: Inter-Account Transactions(c)	10,912	12,578	15,727	19,223	20,990	26,046
Total Consolidated Revenues	<u>¥18,685</u>	<u>¥22,782</u>	<u>¥28,164</u>	<u>¥34,749</u>	<u>¥40,049</u>	<u>¥48,401</u>
Expenditures						
Total Expenditures, General Account ..	¥ 9,561	¥11,932	¥14,778	¥19,099	¥20,837	¥24,296
Total Expenditures, Special Accounts ..	16,863	19,369	23,016	28,496	36,906	46,236
Less: Inter-Account Transactions(c)	10,900	12,554	15,729	19,186	21,007	26,041
Total Consolidated Expenditures	<u>¥15,524</u>	<u>¥18,747</u>	<u>¥22,065</u>	<u>¥28,399</u>	<u>¥36,736</u>	<u>¥44,491</u>
Surplus of Consolidated Revenues over Consolidated Expenditures	¥ 3,161	¥ 4,035	¥ 6,099	¥ 6,350	¥ 3,313	¥ 3,910

(a) Because of the manner in which the Government accounts are kept, it is not practicable to show a consolidation of the Government Agencies with the General and Special Accounts.

(b) Includes ¥3,750 billion of public bonds the issuance of which is subject to approval by the Diet. See text on preceding page.

(c) Inter-Account Transactions include transfers between the General Account and the Special Accounts, transfers between the Special Accounts, and transfers between sub-accounts of the Special Accounts.

General Account

	JFY 1971	JFY 1972	JFY 1973	JFY 1974	JFY 1975 Budget	JFY 1976 Budget
	(in billions of yen)					
Revenues						
Taxes & Stamp Revenues	¥ 7,927	¥ 9,770	¥13,365	¥15,036	¥13,461	¥15,519
Monopoly Profits	291	339	356	342	337	624
Receipts from Surplus Recorded in the Preceding Fiscal Year	271	410	862	1,984	771	29
Public Bonds	1,187	1,950	1,766	2,160	5,480	7,275(a)
Miscellaneous Revenues	294	324	412	857	788	849
Total Revenues	<u>¥ 9,970</u>	<u>¥12,793</u>	<u>¥16,761</u>	<u>¥20,379</u>	<u>¥20,837</u>	<u>¥24,296</u>
Expenditures						
General Administration	¥ 636	¥ 803	¥ 900	¥ 1,196	¥ 1,396	¥ 1,541
Local Finance	1,986	2,411	3,255	4,220	3,398	3,973
Defense	694	813	961	1,234	1,378	1,525
The Settlement of Affairs after the Restoration of Peace (includes Reparations)	23	25	20	23	18	6
Conservation & Development of Land ..	1,792	2,479	2,386	2,792	2,972	3,130
Industries & Economy	1,118	1,341	1,990	2,389	2,418	2,635
Education & Culture	1,099	1,310	1,587	2,238	2,624	2,945
Social Security, etc.	1,496	1,880	2,483	3,526	4,518	5,359
Annuities & Pensions	331	368	484	590	756	987
National Debt Service	321	454	685	847	1,102	1,665
Other Expenditures	65	48	27	44	257	530
Total Expenditures	<u>¥ 9,561</u>	<u>¥11,932</u>	<u>¥14,778</u>	<u>¥19,099</u>	<u>¥20,837</u>	<u>¥24,296</u>
Surplus of Revenues over Expenditures	¥ 409	¥ 861	¥ 1,983	¥ 1,280	—	—

(a) See Note (b) to preceding table.

Special Accounts(a)

	JFY 1971		JFY 1972		JFY 1973		JFY 1974		JFY 1975 Budget		JFY 1976 Budget	
	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.
	(in billions of yen)											
Trust Fund Bureau ..	¥ 1,037	¥ 1,035	¥ 1,290	¥ 1,298	¥ 1,609	¥ 1,607	¥ 2,036	¥ 2,033	¥ 2,727	¥ 2,727	¥ 3,421	¥ 3,421
National Debt Consol- idation Fund	2,265	2,130	2,308	2,209	3,312	3,083	3,528	3,250	3,938	3,938	6,029	6,029
Foreign Exchange Fund	200	40	87	76	201	200	316	96	394	394	298	298
Industrial Investment Reparations and Other Special Foreign Ob- ligations	119	111	108	97	139	138	99	98	86	86	80	80
Allotment of Local Al- location Tax and Transferred Tax ..	18	8	19	13	16	16	9	8	9	9	3	3
National Schools	2,238	2,235	2,848	2,846	3,593	3,592	4,593	4,589	4,893	4,893	6,841	6,841
Welfare Insurance ..	354	349	414	393	502	462	673	635	746	746	846	846
National Pensions ...	2,216	1,196	2,684	1,453	3,397	1,850	4,654	2,702	5,662	3,614	7,130	4,608
Foodstuff Control ...	466	252	577	338	764	481	1,180	894	1,514	1,414	1,975	1,975
National Forest Serv- ice	5,057	5,035	4,617	4,601	4,922	4,916	5,734	5,720	7,428	7,428	8,375	8,375
Specific Land Im- provement	191	213	236	231	289	249	320	314	394	407	436	438
Export Insurance	49	46	51	48	49	47	50	48	62	62	81	81
Harbor Improvement	36	5	41	5	47	8	64	8	73	73	98	98
Airport Improvement	144	138	182	169	176	157	196	178	189	189	205	205
Postal Service	39	34	67	55	68	51	86	75	86	86	102	102
Postal Savings	915	883	1,203	1,166	1,359	1,373	1,797	1,753	2,164	2,164	2,636	2,636
Postal Life Insurance and Postal Annuity	673	539	841	682	1,048	875	1,309	1,198	1,564	1,550	2,101	2,101
Labor Accident Insur- ance	918	405	1,126	452	1,361	515	1,645	641	1,982	861	2,353	987
Road Improvement ..	—	—	1,256	1,084	1,538	1,279	2,061	1,747	2,745	2,743	3,286	3,285
Flood Control	858	852	1,115	1,098	1,083	1,062	1,219	1,213	1,183	1,183	1,236	1,236
Others	307	303	404	393	388	377	450	443	523	523	522	522
Total Revenues and Expenditures(b)	1,527	1,054	1,093	662	1,269	678	1,574	843	1,842	1,816	2,097	2,068
	¥19,627	¥16,863	¥22,567	¥19,369	¥27,130	¥23,016	¥33,593	¥28,486	¥40,202	¥36,906	¥50,151	¥46,236
Number of Special Accounts for Years Shown	43		41		41		42		41		41	

(a) Revenues and expenditures shown in this table reflect only cash receipts and disbursements for all Special Accounts except Trust Fund Bureau and Foreign Exchange Funds Special Accounts. For these Special Accounts revenues and expenditures indicate profit and loss transactions.

(b) Without adjustment for inter-account transactions.

Government Agencies(a)

	JFY 1971		JFY 1972		JFY 1973		JFY 1974		JFY 1975 Budget		JFY 1976 Budget	
	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.
	(in billions of yen)											
Japan Tobacco and Salt Corpo- ration	¥ 942	¥ 643	¥1,027	¥ 687	¥1,113	¥ 771	¥1,209	¥ 987	¥1,355	¥1,181	¥ 1,819	¥ 1,313
Japanese National Railways ..	1,922	1,900	2,303	2,255	2,611	2,738	3,277	3,162	3,533	3,533	4,105	4,105
Nippon Telegraph & Telephone Public Corporation	1,829	1,816	2,197	2,149	2,513	2,425	2,917	2,901	3,366	3,366	4,068	4,068
The Japan Development Bank	128	101	145	116	164	134	191	153	231	186	279	227
Others	468	452	565	535	671	650	861	834	1,099	1,123	1,375	1,400
Total	¥5,289	¥4,912	¥6,237	¥5,742	¥7,072	¥6,718	¥8,455	¥8,037	¥9,584	¥9,389	¥11,637	¥11,113
Surplus of Revenues over Ex- penditures	¥377		¥495		¥354		¥418		¥195		¥524	
Number of Agencies for Years Shown	14		15		15		15		15		15	

(a) With respect to Nippon Telegraph & Telephone Public Corporation and Japanese National Railways, revenues and expenditures shown in this table reflect only cash receipts (including borrowed funds) and cash disbursements (including debt service and capital expenditures). With respect to all of the other Agencies except Japan Tobacco and Salt Corporation, revenues and expenditures indicate profit and loss transactions. With respect to Japan Tobacco and Salt Corporation, revenues and expenditures reflect only cash receipts (not including borrowed funds) and cash disbursements (not including debt service but including capital expenditures).

Tax Structure

Aggregate tax revenues, including national and local taxes, have averaged about 20% of gross national product for each year since 1950. This compares with tax revenues as a percentage of gross national product during 1972 of 28.1% in the United States, 36.0% in the Federal Republic of Germany, 35.8% in France and 34.7% in the United Kingdom as set forth in the *Revenue Statistics* of the Organisation for Economic Co-operation and Development.

Taxes are levied by the central Government as well as by local governments. Central Government direct taxes in JFY 1974 amounted to 74% of total tax revenues. The most important direct taxes are those on individual and corporate incomes. For JFY 1974 these taxes accounted for 34% and 37%, respectively, of total central Government tax revenues. The two most important indirect taxes are those on liquor and gasoline, which each contributed 5% to total JFY 1974 tax revenues. Local governments receive 32% of the total revenues from income taxes on individuals and corporations and from liquor taxes.

The personal income tax is progressive. Rates range from 10% to 75% of taxable income. The corporate tax is based on a rate of 40% on income above ¥7 million and 28% on income of not more than ¥7 million. However, the reduced tax rate on the first ¥7 million is not applicable to large corporations with a capital of more than ¥100 million. The corporate tax rates are reduced to 30% and 22%, respectively, on income distributed as dividends.

Interest on deposits may be taxed separately or in the aggregate at the taxpayer's option. Interest income from deposits, public bonds and debentures is exempt from tax if the principal amount on which interest was earned by any one taxpayer does not exceed ¥3 million. The interest on central Government bonds not exceeding ¥3 million in principal amount may additionally be exempt from tax.

Fiscal Investment and Loan Program

The Fiscal Investment and Loan Program is drawn up annually by the Government together with the budget, and since JFY 1973 all of the Program has been subject to Diet approval. The sources of funds for the Program in JFY 1976 are the Trust Fund Bureau Fund (¥8,622 billion), the Postal Life Insurance Fund (¥1,159 billion), Government guaranteed bonds and borrowings (¥768 billion) and the Industrial Investment Special Account (¥70 billion). The allocation of funds is made with the objective of enhancing public welfare and with a view toward contributing to the implementation of prevailing fiscal and monetary policy. Under the Program, the Government makes loans to Government Agencies, public corporations, the Special Accounts of the budget and local governments. The funds supplied under the Program are the major source of funds for agencies such as the Japanese National Railways, the Housing Loan Corporation, the People's Finance Corporation, The Japan Development Bank, The Export-Import Bank of Japan, the Japan Housing Corporation and the Japan Highway Public Corporation. These organizations in turn finance or directly construct projects for industry, housing, public service facilities, welfare and education facilities and other projects in accordance with the priorities of public policy.

The following table shows the principal uses of funds in the Program:

	JFY 1971	JFY 1972	JFY 1973	JFY 1974	JFY 1975(a)	JFY 1976(b)
	(in billions of yen)					
Housing	¥ 924	¥ 989	¥1,173	¥1,707	¥ 2,387	¥ 2,413
Water Supply, Sewers and Other Util- ities	713	1,012	1,121	1,451	1,821	1,685
Small and Medium Size Enterprises ..	893	948	1,475	1,793	1,731	1,760
Roads	409	580	656	686	796	806
Transportation and Communication ..	630	875	1,081	1,256	1,355	1,213
Foreign Trade and Economic Coopera- tion	389	414	601	654	746	868
Others	1,051	1,220	1,306	1,473	1,870	1,874
Total	<u>¥5,009</u>	<u>¥6,038</u>	<u>¥7,413</u>	<u>¥9,060</u>	<u>¥10,706</u>	<u>¥10,619</u>

(a) Estimated Program.

(b) Initial Program.

JAPAN PUBLIC DEBT

The following table summarizes, as of the dates indicated, the outstanding direct internal and external funded and floating debt of Japan. The term "floating debt" is used herein to mean all debt with maturities of one year or less from the date of issue. All other debt is classified as "funded debt".

Summary of Japan Public Debt(a)

As of March 31,	Funded			Floating Internal	Total Public Debt
	Internal	External	Total		
	(in billions of yen)				
1971	¥ 3,522	¥89	¥ 3,611	¥2,615	¥ 6,226
1972	4,633	77	4,710	2,896	7,606
1973	6,492	72	6,564	5,140	11,704
1974	8,283	40	8,323	4,832	13,155
1975	10,539	36	10,575	5,134	15,709
1976	15,973	33	16,006	6,789	22,795

(a) Does not include obligations described under "Miscellaneous Obligations".

As of March 31, 1976, Japan had guaranteed payment of principal and interest of various internal yen obligations in the aggregate principal amount of ¥2,643 billion and various external obligations aggregating ¥622 billion. In addition, The Japan Development Bank and The Export-Import Bank of Japan had guaranteed the principal and interest of external obligations amounting to ¥313 billion as of March 31, 1976.

Japan's total direct funded debt at the end of JFY 1974 represented approximately 7.8% of the JFY 1974 gross national product and amounted to approximately \$312 per capita. Payments of principal and interest on Japan's direct external funded debt amounted to \$19.4 million equivalent in 1974 and \$17.8 million equivalent in 1975, in each case representing 0.03% of the receipts of the current account of the balance of payments for these years. Payments of principal and interest on public and private Japanese external funded debt amounted to \$884 million equivalent in 1974 and \$833 million equivalent in 1975, representing 1.3% and 1.2%, respectively, of the receipts of the current account of the balance of payments for these years.

The aggregate annual payments of principal in respect of the direct internal and external funded debt of Japan outstanding at March 31, 1976 are set forth below for the periods indicated:

Principal Payments on Direct Funded Debt of Japan(a)

JFY	Internal	External			Total (in millions of yen)
	Yen (in millions)	Dollars	Pounds (in thousands)	Deutsche Marks Swiss Francs	
1976	¥ 499,725	\$2,662	£ 100	DM 28,000	¥ 503,302
1977	451,011	2,040	106	28,000	454,401
1978	799,147	2,040	113	28,000	SF 50,000 806,552
1979	65,658	1,767	129	28,000	68,975
1980	71,384	—	127	8,000	72,250
1981	567,777	—	134	8,000	568,649
1982-1985	13,197,758	—	6,709	12,000	60,000 13,209,102
1986-2005	320,207	—	2,839	—	322,486
Total	¥15,972,667	\$8,509	£10,248	DM140,000 SF110,000	¥16,005,717

(a) Actual principal payments may vary from the amounts shown since prepayments will increase the amounts shown whereas refundings will defer such amounts. Amounts do not include obligations described under "Miscellaneous Obligations".

There has been no default since the establishment of the modern Japanese State in 1868 in the payment of interest or principal of any internal Japanese Government obligation.

Since the first incurring of foreign debt by Japan in 1870, the full amount of principal and interest on all Government and municipal* foreign debt has always been paid on the due date in lawful currency of the country where payable at the time of payment, except as prevented by disruption during World War II and in the post-war period as indicated below.

Payment of interest and principal of all Japanese Government, municipal and corporate dollar bonds was suspended from December 8, 1941 through December 22, 1952. On November 24, 1952, Japan made an offer of settlement to the holders of all Japanese dollar bonds pursuant to which:

- (i) Japan offered to assume full liability for all corporate and municipal bonds, the issuers of such bonds to be released from all liabilities under such bonds;
- (ii) Maturities of the dollar bonds were to be extended by ten years from the original dates in each case, and interest was to be paid at the original rates and on the same semi-annual interest dates through the extended life of the bonds.
- (iii) "Arrears Coupon Strips" were to be given to the bondholders covering the period December 22, 1942 through September 25, 1952, the coupons to provide for interest at contractual rates, and payment to be made in each case ten years after the date originally specified; and
- (iv) The offer was to remain open for acceptance unless and until the Japanese Government notified the fiscal agents to the contrary.

* Service on the City of Tokyo 5% Loan of 1912 issued in France was interrupted in March 1928 due to a dispute between the issuer and bondholders as to whether the bonds were payable in pounds sterling or in French francs. The issuer continued to make payments in French francs to the Fiscal Agent in Japan, but the funds were not transferred to the French paying agents. In 1960, a compromise agreement was signed and as of March 31, 1976, 94.8% of the outstanding bonds had been purchased in accordance with the agreement.

This offer is open at present and as of December 31, 1975 had been accepted by the holders of 99.4% of the outstanding dollar bonds. Interest and sinking fund payments as to bonds held by persons accepting the offer were resumed in 1952.

Debt settlement offers to holders of Japan's sterling and French franc bonds were made on November 24, 1952 and February 28, 1957, respectively. These offers, except the part of the offer to the holders of French franc bonds pertaining to repurchase of bonds, which terminated on February 28, 1958, are still open. As of March 31, 1976, the holders of 99.7% of the outstanding sterling bonds and 94.8% of the outstanding French franc bonds had accepted these offers.

INTERNAL DEBT

A. Direct Debt of the Japanese Government

I. FUNDED DEBT

	<u>Title and Interest Rate</u>	<u>Year of Issue</u>	<u>Year of Maturity</u>	<u>Principal Amount Outstanding March 31, 1976 (in millions of yen)</u>
1.	Bonds			
	6½% Treasury Bond, 26 Series(1)	1969-1973	1976-1983	¥ 3,986,612
	7% Treasury Bond, 7 Series(1)	1972-1973	1982-1983	2,132,132
	7¾% Treasury Bond, 7 Series(1)	1974	1984	1,888,722
	8% Treasury Bond, 14 Series(1)	1974-1976	1984-1986	7,078,127
	6% Bereaved Family Treasury Bond, 8 Series(2)	1967-1974	1976-1983	128
	6% Repatriation Treasury Bond, 9 Series(2)	1966-1975	1976-1985	0
	Non-interest Special Benefit Treasury Bond I, 7 Series(2)	1966-1975	1976-1985	271
	Non-interest Treasury Bond for Special Condolence, 3 Series(2)	1966-1972	1976-1982	3,640
	Non-interest Special Benefit Treasury Bond II, 9 Series(2)	1966-1975	1976-1985	2,150
	Non-interest Special Benefit Treasury Bond III, 3 Series(2)	1972-1975	1977-1980	2
	Non-interest Repatriation Special Benefit Treasury Bond, 8 Series(2)	1967-1974	1977-1984	28,495
	Non-interest Special Benefit Treasury Bond IV, 2 Series(2)	1973-1974	1983-1984	162,245
	Non-interest Special Benefit Treasury Bond V, 3 Series(2)	1973-1975	1977-1980	1,736
	Non-interest Treasury Bond for Special Condolence II(2)	1975	1985	20,389
	Total Bonds			¥15,304,649
2.	Borrowings			
	0-3½% Extraordinary Military Expenditure	1943-1945	(3)	¥ 41,422
	6.5% Ex-Ryukyu Government	1972	1978-1982	3,014
	National Property Special Consolidation Fund (6.2%-8.0%)	1972-1976	1978-1985	96,530
	National Schools (6.2%-8.0%)	1972-1976	1979-2000	68,202
	National Hospitals (6.2%-8.0%)	1963-1976	1988-2001	82,453
	Special Land Improvement (6.0%-8.0%)	1962-1976	1992-2006	160,319
	Postal Services (6.5%-8.0%)	1962-1976	1977-2001	141,581
	Flood Control (6.2%-8.0%)	1973-1976	1980-1984	1,671
	Finance for Urban Redevelopment (6.2%-8.0%)	1967-1976	1976-1986	72,826
	Total Borrowings			¥ 668,018
	Total Direct Internal Funded Debt			¥15,972,667

II. FLOATING DEBT

<u>Title</u>	<u>Interest or Discount</u>	<u>Year of Maturity</u>	<u>Principal Amount Outstanding March 31, 1976 (in millions of yen)</u>
Foreign Exchange Fund Bills, 25 Series	5.625%	1976	¥ 2,819,497
Food Bills, 17 Series	5.625%	1976	1,303,575
Note in Substitution for Currency of the International Development Association(4)	Non-interest bearing	Payable on demand	81,054
Note in Substitution for Currency of the International Monetary Fund(4)	Non-interest bearing	Payable on demand	298,518
Note in Substitution for Currency of the Asian De- velopment Bank(4)	Non-interest bearing	Payable on demand	19,152
Note for Contribution to the Special Funds of the Asian Development Bank(4)	Non-interest bearing	Payable on demand	70,112
Note in Substitution for Currency of the African Development Fund(4)	Non-interest bearing	Payable on demand	2,999
Industrial Investment	7.5%	1976	2,000
Allotment of Local Allocation Tax and Transferred Tax	7.5%	1976	1,287,940
Welfare Insurance	7.5%	1976	654,844
Postal Services	7.5%	1976	247,500
Alcohol Monopoly	7.5%	1976	2,300
Total Direct Internal Floating Debt			¥ 6,789,491
Total Direct Internal Debt			¥22,762,158

B. Debt Guaranteed by the Japanese Government

<u>Description</u>	<u>Principal Amount Outstanding March 31, 1976 (in millions of yen)</u>
I. FUNDED DEBT	
1. Bonds issued by sixteen Government-affiliated corporations	¥2,417,227
2. Borrowings of six Government-affiliated corporations	216,691
Total Internal Funded Debt Guaranteed by the Japanese Government	¥2,633,918
II. FLOATING DEBT	
Borrowings of two Government-affiliated corporations	¥ 8,687
Total Internal Debt Guaranteed by the Japanese Government	¥2,642,605

(1) Of these bonds, ¥112,489 million were issued in exchange for Government debt incurred prior to 1945 and held by The Bank of Japan and other banks.

(2) These Treasury bonds are non-transferrable and were issued in lieu of cash payments to satisfy obligations created by various laws.

(3) Represents borrowings by the Government from special corporations of currencies of areas under Japanese control during World War II. The maturity of such borrowings and other matters relating to such borrowings remain undetermined.

(4) These obligations, which are generally payable to international financial organizations, are denominated in yen and are officially classified by the Japanese Government as internal debt.

EXTERNAL DEBT

A. Direct Funded Debt of the Japanese Government

<u>Title and Interest Rate</u>	<u>Year of Issue</u>	<u>Year of Maturity</u>	<u>Principal Amount Outstanding March 31, 1976</u>	<u>Equivalent in Yen of Principal Amount Outstanding March 31, 1976 (in millions of yen) (1)</u>
Bonds Issued by the Japanese Government (2)				
Dollar Bonds				
Japan 5½%	1963	1980	\$ 8,509,000	¥ 2,621
Pound Sterling Bonds				
Japanese Government 4%	1910	1985	£ 6,107,740	¥ 4,902
[Coupon Strip]			[12,142]	[10]
Japanese Government 6%	1963	1988	4,161,400	3,340
Swiss Franc Bonds				
Japanese Government 5½%	1964	1979	SF 50,000,000	¥ 4,010
Japanese Government 5½%	1968	1983	60,000,000	4,813
Deutsche Mark Bonds				
Japanese Government 6%	1964	1979	DM 80,000,000	¥ 7,646
Japanese Government 7%	1968	1983	60,000,000	5,735
Total Direct External Funded Debt				<u>¥33,067</u>

B. Funded Debt Guaranteed by the Japanese Government

<u>Description and Interest Rate</u>	<u>Year of Issue</u>	<u>Year of Maturity</u>	<u>Equivalent in Yen of Principal Amount Outstanding March 31, 1976 (in millions of yen) (1)</u>
Bonds and Borrowings by and Deposits with Japanese Banks, Corporations, Government Agencies and Municipalities			
5.375%-10.5%	1957-1976	1976-1991	¥622,199

The foregoing bonds, borrowings and deposits are denominated and repayable in dollars, Deutsche marks and Swiss francs. The respective amounts thereof maturing in each such currency in each of the various periods and the yen equivalents thereof are shown in the following table:

	<u>Dollars</u>	<u>Deutsche Marks</u> (in thousands)	<u>Swiss Francs</u>	<u>Yen</u> (in millions)
JFY 1976-1977	\$ 167,512	DM 164,000	—	¥ 67,269
JFY 1978-1979	1,176,320	154,000	—	377,026
JFY 1980-1981	119,135	274,000	SF 26,000	64,968
JFY 1982-1986	118,689	436,000	80,000	84,646
JFY 1987-1990	61,665	10,000	104,000	3,290
Total	<u>\$1,643,321</u>	<u>DM 1,038,000</u>	<u>SF 210,000</u>	<u>¥ 622,199</u>

C. Funded Debt Guaranteed by Government Agencies

<u>Description and Interest Rate</u>	<u>Year of Issue</u>	<u>Year of Maturity</u>	<u>Equivalent in Yen of Principal Amount Outstanding March 31, 1976 (in millions of yen) (1)</u>
Bonds and Borrowings of, Credits Obtained by and Guarantee Obligations of Japanese Corporations			
5.5%-9.75% (3)	1957-1975	1976-1992	¥312,752

The foregoing bonds, borrowings, credits and guarantee obligations are denominated and repayable in dollars, pounds sterling and Swiss francs. The respective amounts thereof maturing in each such currency in each of the various periods and the yen equivalents thereof are shown in the following table:

	<u>Dollars</u>	<u>Pounds</u> (in thousands)	<u>Swiss Francs</u>	<u>Yen</u> (in millions)
JFY 1976-1977	\$222,252	£ 4,726	—	¥ 72,247
JFY 1978-1979	212,557	3,646	SF4,500	72,003
JFY 1980-1981	156,915	3,646	—	51,256
JFY 1982-1986	253,555	6,489	—	83,303
JFY 1987-1991	110,206	—	—	33,943
Total	<u>\$955,485</u>	<u>£ 18,507</u>	<u>SF4,500</u>	<u>¥312,752</u>

(1) Translations of amounts in foreign currencies to amounts in yen in this table are made at the central rates communicated to the IMF as of December 31, 1971, except for conversion of Swiss francs, which is made on the basis of the gold value of the Swiss franc as reported by Switzerland to the European Monetary Agreement. The rates are as follows:

1 \$	= ¥308
1 £	= ¥802.56
1 DM	= ¥ 95.58
1 SF	= ¥ 80.21

The yen equivalent of (a) direct funded debt, (b) funded debt guaranteed by the Japanese Government and (c) funded debt guaranteed by Government agencies, translated at exchange rates in effect in New York City on March 31, 1976, were, respectively, ¥37,901 million, ¥639,280 million and ¥297,357 million.

(2) The sterling bonds shown in this table include the relatively small amount of bonds whose holders have not accepted the respective debt settlement offers. They also include all sterling bonds revaluated by March 31, 1976. In addition to the principal amount of bonds outstanding, \$2,107,291 and £512,428 of matured bonds (together with Coupon Strips of \$1,682,791 and £349,021, respectively) were held by persons who had not accepted the respective debt settlement offers as of March 31, 1976.

(3) Certain obligations are at floating interest rates ranging from 0.625% to 1.50% per annum above the prime rates charged by various United States banks.

MISCELLANEOUS OBLIGATIONS

After World War II, Japan entered into agreements to pay reparations to four countries. The only significant such agreement under which Japan remains obligated is with the Philippines. The agreement calls for payment in goods and services in approximately equal annual amounts, subject to the availability

for delivery of such goods and services. The value of remaining payments as of June 30, 1976, all of which are expected to be made by July 22, 1976, is \$13,392,068.

Additionally, Japan entered into voluntary economic and technical cooperation agreements with various countries which did not or could not otherwise claim reparations from Japan. Such agreements still remain in effect with Burma and require Japan to supply goods and services on generally the same terms as contained in the Philippines reparations agreement. The value of payments remaining to be made as of June 30, 1976, all of which are expected to be made by April 15, 1977, is \$10,726,556.

SUBSCRIPTIONS TO INTERNATIONAL FINANCIAL ORGANIZATIONS

Japan is obligated to contribute to the capital subscriptions and, in some cases, to the additional financing requirements of certain international organizations in which it participates. Certain of its obligations to such organizations are set forth on page 47. Additional information is provided below.

Japan's current subscription to the International Monetary Fund is SDR 1,200 million (equivalent to \$1,404.8 million as of December 31, 1975). Of Japan's subscription, 25% was paid in gold, 1% in yen and 74% in non-negotiable, non-interest bearing notes payable on demand in yen.

Japan's subscription to the capital of the World Bank is \$1,234.1 million. Of this amount, 10% has been paid (9% in yen and 1% in dollars) and 90% is callable by the World Bank if required to meet its obligations in respect of funds borrowed or indebtedness guaranteed by the World Bank.

Japan's current subscription to the capital of the International Development Association is \$776.5 million. Japan's subscription to the capital of the International Finance Corporation is \$2.8 million.

Japan's subscription to the capital of the Asian Development Bank ("ADB") is \$603.2 million, representing 18.8% of the ADB's total subscriptions. Of this amount, 32% represents paid-in capital and the remaining 68% is callable by the ADB if required to meet its obligations in respect of funds borrowed or indebtedness guaranteed by the ADB.

Japan's subscription to the capital of the African Development Fund, an affiliate of the African Development Bank, is \$16.7 million. This subscription represents 11.3% of the African Development Fund's total subscriptions.

Japan's subscription to the inter-regional capital and its contribution to the Fund for Special Operation of the Inter-American Development Bank will be \$68.7 million each.

OFFICIAL PUBLIC DOCUMENTS

The documents referred to in the portion of this Prospectus relating to Japan as being the sources of financial or statistical data set forth therein are in all cases official public documents of Japan, its agencies or The Bank of Japan, with the exception of the United Nations, *The Demographic Yearbook, 1974*; Japan Productivity Center, *Quarterly Journal of Productivity*; the International Monetary Fund, *International Financial Statistics*; and the Organisation for Economic Co-operation and Development, *Revenue Statistics*. Unless otherwise indicated, all such Japanese official public documents are published in English as well as Japanese.

DESCRIPTION OF THE NOTES AND GUARANTEE

General

The Notes will be payable as to interest and principal in such coin or currency of the United States as at the time of payment is legal tender for the payment therein of public and private debts, at the office of The Bank of Tokyo Trust Company, New York, N. Y., or its successor as fiscal agent, pursuant to a Fiscal Agency Agreement dated as of July 15, 1976 to be executed between the Bank, Japan and The Bank of Tokyo Trust Company (the "Fiscal Agent"), except that interest on the fully registered Notes will be payable to the registered holders of such Notes who were such at the close of business on the last day of the month next preceding the interest payment date and may, at the option of the Bank be payable by checks mailed to such registered holders. The Fiscal Agent is not a trustee for the Note holders and does not have the same responsibilities or duties to act for such holders as would a trustee. The Notes are to mature July 15, 1981. Interest payment dates are January 15 and July 15 commencing January 15, 1977.

The Notes are to be issued in definitive bearer form with interest coupons attached, registrable as to principal, in the denomination of \$1,000, and in definitive fully registered form without coupons, in the denominations of \$1,000 and any multiple thereof. Any fully registered Notes issued upon original issue may be exchanged for coupon Notes without charge to the holder.

Rank of Notes

The Notes will be unsecured. At the time of issuance they will rank on a parity with all other indebtedness of the Bank, except that certain preferential rights, such as preferential rights of employees to wages, are granted by the Japanese Civil Code to certain specified types of creditors.

The Bank will agree in the Notes that if it shall, in the future, secure any loan, debt, guarantee or other obligation, now or hereafter existing, by any lien, pledge or other charge upon any of its present or future assets or revenues, the Notes shall share in and be secured by such lien, pledge or other charge equally and ratably with such other loan, debt, guarantee or other obligation.

Guarantee of Japan

Japan will unconditionally guarantee payment of principal and interest on the Notes. The guarantee will be a general obligation of Japan, and the full faith and credit of Japan will be pledged for the performance thereof. The guarantee will rank *pari passu* with all other general obligations of Japan without any preference one above the other by reason of priority of date of issue or otherwise. Japan will agree that the guarantee may be enforced, in the event of default by the Bank, without making prior demand upon or seeking to enforce remedies against the Bank.

Japan will agree in the guarantee that if it shall, in the future, secure any loan, debt, guarantee or other obligation constituting external debt, now or hereafter existing, by any lien, pledge or other charge upon any of its present or future assets or revenues, the guarantee shall share in and be secured by such lien, pledge or other charge equally and ratably with such other loan, debt, guarantee or other obligation.

Taxation

Interest on and principal of the Notes will be payable without deduction for or on account of any present or future taxes or duties, of whatsoever nature, imposed or levied by or within Japan or by or within any prefecture, municipality or other political subdivision or taxing authority therein or thereof, but the foregoing provision shall not be construed as exempting any Note or the income therefrom from taxation when the bearer or registered owner thereof (or the beneficial owner thereof if he is a person other than the bearer or registered owner) is subject to taxation thereon or on such income, otherwise than by reason of his ownership of such Note or the receipt of income therefrom. For

example, the bearer or registered owner of a Note who is taxable as a resident of Japan would not be entitled to such exemption. The foregoing provision does not provide exemption from taxation by any country other than Japan.

As regards United States taxation, in the opinion of Milbank, Tweed, Hadley & McCloy, special counsel for the Bank and Japan, interest on the Notes is currently exempt from United States income taxes, including withholding taxes, if paid to an individual who is not a citizen or resident of the United States, or to a corporation organized under the laws of a country other than the United States, whether or not such individual or corporation is engaged in trade or business in the United States, unless

(i) the corporation is an insurance company carrying on a life insurance business in the United States to which the interest is attributable, within the meaning of the United States Internal Revenue Code, or

(ii) the individual or corporation has an office or other fixed place of business in the United States to which the interest is attributable and the interest either is derived in the active conduct of a banking, financing or similar business in the United States or is received by a corporation the principal business of which is trading in stocks or securities for its own account, and certain other conditions exist.

In the further opinion of Milbank, Tweed, Hadley & McCloy, interest paid by the Bank on the Notes will, for United States income tax purposes, constitute income from sources without the United States, provided that the Bank continues to derive more than 50% of its gross income from the conduct of a trade or business outside the United States.

Acceleration of Maturity

In case of default in any payment of interest on the Notes, and continuance of such default for a period of 30 days, each Note will become due and payable at the option of the bearer or registered owner of such Note upon written notice to the Fiscal Agent, unless prior to the receipt of such notice by the Fiscal Agent all defaults shall have been cured. No periodic evidence is required to be furnished by the Bank to the Fiscal Agent as to the absence of default.

Redemption

The Notes are not redeemable prior to maturity.

Governing Law

The Fiscal Agency Agreement, the Notes and the guarantee of Japan all provide that they shall be governed by, and interpreted in accordance with, the laws of the State of New York, except with respect to authorization and execution by the Bank and Japan of the Fiscal Agency Agreement and the Notes and the guarantee of Japan, as the case may be, and any other matters required to be governed by the laws of Japan.

Consent to Service

The Bank will effect the irrevocable appointment of the Fiscal Agent as its authorized agent upon which process may be served in any action based upon the Notes (i.e. asserting rights set forth in the Notes) which may be instituted in any State or Federal court in The City of New York by any holder of a Note or coupon and will accept the jurisdiction of such court in such action. The Bank will also waive irrevocably any immunity to which it might otherwise be entitled in any action based upon the Notes. Japan has made no such appointment or waiver of immunity. The Fiscal Agent is not the agent for service for actions brought under the federal securities laws nor does the Bank's waiver of immunity extend to such actions.

The foregoing statements include brief summaries of some of the provisions of the forms of Notes and Guarantees and of the Fiscal Agency Agreement, copies of which are filed as exhibits to the Registration Statement. Such statements do not purport to be complete and are qualified in their entirety by reference to such exhibits.

Listing

The Bank has agreed to make application to list the Notes on the New York Stock Exchange. Such listing is contingent, among other things, upon sufficient distribution of the Notes being effected to meet the requirements of the Exchange.

AUTHORIZED AGENTS IN THE UNITED STATES

The authorized agents in the United States of the Bank and Japan, for the purpose of the United States Securities Act of 1933, are, respectively, Jun Kano, Duly Authorized Representative in the United States of The Japan Development Bank, and Tadayuki Koizumi, Duly Authorized Representative in the United States of the Minister of Finance of Japan.

LEGAL OPINIONS

The validity of the Notes and of the guarantee thereof is being passed upon on behalf of the Bank by Nobukata Naritomi, Esq., of Tokyo, Japan (who is passing only upon the Notes), on behalf of Japan by the Director-General of the Cabinet Legislation Bureau of Japan, and on behalf of the Bank and Japan by Milbank, Tweed, Hadley & McCloy of New York, N. Y. The validity of the Notes and of the guarantee thereof is being passed upon on behalf of the Underwriters by Sullivan & Cromwell of New York, N. Y. and by Blakemore & Mitsuki of Tokyo, Japan. In giving their opinions, Milbank, Tweed, Hadley & McCloy and Sullivan & Cromwell may rely as to matters of Japanese law upon the opinions of other counsel referred to in this paragraph, and Nobukata Naritomi, Esq. and Blakemore & Mitsuki may rely as to matters of New York law upon the opinions of Milbank, Tweed, Hadley & McCloy and Sullivan & Cromwell. All statements in the Prospectus with respect to or involving matters of Japanese law have been passed upon by Nobukata Naritomi, Esq. (with respect to matters relating to the Bank and its business), by the Director-General of the Cabinet Legislation Bureau and by Blakemore & Mitsuki and are stated herein on their authority. Statements as to United States taxation in the Prospectus under the caption "Description of the Notes and Guarantee—Taxation" have been passed upon by Milbank, Tweed, Hadley & McCloy and are stated herein on their authority.

UNDERWRITING

The Underwriters named below have severally agreed to purchase from the Bank the following respective principal amounts of the Notes:

<u>Underwriter</u>	<u>Principal Amount</u>
The First Boston Corporation	\$ 8,775,000
Dillon, Read & Co. Inc.	8,775,000
Smith Barney, Harris Upham & Co. Incorporated	8,775,000
The Nikko Securities Co. International, Inc.	8,775,000
ABD Securities Corporation	800,000
Adams & Peck	400,000
Arnhold and S. Bleichroeder, Inc.	800,000
Bache Halsey Stuart Inc.	1,650,000
Basle Securities Corporation	800,000
Bateman Eichler, Hill Richards Incorporated	400,000
Bear, Stearns & Co.	1,100,000
William Blair & Company	400,000
Blyth Eastman Dillon & Co. Incorporated	1,650,000
Dain, Kalman & Quail, Incorporated	400,000
Daiwa Securities America Inc.	1,650,000
Donaldson, Lufkin & Jenrette Securities Corporation	1,650,000
Drexel Burnham & Co. Incorporated	1,650,000
A. G. Edwards & Sons, Inc.	400,000
EuroPartners Securities Corporation	800,000
Goldman, Sachs & Co.	2,250,000
Hornblower & Weeks-Hemphill, Noyes Incorporated	1,650,000
Howard, Weil, Labouisse, Friedrichs Incorporated	400,000
E. F. Hutton & Company Inc.	1,650,000
Keefe, Bruyette & Woods, Inc.	400,000
Kidder, Peabody & Co. Incorporated	1,650,000
Kleinwort, Benson Incorporated	800,000
Kuhn, Loeb & Co.	2,250,000
Lazard Frères & Co.	1,650,000
Lehman Brothers Incorporated	1,650,000
Loeb, Rhoades & Co.	1,650,000
Loewi & Co. Incorporated	400,000
McDonald & Company	400,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	2,250,000
Morgan Stanley & Co. Incorporated	2,250,000
New Court Securities Corporation	800,000
New Japan Securities International Inc.	800,000
Nomura Securities International, Inc.	1,650,000
Paine, Webber, Jackson & Curtis Incorporated	1,650,000
Piper, Jaffray & Hopwood Incorporated	400,000
Prescott, Ball & Turben	400,000
R. W. Pressprich & Co. Incorporated	800,000
Reynolds Securities Inc.	1,650,000
Robert Fleming Incorporated	800,000
The Robinson-Humphrey Company, Inc.	400,000
L. F. Rothschild & Co.	1,100,000
Salomon Brothers	2,250,000

<u>Underwriter</u>	<u>Principal Amount</u>
Shearson Hayden Stone Inc.	\$ 1,100,000
Shields Model Roland Securities Incorporated	1,100,000
Shuman, Agnew & Co., Inc.	400,000
SoGen-Swiss International Corporation	800,000
Stone & Youngberg	400,000
Stuart Brothers	400,000
Sutro & Co. Incorporated	400,000
Tucker, Anthony & R. L. Day, Inc.	800,000
UBS-DB Corporation	800,000
Warburg Paribas Becker Inc.	1,650,000
Weeden & Co. Incorporated	1,100,000
Wertheim & Co., Inc.	1,650,000
White, Weld & Co. Incorporated	1,650,000
Dean Witter & Co. Incorporated	1,650,000
Wood, Struthers & Winthrop Inc.	800,000
Yamaichi International (America), Inc.	1,650,000
Total	<u>\$100,000,000</u>

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will be obligated to purchase all of the Notes if any are purchased.

The Bank has been advised by The First Boston Corporation, Dillon, Read & Co. Inc., Smith Barney, Harris Upham & Co. Incorporated and The Nikko Securities Co. International, Inc., as Representatives of the Underwriters, that the Underwriters propose to offer the Notes to the public initially at the offering price set forth on the cover page of the Prospectus and, through the Representatives, to certain dealers at such price less a concession of .50% of the principal amount of the Notes; that the Underwriters and such dealers may allow a discount of .25% of such principal amount on sales to other dealers; and that the public offering price and concession and discount to dealers may be changed by the Representatives.

FURTHER INFORMATION

Further information concerning these securities and their issuer is to be found in the Registration Statement on file with the Securities and Exchange Commission.

The undersigned, Governor of The Japan Development Bank, in his official capacity as such Governor, thereunto duly authorized, has supplied the information set forth herein under the caption "The Japan Development Bank", and such information is stated on his authority.

The undersigned, Minister of Finance of Japan, in his official capacity as such Minister, thereunto duly authorized, has supplied the information set forth herein under the caption "Japan", and such information is stated on his authority.

THE JAPAN DEVELOPMENT BANK
By EIICHI YOSHIOKA
Governor

JAPAN
By MASAYOSHI OHIRA
Minister of Finance

日本開發銀行

The Japan Development Bank
(NIPPON KAIHATSU GINKO)

ALASKA
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*The Japan
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Bank,*

Annual Report

for the year ended
March 31, 1975

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Annual Report

for the year ended March 31, 1975

THE JAPAN DEVELOPMENT BANK

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The Fiscal Year covers one year from April 1 of the year to March 31 of the next year.

Unless otherwise indicated in this report, translations of Japanese Yen into United States dollars are made, for convenience sake, at the rate of 308 Yen to the United States dollar.

The figures in this report are rounded to the nearest final digits.

The term "billion" is used to mean one thousand million.

