Japan Finance Corporation (Account for Micro Business and Individual Operations)

https://www.jfc.go.jp/

1. Summary of operations implemented using FILP funds

To smoothly provide necessary business loans to small enterprises that have difficulty receiving loans from private financial institutions.

2. Amount of lending under FY2019 FILP

(Unit: billion yen)

FY2019 FILP	Estimated outstanding amount of FILP lending at the end of FY2018
2,080.3	6,092.0

3. Estimated policy cost analysis of the project

(1) Policy cost

(Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
1. Government expenditure (subsidies, etc.)	74.0	78.8	+4.8
2. Government revenue (payments to the government, etc.)*	-	-	-
3. Opportunity cost of capital investments, etc.	-46.8	-48.0	-1.2
Total (1+2+3=policy cost(A))	**27.3**	**30.8**	**+3.5**
Analysis period (years)	31 years	31 years	-

(2) Breakdown of policy cost by the time of the provision of funds

(Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
(A) Policy cost (previously cited)	27.3	30.8	+3.5
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	264.7	252.1	-12.6
2) Policy cost expected to be newly accrued during the analysis period	-237.4	-221.3	+16.2
Government expenditure (subsidies, etc.)	74.0	78.8	+4.8
Government revenue (payments to the government, etc.)*	-	-	-
Opportunity cost of surplus, etc.	-314.0	-302.7	+11.3
Opportunity cost of capital investments, etc.	2.5	2.7	+0.1

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2018	FY2019	Simple fluctuation
	Simple comparison (before adjustment)	27.3	30.8	+3.5
	Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2019 analysis)	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2018)	Real fluctuation (2-1)
		6.1	30.8	+24.7

[Real fluctuation factor analysis]

〇Factors behind policy cost increase

- Increase in cost due to increase in loan losses (+60.4 billion yen)
- Increase in cost due to finalization of FY2017 results and revision of FY2018 projections (+7.8 billion yen)
- Increase in cost due to increase in prepayments (+6.7 billion yen)
- Others (Increase in administrative cost due to new financing, etc.) (+78.6 billion yen)

〇Factors behind policy cost decrease

- Decrease in cost due to interest rate gap for FY2019 loans (-128.7 billion yen)

(4) Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2019 (previously cited)	30.8
1) Prepayments	29.0
2) Loan losses	246.0
3) Others (including profit spread)	-244.2

(5) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

(A) Policy cost (previously cited)	Case for raising lending and fundraising rates by 1 %	Fluctuation	1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*	3. Opportunity cost of capital investments, etc.
30.8	48.8	+18.0	-2.0	-81.5	+101.5

(A) Policy cost (previously cited)	Case for raising the bad loan write-off by 10 %	Fluctuation	1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*	3. Opportunity cost of capital investments, etc.
30.8	55.0	+24.2	-0.2	-	+24.4

(Note) Components in each column may not add up to the total because of rounding.

* Government revenue (payments to the government, etc.) is booked as a negative amount. Example: -10 b. yen for 10 b. yen in payments to government, etc.

4. Outline of estimation and project prospect employed in the analysis

1) All loan projects are included in calculation.
2) Calculation is made assuming that loans will be provided under the FY2019 business plan (¥2,800.0 billion) in addition to the loans that have been already provided amounting to ¥7,390.3 billion (estimated at the end of FY2018.)
3) The analysis period continues for a period of 31 years in which all loans provided under the FY2019 business plan will be recovered in full in addition to the loans that have been already provided.
4) The prepayment ratio (prepayment value in the current fiscal year ÷ outstanding balance of lending at the previous fiscal year-end) from FY2018 is projected at a weighted average (13.08%) from FY2013 through FY2017.
5) The loan loss provision ratio (loan loss provisions in the current fiscal year ÷ outstanding balance of lending at the previous fiscal year-end) from FY2020 is projected at 0.81% representing the average of ratios for normal to risky borrowers in FY2015, 2016 and 2017. The total loan loss provisions from FY2019 to FY2049 are ¥234.7 billion.

(Unit:%)

	Result					Estimated	Planned	Assumptions for calculation
FY	2013	2014	2015	2016	2017	2018	2019	2020-2049
Prepayment ratio	13.00%	12.93%	13.40%	13.35%	12.75%	13.08%	13.08%	Each fiscal year: 13.08%
Loan loss provision ratio	1.03%	0.89%	0.83%	0.79%	0.80%	0.90%	0.91%	Each fiscal year: 0.81%

5. Reasons for granting of subsidies, mechanism and underlying laws

(Reasons)

・Grants in the Managerial Improvement Loan Program for Small-Scale Enterprises, the New Startup Loan Program and various Special Loans are received from the general account and the Special Account for Energy Policy to secure these programs' smooth operation.

(Rules)

・Grants cover profit margin falls resulting from policy-oriented cuts in interest rates for the Managerial Improvement Loan Program for Small-Scale Enterprises, the New Startup Loan Program and various Special Loans, etc.

(Underlying laws and regulations)

・ Grants have no legal base (they are budgetary measures).

・ The Japan Finance Corporation Act (Act No. 57, May 25 2007) provides for capital investment (Article 4).

Article 4 of the Act:

The Government may, when it finds it to be necessary, make contributions to JFC within the amount appropriated in the budget.

・The Japan Finance Corporation Act provides for payment to the national treasury.

Article 47 of the Act:

In the event that the amount of the surplus recorded in the settlement of accounts for each business year exceeds zero in each account related to the operations listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order, among such surplus, until it reaches the amount prescribed by the Cabinet Order, and if there is still a surplus, JFC shall pay the amount of such surplus into the National Treasury within three months after the end of such business year.

6. Special remarks

The data shows the policy cost required for providing long-term, fixed-rate business loans to small enterprises that have difficulty receiving loans from private financial institutions.

(Reference) Outcome and social and economic benefits of operations

1) Financing

Financing (FY2017)

For business	0.26 mil. cases	2.1003 trillion yen
For environmental health business	0.01 mil. cases	82.2 billion yen
For education	0.14 mil. cases	181.4 billion yen
Total	0.41 mil. cases	2.3639 trillion yen

Total financing (aggregate amount from FY1949 to FY2017)

For business	30.60 mil. cases	118.1522 trillion yen
For environmental health business	2.36 mil. cases	7.6171 trillion yen
For education	13.09 mil. cases	9.4743 trillion yen
Total	46.04 mil. cases	135.2436 trillion yen

Outstanding balance of lending (end of FY2017)

For business	1.04 mil. cases	5.8775 trillion yen
For environmental health business	0.07 mil. cases	313.3 billion yen
For education	0.95 mil. cases	938.1 billion yen
Total	2.06 mil. cases	7.1290 trillion yen

Lending plan (FY2019)

For business	2.4930 trillion yen
For environmental health business	115.0 billion yen
For education	192.0 billion yen
Total	2.8000 trillion yen

2) Loans contribute to business stability and the growth of small enterprises mainly through small loans for small enterprises with 9 employees or less, which account for about 90% of the total number of loans. The average loan amount is rather small, at 7.04 million yen, and non-collateral loans account for 85% of the total number of loans. (Number of loans in FY2017: 269,327; of these, non-collateral loans: 230,263)

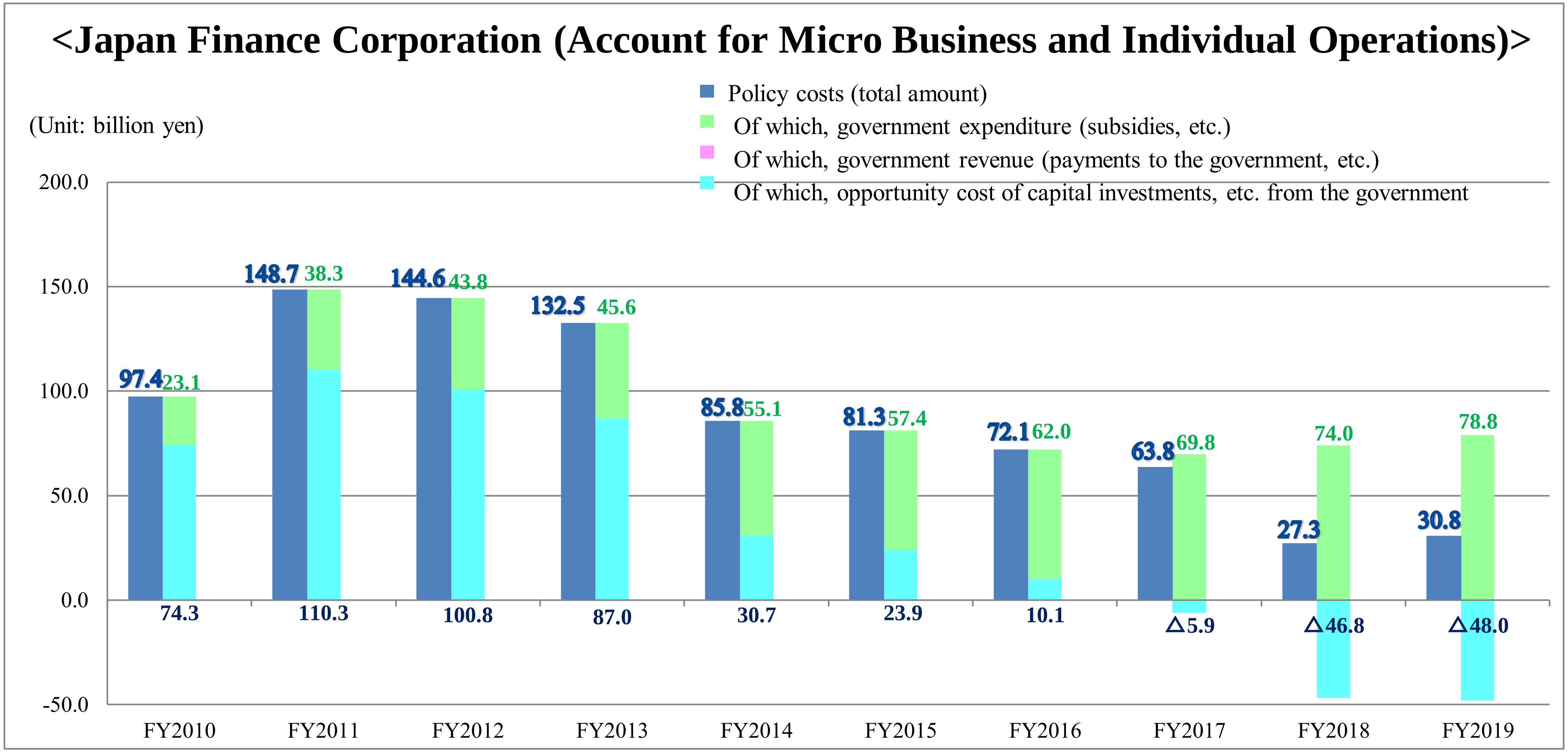
3) The total number of employees of borrower enterprises is approximately 10% of the total number of employed persons. By supporting the business stability and growth of small enterprises, loans contribute to the stability of the livelihoods of the employees of these enterprises. (Total no. of employees of borrower enterprises (estimated to be 5.45 million) ÷ total number of employed persons (65.30 million) = 8.3%)

4) The estimates calculated under a certain condition represents about 4,500 companies that could not have been incorporated without financing of the Finance Corporation and about 12.6 billion yen worth of benefit by the employment opportunity created by the companies thus incorporated.

5) The estimate under a certain condition represents about 13,100 companies that could avoid winding up with financing of the Finance Corporation and about 66.8 billion yen worth of benefits by preventing the employees of the companies from becoming unemployed.

6) Stably providing educational funds for higher education etc. contributes to the improvement of education levels. The improvement of education levels in turn contributes to the improvement of labor productivity, technology advancement and the like. (Number of students who took advantage of educational loans: about 0.12 million students (including about 60 thousand university students))

(Reference) Changes in Policy Costs by Component



Note: Policy costs for each fiscal year differ in assumptions including interest rates applied to estimates.

(Points)

・From FY2010 to FY2011, policy costs increased, reflecting the effects of receiving capital investment from the government due to economic policies after the Lehman Shock and response to the Great East Japan Earthquake.

・From FY2012 onward, policy cost has been decreasing due to a decrease in credit-related cost thanks to improved business conditions of borrowers and a decrease in opportunity cost of capital investments, etc. related to a change in the assumed interest rate.

(Reference) Financial Statements

Balance Sheet (Unit: million yen)

Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)	Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)
(Assets)				(Liabilities and equity)			
Cash and deposits	68,748	28,960	28,786	Borrowed money			
Cash	17	20	20	Borrowings	5,557,762	5,819,280	6,129,614
Deposits	68,730	28,939	28,765	Bonds payable	615,287	690,255	740,189
Receivables under resale agreement	-	849	844	Other liabilities	6,847	6,652	12,961
Loans				Accrued expenses	2,264	2,139	5,945
Loan on deeds	6,994,432	7,390,312	7,769,080	Lease obligations	1,014	953	3,457
Other assets	10,457	10,707	11,768	Other liabilities	3,568	3,558	3,558
Prepaid expenses	12	12	12	Reserve for bonuses	3,046	3,378	3,378
Accrued revenue	6,343	6,605	7,666	Reserve for directors' bonuses	7	8	8
Agency account receivable	935	935	935	Reserve for retirement pensions	55,238	54,576	53,695
Other assets	3,166	3,154	3,154	Reserve for directors' retirement benefits	17	19	8
Tangible fixed assets	97,385	99,925	101,540	(Total liabilities)	6,238,206	6,574,170	6,939,854
Buildings	29,176	32,554	31,853	Capital	1,137,634	1,167,933	1,180,262
Land	65,499	65,468	65,468	Capital surplus			
Lease assets	801	813	3,123	Special reserve for managerial improvement	181,500	181,500	181,500
Construction in progress	797	-	-	Retained earnings			
Other tangible fixed assets	1,111	1,088	1,094	Other retained earnings			
Intangible fixed assets	7,211	8,862	10,643	Earned surplus carried forward	- 483,392	- 491,809	- 492,379
Software	5,732	6,917	6,888	Total shareholders' equity	835,741	857,623	869,382
Lease assets	92	24	5	(Total equity)	835,741	857,623	869,382
Other intangible fixed assets	1,386	1,920	3,749				
Allowances for bad debts	- 104,287	- 107,824	- 113,424				
Total assets	7,073,948	7,431,793	7,809,237	Total liabilities and equity	7,073,948	7,431,793	7,809,237

Note: Amounts of less than one million yen are rounded down.

Income Statement (Unit: million yen)

Item	FY2017 (Result)	FY2018 (Estimated)	FY2019 (Planned)	Item	FY2017 (Result)	FY2018 (Estimated)	FY2019 (Planned)
Ordinary income	138,739	144,702	165,130	Expenses for service transactions, etc.	573	679	719
Revenue from fund management	114,003	118,913	138,273	Other service expenses	573	679	719
Interest on loans	114,002	118,913	138,273	Other operating expenses	333	657	624
Interest from repurchase agreements	—	0	0	Amortization of bond issue expenses	333	657	624
Interest on deposits	0	0	0	Business expenses	71,317	82,120	82,329
Other interest received	0	0	0	Other ordinary expenses	52,014	63,137	67,600
Revenue from service transactions, etc.	0	0	0	Provision of allowance for bad debts	40,402	51,700	56,200
Other service revenue	0	0	0	Provision on loans	11,379	11,400	11,400
Revenue from government grants	23,042	24,050	24,997	Other ordinary expenses	232	37	—
Receipts from the general account	23,042	24,050	24,997	Ordinary profit	5,627	-8,304	-569
Receipts from the special account	0	0	0	Extraordinary profits	42	1	—
Other ordinary income	1,693	1,738	1,859	Gain on sales and retirement of noncurrent assets	42	1	—
Bad debt recovered	583	538	624	Extraordinary loss	203	114	—
Other ordinary income	1,109	1,200	1,234	Loss on sales and retirement of noncurrent assets	132	78	—
Ordinary expenses	133,112	153,006	165,699	Impairment loss	71	35	—
Financing cost	8,873	6,412	14,426	Net profit	5,466	-8,417	-569
Interest on call money	-8	-3	—				
Interest on borrowed money	7,876	5,919	12,127				
Interest on bonds	1,005	496	2,299				
Other interest paid	—	0	0				

Note: Amounts of less than one million yen are rounded down.