

1. Summary of operations implemented using FILP funds

The Japan Finance Corporation for Small and Medium Enterprise is supporting the small and medium sized enterprises that are expected to contribute to the invigoration of the nation's economy with their ample vitality and that are the chief players of the regional economies by operations including the constant provision of such long-term funds to facilitate the small and medium sized enterprise operators that are difficult to be sufficiently supplied by the 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 |
|-------------|---|
| 988.0 | 4,366.6 |

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

| Category | FY2018 | FY2019 | Fluctuation |
|---|------------|------------|-------------|
| 1. Government expenditure (subsidies, etc.) | 71.6 | 71.1 | -0.5 |
| 2. Government revenue (payments to the government, etc.)* | - | - | - |
| 3. Opportunity cost of capital investments, etc. | -65.0 | -65.7 | -0.7 |
| Total (1+2+3=policy cost(A)) | 6.6 | 5.4 | -1.2 |
| Analysis period (years) | 21 years | 21 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) | 6.6 | 5.4 | -1.2 |
| 1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period | 187.7 | 184.5 | -3.2 |
| 2) Policy cost expected to be newly accrued during the analysis period | -181.1 | -179.1 | +2.0 |
| Government expenditure (subsidies, etc.) | 71.6 | 71.1 | -0.5 |
| Government revenue (payments to the government, etc.)* | - | - | - |
| Opportunity cost of surplus, etc. | -257.7 | -254.7 | +3.0 |
| Opportunity cost of capital investments, etc. | 5.1 | 4.5 | -0.5 |

(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) | 6.6 | 5.4 |
| 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) |
| | | 0.6 | 19.5 | +18.9 |

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost settled results in FY2017 and expected revision in FY2018 (+13.6 billion yen)
- Increase in cost due to increase in loan losses (+6.4 billion yen)
- Other factors (increase in clerical cost due to new loans, etc.) (+42.5 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to interest rate change for FY2019 loans (-43.1 billion yen)
- Decrease in cost due to decrease in prepayments (-0.5 billion yen)

(4) Breakdown of policy cost by causative factor (Unit: billion yen)

| (A) Policy cost in FY2019 (previously cited) | 5.4 |
|--|--------|
| 1) Prepayments | 32.0 |
| 2) Loan losses | 168.7 |
| 3) Others (including profit spread) | -195.4 |

(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. |
|------------------------------------|---|-------------|---|---|--|
| | | | 5.4 | 235.2 | +229.7 |

| (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. |
|------------------------------------|---|-------------|---|---|--|
| | | | 5.4 | 18.8 | +13.4 |

(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) The estimation is made in respect to all projects subject to financing and securitization support.
- 2) The estimation is made on the assumption that financing is implemented based on the FY2019 business plan (¥1,500.0 billion) in addition to existing loan balance of ¥5,535.0 billion (estimated as of the end of FY2018).
- 3) The analysis period is supposed to be 21 years until the complete repayment of all loans made based on the FY2019 operation program as well as existing loans.
- 4) Prepayments are expected to account for 2.61% of outstanding loans at the beginning of the analysis period in and after FY2020. This ratio is the weighted average of the preceding 5 years (FY2013 - FY2017).
- 5) Loan loss provisions are projected at a level equivalent to 0.72% of the fiscal year-end loan balance in and after FY2020. This percentage represents the weighted average for the FY2012-2017 period excluding FY2014 when no loan loss provision was booked.

(Unit:%)

| FY | Result | | | | | | Estimated | Planned | Assumptions for calculation |
|---------------------------|--------|------|------|------|------|------|-----------|---------|-----------------------------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020-2039 |
| Prepayment ratio | 2.84 | 2.76 | 2.53 | 2.62 | 2.80 | 2.63 | 2.42 | 2.35 | After FY2020 2.61 |
| Loan loss provision ratio | 1.19 | 1.05 | — | 0.48 | 0.33 | 0.44 | 0.59 | 0.63 | After FY2020 0.72 |

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

(Reasons)

For the purpose of providing long-term business funds with low and fixed interest rates for small enterprises that find it difficult to receive loans from private financial institutions, financial assistance is received from the general account of the national treasury as compensation for income reduced by reducing the loan interest rate lower than the standard rates.

Moreover, for the purpose of promoting smooth special lending, financial assistance or subsidy is received from the Special Account for Energy Policy and the general account.

(Underlying laws and regulations)

- Subsidies, etc., 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:

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 national treasury (Article 47).

Article 47

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

None

(Reference) Outcome and social and economic benefits of operations

1) Financing results

Total lending (FY2017)

Business funds 22 thousand cases 1.4851 trillion yen

Total lending (aggregate amount from FY 1953 to FY2017)

Business funds 2.84 mil. cases 85.9448 trillion yen

2) Economic contribution of the corporation's client companies

Total of the corporation's loan customers' corporate tax and the like account for 2% of the entire economy and 6% of small and medium enterprises.

| | Entire loan customers (Note 1) | All domestic enterprises (Note 3) | % of Japan's economy |
|------------------------------|--------------------------------|-----------------------------------|----------------------|
| Corporate tax, etc. (Note 2) | 481.0 billion yen | 20.0 trillion yen | 2% |
| | | 7.5 trillion yen | 6% |

(Note 1) The amount are given by multiplying the average per client approved to be provided with loans in the fiscal year by the number of the direct loan clients, 44,145 companies.

(Note 2) Other than corporate tax, this includes prefectural tax, municipal tax and business tax.

(Note 3) Small and medium enterprises are those capitalized at less than 100 million yen.

3) Economic effect from capital investment loans

(1) The finance corporation's capital investment loans for FY2017 were 466.1 billion yen. The total of capital investment utilizing these loans amounts to 722.2 billion yen (excluding land).

(2) The measurement of the ripple effect to Japan's economy based on this outcome indicates that it induced 1.6 trillion-yen worth of production and jobs for 97 thousand people within the country.

4) Prevention of loss of employment by safety net loans

Safety net loans were provided to SMEs that suffer temporary setbacks in business conditions due to deterioration in the social or economic environment or other reasons or confront cash flow difficulties due to credit squeeze or the collapse of affiliated companies, contributing to the prevention of the loss of 550,000 jobs (equivalent to 29% of the number of unemployed persons).

5) Number of public companies turned out

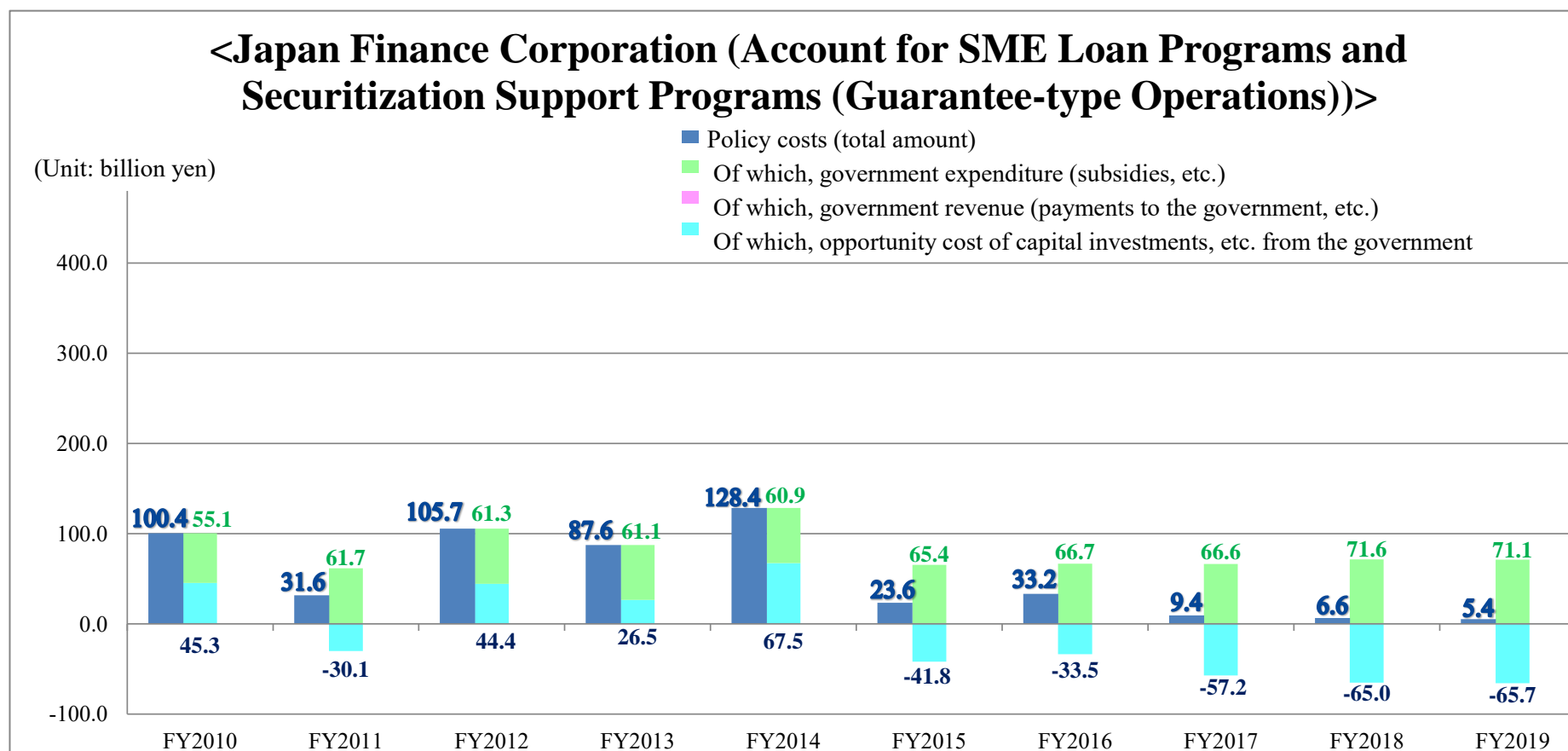
(1) 641 companies that borrowed funds from the finance corporation, have gone public thus far (one in six public companies).

(2) Specifically, about one in three public companies has been a client of the finance corporation since 1989.

| | Cumulative total | Cumulative total since 1989 |
|---|------------------------|-----------------------------|
| Number of public companies | 3,508 companies (100%) | 1,522 companies (100%) |
| Number of these having past or present dealing with the finance corporation | 641 companies (18.3%) | 465 companies (30.6%) |

Note: As of 31 March 2018, excluding agriculture/fisheries, finance/insurance and foreign companies.

(Reference) Changes in Policy Costs by Component



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

(Points)

- From FY2012 to FY2014, policy costs have increased, reflecting the effects of receiving capital investment from the government, mainly due to response to the Great East Japan Earthquake.
- Since FY2016, policy costs have followed a downtrend due to such factors as a decrease in the opportunity cost of capital investments from the Government through assumed interest rate changes.

(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 | 69,300 | 31,316 | 30,718 | Borrowed money | | | |
| Cash | 3 | 3 | 3 | Loans payable | 3,337,017 | 3,310,190 | 3,303,074 |
| Deposits | 69,296 | 31,313 | 30,714 | Bonds | 595,279 | 673,790 | 688,277 |
| Securities | 507 | 43 | 43 | Other liabilities | 3,975 | 5,556 | 9,914 |
| Bonds | 35 | 35 | 35 | Accrued expenses | 2,280 | 1,884 | 4,077 |
| Stocks | 7 | 7 | 7 | Advance revenues | 76 | 2,311 | 3,562 |
| Other securities | 464 | - | - | Lease obligations | 222 | 478 | 1,391 |
| Loans | | | | Other liabilities | 1,396 | 882 | 882 |
| Loan on deeds | 5,379,817 | 5,535,001 | 5,596,190 | Reserve for bonuses | 1,125 | 1,234 | 1,234 |
| Other assets | 4,307 | 4,436 | 5,083 | Reserve for directors' bonuses | 6 | 6 | 6 |
| Prepaid expenses | 3 | 3 | 3 | Reserves for retirement pensions | 20,182 | 20,074 | 19,966 |
| Accrued revenue | 3,139 | 3,191 | 3,223 | Reserve for directors' retirement benefits | 9 | 10 | 2 |
| Derivatives | 4 | - | - | Acceptances and guarantees | 12,009 | 67,023 | 120,514 |
| Other assets | 1,161 | 1,241 | 1,856 | (Total liabilities) | 3,969,605 | 4,077,888 | 4,142,991 |
| Tangible fixed assets | 47,290 | 48,098 | 49,324 | Capital | 1,594,085 | 1,642,785 | 1,682,985 |
| Buildings | 10,967 | 11,572 | 11,953 | Retained earnings | | | |
| Land | 35,721 | 35,718 | 35,718 | Other retained earnings | | | |
| Lease assets | 168 | 427 | 1,262 | Retained earnings brought forward | -313,070 | -300,403 | -294,188 |
| Construction in progress | 99 | - | - | Total shareholders' equity | 1,281,014 | 1,342,381 | 1,388,796 |
| Other tangible fixed assets | 334 | 378 | 389 | Net unrealized gains or losses on other securities | 464 | - | - |
| Intangible fixed assets | 3,224 | 4,014 | 5,373 | Total valuation and translation adjustments | 464 | - | - |
| Software | 2,444 | 3,168 | 4,508 | (Total equity) | 1,281,479 | 1,342,381 | 1,388,796 |
| Lease assets | 26 | 3 | 1 | | | | |
| Other intangible fixed assets | 754 | 842 | 863 | | | | |
| Customer's liabilities for acceptance and guarantee | 12,009 | 67,023 | 120,514 | | | | |
| Allowances for bad debts | -265,372 | -269,664 | -275,460 | | | | |
| Total assets | 5,251,084 | 5,420,269 | 5,531,788 | Total liabilities and equity | 5,251,084 | 5,420,269 | 5,531,788 |

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 | 89,762 | 87,535 | 89,789 | Business expenses | 26,652 | 31,469 | 32,012 |
| Revenue from fund management | 72,739 | 70,214 | 71,805 | Other ordinary expenses | 26,986 | 33,955 | 36,477 |
| Interest on loans | 72,737 | 70,214 | 71,804 | Loan loss provisions | 23,780 | 33,895 | 35,952 |
| Interest and dividends on securities | 0 | - | - | Provision on loans | 1,762 | - | - |
| Interest from repurchase agreements | - | 0 | 0 | Other ordinary expenses | 1,442 | 60 | 525 |
| Interest on deposits | 1 | 0 | 0 | Ordinary profit | 23,807 | 12,689 | 6,215 |
| Other interest received | 0 | - | - | Extraordinary profits | 0 | - | - |
| Revenue from service transactions, etc. | 72 | 275 | 1,304 | Gain on sales and retirement of noncurrent assets | 0 | - | - |
| Other service revenue | 72 | 275 | 1,304 | Extraordinary loss | 9 | 23 | - |
| Other business income | 4 | - | - | Loss on sales and retirement of noncurrent assets | 8 | 19 | - |
| Income on financial derivatives | 4 | - | - | Impairment loss | 0 | 4 | - |
| Revenue from government grants | 15,039 | 14,916 | 14,884 | Net profit | 23,797 | 12,666 | 6,215 |
| Receipts from the general account | 15,037 | 14,914 | 14,883 | | | | |
| Receipts from the special account | 2 | 1 | 1 | | | | |
| Other ordinary income | 1,906 | 2,130 | 1,795 | | | | |
| Bad debt recovered | 54 | 127 | 127 | | | | |
| Gain on sale of stocks, etc. | 136 | 342 | - | | | | |
| Other ordinary income | 1,716 | 1,659 | 1,667 | | | | |
| Ordinary expenses | 65,955 | 74,846 | 83,573 | | | | |
| Financing cost | 11,796 | 8,759 | 14,587 | | | | |
| Interest on call money | -6 | -2 | - | | | | |
| Interest on borrowed money | 8,944 | 6,384 | 9,813 | | | | |
| Interest on bonds | 2,858 | 2,377 | 4,774 | | | | |
| Expenses for service transactions, etc. | 68 | 89 | 95 | | | | |
| Other service expenses | 68 | 89 | 95 | | | | |
| Other operating expenses | 452 | 570 | 400 | | | | |
| Foreign exchange trading losses | 203 | - | - | | | | |
| Amortization of corporate bonds | 249 | 566 | 400 | | | | |
| Financial derivatives expenses | - | 4 | - | | | | |

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