

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 FY2020 FILP

(Unit: billion yen)

FY2020 FILP	Estimated outstanding amount of FILP lending at the end of FY2019
2,034.0	6,212.7

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
1. Government expenditure (subsidies, etc.)	78.8	81.5	+2.7
2. Government revenue (payments to the government, etc.)*1	-	-	-
3. Opportunity cost of capital investments, etc.	-48.0	-50.9	-2.8
Total (1+2+3=policy cost(A))	30.8	30.6	-0.1
Analysis period (years)	31 years	31 years	-

(2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
(A) Policy cost (previously cited)	30.8	30.6	-0.1
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	252.1	153.5	-98.6
2) Policy cost expected to be newly accrued during the analysis period	-221.3	-122.8	+98.4
Government expenditure (subsidies, etc.)	78.8	81.5	+2.7
Government revenue (payments to the government, etc.)*1	-	-	-
Opportunity cost of surplus, etc.	-302.7	-205.3	+97.5
Opportunity cost of capital investments, etc.	2.7	0.9	-1.7

(5) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

(A) Policy cost (previously cited)	Case before the negative interest rate policy*2	Fluctuation			
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
30.6	40.9	+10.3	-0.1	-	+10.4

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2019	FY2020	Simple fluctuation
		Simple comparison (before adjustment)	30.8	30.6
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2020 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2019)	Real fluctuation (2-1)
		5.2	21.5	+16.3

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost due to increase in loan losses (+76.5 billion yen)
- Increase in cost due to finalization of FY2018 results and revision of FY2019 projections (+11.2 billion yen)
- Increase in cost due to increase in prepayments (+6.3 billion yen)
- Others (Increase in administrative cost due to new financing, etc.) (+54.2 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to interest rate gap for FY2020 loans (-131.9 billion yen)

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

(A) Policy cost in FY2020 (previously cited)	30.6
1) Prepayments	34.9
2) Loan losses	265.6
3) Others (including profit spread)	-269.9

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

*1 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.

*2 Assumed interest rates (discount factor and future interest rate) are based on the market yield on Japanese government bonds on January 28, 2016, before the introduction of the negative interest rate policy.

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 FY2020 business plan (2,737.0 billion yen) in addition to the loans that have been already provided amounting to 7,525.2 billion yen (estimated at the end of FY2019.)
- 3) The analysis period continues for a period of 31 years in which all loans provided under the FY2020 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) is projected at a weighted average (12.59%) from FY2014 through FY2018.
- 5) The loan loss provision ratio (loan loss provisions in the current fiscal year ÷ outstanding balance of lending at the previous fiscal year-end) is projected at 0.82%. The ratio represents the average of such ratios for performing and non-performing loans in FY2016, FY2017 and FY2018. The total loan loss provisions from FY2020 to FY2050 are 255.0 billion yen.

FY	2014	2015	2016	2017	2018	2019	2020	2021-2050
Prepayment ratio	12.93%	13.40%	13.35%	12.75%	10.52%	12.59%	12.59%	12.59%
Loan loss provision ratio	0.89%	0.83%	0.79%	0.80%	0.87%	1.02%	1.09%	0.82%

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 (FY2018)

For business	0.24 mil. cases	1.9082 trillion yen
For environmental health business	0.01 mil. cases	82.5 billion yen
For education	0.14 mil. cases	177.7 billion yen
Total	0.39 mil. cases	2.1685 trillion yen

Total financing (aggregate amount from FY1949 to FY2018)

For business	30.84 mil. cases	120.0604 trillion yen
For environmental health business	2.37 mil. cases	7.6996 trillion yen
For education	13.22 mil. cases	9.6520 trillion yen
Total	46.44 mil. cases	137.4120 trillion yen

Outstanding balance of lending (end of FY2018)

For business	1.05 mil. cases	5.8626 trillion yen
For environmental health business	0.07 mil. cases	328.1 billion yen
For education	0.95 mil. cases	960.7 billion yen
Total	2.07 mil. cases	7.1513 trillion yen

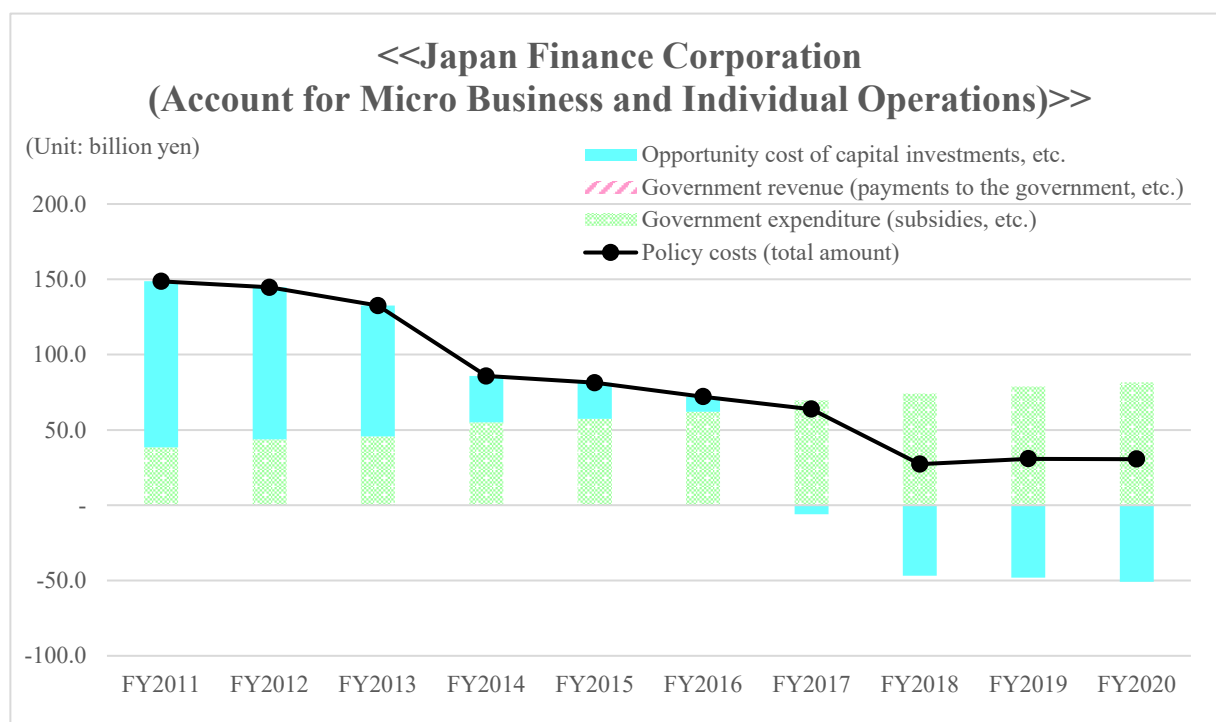
Lending plan (FY2020)

For business	2.4350 trillion yen
For environmental health business	115.0 billion yen
For education	187.0 billion yen
Total	2.7370 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 7.02 million yen, and non-collateral loans account for 87% of the total number of loans. (Number of loans in FY2018: 257,604; of these, non-collateral loans: 223,271)
- 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 5.47 million) ÷ total number of employed persons (66.64 million) = 8.2%)
- 4) The estimates calculated under a certain condition represents about 4,400 companies that could not have been incorporated without financing of the Finance Corporation and about 12.9 billion yen worth of benefit by the employment opportunity created by the companies thus incorporated.
- 5) The estimate under a certain condition represents about 12,500 companies that could avoid winding up with financing of the Finance Corporation and about 63.2 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))

Overview of policy cost analysis results

[Changes in policy costs]



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

(Unit: billion yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Policy costs (total amount)	148.7	144.6	132.5	85.8	81.3	72.1	63.8	27.3	30.8	30.6
Government expenditure (subsidies, etc.)	38.3	43.8	45.6	55.1	57.4	62.0	69.8	74.0	78.8	81.5
Government revenue (payments to the government, etc.)	-	-	-	-	-	-	-	-	-	-
Opportunity cost of capital investments, etc.	110.3	100.8	87.0	30.7	23.9	10.1	-5.9	-46.8	-48.0	-50.9

【Explanation of policy cost trends】

- Until 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.
- In FY2019, policy cost increased due to an increase in credit-related cost, etc.
- In FY2020, policy cost decreased due to a decrease in opportunity cost of capital investments, etc. related to a decrease in the assumed interest rate.

【FILP agency's self-assessment of policy cost analysis results (FY2020)】

- The policy cost in the FY2020 analysis accrued as JFC continued to stably provide long-term, fixed-interest loans to micro business operators who have difficulties in receiving loans from private financial institutions.
- JFC has been trying to hold down the policy cost by conducting thorough due diligence on borrowers and helping them to resolve their business problems.
- The policy cost increased in the sensitivity analysis due to an opportunity cost rise attributable to a hike in assumed interest rates as JFC accepted capital investment from the Government to stably provide long-term, fixed-interest loans. Although the policy cost increase does not represent any real cost rise, JFC will continuously try to hold down the policy cost in view of the analysis results.

(Reference) Financial Statements

Balance Sheet

(Unit: million yen)

Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)	Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)
(Assets)				(Liabilities and equity)			
Cash and deposits	51,893	30,630	31,333	Borrowed money			
Cash	18	25	26	Borrowings	5,498,618	5,923,200	6,239,656
Deposits	51,875	30,604	31,306	Bonds payable	650,306	700,360	680,262
Receivables under resale agreement	-	1,541	1,576	Other liabilities	6,298	8,912	15,502
Loans				Accrued expenses	1,747	1,899	4,906
Loan on deeds	7,010,447	7,525,221	7,833,480	Lease obligations	1,117	3,620	7,203
Other assets	10,450	11,031	12,412	Other liabilities	3,433	3,392	3,392
Prepaid expenses	13	13	13	Reserve for bonuses	3,202	3,426	3,426
Accrued revenue	6,380	7,004	8,386	Reserve for directors' bonuses	8	8	8
Agency account receivable	828	828	828	Reserve for retirement pensions	53,671	54,728	56,047
Other assets	3,227	3,183	3,183	Reserve for directors' retirement benefits	20	17	1
Tangible fixed assets	97,676	100,600	103,627	(Total liabilities)	6,212,125	6,690,653	6,994,905
Buildings	30,345	31,323	31,100	Capital	1,166,433	1,193,401	1,200,524
Land	65,243	65,112	65,112	Capital surplus			
Lease assets	955	3,270	6,535	Special reserve for managerial improvement	181,500	181,500	181,500
Construction in progress	253	-	-	Retained earnings			
Other tangible fixed assets	878	894	878	Other retained earnings			
Intangible fixed assets	5,979	8,073	10,942	Earned surplus carried forward	- 493,394	- 505,822	- 512,923
Software	5,780	5,488	8,088	Total shareholders' equity	854,538	869,078	869,100
Lease assets	44	20	12	(Total equity)	854,538	869,078	869,100
Other intangible fixed assets	155	2,564	2,840				
Allowances for bad debts	- 109,784	- 117,366	- 129,366				
Total assets	7,066,663	7,559,731	7,864,005	Total liabilities and equity	7,066,663	7,559,731	7,864,005

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

Income Statement

(Unit: million yen)

Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)	Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)
Ordinary income	137,221	149,834	175,414	Expenses for service transactions, etc.	541	674	706
Revenue from fund management	111,876	122,977	147,463	Other service expenses	541	674	706
Interest on loans	111,876	122,977	147,463	Other operating expenses	333	623	451
Interest from repurchase agreements	—	0	0	Amortization of bond issue expenses	333	623	451
Interest on deposits	0	0	0	Business expenses	72,255	84,201	83,953
Other interest received	0	0	0	Other ordinary expenses	67,705	71,881	81,700
Revenue from service transactions, etc.	0	0	0	Provision of allowance for bad debts	56,908	61,100	71,000
Other service revenue	0	0	0	Provision on loans	10,705	10,700	10,700
Revenue from government grants	23,737	24,997	26,179	Other ordinary expenses	91	81	—
Receipts from the general account	23,737	24,997	26,179	Ordinary profit	9,637	12,278	7,100
Receipts from the special account	0	0	—	Extraordinary profits	45	—	—
Other ordinary income	1,607	1,859	1,772	Gain on sales and retirement of noncurrent assets	45	—	—
Bad debt recovered	447	624	607	Extraordinary loss	410	149	—
Other ordinary income	1,160	1,234	1,164	Loss on sales and retirement of noncurrent assets	273	4	—
Ordinary expenses	146,859	162,113	182,515	Impairment loss	136	144	—
Financing cost	6,023	4,731	15,703	Net profit	10,002	12,428	7,100
Interest on call money	- 5	- 3	—				
Interest on borrowed money	5,578	4,376	13,617				
Interest on bonds	450	358	2,086				
Other interest paid	—	0	0				

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