Japan Finance Corporation (Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operations))

https://www.jfc.go.jp/ 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 FY2020 FILP (Unit: billion yen) FY2020 FILP Estimated outstanding amount of FILP lending at the end of FY2019 945.4 4.177.7 3. Estimated policy cost analysis of the project (3) Year-to-Year comparison analysis (1) Policy cost (Unit: billion yen) (Unit: billion yen) (Computing any fluctuation from previous year) FY2020 FY2019 FY2020 Fluctuation FY2019 imple fluctuatio Category 1. Government expenditure Simple comparison before adjustment 71.1 74.5 +3.49.1 +3.65.4 (subsidies, etc.) 2) Adjusting assumed interest cost 2. Government revenue 1) Adjusting initial years Real rates Past year Analysis results after adj (payments to the government, etc.)*¹ Policy (Analysis results of refluctuatior initial year to that for FY2020 comparisor estimation using assumed interest rate for FY2019) (2-1) analysis) 3. Opportunity cost of capital (after +0.3-65.7 -65.4 adjustment) investments, etc. -3.2 -2.1 +1.19.1 Total (1+2+3=policy cost(A)) 5.4 +3.6 [Real fluctuation factor analysis] DFactors behind policy cost increase 21 years 21 years Analysis period (years) Increase in cost due to increase in loan losses (+20.7 billion yen) Other factors (increase in clerical cost due to new loans, etc.) (+51.7 billion yen) (2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen) Factors behind policy cost decrease FY2019 FY2020 Fluctuation Category Decrease in cost due to interest rate change for FY2020 loans (-49.9 billion yen) Decrease in cost settled results in FY2018 and expected revision in FY2019 (A) Policy cost (previously cited) 5.4 9.1 +3.6(-20.7 billion ven) Decrease in cost due to decrease in prepayments (-0.8 billion yen) 1) Opportunity cost of capital investments, etc 107.2 -77.3 184.5 provided before the beginning of the analysis eriod 2) Policy cost expected to be newly +80.9 -179.1-98.2 accrued during the analysis period (4) Breakdown of policy cost by causative factor (Unit: billion yen) Government expenditure 71.1 74.5 +3.4(A) Policy cost in FY2020 (previously cited) (subsidies, etc.) 9.1 overnment revenue 32.3 1) Prepayments payments to the government, etc.)*1 Opportunity cost of surplus, -254.7 -173.8 +80.92) Loan losses 153.8 etc Opportunity cost of capital 4.5 1.2 -3.3 3) Others (including profit spread) -177.0 investments, etc. (5) Sensitivity analysis (cases where assumptions change) (Unit: billion yen) Case before the (A) Policy cost 2. Government revenue negative interest rate Fluctuation 1. Government expenditur 3. Opportunity cost of (payments to the government (previously cited) capital investments, etc. policy*2 (subsidies, etc.) etc.)* 9.1 +11.7-0.3 -22.9 +34.920.8

(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) 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 FY2020 business plan (1,440.0 billion yen) in addition to existing loan balance of 5,361.8 billion yen (estimated as of the end of FY2019).
- 3) The analysis period is supposed to be 21 years until the complete repayment of all loans made based on the FY2020 operation program as well as existing loans.
- 4) Prepayments are expected to account for 2.54% of outstanding loans at the beginning of the analysis period in and after FY2021. This ratio is the weighted average of the preceding 5 years (FY2014 FY2018).

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5) Loan loss provisions are projected at a level equivalent to 0.61% of the fiscal year-end loan balance in and after FY2021. This percentage represents the weighted average for the FY2013-2018 period excluding FY2014 when no loan loss provision was booked.

									(Unit:%)
		Result E					Estimated	Planned	Assumptions for calculation
FY	2013	2014	2015	2016	2017	2018	2019	2020	2021-2040
Prepayment ratio	2.76	2.53	2.62	2.80	2.63	2.41	1.73	1.68	After FY2021 2.54
Loan loss provision ratio	1.05	0.00	0.48	0.33	0.44	0.71	1.02	0.66	After FY2021 0.61

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]

- \cdot 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 (FY2018)

Business funds 20 thousand cases 1,233.1 billion yen

Total lending (aggregate amount from FY 1953 to FY2018)

Business funds 2.86 mil. cases 87,177.9 billion 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 7% of small and medium enterprises.

	Entire loan customers (Note 1)	All domestic enterprises	% of Japan's economy
		All domestic small and medium enterprises (Note 3)	% of small and medium enterprises
Corporate tax, etc.	473.2 billion	19.7 trillion yen	2%
(Note 2)	yen	6.8 trillion yen	7%

(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, 43,929 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 FY2018 were 545.0 billion yen. The total of capital investment utilizing these loans amounts to 975.1 billion yen (excluding land).

(2) The measurement of the ripple effect to Japan's economy based on this outcome indicates that it induced 1.9 trillion-yen worth of production and jobs for 100 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 360,000 jobs (equivalent to 22% of the number of unemployed persons).

5) Number of public companies turned out

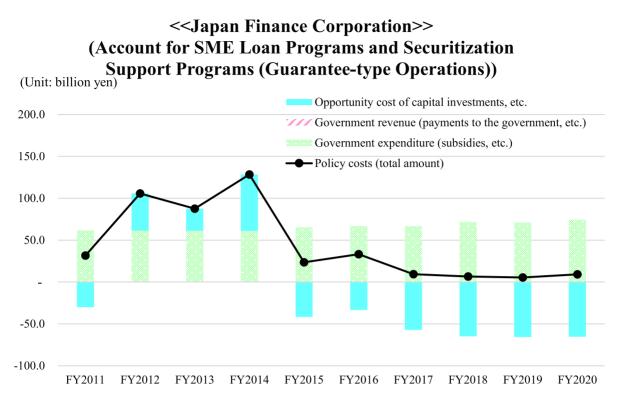
(1) 651 companies that borrowed funds from the finance corporation, have gone public thus far (one in six public companies).

(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	3,546 companies (100%)	1,560 companies (100%)
Number of these having past or present dealing		
with the finance corporation	651 companies (18.4%)	478 companies (30.6%)
Note: As of 31 March 2019, excluding	agriculture/fisheries, financ	e/insurance and foreign companies.

Overview of policy cost analysis results

[Changes in policy costs]



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

									(Unit: bil	lion yen)
FY	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Policy costs (total amount)	31.6	105.7	87.6	128.4	23.6	33.2	9.4	6.6	5.4	9.1
Government expenditure (subsidies, etc.)	61.7	61.3	61.1	60.9	65.4	66.7	66.6	71.6	71.1	74.5
Government revenue (payments to the government, etc.)	-	-	-	-	-	-	-	-	-	-
Opportunity cost of capital investments, etc.	-30.1	44.4	26.5	67.5	-41.8	-33.5	-57.2	-65.0	-65.7	-65.4

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[Explanation of policy cost trends]

• From FY2016 to FY2019, 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.

• Policy cost increased in the FY2020 analysis as subsidies and other Government spending rose due to a hike in accumulated grants.

[FILP agency's self-assessment of policy cost analysis results (FY2020)]

• In the basic case, the policy cost increased by 3.6 billion yen from the FY2019 analysis to 9.1 billion yen as subsidies and other Government spending rose due to a hike in accumulated grants. The policy cost accrues as JFC provides SMEs and micro business operators that have less collateral or are less creditworthy than large enterprises with long-term, fixed-interest loans that private financial institutions cannot provide to such borrowers. The cost represents social and economic effects of JFC's provision of funds and safety net, disaster relief and other emergency policy loans to financially weak enterprises rich with creativity and those having difficulties in receiving loans from private financial institutions to support SMEs and micro business operators that are expected to contribute to invigorating the Japanese economy and support regional economies.

• In the sensitivity analysis, the policy cost came to 20.8 billion yen, up 11.7 billion yen from the basic case. This is attributable to an increase in opportunity cost of capital investments from the Government due to a hike in assumed interest rates.

(Reference) Financial Statements

(Unit:	million	ven)
	Unit.	mmon	yon	,

_	End of FY2018	End of FY2019	End of FY2020	_	End of FY2018	(Ur End of FY2019	End of FY2020
Item	(Result)	(Estimated)	(Planned)	Item	(Result)	(Estimated)	(Planned)
(Assets)				(Liabilities and equity)			
Cash and deposits	63,965	35,745	34,850	Borrowed money			
Cash	4	4	4	Loans payable	3,140,709	3,191,411	3,250,995
Deposits	63,961	35,740	34,846	Bonds	555,890	570,377	601,849
Securities	36	36	36	Other liabilities	4,029	5,676	8,863
Bonds	28	28	28	Accrued expenses	1,583	1,326	2,060
Stocks	7	7	7	Advance revenues	73	2,337	3,604
Loans				Derivatives	3	-	
Loan on deeds	5,211,457	5,361,846	5,479,391	Lease obligations	322	632	1,818
Other assets	4,414	4,444	5,201	Other liabilities	2,045	1,380	1,379
Prepaid expenses	3	3	3	Reserve for bonuses	1,180	1,253	1,253
Accrued revenue	3,083	3,227	3,379	Reserve for directors' bonuses	6	6	(
Other assets	1,327	1,214	1,818	Reserves for retirement pensions	20,160	20,735	21,31
Tangible fixed assets	47,296	47,984	49,265	Reserve for directors' retirement benefits	10	13	1
Buildings	10,845	11,401	11,560	Acceptances and guarantees	15,617	69,141	124,959
Land	35,712	35,701	35,701	(Total liabilities)	3,737,605	3,858,616	4,009,241
Lease assets	277	563	1,644	Capital	1,635,785	1,680,637	1,699,237
Construction in progress	178	-	-	Retained earnings			
Other tangible fixed assets	281	316	359	Other retained earnings			
Intangible fixed assets	2,755	4,306	6,771	Retained earnings brought forward	-305,572	-315,128	-309,938
Software	2,565	4,164	4,471	Total shareholders' equity	1,330,212	1,365,508	1,389,298
Lease assets	14	10	7	(Total equity)	1,330,212	1,365,508	1,389,298
Other intangible fixed assets	175	131	2,293				
Customer's liabilities for acceptance and guarantee	15,617	69,141	124,959				
Allowances for bad debts	-277,726	-299,380	-301,937				
Total assets	5,067,818	5,224,125	5,398,540	Total liabilities and equity	5,067,818	5,224,125	5,398,54(

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

Income Statement						(Un	it: million yen)
Item	FY2018	FY2019	FY2020	Item	FY2018	FY2019	FY2020
	(Result)	(Estimated)	(Planned)		(Result)	(Estimated)	(Planned)
Ordinary income	84,376	84,662	89,133	Business expenses	27,124	32,353	33,141
Revenue from fund management	67,965	67,777	71,142	Other ordinary expenses	40,695	55,342	37,738
Interest on loans	67,963	67,777	71,142	Loan loss provisions	36,968	55,322	37,462
Interest and dividends on securities	0	-	-	Provision on loans	2,733	-	-
Interest from repurchase agreements	-	0	0	Other ordinary expenses	992	20	275
Interest on deposits	1	0	0	Ordinary profit or loss (-)	7,531	-9,543	5,189
Other interest received	0	-	-	Extraordinary profits	0	-	-
Revenue from service transactions, etc.	107	306	1,348	Gain on sales and retirement of noncurrent assets	0	-	-
Other service revenue	107	306	1,348	Extraordinary loss	34	12	-
Other business income	-	3	-	Loss on sales and retirement of noncurrent assets	22	12	-
Foreign exchange trading profit	-	3	-	Impairment loss	12	-	-
Revenue from government grants	14,179	14,884	14,968	Net profit or loss (-)	7,497	-9,555	5,189
Receipts from the general account	14,178	14,883	14,968				
Receipts from the special account	1	1	0				
Other ordinary income	2,123	1,690	1,674				
Bad debt recovered	254	154	154				
Gain on sale of stocks, etc.	366	11	-				
Other ordinary income	1,502	1,524	1,520				
Ordinary expenses	76,845	94,205	83,943				
Financing cost	8,412	6,017	12,738				
Interest on call money	-3	-2	-				
Interest on borrowed money	6,197	4,318	9,395				
Interest on bonds	2,218	1,702	3,342				
Expenses for service transactions, etc.	62	94	101				
Other service expenses	62	94	101				
	5.50	207	224		1		

Other service expenses	62	94	101					
Other operating expenses	550	397	224					
Foreign exchange trading losses	339	-	-					
Retirement of Japanese government and other bonds	3	-	-					
Amortization of bond issue expenses	206	397	224					
Note: Amounts of less than one million yen are rounded down.							-	