

# 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 FY2021 FILP

(Unit: billion yen)

FY2021 FILP	Estimated outstanding amount of FILP lending at the end of FY2020
9,301.3	20,133.4

## 3. Estimated policy cost analysis of the project

### (1) Policy cost (Unit: billion yen)

Category	FY2020	FY2021	Fluctuation
1. Government expenditure (subsidies, etc.)	81.5	80.0	-1.5
2. Government revenue (payments to the government, etc.)*1	-	-	-
3. Opportunity cost of capital investments, etc.	-50.9	639.4	+690.3
<b>Total (1+2+3=policy cost(A))</b>	<b>30.6</b>	<b>719.4</b>	<b>+688.8</b>
Analysis period (years)	31 years	31 years	-

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

Category	FY2020	FY2021	Fluctuation
(A) Policy cost (previously cited)	30.6	719.4	+688.8
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	153.5	1,072.7	+919.3
2) Policy cost expected to be newly accrued during the analysis period	-122.8	-353.3	-230.5
Government expenditure (subsidies, etc.)	81.5	80.0	-1.5
Government revenue (payments to the government, etc.)*1	-	-	-
Opportunity cost of surplus, etc.	-205.3	-433.6	-228.4
Opportunity cost of capital investments, etc.	0.9	0.3	-0.6

### (5) Sensitivity analysis (cases where assumptions change) (Unit: billion yen)

(A) Policy cost (previously cited)	Case before the negative interest rate policy*2	Fluctuation	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
719.4	649.0	-70.4	-0.1	-652.8	+582.4

(A) Policy cost (previously cited)	Case of a 1% increase in loan charge-offs	Fluctuation	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
719.4	731.6	+12.1	-0.0	-	+12.2

(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.

### (3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2020	FY2021	Simple fluctuation
		Simple comparison (before adjustment)	30.6	719.4
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2021 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2020)	Real fluctuation (2-1)
		-2.6	610.0	+612.7

#### 【Real fluctuation factor analysis】

##### ○ Factors behind policy cost increase

- Increase in cost due to increase in loan losses (+1,006.5 billion yen)
- Increase in cost due to increase in prepayments (+44.1 billion yen)
- Others (Increase in administrative cost due to new financing, etc.) (+5.6 billion yen)

##### ○ Factors behind policy cost decrease

- Decrease in cost due to finalization of FY2019 results and revision of FY2020 projections (-238.1 billion yen)
- Decrease in cost due to interest rate gap for FY2021 loans (-205.5 billion yen)

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

(A) Policy cost in FY2021 (previously cited)	719.4
1) Prepayments	44.1
2) Loan losses	1,203.2
3) Others (including profit spread)	-527.9

#### 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 FY2021 business plan (13,051.0 billion yen) in addition to the loans that have been already provided amounting to 24,750.9 billion yen (estimated at the end of FY2020.)
- 3) The analysis period continues for a period of 31 years in which all loans provided under the FY2021 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 (12.04%) from FY2015 through FY2019.
- 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 0.87%. The ratio represents the average of such ratios for performing and non-performing loans in FY2017, FY2018 and FY2019. The total loan loss provisions from FY2021 to FY2051 are 1,053.7 billion yen.

FY	Result					Estimated	Planned	Assumptions for calculation
	2015	2016	2017	2018	2019			
Prepayment ratio	13.40%	13.35%	12.75%	10.52%	10.21%	12.04%	12.04%	2022-2051 12.04%
Loan loss provision ratio	0.83%	0.79%	0.80%	0.87%	0.93%	2.67%	0.98%	0.87%

#### 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).

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 (FY2019)

For business	0.24 mil. cases	1.8929 trillion yen
For environmental health business	0.01 mil. cases	84.0 billion yen
For education	0.12 mil. cases	169.5 billion yen
<b>Total</b>	<b>0.37 mil. cases</b>	<b>2.1464 trillion yen</b>

###### Total financing (aggregate amount from FY1949 to FY2019)

For business	31.08 mil. cases	121.9533 trillion yen
For environmental health business	2.39 mil. cases	7.7835 trillion yen
For education	13.34 mil. cases	9.8215 trillion yen
<b>Total</b>	<b>46.81 mil. cases</b>	<b>139.5584 trillion yen</b>

###### Outstanding balance of lending (end of FY2019)

For business	1.07 mil. cases	5.8561 trillion yen
For environmental health business	0.08 mil. cases	342.8 billion yen
For education	0.96 mil. cases	979.5 billion yen
<b>Total</b>	<b>2.11 mil. cases</b>	<b>7.1784 trillion yen</b>

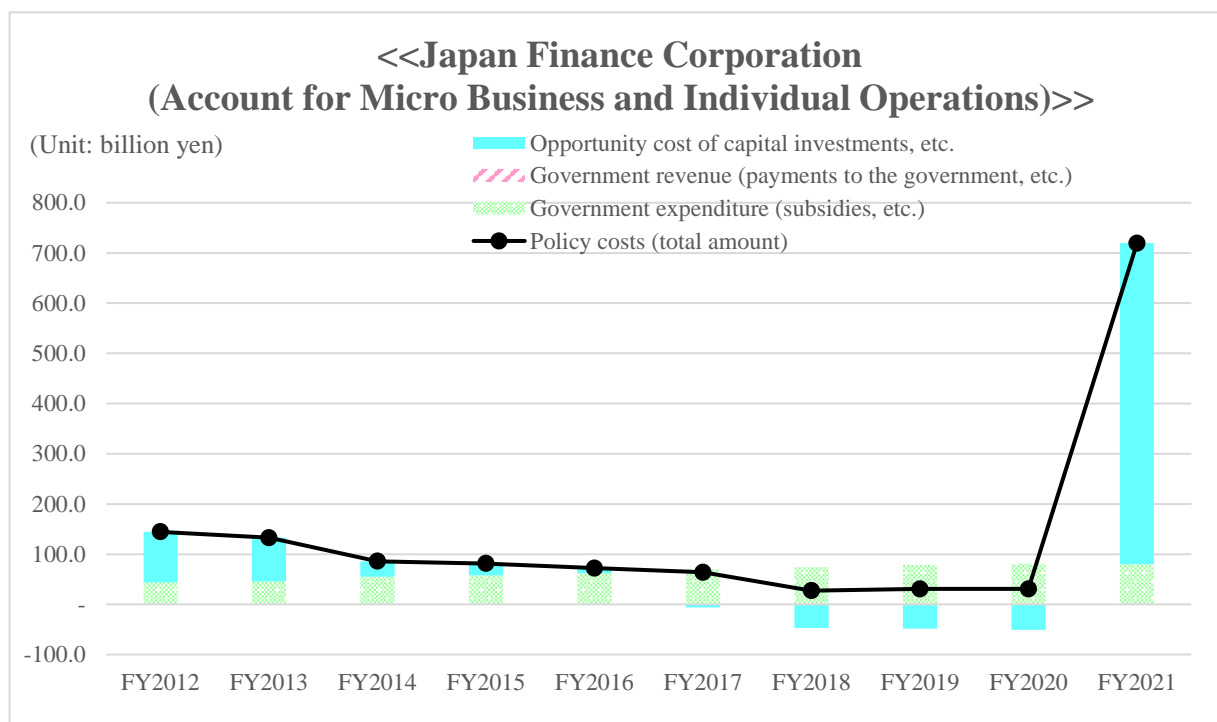
###### Lending plan (FY2021)

For business		12.5210 trillion yen
For environmental health business		348.0 billion yen
For education		182.0 billion yen
<b>Total</b>		<b>13.0510 trillion yen</b>

- 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 87% of the total number of loans. (Number of loans in FY2019: 255,967; of these, non-collateral loans: 223,441)
- 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 5.37 million) ÷ total number of employed persons (67.24 million) = 8.0%)
- 4) The estimates calculated under a certain condition represents about 4,000 companies that could not have been incorporated without financing of the Finance Corporation and about 10.4 billion yen worth of benefit by the employment opportunity created by the companies thus incorporated.
- 5) The estimate under a certain condition represents about 12,300 companies that could avoid winding up with financing of the Finance Corporation and about 61.2 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)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Policy costs (total amount)	144.6	132.5	85.8	81.3	72.1	63.8	27.3	30.8	30.6	719.4
Government expenditure (subsidies, etc.)	43.8	45.6	55.1	57.4	62.0	69.8	74.0	78.8	81.5	80.0
Government revenue (payments to the government, etc.)	-	-	-	-	-	-	-	-	-	-
Opportunity cost of capital investments, etc.	100.8	87.0	30.7	23.9	10.1	-5.9	-46.8	-48.0	-50.9	639.4

### 【Explanation of policy cost trends】

Until FY2018, 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.
- In FY2021, the policy cost increased due to the receipt of a large amount of capital investments.

### 【FILP agency's self-assessment of policy cost analysis results (FY2021)】

- The policy cost increase in FY2021 is attributable mainly to an increase in opportunity cost due to the receipt of a large amount of capital investments in relation to COVID-19 control measures. JFC's assessment is that receiving capital investments is essential for stable provision of funds to small enterprises.
- 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 decrease shown by the sensitivity analysis (case before the negative interest rate policy) is attributable to an increase in government revenues (payments to the government, etc.) due to a rise in the assumed interest rate, as the policy cost analysis assumed that investments of recovered loans and other funds would be made at the assumed interest rate.
- The policy cost increase shown by the sensitivity analysis (case of a 1% increase in loan charge-offs) is attributable to a rise in credit-related cost due to an increase in allowances for loan loss provisions.
- JFC will continue efforts to curb the policy cost in light of the above analysis results.

(Reference) Financial Statements

Balance Sheet

(Unit: million yen)

Item	End of FY2019 (Result)	End of FY2020 (Estimated)	End of FY2021 (Planned)	Item	End of FY2019 (Result)	End of FY2020 (Estimated)	End of FY2021 (Planned)
(Assets)				(Liabilities and equity)			
Cash and deposits	335,150	1,313,735	355,460	Borrowed money			
Cash	17	935	253	Borrowings	5,753,200	19,666,718	26,135,770
Deposits	335,132	1,312,799	355,207	Bonds payable	650,416	880,311	1,115,205
Receivables under resale agreement	-	22,719	6,147	Other liabilities	9,072	21,388	46,095
Loans				Accrued expenses	1,310	10,042	34,775
Loan on deeds	7,033,617	24,750,885	32,444,735	Lease obligations	1,588	5,171	5,146
Other assets	10,304	15,556	24,562	Other liabilities	6,173	6,173	6,173
Prepaid expenses	15	15	15	Reserve for bonuses	3,243	3,393	3,427
Accrued revenue	6,384	11,637	20,643	Reserve for directors' bonuses	8	8	8
Agency account receivable	675	675	675	Reserve for retirement pensions	52,612	54,619	56,806
Other assets	3,228	3,227	3,227	Reserve for directors' retirement benefits	18	14	1
Tangible fixed assets	96,580	101,185	100,734	(Total liabilities)	6,468,570	20,626,453	27,357,314
Buildings	29,731	31,164	30,739	Capital	1,223,643	5,810,823	5,812,502
Land	64,632	64,632	64,632	Capital surplus			
Lease assets	1,395	4,661	4,644	Special reserve for managerial improvement	181,500	181,500	181,500
Construction in progress	117	-	-	Retained earnings			
Other tangible fixed assets	703	726	718	Other retained earnings			
Intangible fixed assets	8,505	16,024	21,117	Earned surplus carried forward	- 507,369	- 574,810	- 657,998
Software	4,968	5,272	13,634	Total shareholders' equity	897,773	5,417,512	5,336,003
Lease assets	20	12	4	(Total equity)	897,773	5,417,512	5,336,003
Other intangible fixed assets	3,516	10,738	7,478				
Allowances for bad debts	- 117,813	- 176,140	- 259,440				
Total assets	7,366,344	26,043,966	32,693,317	Total liabilities and equity	7,366,344	26,043,966	32,693,317

Note: Components may not add up to the total because of rounding.

Income Statement

(Unit: million yen)

Item	End of FY2019 (Result)	End of FY2020 (Estimated)	End of FY2021 (Planned)	Item	End of FY2019 (Result)	End of FY2020 (Estimated)	End of FY2021 (Planned)
Ordinary income	138,257	234,489	392,638	Expenses for service transactions, etc.	545	861	1,038
Revenue from fund management	112,610	206,537	367,544	Other service expenses	545	861	1,038
Interest on loans	112,610	206,537	367,544	Other operating expenses	278	1,301	1,305
Interest from repurchase agreements	-	0	0	Amortization of bond issue expenses	278	1,301	1,305
Interest on deposits	0	0	0	Business expenses	72,644	96,379	90,017
Other interest received	0	0	0	Other ordinary expenses	74,390	188,026	242,600
Revenue from service transactions, etc.	0	0	0	Provision of allowance for bad debts	61,555	175,300	229,900
Other service revenue	0	0	0	Provision on loans	12,711	12,700	12,700
Revenue from government grants	24,116	26,179	23,497	Other ordinary expenses	123	26	-
Receipts from the general account	24,116	26,179	23,497	Ordinary profit	13,762	67,413	83,188
Receipts from the special account	0	-	-	Extraordinary profits	98	-	-
Other ordinary income	1,530	1,772	1,595	Gain on sales and retirement of noncurrent assets	98	-	-
Bad debt recovered	404	607	478	Extraordinary loss	310	27	-
Other ordinary income	1,126	1,164	1,116	Loss on sales and retirement of noncurrent assets	138	24	-
Ordinary expenses	152,019	301,902	475,827	Impairment loss	171	3	-
Financing cost	4,159	15,333	140,865	Net profit	13,974	67,441	83,188
Interest on call money	- 4	8	-				
Interest on borrowed money	3,821	14,790	136,143				
Interest on bonds	342	534	4,722				
Other interest paid	-	0	0				

Note: Components may not add up to the total because of rounding.