

# 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 FY2022 FILP

(Unit: billion yen)

FY2022 FILP	Estimated outstanding amount of FILP lending at the end of FY2021
2,302.0	17,895.4

## 3. Estimated policy cost analysis of the project

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

Category	FY2021	FY2022	Fluctuation
1. Government expenditure (subsidies, etc.)	80.0	72.2	-7.8
2. Government revenue (payments to the government, etc.)*1	-	-	-
3. Opportunity cost of capital investments, etc.	639.4	540.9	-98.5
<b>Total (1+2+3=policy cost(A))</b>	<b>719.4</b>	<b>613.1</b>	<b>-106.3</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	FY2021	FY2022	Fluctuation
(A) Policy cost (previously cited)	719.4	613.1	-106.3
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	1,072.7	1,126.3	+53.6
2) Policy cost expected to be newly accrued during the analysis period	-353.3	-513.2	-159.9
Government expenditure (subsidies, etc.)	80.0	72.2	-7.8
Government revenue (payments to the government, etc.)*1	-	-	-
Opportunity cost of surplus, etc.	-433.6	-585.8	-152.2
Opportunity cost of capital investments, etc.	0.3	0.4	+0.1

### (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.		
613.1	560.6	-52.5	-0.0	-601.6	+549.2						
(A) Policy cost (previously cited)	Case of a 1% increase in loan write-offs	Fluctuation	1. Government expenditure (subsidies, etc.)			2. Government revenue (payments to the government, etc.)*1			3. Opportunity cost of capital investments, etc.		
613.1	624.8	+11.7	-0.0	-	+11.7						

(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		FY2021	FY2022	Simple fluctuation
		Simple comparison (before adjustment)	719.4	613.1
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2022 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2021)	Real fluctuation (2-1)
		612.7	661.0	+48.3

[Real fluctuation factor analysis]

#### ○Factors behind policy cost increase

- Increase in cost due to increase in loan losses (+191.1 billion yen)
- Increase in cost due to finalization of FY2020 results and revision of FY2021 projections (+117.9 billion yen)

#### ○Factors behind policy cost decrease

- Decrease in cost due to interest rate gap for new loans provided in FY2022 (-167.9 billion yen)
- Decrease in cost due to decrease in prepayments (-5.8 billion yen)
- Others (A cost decrease through a fundraising cost drop, etc.) (-87.0 billion yen)

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

(A) Policy cost in FY2022 (previously cited)	613.1
1) Prepayments	57.8
2) Loan losses	1,162.0
3) Others (including profit spread)	-606.7

#### 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 FY2022 business plan (5,896.0 billion yen) in addition to the loans that have been already provided amounting to 21,225.2 billion yen (estimated at the end of FY2021.)
- 3) The analysis period continues for a period of 31 years in which all loans provided under the FY2022 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, with consideration given to responses to the COVID-19 outbreak in FY2020.
- 5) Ratio of provision of allowance for loan losses (Provision of allowance for loan losses in the current fiscal year ÷ outstanding balance of lending at the previous fiscal year-end) is projected at 1.20%. The ratio represents the average of such ratios for performing and non-performing loans in FY2018, FY2019 and FY2020. The total provision of allowance for loan losses from FY2022 to FY2052 are 1,151.8 billion yen.

FY	Result					Estimated	Planned	Assumptions for calculation
	2016	2017	2018	2019	2020	2021	2022	2023-2052
Prepayment ratio	13.35%	12.75%	10.52%	10.21%	34.35%	12.04%	12.04%	12.04%
Ratio of provision of allowance for loan losses	0.79%	0.80%	0.87%	0.93%	1.78%	1.17%	0.77%	1.20%

#### 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 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 (FY2020)

For business	0.84 mil. cases	8,8094 trillion yen
For environmental health business	0.03 mil. cases	216.4 billion yen
For education	0.1 mil. cases	138.2 billion yen
<b>Total</b>	<b>0.96 mil. cases</b>	<b>9,1640 trillion yen</b>

###### Total financing (aggregate amount from FY1949 to FY2020)

For business	31.92 mil. cases	130,7627 trillion yen
For environmental health business	2.42 mil. cases	8 trillion yen
For education	13.44 mil. cases	9,9598 trillion yen
<b>Total</b>	<b>47.77 mil. cases</b>	<b>148,7224 trillion yen</b>

###### Outstanding balance of lending (end of FY2020)

For business	1.43 mil. cases	11,4466 trillion yen
For environmental health business	0.08 mil. cases	428.1 billion yen
For education	0.96 mil. cases	968.2 billion yen
<b>Total</b>	<b>2.46 mil. cases</b>	<b>12,8429 trillion yen</b>

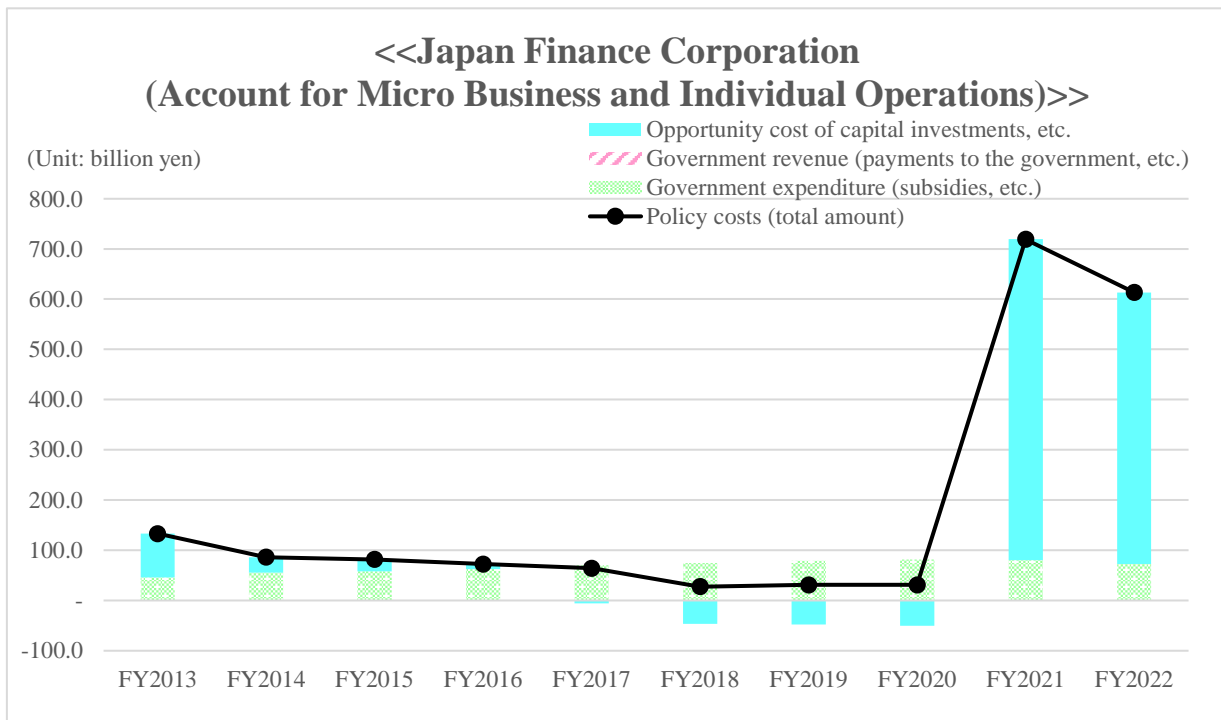
###### Lending plan (FY2022)

For business		5,5430 trillion yen
For environmental health business		172.0 billion yen
For education		181.0 billion yen
<b>Total</b>		<b>5,8960 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 80% of the total number of loans. The average loan amount is rather small, at 10.08 million yen, and non-collateral loans account for over 90% of the total number of loans. (Number of loans in FY2020: 863,874; of these, non-collateral loans: 857,271)
- 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 number of employees of borrower enterprises (estimated to be 6.95 million) ÷ total number of employed persons (66.76 million) = 10.4%)
- 4) The estimates calculated under a certain condition represents about 6,500 companies that could not have been incorporated without financing of the Finance Corporation and about 16.4 billion yen worth of benefit by the employment opportunity created by the companies thus incorporated.
- 5) The estimate under a certain condition represents about 42,200 companies that could avoid winding up with financing of the Finance Corporation and about 196.5 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 90,000 students (including about 50,000 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)

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Policy costs (total amount)	132.5	85.8	81.3	72.1	63.8	27.3	30.8	30.6	719.4	613.1
Government expenditure (subsidies, etc.)	45.6	55.1	57.4	62.0	69.8	74.0	78.8	81.5	80.0	72.2
Government revenue (payments to the government, etc.)	-	-	-	-	-	-	-	-	-	-
Opportunity cost of capital investments, etc.	87.0	30.7	23.9	10.1	-5.9	-46.8	-48.0	-50.9	639.4	540.9

### 【Explanation of policy cost trends】

- Until FY2020, 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 FY2021, the policy cost increased due to the receipt of a large amount of capital investments.
- In FY2022, the policy cost decreased due to a decrease in fundraising cost.

### 【FILP agency's self-assessment of policy cost analysis results (FY2022)】

- The policy cost in FY2022 remained high due mainly to the opportunity cost for the receipt of a large amount of capital investments regarding COVID-19 control measures. JFC's assessment is that receiving capital investments is essential for the stable provision of funds to small enterprises.
- In the sensitivity analysis (case before the negative interest rate policy), the policy cost decreased by 52.5 billion yen due mainly to an increase in return on investment of surplus funds, indicating an improvement in financial soundness. There is no problem.
- In the sensitivity analysis (case for a 1% increase in loan write-offs), the policy cost increased by 11.7 billion yen due to a rise in credit-related cost. However, JFC's assessment is that the policy cost increase is not problematic for financial soundness. JFC will continue efforts to hold down the policy cost by conducting thorough due diligence on borrowers and helping them to resolve their business problems.

## (Reference) Financial Statements

## Balance Sheet

(Unit: million yen)

Item	End of FY2020 (Result)	End of FY2021 (Estimated)	End of FY2022 (Planned)	Item	End of FY2020 (Result)	End of FY2021 (Estimated)	End of FY2022 (Planned)
(Assets)				(Liabilities and net assets)			
Cash and deposits	1,225,787	2,688,453	248,236	Borrowed money			
Cash	15	20	20	Borrowings	10,513,211	17,426,223	17,310,640
Deposits	1,225,772	2,688,433	248,216	Bonds payable	680,311	915,206	855,122
Receivables under resale agreement	-	578	578	Other liabilities	10,764	17,659	44,445
Loans and bills discounted				Accrued expenses	1,214	8,219	34,268
Loan on deeds	12,720,479	21,225,239	23,536,578	Lease obligations	3,510	3,485	4,222
Other assets	9,910	13,633	19,380	Other liabilities	6,039	5,954	5,954
Prepaid expenses	16	16	16	Provision for bonuses	3,290	3,335	3,335
Accrued revenue	6,142	9,921	15,668	Provision for directors' bonuses	8	7	7
Agency account receivable	578	578	578	Provision for retirement benefits	53,625	55,661	57,656
Other assets	3,172	3,117	3,117	Provision for directors' retirement benefits	15	15	3
Tangible fixed assets	96,383	98,846	99,382	(Total liabilities)	11,261,225	18,418,108	18,271,210
Buildings	28,594	30,946	30,625	Capital	2,997,738	5,808,428	5,810,635
Land	64,485	64,470	64,470	Capital surplus			
Lease assets	2,625	2,845	3,671	Special reserve for managerial improvement	181,500	181,500	181,500
Construction in progress	117	-	-	Retained earnings			
Other tangible fixed assets	560	584	614	Other retained earnings			
Intangible fixed assets	8,428	13,535	13,939	Earned surplus carried forward	- 662,001	- 711,183	- 760,284
Software	4,320	12,961	11,686	Total shareholders' equity	2,517,236	5,278,744	5,231,850
Lease assets	492	248	105	(Total net assets)	2,517,236	5,278,744	5,231,850
Other intangible fixed assets	3,616	326	2,147				
Allowances for loan losses	- 282,528	- 343,434	- 415,034				
<b>Total assets</b>	<b>13,778,462</b>	<b>23,696,852</b>	<b>23,503,060</b>	<b>Total liabilities and net assets</b>	<b>13,778,462</b>	<b>23,696,852</b>	<b>23,503,060</b>

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

## Income Statement

(Unit: million yen)

Item	FY2020 (Result)	FY2021 (Estimated)	FY2022 (Planned)	Item	FY2020 (Result)	FY2021 (Estimated)	FY2022 (Planned)
Ordinary income	135,840	201,469	301,023	Expenses for service transactions, etc.	596	858	1,035
Revenue from fund management	114,309	176,376	279,152	Other service expenses	596	858	1,035
Interest on loans and discounted	114,308	176,375	279,152	Other operating expenses	327	1,301	455
Interest from repurchase agreements	-	0	0	Amortization of bond issue expenses	327	1,301	455
Interest on deposits	0	0	0	Business expenses	78,138	89,844	90,334
Other interest received	0	0	0	Other ordinary expenses	207,874	148,606	163,800
Revenue from service transactions, etc.	0	0	-	Provision of allowance for loan losses	197,254	138,000	153,200
Other service revenue	0	0	-	Written-off of loans	10,583	10,600	10,600
Revenue from government grants	19,949	23,497	20,332	Other ordinary expenses	36	6	-
Receipts from the general account	19,949	23,497	20,332	Ordinary profit	154,529	49,173	49,101
Other ordinary income	1,582	1,595	1,538	Extraordinary profits	49	9	-
Recoveries of written-off claims	503	478	451	Gain on sales and retirement of noncurrent assets	49	9	-
Other ordinary income	1,078	1,116	1,086	Extraordinary loss	152	18	-
Ordinary expenses	290,370	250,642	350,124	Loss on sales and retirement of noncurrent assets	75	7	-
Financing cost	3,433	10,031	94,499	Impairment loss	77	11	-
Interest on call money	8	-	-	Net profit	154,632	49,182	49,101
Interest on borrowed money	3,212	9,713	88,475				
Interest on bonds	211	317	6,023				
Other interest paid	-	0	-				

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