

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 FY2022 FILP

(Unit: billion yen)

FY2022 FILP	Estimated outstanding amount of FILP lending at the end of FY2021
1,196.9	10,630.8

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2021	FY2022	Fluctuation
1. Government expenditure (subsidies, etc.)	107.9	88.6	-19.3
2. Government revenue (payments to the government, etc.)*1	-	-	-
3. Opportunity cost of capital investments, etc.	477.6	139.4	-338.2
Total (1+2+3=policy cost(A))	585.5	228.0	-357.5
Analysis period (years)	21 years	21 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)	585.5	228.0	-357.5
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	313.4	381.9	+68.5
2) Policy cost expected to be newly accrued during the analysis period	272.1	-153.9	-426.0
Government expenditure (subsidies, etc.)	107.9	88.6	-19.3
Government revenue (payments to the government, etc.)*1	-	-	-
Opportunity cost of surplus, etc.	164.0	-244.1	-408.1
Opportunity cost of capital investments, etc.	0.2	1.7	+1.4

(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)	585.5	228.0
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2022 analysis)	411.8	479.4	+67.5
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2021)			Real fluctuation (2-1)

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost due to increase in loan losses (+252.9 billion yen)
- Increase in cost due to finalization of FY2020 results and revision of FY2021 projections (+149.6 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to interest rate gap for new loans provided in FY2022 (-90.1 billion yen)
- Decrease in cost through an increase in revenue from investment of claw-back funds (-66.2 billion yen)
- Decrease in cost due to decrease in prepayments (-5.5 billion yen)
- Other factors (An increase in miscellaneous revenue, etc.) (-173.2 billion yen)

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

(A) Policy cost in FY2022 (previously cited)	228.0
1) Prepayments	143.5
2) Loan losses	920.2
3) Others (including profit spread)	-835.7

(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.
228.0	228.7	+0.7	-0.3	-	+1.0
(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.
228.0	235.2	+7.2	-0.0	-	+7.2

(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.

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 FY2022 business plan (3,370.0 billion yen) in addition to existing loan balance of 12,590.4 billion yen (estimated as of the end of FY2021).
- 3) The analysis period is supposed to be 21 years until the complete repayment of all loans made based on the FY2022 operation program as well as existing loans.
- 4) Prepayments are expected to account for 2.33% of outstanding loans at the beginning of the analysis period in and after FY2023. This ratio is the weighted average of the preceding 5 years (FY2016 - FY2020).
- 5) Provisions of allowance for loan losses are projected at a level equivalent to 1.11% of the fiscal year-end loan balance in and after FY2023. This percentage represents the weighted average for the FY2016-2020 period.

FY	Result					Estimated 2021	Planned 2022	Assumptions for calculation 2023-2042
	2016	2017	2018	2019	2020			
Prepayment ratio	2.80%	2.63%	2.41%	2.25%	1.77%	0.99%	0.56%	After FY2023 2.33%
Ratio of provision of allowance for loan losses	0.33%	0.44%	0.71%	0.96%	2.44%	2.45%	1.44%	After FY2023 1.11%

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 (FY2020)
 - Business funds 55 thousand cases 4,564.8 billion yen
 - Total lending (aggregate amount from FY1953 to FY2020)
 - Business funds 2.94 mil. cases 92,890.1 billion yen
- 2) Economic effect from capital investment loans
 - (1) JFC's capital investment loans for FY2020 were 314.1 billion yen. The total of capital investment utilizing these loans amounts to 630.3 billion yen (excluding land).
 - (2) The measurement of the ripple effect to Japan's economy based on this outcome indicates that it induced 1.3 trillion-yen worth of production and jobs for 66 thousand people within the country.
- 3) COVID-19-related loans to prevent job losses

While business conditions have deteriorated temporarily under the impact of the COVID-19 outbreak, JFC has provided COVID-19 Special Loan Program and COVID-19 Hybrid Subordinated Loan Program to SMEs and micro businesses expected to recover and grow over a medium to long term, contributing to preventing 2.57 million people from losing jobs.
- 4) Prevention of loss of employment by safety net loans

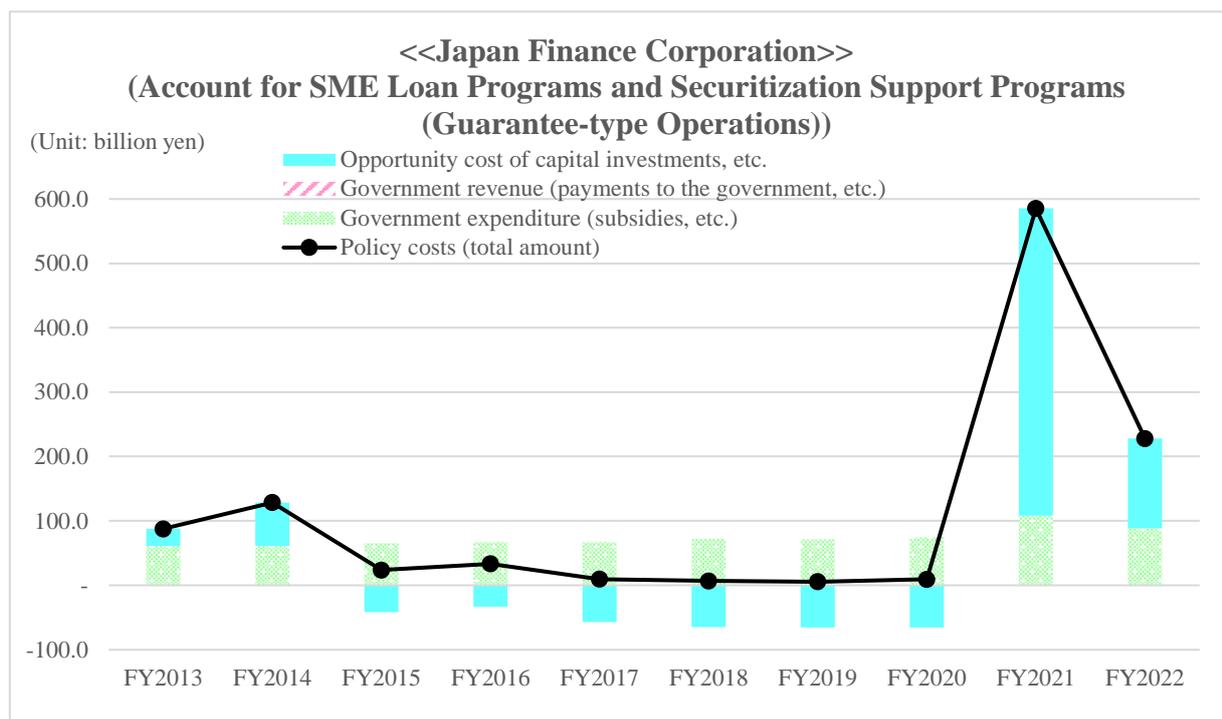
Safety net loans were provided to SMEs that suffer temporary setbacks in business conditions due to deterioration in the social or economic environment or other reasons or confront cash flow difficulties due to credit squeeze or the collapse of affiliated companies, contributing to the prevention of the loss of 50 thousand jobs.
- 5) Number of public companies turned out

	Cumulative total	Cumulative total since 1989
Number of public companies	3,673 companies (100%)	2,460 companies (100%)
Number of these having past or present dealing with JFC	703 companies (19.1%)	534 companies (21.7%)

Note: As of 31 March 2021, excluding agriculture/fisheries, finance/insurance and foreign companies.

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)	87.6	128.4	23.6	33.2	9.4	6.6	5.4	9.1	585.5	228.0
Government expenditure (subsidies, etc.)	61.1	60.9	65.4	66.7	66.6	71.6	71.1	74.5	107.9	88.6
Government revenue (payments to the government, etc.)	-	-	-	-	-	-	-	-	-	-
Opportunity cost of capital investments, etc.	26.5	67.5	-41.8	-33.5	-57.2	-65.0	-65.7	-65.4	477.6	139.4

【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.
- In FY2021, the policy cost increased due to the impact of the receipt of capital investments from the government for COVID-19 control measures.
- The policy cost in FY2022 decreased due to such factors as a decrease from FY2021 in the opportunity cost of capital investments from the government.

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

- In the basic case, the policy cost remained higher than before FY2020 due to a rise in opportunity cost for capital investments received in order to provide various policy loans, including safety net and disaster relief policy loans, such as loans for COVID-19 control measures. However, such costs are essential for providing funds stably to SMEs and micro businesses.
- The results of the sensitivity analysis (case before the negative interest rate policy) showed an increase of 0.7 billion yen in the policy cost compared with the basic case, but its impact on actual finance is assessed as minimal.
- The results of the sensitivity analysis (case of a 1% increase in loan write-offs) showed an increase of 7.2 billion yen in the policy cost compared with the basic case. This is attributable to an increase in cumulative deficits due to a rise in loan losses, but its impact on actual finance is assessed as minimal.

(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	757,003	1,589,288	145,264	Borrowed money			
Cash	4	4	4	Borrowings	5,846,249	9,532,069	9,806,818
Deposits	756,999	1,589,284	145,259	Bonds payable	499,049	748,321	744,203
Securities	17	17	17	Other liabilities	4,019	7,742	17,304
Bonds	17	17	17	Accrued expenses	735	2,253	9,897
Stocks	0	0	0	Advance revenues	87	2,812	4,524
Loans and bills discounted				Derivatives	16	-	-
Loan on deeds	8,116,466	12,590,371	14,313,569	Lease obligations	1,115	1,268	1,476
Other assets	4,201	5,711	8,210	Other liabilities	2,065	1,407	1,406
Prepaid expenses	3	3	3	Provision for bonuses	1,232	1,240	1,240
Accrued revenue	2,962	4,975	6,630	Provision for directors' bonuses	6	6	6
Other assets	1,235	732	1,576	Provision for retirement benefits	20,485	21,126	21,767
Tangible fixed assets	48,030	48,190	48,551	Provision for directors' retirement benefits	14	19	2
Buildings	11,168	11,216	11,280	Acceptances and guarantees	22,928	74,642	128,660
Land	35,701	35,701	35,701	(Total liabilities)	6,393,986	10,385,168	10,720,004
Lease assets	800	1,030	1,276	Capital	2,546,937	3,922,537	3,939,617
Construction in progress	172	-	-	Retained earnings			
Other tangible fixed assets	187	241	292	Other retained earnings			
Intangible fixed assets	4,429	6,075	6,678	Retained earnings brought forward	- 461,963	- 696,443	- 828,439
Software	2,947	4,567	5,227	Total shareholders' equity	2,084,973	3,226,093	3,111,177
Lease assets	190	96	39	(Total net assets)	2,084,973	3,226,093	3,111,177
Other intangible fixed assets	1,291	1,411	1,411				
Customer's liabilities for acceptance and guarantee	22,928	74,642	128,660				
Allowances for loan losses	- 474,118	- 703,037	- 819,772				
Total assets	8,478,960	13,611,261	13,831,181	Total liabilities and net assets	8,478,960	13,611,261	13,831,181

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

Income Statement

(Unit: million yen)

Item	FY2020 (Result)	FY2021 (Estimated)	FY2022 (Planned)	Item	FY2020 (Result)	FY2021 (Estimated)	FY2022 (Planned)
Ordinary income	80,698	115,012	166,723	Other operating expenses	294	1,072	227
Revenue from fund management	65,096	98,510	150,372	Foreign exchange trading losses	137	-	-
Interest on loans and discounts	65,095	98,510	150,372	Retirement of Japanese government and other bond	8	-	-
Interest and dividends on securities	0	-	-	Amortization of bond issue expenses	149	1,072	227
Interest from repurchase agreements	-	0	0	Business expenses	28,723	33,660	34,478
Interest on deposits	0	0	0	Other ordinary expenses	199,448	309,140	208,011
Other interest received	0	-	-	Provision of allowance for loan losses	197,670	309,123	207,917
Revenue from service transactions, etc.	157	330	1,361	Written-off of loans	1,254	-	-
Other service revenue	157	330	1,361	Other ordinary expenses	523	16	94
Other business income	-	16	-	Ordinary loss	152,250	234,480	131,995
Foreign exchange trading profit	-	16	-	Extraordinary loss	94	-	-
Revenue from government grants	14,180	14,918	14,074	Loss on sales and retirement of noncurrent assets	94	-	-
Receipts from the general account	14,179	14,918	14,074	Net loss	152,345	234,480	131,995
Receipts from the special account	0	0	0				
Other ordinary income	1,264	1,236	914				
Recoveries of written-off claims	87	129	125				
Gain on sale of stocks, etc.	386	-	-				
Other ordinary income	789	1,107	788				
Ordinary expenses	232,949	349,493	298,719				
Financing cost	4,423	5,558	55,934				
Interest on call money	17	-	-				
Interest on borrowed money	3,285	4,346	50,710				
Interest on bonds	1,120	1,211	5,224				
Expenses for service transactions, etc.	59	61	67				
Other service expenses	59	61	67				

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