

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 FILP

(Unit: billion yen)

FY2023 FILP	Estimated outstanding amount of FILP lending at the end of FY2022
3,071.8	9,424.8

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2022	FY2023	Fluctuation
1. Government expenditure (subsidies, etc.)	72.2	69.9	-2.3
2. Government revenue (payments to the government, etc.)*	-	-945.3	-945.3
3. Opportunity cost of capital investments, etc.	540.9	1,332.2	+791.3
Total (1+2+3=policy cost(A))	613.1	456.8	-156.3
Analysis period (years)	31 years	31 years	-

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

Category	FY2022	FY2023	Fluctuation
(A) Policy cost (previously cited)	613.1	456.8	-156.3
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	1,126.3	2,231.5	+1,105.2
2) Policy cost expected to be newly accrued during the analysis period	-513.2	-1,774.7	-1,261.5
Government expenditure (subsidies, etc.)	72.2	69.9	-2.3
Government revenue (payments to the government, etc.)*	-	-945.3	-945.3
Opportunity cost of surplus, etc.	-585.8	-900.0	-314.2
Opportunity cost of capital investments, etc.	0.4	0.8	+0.3

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

		FY2022	FY2023	Simple fluctuation
Policy cost	Simple comparison (before adjustment)	613.1	456.8	-156.3
	Past year comparison (after adjustment)	543.7	501.5	-42.2

[Real fluctuation factor analysis]

○ Factors behind policy cost increase

- Increase in cost due to finalization of FY2021 results and revision of FY2022 projections (+201.6 billion yen)
- Other (Increase in administrative costs due to new loans, etc.) (+17.0 billion yen)

○ Factors behind policy cost decrease

- Decrease in cost due to interest rate gap for new loans provided in FY2023 (-190.8 billion yen)
- Decrease in cost due to decrease in loan losses (-45.6 billion yen)
- Decrease in cost due to decrease in prepayments (-24.4 billion yen)

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

(A) Policy cost in FY2023 (previously cited)	456.8
1) Prepayments	33.8
2) Loan losses	966.1
3) Others (including profit spread)	-543.0

(5) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

(A) Policy cost (previously cited)	Case of assumed interest rate + 1%	Fluctuation	1. Government expenditure (subsidies, etc.)			2. Government revenue (payments to the government, etc.)*			3. Opportunity cost of capital investments, etc.		
456.8	357.0	-99.8		-1.8		-928.2				+830.1	

(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.)*			3. Opportunity cost of capital investments, etc.		
456.8	467.9	+11.1		-0.0		+10.1				+1.0	

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

* 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.

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 FY2023 business plan (4,749.0 billion yen) in addition to the loans that have been already provided amounting to 14,932.5 billion yen (estimated at the end of FY2022.)
- 3) The analysis period continues for a period of 31 years in which all loans provided under the FY2023 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 (10.80%) from FY2016 through FY2021, excluding FY2020, 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 1.49%. The ratio represents the average of such ratios for performing and non-performing loans in FY2019, FY2020 and FY2021. The total provision of allowance for loan losses from FY2023 to FY2053 are 953.0 billion yen.

FY	Result					Estimated 2022	Planned 2023	Assumptions for calculation 2024-2053
	2017	2018	2019	2020	2021			
Prepayment ratio	12.75%	10.52%	10.21%	34.35%	8.93%	10.80%	10.80%	10.80%
Ratio of provision of allowance for loan losses	0.80%	0.87%	0.93%	1.78%	1.74%	0.99%	0.89%	1.49%

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 (FY2021)

For business	0.24 mil. cases	2.2062 trillion yen
For environmental health business	0.01 mil. cases	62.5 billion yen
For education, etc.	0.10 mil. cases	142.8 billion yen
Total	0.35 mil. cases	2.4115 trillion yen

Total financing (aggregate amount from FY1949 to FY2021)

For business	32.16 mil. cases	132.9689 trillion yen
For environmental health business	2.42 mil. cases	8.625 trillion yen
For education, etc.	13.53 mil. cases	10.1026 trillion yen
Total	48.12 mil. cases	151.1340 trillion yen

Outstanding balance of lending (end of FY2021)

For business	1.43 mil. cases	11.3244 trillion yen
For environmental health business	0.07 mil. cases	410.5 billion yen
For education, etc.	0.96 mil. cases	961.4 billion yen
Total	2.46 mil. cases	12.6963 trillion yen

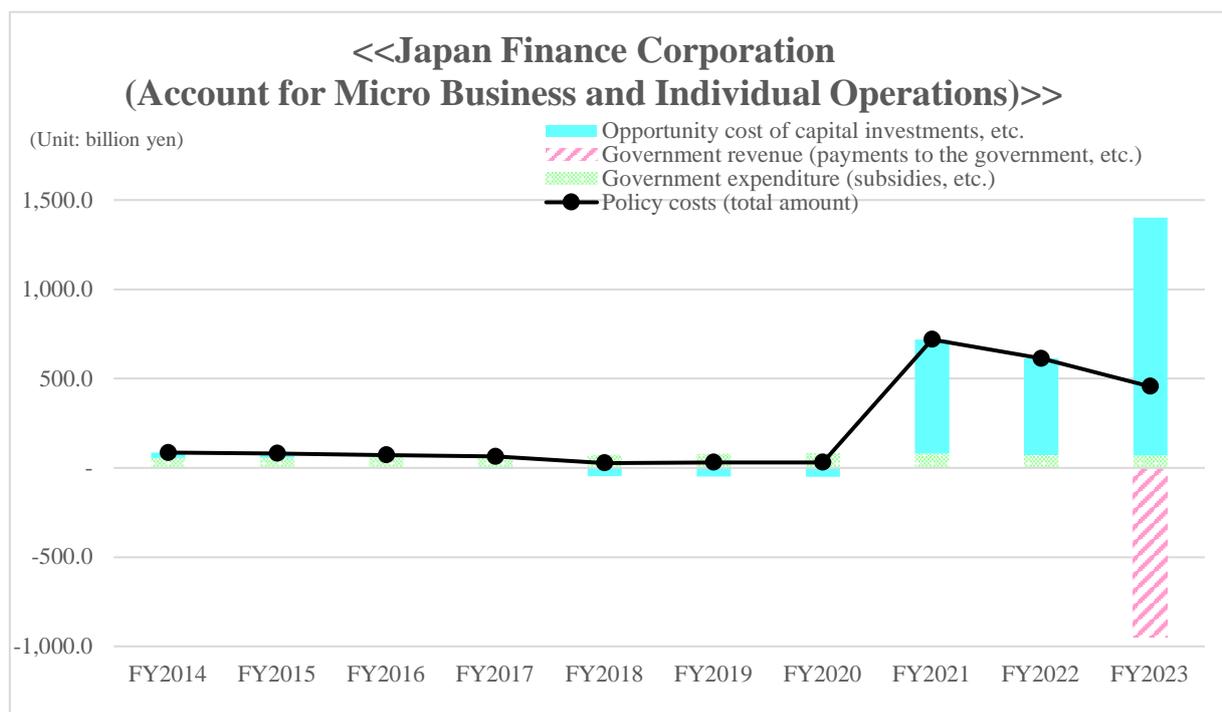
Lending plan (FY2023)

For business		4.4180 trillion yen
For environmental health business		150.0 billion yen
For education, etc.		181.0 billion yen
Total		4.7490 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 9.80 million yen, and non-collateral loans account for over 90% of the total number of loans. (Number of loans in FY2021: 251,727; of these, non-collateral loans: 247,087)
- 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 7.06 million) ÷ total number of employed persons (66.67 million) = 10.6%)
- 4) The estimates calculated under a certain condition represents about 4,100 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 12,600 companies that could avoid winding up with financing of the Finance Corporation and about 60.6 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)

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Policy costs (total amount)	85.8	81.3	72.1	63.8	27.3	30.8	30.6	719.4	613.1	456.8
Government expenditure (subsidies, etc.)	55.1	57.4	62.0	69.8	74.0	78.8	81.5	80.0	72.2	69.9
Government revenue (payments to the government, etc.)	-	-	-	-	-	-	-	-	-	-945.3
Opportunity cost of capital investments, etc.	30.7	23.9	10.1	-5.9	-46.8	-48.0	-50.9	639.4	540.9	1,332.2

【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.
- In FY2023, the policy cost decreased due to such factors as an increase in profit brought about by an increase in investment yields from surplus capital.

【FILP agency's self-assessment of policy cost analysis results (FY2023)】

- The policy cost in FY2023 remained high mainly due to the opportunity cost for the receipt of a large amount of capital investments made in FY2020 and FY2021 as a result of 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 of assumed interest rate + 1%), the policy cost decreased by 99.8 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 11.1 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 ensuring appropriate screening and supporting customer's core business.

(Reference) Financial Statements

Balance Sheet

(Unit: million yen)

Item	End of FY2021 (Result)	End of FY2022 (Estimated)	End of FY2023 (Planned)	Item	End of FY2021 (Result)	End of FY2022 (Estimated)	End of FY2023 (Planned)
(Assets)				(Liabilities and net assets)			
Cash and deposits	2,433,921	270,908	91,255	Borrowed money			
Cash	12	18	18	Borrowings	8,981,223	9,264,938	10,200,707
Deposits	2,433,908	270,889	91,236	Bonds payable	525,206	465,122	540,064
Receivables under resale agreement	-	578	578	Other liabilities	9,333	10,856	22,325
Loans and bills discounted				Accrued expenses	1,062	1,881	11,074
Loan on deeds	12,572,300	14,932,471	16,102,723	Lease obligations	2,705	3,443	5,718
Other assets	9,451	10,040	13,082	Other liabilities	5,564	5,532	5,532
Prepaid expenses	41	41	41	Provision for bonuses	3,200	3,448	3,448
Accrued revenue	5,566	6,200	9,242	Provision for directors' bonuses	7	7	7
Agency account receivable	578	578	578	Provision for retirement benefits	55,203	57,396	58,437
Other assets	3,264	3,219	3,219	Provision for directors' retirement benefits	16	15	4
Tangible fixed assets	95,233	98,365	100,092	(Total liabilities)	9,574,191	9,801,784	10,824,994
Buildings	28,057	30,785	30,352	Capital	5,773,243	5,787,273	5,789,235
Land	64,244	64,094	64,094	Capital surplus			
Lease assets	2,128	2,955	5,065	Special reserve for managerial improvement	181,500	181,500	181,500
Construction in progress	318	-	-	Retained earnings			
Other tangible fixed assets	483	530	580	Other retained earnings			
Intangible fixed assets	11,784	12,631	26,901	Earned surplus carried forward	-713,182	-794,552	-858,087
Software	11,195	10,401	16,662	Total shareholders' equity	5,241,560	5,174,220	5,112,647
Lease assets	249	105	63	(Total net assets)	5,241,560	5,174,220	5,112,647
Other intangible fixed assets	339	2,123	10,175				
Allowances for loan losses	-306,940	-348,990	-396,990				
Total assets	14,815,751	14,976,005	15,937,642	Total liabilities and net assets	14,815,751	14,976,005	15,937,642

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

Income Statement

(Unit: million yen)

Item	FY2021 (Result)	FY2022 (Estimated)	FY2023 (Planned)	Item	FY2021 (Result)	FY2022 (Estimated)	FY2023 (Planned)
Ordinary income	121,804	138,248	195,961	Other operating expenses	52	448	447
Revenue from fund management	104,325	116,378	174,384	Amortization of bond issue expenses	52	448	447
Interest on loans and discounted	104,325	116,377	174,384	Business expenses	77,544	90,662	93,044
Interest from repurchase agreements	-	0	0	Other ordinary expenses	91,759	124,250	132,500
Interest on deposits	0	0	0	Provision of allowance for loan losses	72,529	105,000	113,300
Other interest received	-	0	0	Written-off of loans	19,204	19,200	19,200
Revenue from government grants	15,865	20,332	20,014	Other ordinary expenses	25	50	-
Receipts from the general account	15,865	20,332	20,014	Ordinary loss	51,101	81,209	63,535
Other ordinary income	1,612	1,538	1,562	Extraordinary profits	55	-	-
Recoveries of written-off claims	550	451	485	Gain on disposal of non current assets	55	-	-
Other ordinary income	1,062	1,086	1,076	Extraordinary loss	136	160	-
Ordinary expenses	172,905	219,458	259,497	Loss gain on disposal of non current assets	31	8	-
Financing cost	2,925	3,297	32,551	Impairment loss	104	151	-
Interest on borrowed money	2,724	3,050	30,078	Net loss	51,181	81,369	63,535
Interest on bonds	200	246	2,473				
Revenue from service transactions, etc.	622	800	954				
Other service costs	622	800	954				

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