

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 FILP

(Unit: billion yen)

FY2023 FILP	Estimated outstanding amount of FILP lending at the end of FY2022
1,924.0	6,463.8

3. Estimated policy cost analysis of the project

(1) Policy cost

(Unit: billion yen)

Category	FY2022	FY2023	Fluctuation
1. Government expenditure (subsidies, etc.)	88.6	92.0	+3.5
2. Government revenue (payments to the government, etc.)*	-	-	-
3. Opportunity cost of capital investments, etc.	139.4	424.3	+284.9
Total (1+2+3=policy cost(A))	228.0	516.3	+288.3
Analysis period (years)	21 years	21 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)	228.0	516.3	+288.3
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	381.9	924.8	+542.9
2) Policy cost expected to be newly accrued during the analysis period	-153.9	-408.4	-254.5
Government expenditure (subsidies, etc.)	88.6	92.0	+3.5
Government revenue (payments to the government, etc.)*	-	-	-
Opportunity cost of surplus, etc.	-244.1	-506.0	-261.9
Opportunity cost of capital investments, etc.	1.7	5.6	+3.9

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

		FY2022	FY2023	Simple fluctuation
		Simple comparison (before adjustment)	228.0	516.3
Policy cost	Past year comparison (after adjustment)	81.9	468.5	+386.6
		1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2023 analysis)	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2022)	Real fluctuation (2-1)

[Real fluctuation factor analysis]

○ Factors behind policy cost increase

- Increase in cost due to increase in loan losses (+309.4 billion yen)
- Increase in cost due to finalization of FY2021 results and revision of FY2022 projections (+129.1 billion yen)
- Other (Increase in administrative costs due to new loans, etc.) (+128.4 billion yen)

○ Factors behind policy cost decrease

- Decrease in cost due to interest rate gap for new loans provided in FY2023 (-160.4 billion yen)
- Decrease in cost due to decrease in prepayments (-19.9 billion yen)

(4) Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2023 (previously cited)	516.3
1) Prepayments	101.9
2) Loan losses	1,007.8
3) Others (including profit spread)	-593.3

(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.	
516.3	666.3	+150.0	-4.1	-76.3	+230.3

(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.	
516.3	526.1	+9.7	-0.1	-	+9.8

(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) 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 FY2023 business plan (2,740.0 billion yen) in addition to existing loan balance of 9,954.2 billion yen (estimated as of the end of FY2022).
- 3) The analysis period is supposed to be 21 years until the complete repayment of all loans made based on the FY2023 operation program as well as existing loans.
- 4) Prepayments are expected to account for 1.93% of outstanding loans at the beginning of the analysis period in and after FY2024. This ratio is the weighted average of the preceding 5 years (FY2017 - FY2021).
- 5) Provisions of allowance for loan losses are projected at a level equivalent to 1.60% of the fiscal year-end loan balance in and after FY2024. This percentage represents the weighted average of the preceding 5 years (FY2017-FY2021).

FY	Result					Estimated 2022	Planned 2023	Assumptions for calculation 2024-2043
	2017	2018	2019	2020	2021			
Prepayment ratio	2.63%	2.41%	2.25%	1.77%	1.17%	0.84%	0.80%	After FY2024 1.93%
Ratio of provision of allowance for loan losses	0.44%	0.71%	0.96%	2.44%	2.48%	1.69%	1.59%	After FY2024 1.60%

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 (FY2021)
 - Business funds 21 thousand cases 1,687.4 billion yen
 - Total lending (aggregate amount from FY1953 to FY2021)
 - Business funds 2.96 mil. cases 94,577.5 billion yen
- 2) Economic effect from capital investment loans
 - (1) JFC's capital investment loans for FY2021 were 378.0 billion yen. The total of capital investment utilizing these loans amounts to 812.3 billion yen (excluding land).
 - (2) The measurement of the ripple effect to Japan's economy based on this outcome indicates that it induced 1.6 trillion-yen worth of production and jobs for 86 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 917 thousand people from losing jobs.
- 4) Prevention of loss of employment by safety net loans

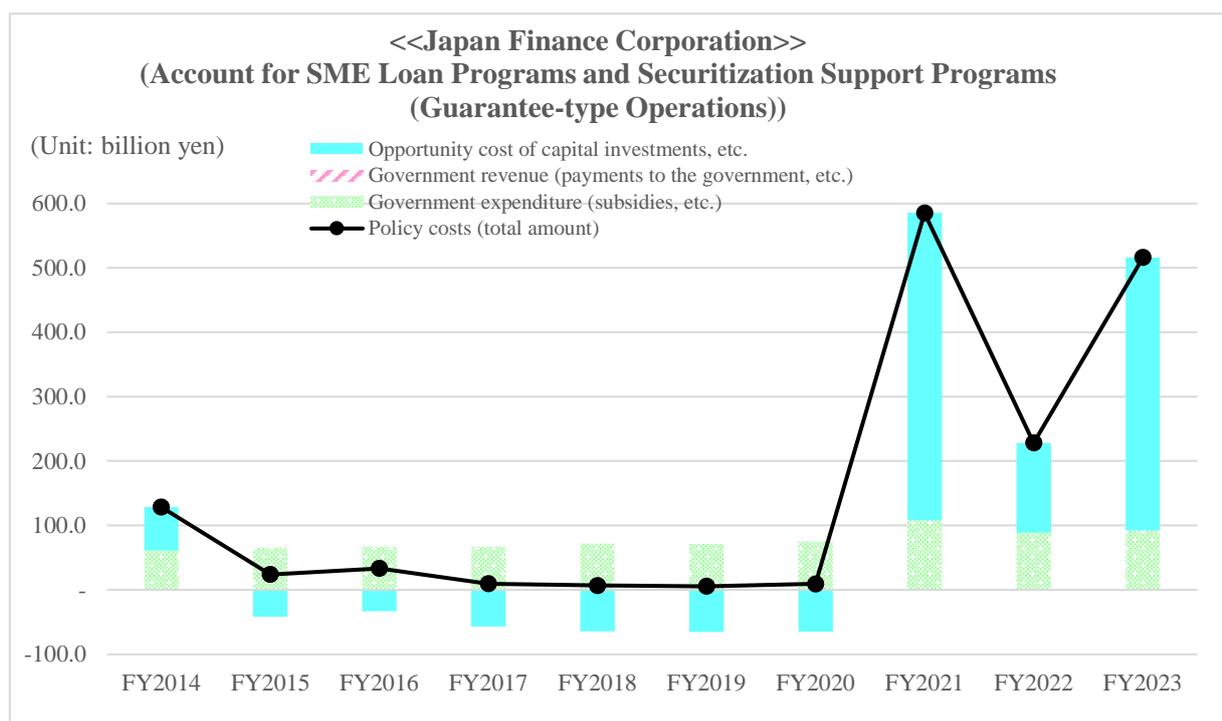
Safety net loans were provided to SMEs that suffer temporary setbacks in business conditions due to deterioration in the social or economic environment or other reasons or confront cash flow difficulties due to credit squeeze or the collapse of affiliated companies, contributing to the prevention of the loss of 35 thousand jobs.
- 5) Number of public companies turned out

	Cumulative total	Cumulative total since 1989
Number of public companies	3,731companies (100%)	2,484 companies (100%)
Number of these having past or present dealing with JFC	746 companies (20.0%)	578 companies (23.3%)

Note: As of 3 April 2022, 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)

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Policy costs (total amount)	128.4	23.6	33.2	9.4	6.6	5.4	9.1	585.5	228.0	516.3
Government expenditure (subsidies, etc.)	60.9	65.4	66.7	66.6	71.6	71.1	74.5	107.9	88.6	92.0
Government revenue (payments to the government, etc.)	-	-	-	-	-	-	-	-	-	-
Opportunity cost of capital investments, etc.	67.5	-41.8	-33.5	-57.2	-65.0	-65.7	-65.4	477.6	139.4	424.3

【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.
- In FY2023, policy cost increased due to an increase in opportunity cost of capital investments, etc. from the government related to a change in the assumed interest rate.

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

- 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 of assumed interest rate + 1%) showed an increase of 150 billion yen in the policy cost compared with the basic case. This is attributable to an increase in the opportunity cost of capital investments associated with a fall in discount rate, and the 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 9.7 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 since the amount of increase is limited.

(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	1,364,159	101,639	106,003	Borrowed money			
Cash	4	4	4	Borrowings	5,375,869	5,650,618	6,769,818
Deposits	1,364,155	101,635	105,999	Bonds payable	417,521	413,403	399,800
Securities	17	17	17	Other liabilities	3,378	6,181	14,145
Bonds	17	17	17	Accrued expenses	603	999	6,277
Stocks	0	0	0	Advance revenues	77	2,798	4,523
Loans and bills discounted				Lease obligations	912	1,099	2,061
Loan on deeds	8,338,693	9,954,195	11,089,942	Other liabilities	1,784	1,283	1,283
Other assets	4,232	4,482	7,058	Provision for bonuses	1,213	1,282	1,282
Prepaid expenses	5	5	5	Provision for directors' bonuses	6	6	6
Accrued revenue	2,678	3,731	5,481	Provision for retirement benefits	21,288	21,883	22,479
Derivatives	15	-	-	Provision for directors' retirement benefits	20	21	3
Other assets	1,532	745	1,572	Acceptances and guarantees	26,565	80,415	133,734
Tangible fixed assets	48,079	48,433	49,699	(Total liabilities)	5,845,863	6,173,812	7,341,269
Buildings	11,399	11,572	11,883	Capital	3,920,007	4,003,387	4,027,447
Land	35,700	35,700	35,700	Retained earnings			
Lease assets	705	926	1,820	Other retained earnings			
Construction in progress	117	-	-	Retained earnings brought forward	-633,639	-741,509	-836,706
Other tangible fixed assets	156	234	295	Total shareholders' equity	3,286,367	3,261,877	3,190,740
Intangible fixed assets	5,096	5,917	11,908	(Total net assets)	3,286,367	3,261,877	3,190,740
Software	4,812	5,770	7,984				
Lease assets	96	39	19				
Other intangible fixed assets	187	106	3,904				
Customer's liabilities for acceptance and guarantee	26,565	80,415	133,734				
Allowances for loan losses	-654,614	-759,410	-866,354				
Total assets	9,132,230	9,435,690	10,532,009	Total liabilities and net assets	9,132,230	9,435,690	10,532,009

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

Income Statement

(Unit: million yen)

Item	FY2021 (Result)	FY2022 (Estimated)	FY2023 (Planned)	Item	FY2021 (Result)	FY2022 (Estimated)	FY2023 (Planned)
Ordinary income	72,500	99,465	144,908	Business expenses	28,988	34,103	36,425
Revenue from fund management	58,615	84,117	128,437	Other ordinary expenses	211,217	168,253	177,764
Interest on loans and discounts	58,613	84,116	128,436	Provision of allowance for loan losses	207,191	168,207	177,591
Interest and dividends on securities	0	-	-	Written-off of loans	3,222	-	-
Interest from repurchase agreements	-	0	0	Other ordinary expenses	803	46	173
Interest on deposits	0	0	0	Ordinary loss	171,613	107,869	95,197
Revenue from service transactions, etc.	162	357	1,372	Extraordinary income	0	-	-
Other service revenue	162	357	1,372	Other extraordinary income	0	-	-
Revenue from government grants	12,737	14,074	14,311	Extraordinary loss	62	-	-
Receipts from the general account	12,737	14,074	14,311	Loss on sales and retirement of noncurrent assets	62	-	-
Receipts from the special account	0	0	0	Net loss	171,676	107,869	95,197
Other ordinary income	985	916	787				
Recoveries of written-off claims	102	125	89				
Gain on sale of stocks, etc.	238	-	-				
Other ordinary income	644	790	697				
Ordinary expenses	244,114	207,335	240,105				
Financing cost	3,820	4,686	25,639				
Interest on call money	-0	-	-				
Interest on borrowed money	2,948	3,867	24,086				
Interest on bonds	872	819	1,552				
Expenses for service transactions, etc.	59	55	59				
Other service expenses	59	55	59				
Other operating expenses	27	236	216				
Foreign exchange trading loss	10	15	-				
Amortization of bond issue expenses	17	221	216				

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