

2011

Japan Finance Corporation

Annual Report



Japan Finance Corporation Annual Report 2011

Contents

1	Overview of JFC	1
1	Message from the Governor & CEO	2
2	Profile	4
3	Main Business Activities	5
4	Management Philosophy	6
5	Business and Management Plan (FY2011–2013)	7
2	JFC Activities	9
1	Response to the Earthquake	10
2	Provision of Policy-based Financing	11
3	Efforts to Maximize Integration Effects (Customer Support through Collaboration between Units)	13
4	Overview of Operations in FY2010 and Outline of Financial Statements	15
5	Funding	17
3	Overview of Operations	19
1	Micro Business and Individual Unit	20
2	Agriculture, Forestry, Fisheries and Food Business Unit (AFFF Unit)	26
3	Small and Medium Enterprise Unit (SME Unit)	32
4	Japan Bank for International Cooperation (JBIC)	38
5	Operations to Facilitate Crisis Responses and Specific Businesses Promotion, etc.	44
6	Research Institute	46
4	Systems for Operational Management	49
1	Governance	50
5	Organization and History	63
1	Organization	64
2	Office Locations	65
3	History of JFC	74
Data		77
1	Operational Performances	78
2	Financial Statements and Notes	94
3	Reference Information	209

Presentation of quantities and amounts in this report

1. Quantities and amounts less than one standard unit

Quantities, numbers of items, monetary amounts and other numerical figures presented in this report are, in principle, truncated (rounded down) to the nearest standard unit of presentation (however, for the Japan Bank for International Cooperation, monetary amounts presented for fiscal years ended on or before March 31, 2008, are rounded up or down to the nearest whole unit). Percentages are rounded up or down to the nearest decimal place presented. Consequently, some totals presented differ slightly from the sum of the component figures presented.

2. Method of presentation

In cases where quantities, numbers of items, monetary amounts and other numerical figures are less than one standard unit of presentation, such figures are presented as zero (0). In cases where there is no applicable amount, a hyphen (-) is shown.



1	Message from the Governor & CEO	2
2	Profile	4
3	Main Business Activities	5
4	Management Philosophy	6
5	Business and Management Plan (FY2011–2013)	7



1 Message from the Governor & CEO



On behalf of everyone at Japan Finance Corporation (JFC), I would like to convey my heartfelt sympathies to all those who have suffered as a result of the Great East Japan Earthquake.

Measures Implemented in FY2010

In FY2010, ended March 31, 2011, the directors and employees of JFC worked in unison to fulfill JFC's role of providing a safety net for small and medium-sized enterprises (SMEs) in accordance with government policies. In particular, as an emergency response to the financial crisis triggered by the collapse of Lehman Brothers Holdings Inc., we provided critical support to SMEs and agricultural, forestry, and fisheries enterprises struggling to meet their working capital requirements. As a result, in FY2010 JFC executed Safety-Net Loans totaling 4,300 billion yen.

JFC also supported the financing needs of SMEs and micro businesses by underwriting and backing guarantees for the Emergency Guarantee Program carried out by Credit Guarantee Corporations (CGCs) throughout Japan.

In addition, pursuant to the act concerning facilitate financing for SMEs, JFC demonstrated flexibility in providing support to SMEs, taking such actions as relaxing loan repayment conditions. Simultaneously, the Japan Bank for International Cooperation (JBIC) also responded to turmoil in the international financial system by providing support to Japanese companies engaged in business overseas. Also, as part of our crisis response efforts, JFC helped

support Japanese companies by providing credit to the Development Bank of Japan and the Shoko Chukin Bank.

Throughout FY2010 JFC responded swiftly and aggressively to such events as the outbreaks of foot and mouth disease and avian influenza, the volcanic eruption of Shinmoedake, and, most recently, the Great East Japan Earthquake. Our responses included providing expert consultation on funding issues to SMEs, micro businesses, and agricultural, forestry, and fisheries enterprises.

With regard to the Great East Japan Earthquake, JFC is undertaking comprehensive efforts to support businesses that have suffered directly and indirectly from the disaster, including our establishing special consultation counters at all 152 branches throughout Japan and providing toll-free telephone consultations seven days a week. In areas that sustained extensive damage, we have dispatched extra staff from our Head Office and other branches, and are working in concert with a range of institutions and agencies to arrange consultation meetings and briefings.

Beginning with FY2010, JFC has focused sharply on such services as matching businesses and promoting collaboration among agriculture, commerce, and industry. Multiple sections within JFC have worked closely together to provide these and a broad array of other services to our customers. These efforts led to the formation of 1,565 new pairs of businesses in FY2010—approximately three times the number formed in FY2009.

Further, under the government's New Growth Strategy and other policies, JFC worked to meet a variety of needs in the policy-based financing sphere. These efforts included providing support in such areas as business start-ups, social business initiatives, overseas business expansion, and integration among enterprises in primary, secondary, and tertiary industries.

Organizational Management Initiatives

In the area of organizational management, we unified our human resource and compensation systems under a merit- and performance-based structure; implemented organizational reforms, including measures aimed at clarifying authority and responsibilities; and built systems to facilitate swift decision-making. These changes allow us to respond smoothly to economic crises and efficiently undertake the type of operations that have increased substantially in the wake of the Great East Japan Earthquake. We also worked to integrate back-office operations as part of our cost-reduction efforts.

In human resource development, JFC worked to bolster management skills and specialized knowledge by establishing a human resources academy and launching a systematic human resource development program. We also implemented measures to help more women achieve management-level positions. As a reflection of our commitment to preparing women for management roles, we have set a target of having 5% or more of management positions filled by women within seven years (compared with 1.3% in April 2011).

Results for FY2010

In FY2010, JFC recorded an overall net loss of 886.5 billion yen. A decline in credit-related expenses helped lower the overall net loss by 226.3 billion yen compared with the previous fiscal year.

In credit insurance programs, income from insurance premiums and other premiums amounted to 282.2 billion yen, disbursements for insurance claims totaled 723.1 billion yen, and provision of reserve for insurance policy liabilities amounted to 371.1 billion yen. As a result, credit insurance programs recorded a net loss of 812.0 billion yen.

In operations other than credit insurance programs, JBIC posted a net income of 59.0 billion yen, while domestic operations recorded a net loss of 133.5 billion yen, owing mainly to provision of allowance for loan losses of 162.4 billion yen, which included the impact of the Great East Japan Earthquake.

New JFC Programs and Measures

With regard to our response to the Great East Japan Earthquake, we have added new response measures to

our Business Management Plan and will continue working to meet customer needs through consultation on repayment and lending. We will fully utilize two special loan programs, which were established in FY2011, ending March 31, 2012, in response to the post-earthquake situation. JFC is devoting extensive efforts to support funding, recovery, and reconstruction efforts.

JFC is also responding energetically to the government's New Growth Strategy and other policies. Among other measures, we are providing financing and information to proactively support SMEs seeking to expand overseas, and in FY2011 we will open a new Representative Office in Shanghai, China. We will also offer backup support to exporters of agricultural, livestock, and marine products.

As part of our ongoing efforts to generate synergies through business integration, we will continue providing a broad range of services that support collaboration between business units. In so doing, we will leverage our full capabilities to strengthen our financial services in terms of providing both funds and information.

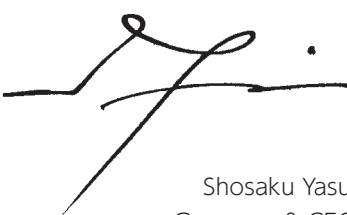
Ever since our establishment, JFC has worked to streamline operations and improve efficiency throughout our organization. Focusing these same efforts on our IT systems, we intend to build a new IT system under a three-year plan commencing in FY2011. The core of the new system will be a private cloud computing system developed to replace our current host/mainframe system.

Pursuant to recently enacted laws, JBIC will strengthen its focus on overseas infrastructure investment. Consequently, JBIC will be separated from JFC in April 2012. Throughout FY2011, however, JBIC will continue to operate under its current structure and provide the same range of services it currently provides.

Listening to customers remains a foremost priority at JFC, as we strive to contribute to the growth and development of local economies, the Japanese economy as a whole, and the international economy.

As we undertake these endeavors, I sincerely ask for your continued support and understanding.

August 2011



Shosaku Yasui
Governor & CEO
Japan Finance Corporation

● Name

Japan Finance Corporation (JFC)

● Establishment

October 1, 2008

● Statutory Law

The Japan Finance Corporation Act

● Head Office

1-9-3, Otemachi, Chiyoda-ku, Tokyo, Japan

● Governor & CEO

Shosaku Yasui

● Capital, Other

Capital: 3,352.5 billion yen

Reserve fund: 2,007.3 billion yen (as of Mar. 31, 2011)

● Branch Offices and Overseas Representative Offices

Branch offices in Japan: 152

Overseas representative offices: 18 (as of Oct. 1, 2011)

● Employees

8,101 (positions sanctioned in the FY2011 budget)

● Outstanding Loans

Micro Business and Individual Unit: 7,470.2 billion yen

Agriculture, Forestry, Fisheries and

Food Business Unit: 2,632.0 billion yen

Small and Medium Enterprise (SME) Unit: 6,436.8 billion yen
(Finance Operations)

Japan Bank for International Cooperation (JBIC): 8,467.0 billion yen
(Outstanding Loans and Equity Participations)

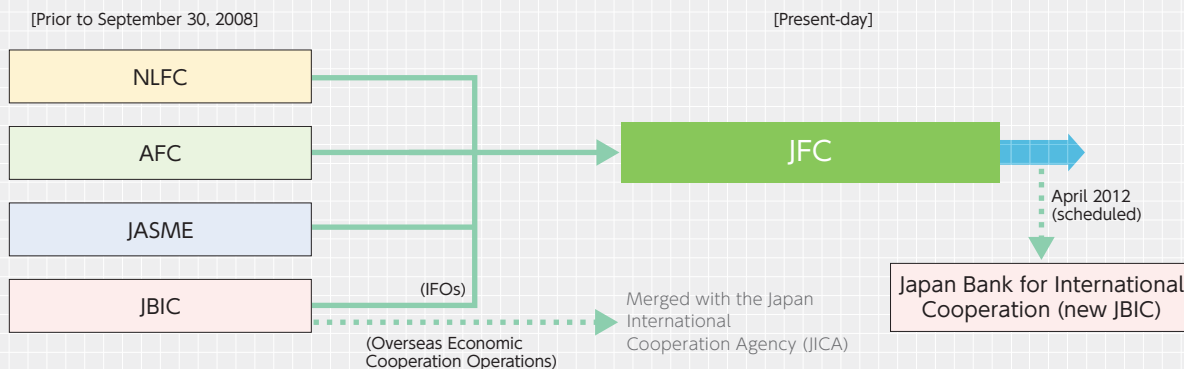
Operations to Facilitate Crisis Responses: 4,736.9 billion yen

Operations to Facilitate Specific Businesses Promotion: 20.0 billion yen
(as of Mar. 31, 2011)

■ Establishment of Japan Finance Corporation

JFC was established in October 2008 with integration of the National Life Finance Corporation (NLFC), the Agriculture, Forestry and Fisheries Finance Corporation (AFC), the Japan Finance Corporation for Small and Medium Enterprise (JASME) and the International Financial Operations (IFOs) of the Japan Bank for International Cooperation (JBIC).

The Transition to JFC



Key Points in JFC's Establishment

Creating a highly public corporation

JFC is a highly public corporation established under a special law stipulating that it is wholly and permanently owned by the government.

The purpose of adopting the structure of a corporation is to utilize the governance framework of a corporation in order to conduct highly transparent and efficient business operations.

Inheriting rights and obligations

JFC has inherited any and all rights and obligations of the four merged institutions. Funding being utilized from any of the institutions and profits gained by persons holding securities issued by each will be honored.

Offering a broad range of services

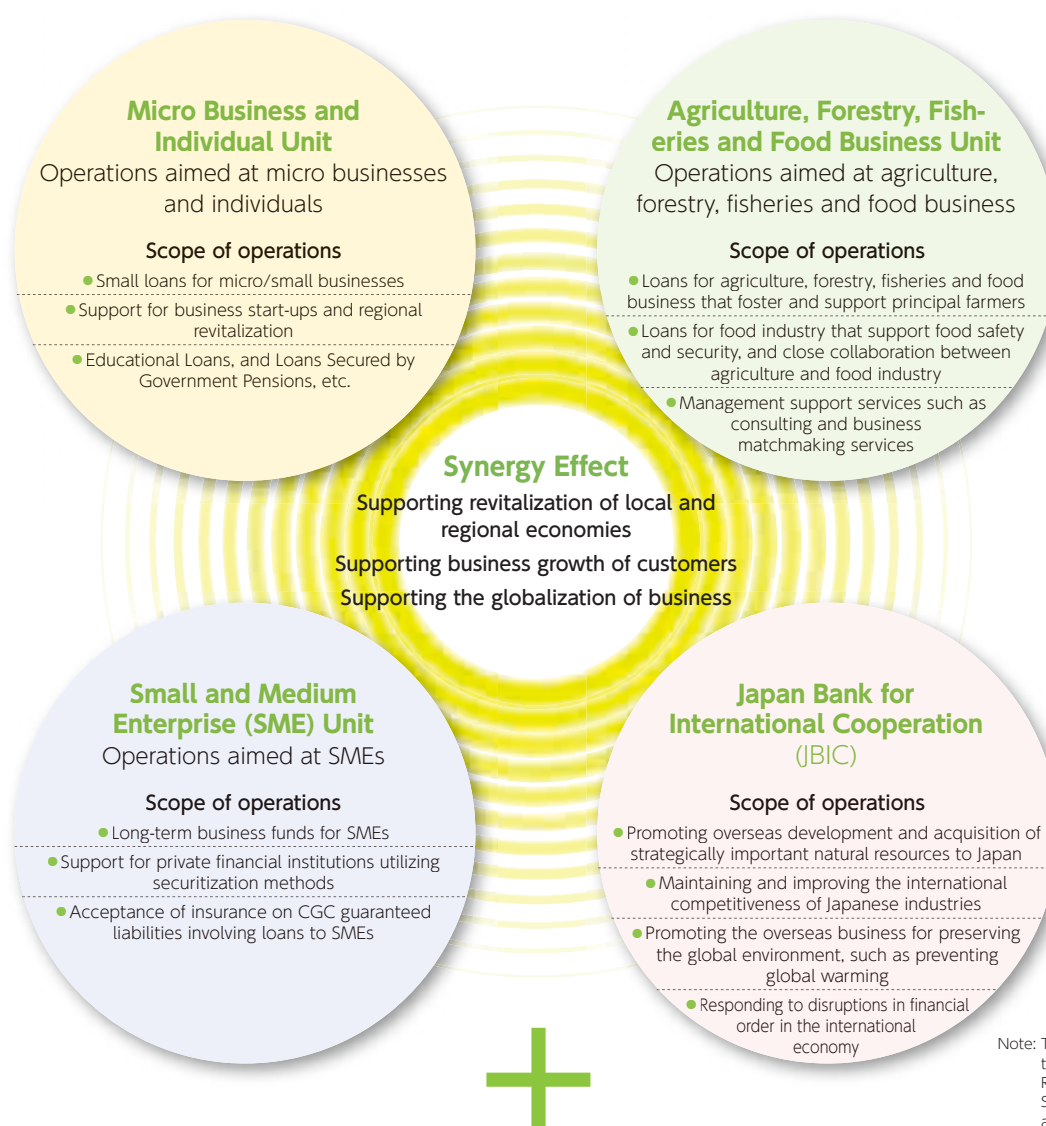
JFC leverages the specialized expertise of each institution and shares know-how in order to offer a wide spectrum of services, such as business matching, promoting collaboration among agriculture, commerce, and industry, and supporting the globalization of businesses.

3 Main Business Activities

JFC is a policy-based financial institution that aims to complement financial activities carried out by private financial institutions and contributes to the sound development of the Japanese and international economies and societies and improvement in the living standards of Japanese people.

- We execute financial functions (domestic financial operations) for supporting financing for the general public, SMEs, and agricultural, forestry, and fishery businesses.
- We execute financial functions in the following areas: promoting overseas development and acquisition of strategically important natural resources important to Japan; maintaining and improving the international competitiveness of Japanese industries; and promoting the overseas business for preserving the global environment, such as preventing global warming.
- We execute financial functions (operations to facilitate crisis responses) for coping with damage inflicted by events such as domestic or international financial disorder, large-scale natural disasters, acts of terrorism, or virulent infectious diseases

Major Business Operations of JFC



Operations to Facilitate Crisis Responses and Specific Businesses Promotion, etc.

- Operations to provide a certain credit to designated financial institutions at the time of occurrence of crises certified by the competent ministers, such as domestic or international financial disorder, large-scale natural disasters, and other similar events.
- Operations to provide loans to designated financial institutions based on the Low Carbon Investment Promotion Act.
- Operations to provide loans to designated financial institutions based on the Industrial Revitalization Act.

Basic Philosophy

● Focused Policy-based Financing

Following the national policy, JFC will provide flexible policy-based financing by utilizing a variety of financing programs and schemes to meet the needs of society, while complementing the activities of private financial institutions.

● Mainstreaming Governance

JFC will strive to conduct highly transparent and efficient business operations based on a high level of corporate governance and hold itself accountable to the public.

Furthermore, JFC is committed to becoming a self-governing organization continuously evaluating and improving its activities.

Principles Guiding Our Operations

Response to the Great East Japan Earthquake

- JFC will respond smoothly, promptly and even in minor details to inquiries from the customers who have sustained damage or have been affected by the Great East Japan Earthquake.

Improving Customer Service

- JFC will earn the trust of clients by improving the quality of its products and services and responding promptly and precisely to the needs of a range of clients requiring policy-based financing.
- JFC will create value added through mutual utilization of know-how and information shared among various areas of policy-based financing.

Contributing to the Development of the Japanese and International Economies

- JFC will contribute to the improved lives of the general public and the growth and development of SMEs and the agriculture, forestry, and fisheries industries.
- JFC will contribute to the sustainable development of the Japanese economy and developing countries by securing access to strategically important resources for Japan and maintaining and improving the international competitiveness of Japanese industries.
- JFC will respond to cope with adverse effects caused by domestic or international financial disorder, large-scale natural disasters, etc.

Contributing to Local and Regional Revitalization

- JFC will develop and conduct community-based programs by integrating policy-based financing activities in its respective units, thereby contributing to local and regional revitalization, including job retention and creation.

Efforts for the New Growth Strategy

- JFC will respond properly to meet the diverse needs required for policy-based financing under the government's New Growth Strategy.

Addressing Environmental Issues

- JFC will contribute to the society by striving to engage in corporate activities that take into account environment sustainability and by conducting operations addressing environmental issues.

Creating a Self-fulfilling Workplace

- JFC will create a self-fulfilling workplace that enables all the employees to foster their professional expertise for conducting policy-based financing and fully utilize their capacities with pride and a sense of mission.

JFC has formulated the following Business and Management Policy and Plan for the period from FY2011 to FY2013.

Business and Management Policy

- (1) JFC will exercise its full capabilities to support the customers who have sustained damage or have been affected by the Great East Japan Earthquake, including responding even in minor details to meet the needs of safety net services.
- (2) As a policy-based financing institution, JFC will prioritize the supply of funds to such areas as set out in growth strategy, and will exercise its ability to make policy proposals that reflect the voices expressed by our customers.
- (3) JFC will work to propagate policy-driven financing through its daily activities in order to become a familiar presence for more businesses. JFC will also enhance its comprehensive financial services both in funding and information service.
- (4) JFC will steadily and properly promote its System Optimization Plan with an eye toward enhancing customer service, streamlining and improving the efficiency of its back-office functions, and reducing the costs associated with business development and operations.
- (5) JFC will further promote human resource development that supports high-quality services, operations, and organizational administration. JFC will also promote career opportunities for women, including the active appointment of female employees to managerial positions and their career development.
- (6) JFC will steadfastly implement the streamlining of back-office functions and conduct efficient business operations, including through a review of the BPR ^(Note 1) initiated in FY2009 and development of common ERP ^(Note 2).
- (7) From the perspective of corporate governance, JFC will establish a risk management structure and will instill strong compliance awareness into management and staff.

Note 1 Business Process Reengineering (BPR): a management technique aimed at radical reform and more efficient business processes by fundamentally rethinking an enterprise's business activities

Note 2 Enterprise Resource Planning (ERP): integrated (cross-business) packaged software designed to increase managerial efficiency by integrating the management of an enterprise's entire management resources from a perspective of effective utilization

Business and Management Plan

Goals of Business Operations

- Exercise our full capacities to support the customers who have sustained damage or have been affected by the Great East Japan Earthquake with all our capabilities
 - Establish special consultation desks for the Great East Japan Earthquake and endeavor to respond smoothly, promptly and even in minor details to inquiries from those customers who have sustained damage or have been affected about financing and repayments.
 - Provide loans in an appropriate and timely manner such as through the Great East Japan Earthquake Recovery Special Loan and the Special Earthquake Loan for Agricultural, Forestry and Fishery Business Owners.
 - Respond even in minor details to inquiries about repayments.
 - Endeavor to make prompt and precisely tailored response thorough insurance such as the Emergency Guarantee for Recovery from the Great East Japan Earthquake.
 - Appropriately implement services adapted for crises recognized as "cases related to the Great East Japan Earthquake."
- Make a precisely tailored response to the needs of a stable supply of funds and safety net services
 - Make finely-tuned respond to the needs of the customers for safety net services.
 - Function as a safety net for SMEs, such as those still struggling with a worsening business environment, and for agricultural, forestry and fishery business owners who have suffered damage or have been affected by a natural disaster, outbreak of an infectious livestock disease, falling prices of farm produce or some other adversities.
 - Support customers struggling to raise funds through the Credit Supplementation System.
 - Provide sufficient funds to customers in a timely and efficient manner.
 - Actively support the funding needs of customers.
 - Conduct prompt and smooth operations adapted to the onset of a crisis.
- Supply funds with priority given to the areas set out in the New Growth Strategy, and exercise the capacity to make policy proposals that reflect the voices expressed by the customers
 - Make focused loans and investments in accordance with the New Growth Strategy, etc.
 - Contribute to regional revitalization and job creation.
 - Support the efforts of SMEs to develop overseas business.

- Support the overseas development of integrated infrastructure systems.
- Support efforts to develop and acquire natural resources, and maintain and improve the international competitiveness of Japanese industries.
- Support responses to global environmental issues.
- Exercise our ability to make policy proposals.
 - Collect the voices of customers and reflect them in policy proposals and measures.
 - Contribute to all types of advisory councils instrumental in the formation and implementation of government policy, etc.

■ Strengthen and promote various measures in order to make JFC a familiar presence for a broader base of customers

- Reinforce collaboration with private financial institutions and relevant organizations, etc.
- Promote public information activities such as through increasing information dissemination.
- Promote various measures to improve services with a view to increasing customer satisfaction.

■ Enhance the JFC's comprehensive financial services both in funding and information service by exercising its corporate-wide systematic capacities

- Strengthen financial services that unite several businesses, and provide useful information that meets customer needs.
 - Promote collaboration between business units through the establishment of Committees for Promoting the Demonstration of Collective Strength at headquarters and branches.
 - Provide useful information to customers trying to expand overseas and to businesses setting up operations overseas.
- Strengthen consulting functions, such as business consulting and guidance as well as support for developing business improvement plans.
- Demonstrate JFC's collective strengths by improving the quality of research at the Research Institute, enhancing the capacity to share knowledge with overseas institutions, and promoting collaboration with JFC units.

■ Develop a strong credit risk management structure.

Organizational Goals

■ Promote the optimization of JFC's IT infrastructure and systems as well as its entire Systems Division

- Based on the JFC General Systems Optimization Plan (Basic Plan), starting in FY2013, gradually begin full-scale operation of new systems as they become optimized.
- Improve the organizational structure of the integrated Systems Division and strengthen the structure for developing IT specialists. Achieve the smooth and efficient operation of the Systems Division based on having a small, elite team.

■ Promote human resource development

- Take various steps to secure the human resources necessary for an organization that can quickly respond to changes in the operational environment surrounding JFC and reliably meet customer expectations.
 - Establish a human resources academy for enhancing advanced management skills and specialist knowledge.

■ Promote career opportunities for women

- In order to create a worthwhile workplace environment where all female employees can demonstrate their full competence, steadily implement various initiatives and regularly monitor their operational status.
 - Constantly nurture and produce female candidates for managerial positions to achieve the numerical target for the ratio of female managers (5% in seven years' time)

■ Improve the workplace environment

- Promote the practice of a varied work style so that each and every employee can enrich their family life and work life while also fulfilling their roles and responsibilities in each.

■ Strive to streamline back-office functions and improve operational efficiency, such as through BPR

- Continue efforts to clarify job authority and responsibilities, reassess the way work is performed and how it can be made more efficient, and increase the transparency and efficiency of decision-making processes, while taking into account examinations of past BPR measures.
- Work to build a structure where expenditure information can be ascertained in an appropriate and timely manner.
- Based on the notion of making contracts fairer, endeavor to make procurement procedures more transparent and quicker, and work to cut costs through ensuring the validity of prices tendered, standardizing the estimation of target prices and promoting joint procurement.

■ Establish and strengthen risk management and compliance structures

- In order to stop losses from being incurred while meeting what is called for by policy, establish a FY2011 risk management program and monitor its progress.
- In order to further instill strong compliance awareness among staff, establish a FY2011 compliance program and monitor its progress.