

# Overview of Operations

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# JFC 2013

## Overview of Operations

The Micro Business and Individual Unit (Micro Unit) acts as a community-based financial institution. It provides business loans to micro/small businesses and business start-ups, and educational loans to individuals who are in need of funds for school entrance fees and other educational expenses.

### Small Loans to a Large Number of Micro Businesses

- Loans have been made to 0.95 million businesses.
- The average loan balance per business is 6.66 million yen.
- Approximately 90% of borrowers are businesses with nine or fewer employees, and approximately 40% are sole proprietorship.

### Safety Net Financing

- The Micro Unit provides Safety-net Loans to support micro/small enterprises experiencing financing difficulties because of a changing business environment.
- Through loans and other means, the Micro Unit supports the rehabilitation and reconstruction of micro/small businesses that have suffered damage at times of disaster such as earthquakes, typhoons and heavy snowfalls.

### Supporting Business Start-ups

- The number of loans made to business start-ups (consisting of those that have yet to start and those that are within 1 year of start-up) reached approximately 20,000 a year.
- It is estimated that about 77,000 jobs were created annually as a result.

### Supporting Overseas Expansion, Social Businesses, Business Reconstruction, etc.

- The Micro Unit supports micro/small businesses trying to expand overseas.
- The Micro Unit supports innovative new businesses through subordinated and capital loans (from March 2013).
- The Micro Unit supports "social businesses (NPOs, etc.)" which are engaged in solving community issues.
- The Micro Unit supports micro/small businesses as they work to recover.

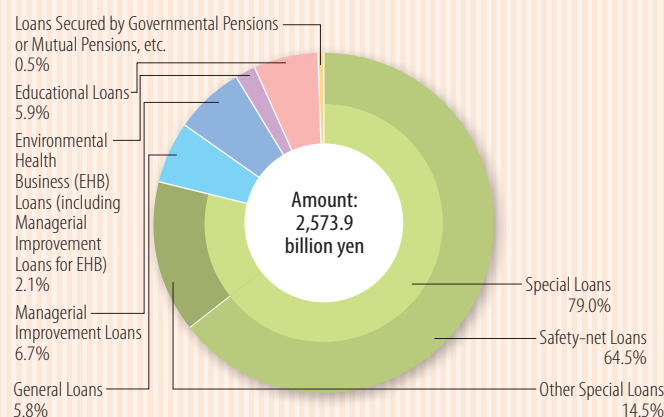
### Collaboration with Chambers of Commerce and Industry, Societies of Commerce and Industry, and Environmental Health Trade Associations

- The Micro Unit works in close collaboration with such organizations as Chambers of Commerce and Industry, Societies of Commerce and Industry, and Environmental Health Trade Associations to support the financial improvement of micro/small businesses, and help maintain or improve the sanitation level of environmental health-related businesses.
- The Micro Unit collaborates with regional financial institutions.

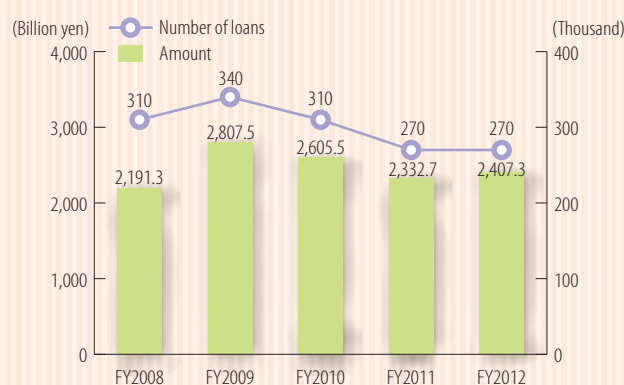
### Support through Educational Loans, etc.

- Approximately 110,000 Educational Loans are made each year.

#### ▼ Breakdown of Loans (FY2012)



#### ▼ Trends in Business Loans



Note: Figures before FY2008 October are based on data from the former National Life Finance Corporation.

## Supporting Micro/Small Businesses

Business Loans were provided to 0.95 million businesses. Most of the loans are for small amounts, with an average loan balance per business of 6.66 million yen. Approximately 90% of the borrowers have nine or fewer employees, and approximately 40% of them are sole proprietorship. Loans that are not secured by any collateral account for approximately 70% of all loans (in number). Furthermore, approximately 30% (in number) of all loans are without collateral or guarantors.

### ▼ Number of Business Borrowers and Average Loan Balance per Business

(As of end of FY2012)

	JFC Micro Business and Individual Unit	Total for credit associations (270 credit associations)	Total for domestic banks (140 banks)
Number of business borrowers (million)	0.95	1.14	2.03
Average loan balance per business (million yen)	6.66	35.76	84.62

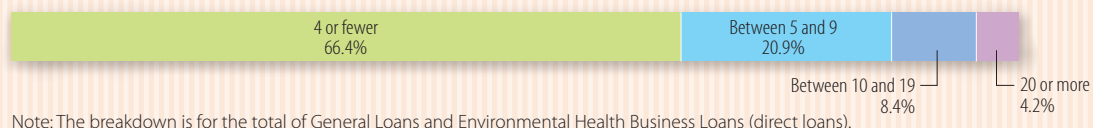
Notes: 1. Figures for JFC Micro Business and Individual Unit are the total of General Loans and Environmental Health Business Loans.

2. Domestic banks include major commercial banks, regional banks, secondary regional banks, and trust banks.

3. Figures for credit associations and domestic banks do not include loans to individuals (loans for housing, consumption, tax payments, etc.), loans to regional public organizations, overseas yen-loans, or loans made to businesses in foreign countries in name of their domestic branches. Number of business borrowers for credit associations and domestic banks are based on the number of loans.

Source: Bank of Japan website

### ▼ Breakdown of Borrowers by Number of Employees (Based on the Number of Loans) (FY2012)



Note: The breakdown is for the total of General Loans and Environmental Health Business Loans (direct loans).

### ▼ Breakdown of Loans by Type of Collateral (Based on the Number of Loans) (FY2012)



Notes: 1. The breakdown is for the total of General Loans and Environmental Health Business Loans (direct loans).

2. Loans partially secured by collateral are loans secured by real estate or other collateral whose worth is less than the amount of the loan.

## Function as a Safety Net

The number of Safety-net Loans (including earthquakes) made in FY2012 to micro/small businesses experiencing financing difficulties because of a changing business or financial environment reached 156,596.

Furthermore, a special consultation service is immediately established in the event of an unforeseen event, such as a natural disaster or a major corporate bankruptcy, so that affected micro/small business owners can receive consultation to find ways to ease their loan and repayment terms.

### ▼ Special Consultation Services Currently Available

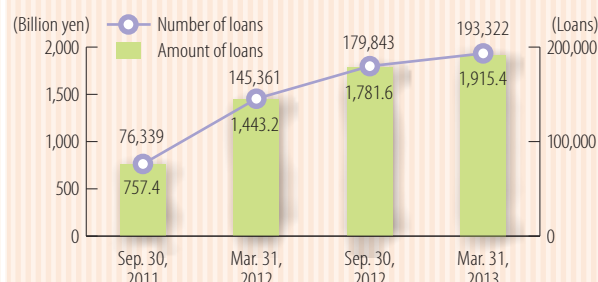
(As of end of May 2013)

Special consultation services	Date of establishment
Special consultation desks for damage caused by the windstorms of May 2012	May 2012
Special consultation desks for issues relating to Elpida Memory, Inc.'s application for commencement of corporate rehabilitation procedures	Feb. 2012
Special consultation desks for the 2011 great floods in Thailand	Nov. 2011
Special consultation desks for the Great East Japan Earthquake	Mar. 2011
Special consultation desks for measures to counter the strong yen	Sep. 2010

The Micro Unit supports the rehabilitation and reconstruction of micro/small businesses that have suffered damage at times of disaster such as earthquakes, typhoons and heavy snowfalls, by means of Disaster Loans that have more favorable repayment conditions than regular loans, such as a longer repayment period or a longer grace period for the principal.

Between March 11, 2011 when the Great East Japan Earthquake occurred and March 31, 2013, the Micro Unit executed 193,322 loans related to the earthquake, amounting to 1,915.4 billion yen.

### ▼ Trends in Loans for the Great East Japan Earthquake (Cumulative) (March 11, 2011 – March 31, 2013)



Note: Loans for the Great East Japan Earthquake include Disaster Loans and Great East Japan Earthquake Recovery Special Loans (cumulative).

## Actively Supporting Business Start-ups

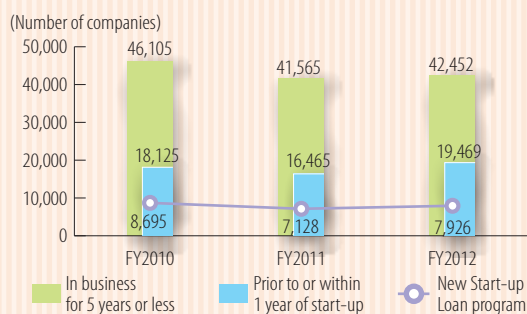
### ➡ Support for Business Start-ups

Many start-ups and venture companies undertaking innovative new businesses face difficulties obtaining financing from ordinary financial institutions for such reasons as a short business history. The Micro Unit actively provides loans to these companies to support their business activities.

In FY2012, the Micro Unit provided loans to 42,452 businesses that had been in business five years or less. Of these, 19,469 obtained loans prior to or within one year of start-up. It is estimated that about 77,000 jobs a year were created as a result.

7,926 businesses received loans under the New Start-up Loan program in FY2012. The program provides no-collateral, no-guarantor loans to start-ups that have not yet filed their tax returns for their second business year.

#### ▼ Changes in Loans to Businesses Established within the Last Five Years



#### [Job Creation Effects]

**19,469 businesses × Average employment of 4.0 persons (Note) = 77,876 jobs**

Note: The average number of employees at time of business start, based on Survey on Business Start-ups in Japan (FY2012) by the JFC Research Institute.

### ➡ Setting up Business Start-up Support Desks

Business Start-up Support Desks are set up in 152 branches nationwide where specialist staff provide a range of useful information for business start-ups, such as advice on the creation of business start-up plans.

### ➡ Supporting Collaboration between Industry and Academia

The Micro Unit also supports collaboration between industry and academia by acting as an intermediary and referring technology-related inquiries from micro businesses to universities, and by providing loans to university-initiated venture companies.

Number of universities with which memoranda for industry-academia collaboration have been signed

**45**

(As of end of May 2013)

### ➡ Supporting Women, Youth and Senior Entrepreneurs

We are actively providing loans to those who are starting-up companies, enabling women to leverage their sensibilities, young people to exercise their ideas and senior entrepreneurs to utilize their experience.

#### ▼ Loans Made to Women, Youth and Senior Entrepreneurs (no. of companies)

Loans to women entrepreneurs

FY2011

FY2012

**2,663 loans → 3,226 loans**

Loans to youth entrepreneurs

FY2011

FY2012

**1,328 loans → 1,549 loans**

Loans to senior entrepreneurs

FY2011

FY2012

**1,019 loans → 1,196 loans**

## Establishment of Business Start-up Support Centers and Business Support Plazas

The Micro Unit has established Business Start-up Support Centers and Business Support Plazas throughout Japan to support a wide range of business start-ups and others attempting to start a second business. (Note)

Note: Companies diversifying or moving into a new business field.

#### [Business Start-up Support Centers]

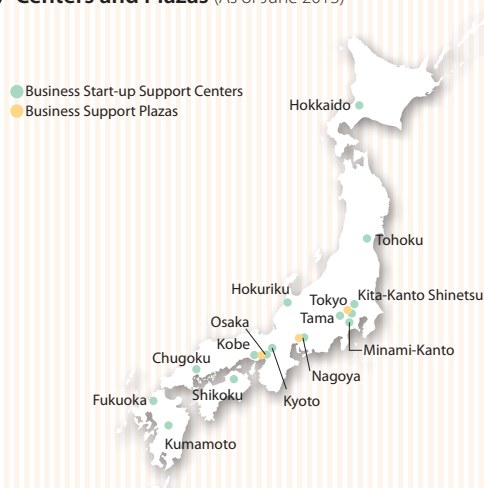
- Centers are located in 15 regions of Japan from Hokkaido to Kyushu.
- Centers provide timely support to customers through collaboration with regional organizations that support start-ups.
- Centers organize diverse seminars targeted at customers in varying stages of their business cycle, both before and after starting business.

#### [Business Support Plazas]

- There are three plazas: Tokyo, Nagoya, and Osaka.
- Appointments for consultation are available to persons who plan to start a new business and those who have never used JFC's services.
- For those who cannot visit during regular business hours, weekend and evening appointments are also available.

Note: Sunday consultations are available on first and third Sundays of each month at Tokyo Business Support Plaza.

#### ▼ Centers and Plazas (As of June 2013)



## Providing Assistance for Micro/Small Businesses Entering Strategic Areas of Growth

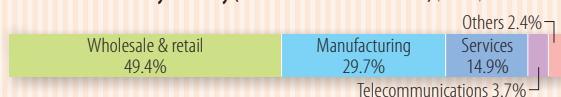
### ➡ Supporting Overseas Expansion

The Micro Unit provides both information and funding support for micro/small businesses seeking to capture growth potential outside of Japan, particularly in Asia.

In April 2012, Overseas Expansion Support Desks were set up in 152 branches nationwide to provide detailed consultation services. In addition, through cooperation with specialist organizations such as JETRO, the desks offer information that meets the individual needs of customers who are considering expanding their business overseas.

As a result, the number of loans provided through the Loans for Overseas Investment program totaled 462 in FY2012. A notable feature of the loans is that approximately 50% were provided to wholesalers and retailers.

▼ Breakdown of Loans by Industry (based on number of loans) (FY2012)



### ➡ Supporting Revitalization in City Centers and Shopping Districts

The Micro Unit supports parties working to revitalize city centers and shopping districts by providing loans under programs including the business vitality strengthening fund and the Loans for Modernization of Grocery Retailers, and information to such as local governments.

Number of loans to commence and service businesses in approved city centers:

**16,738**

(FY2012)

### ➡ Supporting Business Reconstruction and Succession

Through the business reconstruction & business succession support fund, the Micro Unit supports parties undergoing corporate reorganization through involvement of the Small and Medium Size Business Rehabilitation Support Co-operative, approval of reconstruction plans based on the Civil Rehabilitation Act, or collaboration with commercial financial institutions, and business succession.

Number of loans to parties undergoing corporate reorganization or business succession:

**75**

(FY2012)

With business support managers at 152 branches nationwide, the Micro Unit flexibly responds to requests to have their repayment terms relaxed by temporarily extending principal repayment due dates or reducing monthly payment amounts. In FY2012, the Unit took steps to ease the payment terms of approximately 66,000 business loans to reflect the intent of the Act concerning Temporary Measures to Facilitate Financing for Small and Medium Sized Enterprises.

### ➡ Supporting Businesses Challenging Innovative New Technologies

In March 2013, Capital Loans (Provision Scheme for Challenge Support and Capital Enhancement) was established to support businesses such as those conducting research using innovative new technologies.

As of May 31, 2013, the program had provided loans to 13 companies. The Micro Unit is working to support businesses which possess high technological capabilities and require significant funding for expenses such as development costs.

### ➡ Supporting Social Business

The Micro Unit supports "social businesses (NPOs, etc.)" <sup>(Note)</sup> which are engaged in solving community issues and which create stable and ongoing employment.

Note: The term "social business" means an organization which promotes continuous activity utilizing business techniques in order to solve social or community issues, such as parenting support, medical, welfare or nursing problems, or environmental problems (extract from Selection of 55 Social Businesses, Ministry of Economy, Trade and Industry (METI)).

Loans to NPO corporations

**640**

(FY2012)

### ➡ Supporting the Nursing Care and Welfare Sectors <sup>(Note)</sup>

Based on the government's New Growth Strategy, the Micro Unit supports Japan's nursing care and welfare sectors, where strong growth and employment are expected as society ages.

Note: Refers to social insurance, social welfare and nursing care businesses.

Loans to the nursing care and welfare sectors

**4,231**

(FY2012)

### ➡ Supporting Use of Local Resources and Collaboration among Agriculture, Commerce and Industry

The Micro Unit supports regional revitalization through a program that provides loans to businesses approved for a Regional Industrial Resource Utilization Business Plan or an Agriculture, Commerce and Industry Collaboration Plan.

Number of loans to businesses with approved Regional Industrial Resource Utilization Business Plan:

**14**

Number of loans to businesses with approved Agriculture, Commerce and Industry Collaboration Plan:

**5**

(FY2012)



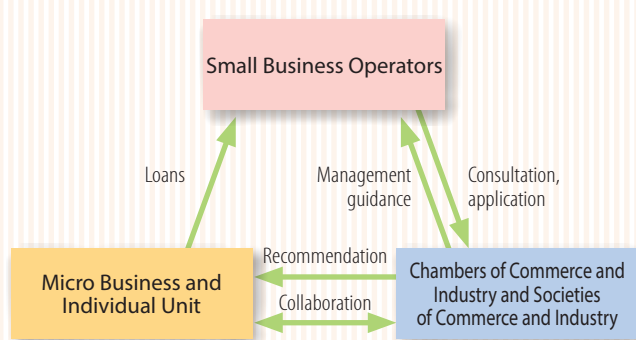
## Collaboration with Chambers of Commerce and Industry, Societies of Commerce and Industry, and Environmental Health Trade Associations

### ➡ Collaboration with Chambers of Commerce and Industry, and with Societies of Commerce and Industry

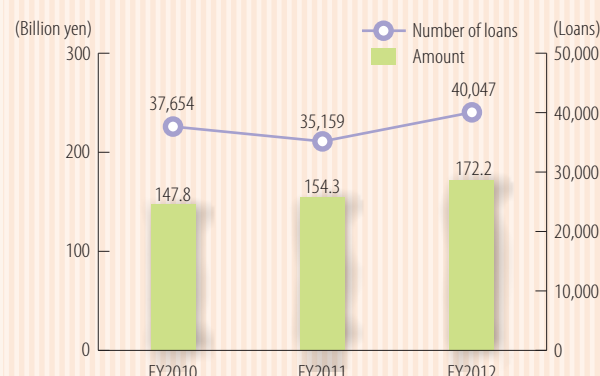
The Micro Unit works in close collaboration with regional Chambers of Commerce and Industry, and with Societies of Commerce and Industry throughout Japan to support business improvement of micro/small businesses such as through Managerial Improvement Loans (MARUKEI Loans) and consultation sessions.

Managerial Improvement Loans (MARUKEI Loans) are a program whereby micro/small businesses receiving management guidance, such as from Chambers of Commerce and Industry or Societies of Commerce and Industry, can utilize funds needed for managerial improvement without collateral or guarantors. Since the program was established in 1973, it has been accessed for approximately 4.84 million cases.

#### ▼ Structure of Managerial Improvement Loans (MARUKEI Loans)



#### ▼ Changes in Managerial Improvement Loans (MARUKEI Loans)



### ➡ Holding of "One-Day JFC" Consultation Sessions at Chambers of Commerce and Industry and at Societies of Commerce and Industry

Consultation sessions called "One-Day JFCs," where staff from the Micro Unit consult on finance, are held at Chambers of Commerce and Industry and at Societies of Commerce and Industry. Every year, many micro/small businesses come to ask for advice.

#### ▼ Number of "One-Day JFCs" held at Chambers of Commerce and Industry and at Societies of Commerce and Industry

FY2010	FY2011	FY2012
2,866	2,792	3,021

### ➡ Collaboration with Environmental Health Trade Associations and Environmental Health Business Guidance Centers

The Micro Unit works with such organizations as Environmental Health Trade Associations and Environmental Health Business Guidance Centers to support the maintenance and enhancement of the sanitation level of environmental health-related businesses. The majority of the borrowers of Environmental Health Business Loans are businesses with four or fewer employees. Approximately 80% are sole proprietorship, and approximately 50% have been in business for five years or less.



Note: Figures in parentheses are number of organizations.

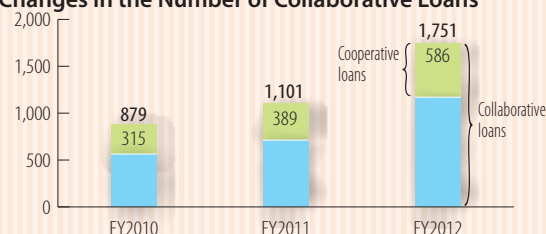
### ➡ Collaboration with Regional Financial Institutions

The Micro Unit is working to reinforce its collaboration with regional financial institutions working to strengthen their relationship banking mainly in the area of start-up support operations.

#### ▼ Number of Financial Institutions with which the Micro Business and Individual Unit has Executed Memorandum on Business Collaboration (As of end of March 2013)

	Large commercial banks	Regional banks	Secondary regional banks	Credit unions	Credit co-operatives	Total
Number of financial institutions (Total number of institutions)	2 (5)	34 (65)	30 (41)	231 (270)	124 (157)	421 (538)

#### ▼ Changes in the Number of Collaborative Loans



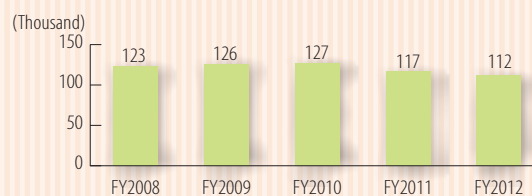
Notes: 1. Collaborative loans are provided by the Micro Business and Individual Unit through introduction from financial institutions with which it has a memorandum of understanding.

2. Cooperative loans are loans provided by the Micro Business and Individual Unit in cooperation with financial institutions with which it has a memorandum of understanding.

## Educational Loans for School Entrance Fees and Related Expenses

The Micro Unit handles Educational Loans to lighten the financial burden of educational expenses on families and provide equal educational opportunities. Approximately 110,000 Educational Loans were provided in FY2012. Of these, approximately 17,000 loans were made to households run by single mothers.

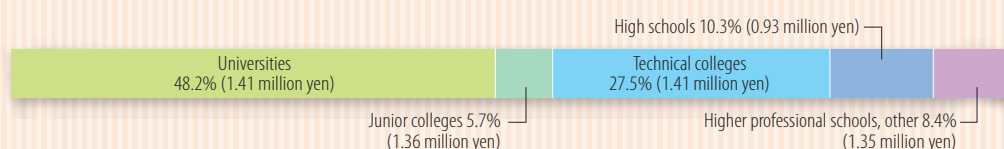
### ▼ Changes in Educational Loans (Number of Loans)



### ➡ Utilized Primarily by Families with Large Educational Expenses

Educational Loans are primarily provided to families with university or technical college students, who incur large educational expenses.

### ▼ Borrower Details by Type of Educational Institution (FY2012 general educational loans (direct loans))



Note: Figures inside parentheses indicate the average loan amount.

## Expanding Educational Loans

JFC upgraded and expanded the Educational Loans program from May 2013.

### Partial relaxation of gross income (net income) limits

For households with one or two children who meet the requirements below, the maximum annual gross income (net income) permitted was increased to 9.9 (net 7.7) million yen.

#### Requirements

- 1) At least one child must attend (or intend to attend) a school beyond commuting distance from home.
- 2) The loan must be used to fund overseas study.
- 3) Educational expenses exceed 30% of annual gross income.
- 4) Educational and home loan expenses exceed 40% of annual gross income.

### Special measures were implemented for students using educational loans to fund overseas study.

The required length of study at eligible educational institutions was relaxed (from 6 months to 3 months) for students who meet requirements ① and ② below:

- ① Students who have been granted entry to a university etc. outside Japan on the condition certain requirements are met (e.g., improvement of language ability).
- ② That the loan will be used to fund schooling for the purpose of fulfilling the requirements of ① (e.g., language schools).

Note: Certain conditions apply for some schools.

### Special measures were implemented for households with annual gross income 2 million yen (net 1.22 million) or less.

- ① Reduction of lending rate: 0.4% reduction from regular rate.
- ② Extension of repayment period: lengthened from 15 to 18 years.

Note 1: 0.4% reduction also applies to households run by single mothers with annual gross income 2 million yen (net 1.22 million) or less.

2: Applications are subject to screening.

## Providing Loans Secured by Governmental Pensions or Mutual Pensions

Loans Secured by Governmental Pensions or Mutual Pensions, etc., are offered only by JFC (or the Okinawa Development Finance Corporation in Okinawa Prefecture) in accordance with the Act on Loans Rendered by Japan Finance Corporation Secured by Public Officers Pension. These loans can be used for a broad range of purposes, including home purchases and business funding.

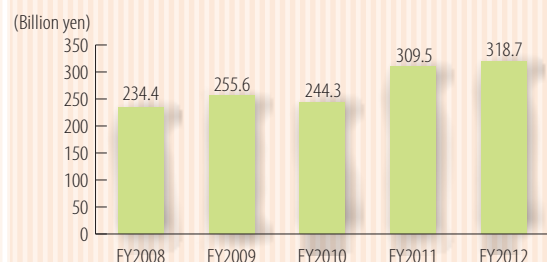
## Overview of Operations

Through providing loans to businesses in agriculture, forestry and fishery industries as well as the food industry in Japan, the Agriculture, Forestry, Fisheries and Food Business Unit (AFFF Unit) contributes toward strengthening of these industries while ensuring the stable supply of safe and high-quality foods.

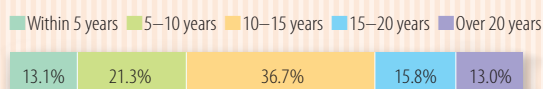
### Loans

The AFFF Unit provides long-term and low-interest financing, taking into account the fact that the agricultural, forestry and fisheries sectors have unique business characteristics such as long investment recovery periods and unstable income susceptible to the effects of weather. Assistance is also provided to the food industry, which contributes to the stable supply of domestically produced agricultural, forestry and fisheries products, as well as to improved added value.

#### ▼ Changes in Loan Operations

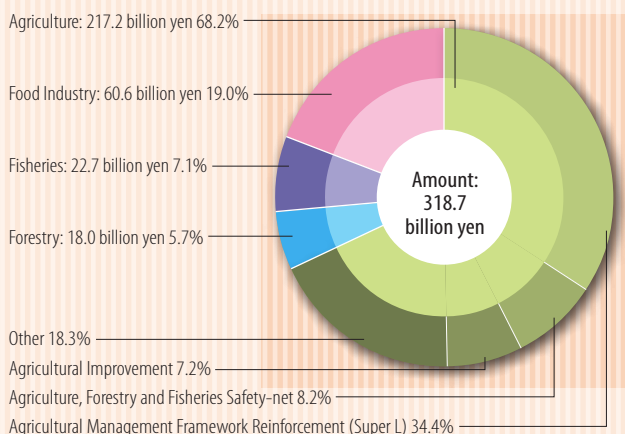


#### ▼ Status of Loans by Loan Period (FY2012)



Average loan period: 13.4 years

#### ▼ Breakdown of Loans (FY2012)



## Diverse Management Support Services

The AFFF Unit provides various services for supporting the operations of customers in the agricultural, forestry, fisheries and food businesses.

### ➡ Customer Call Center and Periodic Consultation Desk Services

The AFFF Unit provides easily accessible consultation services at a customer call center, at 48 branches nationwide where the Unit is permanently based, as well as at 120 consultation service sites that operate throughout Japan on a routine schedule.

### ➡ Management Support Provided through Collaboration with Management Advisors and External Networks

Mobilizing the expertise of its Agricultural Management Advisors, Forestry Management Advisors, and Fishery Management Advisors—management experts in their respective fields—and in collaboration with private financial institutions, etc., with which it has close business ties, the Unit responds to consultation requests from customers concerning all aspects of their business management.

### ➡ Business Matching Support

The AFFF Unit supports efforts by agricultural, forestry and fishery business operators as well as those in the food manufacturing and distribution industries to expand their own sales channels and customer base. It does this by means of the Agri-Food EXPO (an exhibit and business fair for domestically produced agricultural products) and JFC Internet Business Matching, leveraging its unique capabilities for wide-ranging support from the initial production of related products through to processing and sales.

### ➡ Provision of Information

The AFFF Unit provides customers and relevant organizations with useful information through its AFC Forum and Agriculture & Food Business Support information magazines, various reports such as the *Business Confidence Survey of the Agricultural Industry* and the *Survey on Movement of the Food Industry*, and through press releases, the website and the email distribution service.

## Promoting Private Financing Support in Agricultural, Forestry and Fisheries Fields

The AFFF Unit is working to build an environment that encourages private financial institutions to actively enter the agricultural, forestry and fisheries fields by providing information on industry trends and assessment of agricultural credit risks (Agricultural Credit Risk Information Service (ACRIS)), while also offering securitization support services.



## Feature of Operations

### Agriculture

By providing funds in line with the policies of the Basic Law on Food, Agriculture and Rural Areas, and those of the Basic Plan for Food, Agriculture and Rural Areas, the AFFF Unit actively supports efforts of farmers to improve their management with drive and innovative ideas.

#### ➡ Supporting Business Expansion by Farmers

The AFFF Unit supports those at the frontline of regional agriculture by providing loans needed to operate a variety of agricultural operations centered on land-extensive farming such as rice crops, as well as horticulture and livestock businesses.

In FY2012, the Japanese government began the People and Farmland Plan, a new agricultural policy. The program supports the development of the farm operators who form the backbone of regional agriculture through the Super L funding special measure (zero real interest rates for the first five years of loan period). 65.1 billion yen was loaned to 2,806 operators.

#### ➡ Exercising Safety Net Functions at Time of Disasters

The AFFF Unit offers dynamic support in the form of long-term working capital loans to provide agricultural operators as a safety net function against short-term crises such as natural disasters, contagious livestock diseases, falls in the price of agricultural products, and rises in feed prices.

The AFFF Unit also assisted agricultural operators affected by the Great East Japan Earthquake to continue their businesses by providing finance, mainly through long-term working capital loans at the beginning. In FY2012, the amount of long-term working capital loans issued began to subside, and loans towards the facilities needed for the reconstruction effort increased.

#### ➡ Supporting Efforts for Entry into the Agricultural Sector and for Sixth Industrialization

The AFFF Unit offers equipment funding and long-term working capital loans for start-up to new participants in the agricultural sector, as well as to farmers engaged in sixth industrialization (merger/collaboration between the agriculture, forestry and fisheries industries, and secondary and tertiary industries), thus helping to secure ongoing participation and to improve the added value of agricultural products.

### Forestry

By providing funds in line with the policies of the Basic Law on Forest and Forestry, the AFFF Unit actively supports the improvement of forest that has multifunctional roles, and the creation of structures to supply and process domestically harvested lumber.

#### ➡ Providing Financing to Forestry Operators Facing Difficulties in Procuring Loans

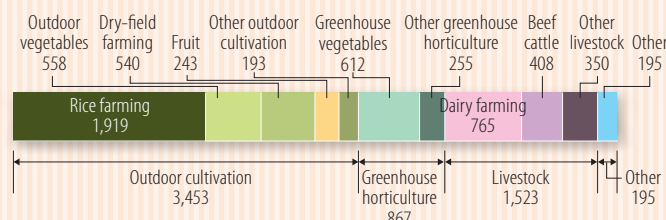
Given that it generally takes about 50 years for a forest to develop and so recovering any capital takes a very long time, many forestry operators face difficulties in securing loans from private financial institutions. For this reason, the AFFF Unit supports forestry operators by providing the ultra-long-term, low-interest finance that is required until logging.

#### ➡ Supporting Increased Use of Wood Biomass

Wood biomass is an energy source linked to the prevention of global warming, and expanding its use has become a key component of Japan's forestry policy. With the start of the minimum purchase price system for renewable energy, there are high expectations that its use will increase in future.

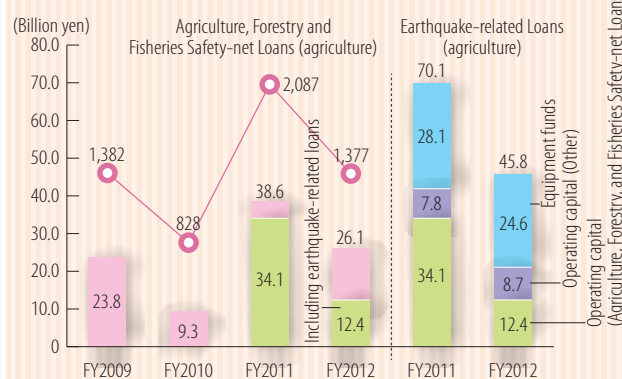
In FY2012, the AFFF Unit supported the expansion of wood biomass utilization by providing loans for projects such as the construction of the power generation facilities that use forest and timber offcuts, and the introduction of sawdust-fired boilers.

#### ▼ Breakdown by Numbers of Borrowers of Funds for Agricultural Management Improvement by Farming Type (FY2012)



Note: The sum of borrowers of Super L Loans, Agricultural Improvement Loans and Management Development & Enhancement Funds: 6,038 borrowers.

#### ▼ Agriculture, Forestry and Fisheries Safety-net Loans provided and Earthquake-related Loans

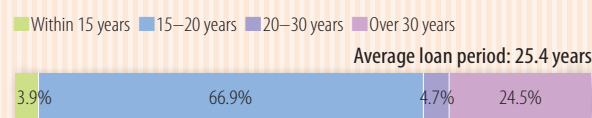


#### ▼ Loans Provided for Sixth Industrialization and New Entry into the Agriculture Sector (FY2012)

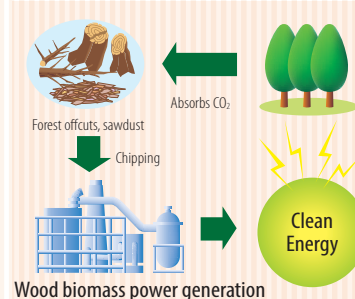
	Loans Provided for Sixth Industrialization (Note)	New entry
No. of businesses	129	138
Amount (billion yen)	8.2	2.9

Note: Total amount of financing, including loans intended for agricultural, forestry, and fisheries product processing and/or sales facilities, etc.

#### ▼ Breakdown of Loans by Lending Period (FY2012, Forestry)



(\* Excluding agriculture, forestry and fisheries facilities (forestry))



## Fisheries

By supplying funds in line with the policies of the Fisheries Basic Act, the AFFF Unit actively supports efforts to ensure a stable supply of marine products and the sustained use of marine resources.

### Supporting Principal Fishery Operators

The Fisheries Management Improvement Support Loan is a financing program that provides comprehensive support to fisheries operators wishing to improve their businesses. Since 2007, the AFFF Unit has participated actively in the G project<sup>(Note)</sup>, and the amount lent has remained steady.

In FY2012, loans to fisheries operators that suffered damage in the Great East Japan Earthquake increased, and together with Fishing Boat Loans and Agriculture, Forestry and Fisheries Facilities Loans, total loans for fishing vessels amounted to 16.7 billion yen.

Note: G Project:

The Fisheries Structural Reform Project (G Project) was launched by the national government in FY2007 to promote collaboration between fishery businesses and local communities for reform of entire production structures, from fish harvesting to product shipment, in an effort to raise profitability. The AFFF Unit not only provides funds for building and purchasing fishing vessels but also actively participates in joint projects with local communities to raise the profitability of fisheries by fishing boats.

### Exercising Safety Net Functions in the Event of Disasters and Changes in Business Conditions

The AFFF Unit provides a safety net function to fisheries operators who suffer from the temporary deterioration of business conditions due to factors including natural disasters such as earthquakes and red tide, falling prices of fisheries products, and rising fuel prices by delivering rapid and flexible assistance in the form of long-term working capital loans.

In addition, the AFFF Unit supported business continuity following the Great East Japan Earthquake by providing long-term working capital loans at the beginning to fisheries operators who suffered damage. In FY2012 the majority of loans made were for capital investment to support the reconstruction effort.

## Food Industry

Through supplying funds to the food manufacturing and distribution sector, the AFFF Unit actively supports efforts for the stable supply of domestically produced agricultural, forestry and fisheries products and for improving added value.

### Helping to Increase the Use of Domestic Agricultural, Forestry and Fishery Products

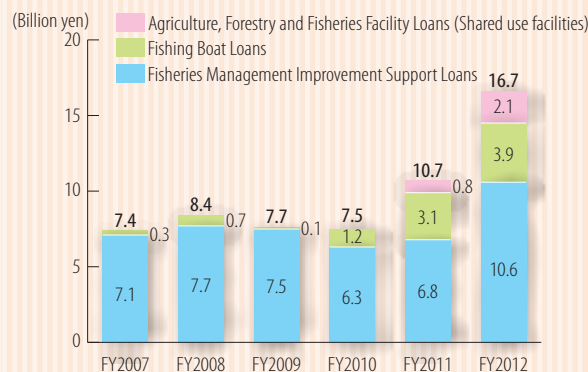
Loans to the food industry are provided to businesses that use domestically produced raw materials, and are aimed at increased use of domestically produced agricultural, forestry and fishery products. An estimation of the effects of the loans made in FY2012 suggests that the transaction volumes of domestically produced raw materials will increase by approximately 100,000 tons over the next five years.

In particular, one of the requirements for the Hilly and Mountainous Areas Revitalization Loan and the Food Distribution System Improvement Loan is an increase in the volume of domestically produced agricultural, forestry and fishery products used. The requirement helps to promote collaboration between the agricultural, forestry and fisheries sectors and the food industry.

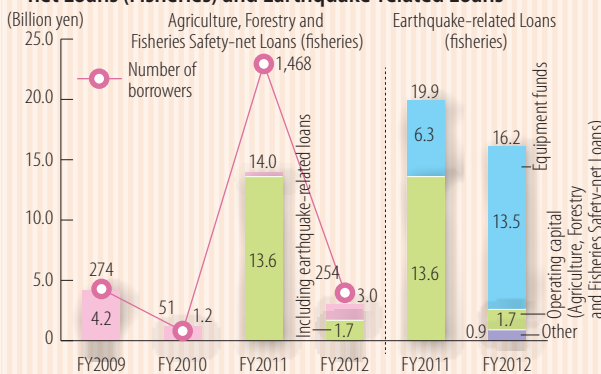
### Supporting Reconstruction of the Fisheries Product Processing Industry Following the Earthquake

The AFFF Unit supported the reconstruction of fisheries product processing businesses following the Great East Japan Earthquake through such means as loans with zero real interest rates and other special financing programs. In FY2012, earthquake-related loans made to fisheries product processing operators increased to 6.2 billion yen, supporting local businesses as the reconstruction effort began in earnest.

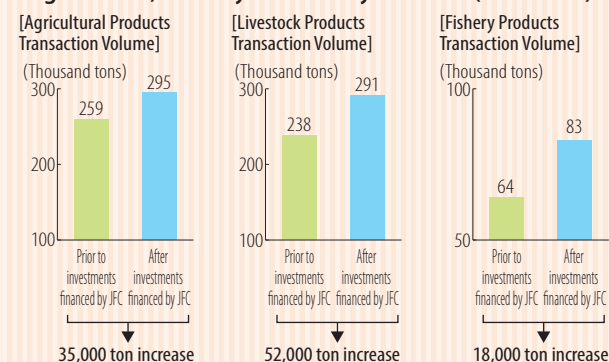
#### Loans for Fishing Vessels



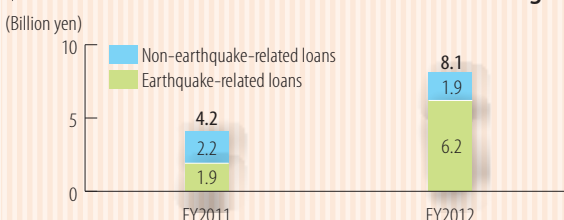
#### Loans Provided from Agriculture, Forestry and Fisheries Safety-net Loans (Fisheries) and Earthquake-related Loans



#### Increases in Transaction Volumes of Domestic Agricultural, Forestry and Fishery Products (Estimated)



#### Loans Provided from Fisheries Product Processing Fund



## Providing a Wide Range of Management Support Services

The AFFF Unit provides various suggestions and offers information for customers tailored to their needs and concerns at convenient locations. Such services include management improvement advice, business match-making, and referrals to experts.

### Management Consulting Services

#### ➡ Consulting Services Provided at Locations Convenient for Customers

The AFFF Unit provides easily accessible consultation services at branches nationwide, a customer call center, and at 120 consultation service sites that operate throughout Japan on a routine schedule.



Customer consultation

#### ➡ Business Management Support by Agricultural, Forestry and Fishery Management Advisors

Responding to requests from farmers for advice on taxes, labor, marketing, and other topics from experts who understand the unique characteristics of agriculture, the AFFF Unit created the Agricultural Management Advisor program in FY2005. As of March 31, 2013, examinations had been conducted 16 times and a total of 2,134 Agricultural Management Advisors now serve in all 47 prefectures.

The AFFF Unit also conducted the Agricultural Management Senior Advisor program to develop staff with the skills to play a leading role in more advanced management issues. 26 people across Japan were registered through this program.

The AFFF Unit also hosts a biennial Advisor Meeting (training session), supporting Agricultural Management Advisors to acquire and advance diverse knowledge.

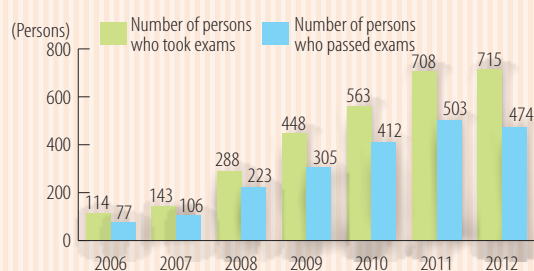
The Forestry and Fishery Management Advisor System established in FY2008 has produced 25 Forestry Management Advisors and 25 Fishery Management Advisors.

The AFFF Unit provides support for the business growth of its customers by utilizing staff members who have become Agricultural, Forestry and Fishery Management Advisors. The Unit also provides comprehensive management support services in collaboration with non-JFC management advisors, including tax accountants and SME management consultants.



Agricultural Management Advisor Meeting (training session)

#### ▼ Results of Agricultural Management Advisor Examinations



#### [Breakdown of Agricultural Management Advisors (As of Mar. 31, 2013)]

Financial Institutions under Business Cooperation with JFC: 860 persons  
 Tax accountants and SME management consultants: 694 persons  
 Agricultural extension officers, etc.: 413 persons  
 JFC employees: 167 persons

#### ➡ Raising the Quality of Management Support Services through Collaboration with External Networks

The AFFF Unit collaborates with external networks (Japan Professional Agriculture Total Support Organization (J-PAO), Japan External Trade Organization (JETRO), and other organizations) to support the business growth of its customers and respond accurately to the diverse management issues they face, such as the development of new sales channels, financial improvement, and productivity enhancement.



Consultation collaborated with external networks



## Business Matching Support

### ➡ Agri-Food EXPO, Domestic Agricultural Product Exhibition and Business Fair Held

In FY2012, the AFFF Unit again hosted the Agri-Food EXPO, Japan's largest agricultural product exhibit and business fair, in Tokyo (August 2012) and in Osaka (February 2013).

Held since FY2006, the Agri-Food EXPO is an exhibition and business fair for providing business matching opportunities that

link farmers and food processors, who are looking for market expansion, together with buyers.

Farmers and food processors committed to local agricultural produce came to exhibit from all over Japan, and held lively business negotiations with the buyers in attendance.



Agri-Food EXPO in Tokyo

	EXPO Tokyo 2012 (Aug. 2–3, 2012)	EXPO Osaka 2013 (Feb. 21–22, 2013)
Exhibitors	627 (541 booths)	492 (351 booths)
Visitors	12,538	14,562
Number of business negotiations	36,477	24,061
Number of business negotiations during the EXPO (average per company)	24	30
Number of contracts concluded during the EXPO (average per company)	5.0	5.0
Value of contracts (average per company)	3.57 million yen	1.62 million yen
Number of visitors per booth (average per company)	396	168

## Supporting Management with New Financing Techniques

### ➡ Efforts to Speed Up Loan Procedures

In addition to a loan screening process that uses the agricultural business version of a scoring model <sup>(Note 1)</sup> in connection with loans to farmers, in order to speed up procedures, the AFFF Unit has also adopted a screening process for loans to people starting out in the agricultural sector.

As well, approved agricultural businesses requesting loans for up to 5 million yen from the Super L Loan who meet certain conditions are given a response within six business days as to whether or not they qualify for loans without the requirement of collateral or a guarantor.

### ➡ Efforts Concerning Loans Not Relying Excessively on Real Estate Collateral or Guarantors

Since FY2008, as a means of financing that does not rely on real estate collateral or guarantors, the AFFF Unit has promoted the dissemination of an asset-based lending (ABL) program in the agricultural, forestry and fisheries sectors and the food industry which uses livestock as collateral. In FY2012, a total of 53 loans (totaling 3.7 billion yen) were provided to the beef cattle, pig and dairy farming sectors.

Efforts were also made to expand the system for promoting ABL. Four new ABL agreements <sup>(Note 2)</sup> were entered into, bringing the cumulative total to 52.

The AFFF Unit will continue to promote management support for customers by working to spread the use of ABL.

Notes: 1. A system independently developed by the AFFF Unit for assessing the creditworthiness of agricultural management on an individual basis, by taking into account the characteristics of the agricultural management, adding production-related data and qualitative information to financial data, and then combining these with the characteristics of each farming type.

2. The AFFF Unit has entered into an ABL agreement with business operators engaged in livestock, meat and other sectors, to build cooperative arrangements such as those pertaining to the preservation and disposal of movable collateral.

## Efforts for Business Recovery Support

The AFFF Unit provides customers with business recovery support which is essential for the maintenance and development of local agricultural, forestry and fisheries businesses. Specifically, the Unit cooperates with commercial financial institutions, such as main banks, and external experts to provide support needed for the formulation of business improvement plans, and offers ongoing business consultation and guidance after plans have been implemented. In particular, the Unit works to aid business recovery for agricultural businesses—which are characteristically susceptible

to natural disasters and market conditions—through means such as support by Agricultural Management Advisors with formulation of plans, assistance in locating sponsors using JFC's network, and monitoring by experts in fields such as production technology.

In order to promote business rehabilitation for customers affected by the Great East Japan Earthquake, the AFFF Unit is also committed to providing quick support for rehabilitation and reconstruction, by cooperating with industrial recovery consultation centers and other organizations in the affected areas.

## Support for Private Financial Institutions in the Agricultural, Forestry and Fisheries Sectors

The AFFF Unit works to create an environment that encourages private financial institutions to actively provide financing to agricultural, forestry and fisheries businesses by providing information concerning risk assessments as well as by supporting securitization.

### Support for Private Financial Institutions in the Agricultural, Forestry and Fisheries Sectors

#### ➡ Signing of Memoranda for Business Cooperation

Starting with the Kagoshima Bank in April 2004, the AFFF Unit has signed business cooperation memoranda with private financial institutions in order to support entry by private financial institutions into the market of lending to the agricultural, forestry and fisheries sectors. The support has included study sessions, joint operations and cooperative loans.

#### [Financial Institutions under Business Cooperation with JFC

(As of March 31, 2013)]

The Norinchukin Bank: 1

Prefecture credit federations of agricultural cooperatives: 37

Prefecture credit federations of fisheries cooperatives: 5

Banks: 92

Shinkin banks: 110

Credit cooperatives: 8

Other financial institutions: 14

Total: 267

#### ➡ Agricultural Credit Risk Information Service

The Agricultural Credit Risk Information Service (ACRIS) is an agricultural scoring model designed by the AFFF Unit to facilitate the active entry by private financial institutions into the market of agricultural loans (a fee-based membership service).

The AFFF Unit positions ACRIS as a tool for stimulating agricultural lending, and is strengthening its business collaboration with ACRIS members such as financial institutions and tax accountants. Thanks to ACRIS, the funding needs of farmers are now precisely met.

The accuracy of the model is examined annually, and improvements are regularly made to reflect economic conditions and other factors.

#### ➡ Securitization Support

The AFFF Unit established a credit supplementation program (securitization support operation) to encourage private financial institutions to provide agricultural lending. This program has been in operation since October 2008. By using this program, private financial institutions can transfer credit risks worth up to 80% of the loan amounts or a maximum of 50 million yen to JFC.

As of the end of FY2012, a total of 71 financial institutions had signed a basic agreement with the AFFF Unit. Forty six of these financial institutions developed new loan products for farmers that incorporated credit supplementation under this program.



Study session with private financial institution

#### ▼ Images of Scoring Results Obtained Using ACRIS



#### ▼ Financial Institutions under Basic Agreements with JFC (As of March 31, 2013)

	Regional Banks	Shinkin Banks	Credit Cooperatives	Total
Hokkaido	1	7	1	9
Tohoku	6	4	1	11
Kanto	1	0	1	2
Chubu	6	6	2	14
Kinki	4	4	0	8
Chugoku	2	4	0	6
Shikoku	5	1	0	6
Kyushu	8	7	0	15
Total	33	33	5	71
(Of these, institutions that developed new products)	(26)	(19)	(1)	(46)



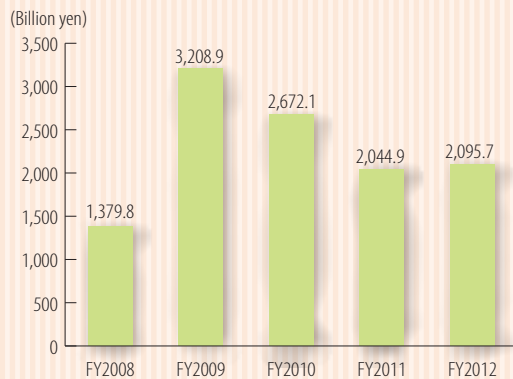
## Overview of Operations

The Small and Medium Enterprise (SME) Unit provides financial support by offering diverse services, which include loans and credit insurance, to SMEs, which are one of the sources of Japanese economic vitality and the cornerstone of regional economies, to help them grow and develop.

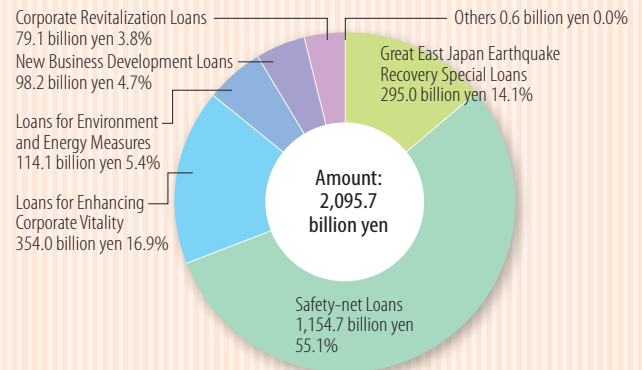
### Loan Programs

The SME Unit provides in a stable manner funds that SMEs need for their business growth as well as long-term, fixed-interest business funds that private financial institutions have difficulty providing.

#### ▼ Performance of Loans



#### ▼ Breakdown of Loan Amounts (FY2012)



Note: Including corporate bonds, but excluding agency loans, loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd.

### The Roles and Scope of the SME Unit as Policy-based Financing

Policy-based financing in Japan involves providing financial support based on the nation's key policies. These fields include new business development, management innovation, business revitalization and overseas investment. These areas involve high risk that private financial institutions find it hard to support. The SME Unit quantitatively supplements the loans provided by private financial institutions whose lending attitudes may be affected by economic stagnation.

Based on these policies, while supplementing private financial institutions as a policy-based financial institution specialized in SMEs, the SME Unit supports the growth and development of SMEs through its financial tools as well as serving as a safety net.



### Credit Insurance Programs

To facilitate the smooth flow of funds to SMEs, these programs focus on the acceptance of insurance on Credit Guarantee Corporation (CGC) guaranteed liabilities associated with loans to SMEs.

- Provision of insurance on CGC guaranteed liabilities associated with loans to SMEs
- Loans to CGCs
- Special Insurance Programs for Mid-size Enterprises

- Transitional Operation of the Machinery Credit Insurance Programs (Note)

Note: Excluding insurance that had been accepted up to the end of March 2003, the SME Unit currently pays on insurance money and receives recoveries based on insurance contracts that are already in force.

### Securitization Support Programs

With the aim of facilitating the smooth supply of unsecured funds to SMEs, these programs support private financial firms and other institutions in their endeavors based on securitization methods. Securitization support methods consist of the "Purchase-type," "Guarantee-type" and "Securitization of Account Receivables."

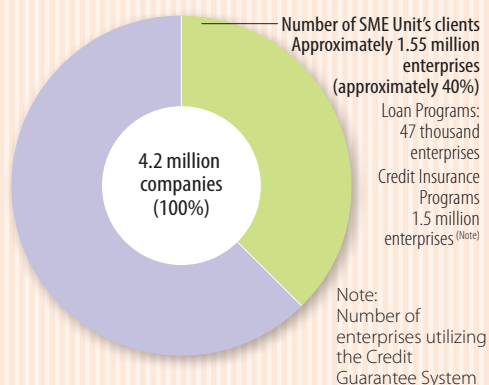
## Feature of Operations

### SME Unit's Clients

SMEs account for 99% of all businesses in Japan, and are both the source of Japanese economic vitality as well as the primary force underpinning regional economies. The size and conditions of each SME differ, such as companies that sustain the regional economy with many employees, long-established companies with a history over one hundred years and family-owned private shops.

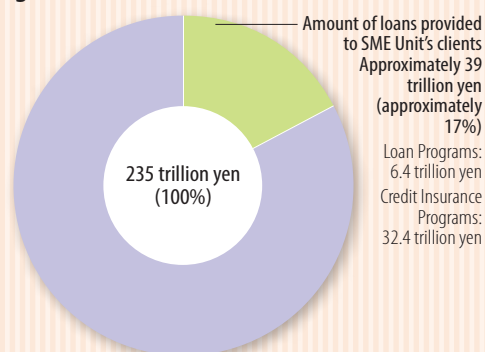
The SME Unit provides a wide range of support to meet the individual needs of each SME through its financial tools, Loan Programs, Credit Insurance Programs and Securitization Support Programs.

#### ▼ Share of SME Unit's Clients in Total Number of Enterprises



Sources: Ministry of Internal Affairs and Communications, "2009 Economic Census for Business Frame," edited by the Small and Medium Enterprise Agency, and others.

#### ▼ Share of SME Unit's Clients in Total Amount of Outstanding Loans to SMEs



Source: Bank of Japan, "Financial and Economic Statistics Monthly," and others.

The SME Unit facilitates funds to 1.55 million SMEs (approximately 40%) and accounts for 17% of outstanding loans to SMEs.

### ➤ Characteristic of SME Unit's Clients

#### Loan Programs

- Number of clients .....47 thousand enterprises
- Average loan for FY2012
- Average loan amount per client .....106 million yen
- Average term of loan .....7 years and 00 months
- Average amount of capital per client .....48 million yen
- Average number of employees per client .....76
- Approximately 80% of outstanding loans are loans to enterprises with more than 20 employees, and approximately 90% have capital of 10 million yen or more.
- Covers a wide range of industries particularly manufacturing (approximately 50% of outstanding loans as of end of FY2012)

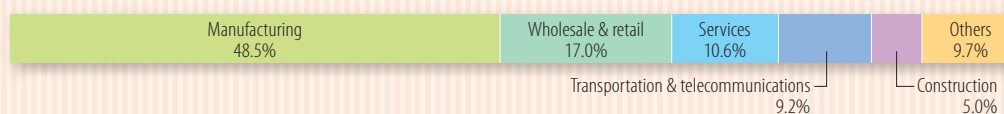
#### Credit Insurance Programs

- Number of clients .....1.5 million enterprises (Note)
  - Average insurance for FY2012
  - Average amount of insurance accepted per client ....17 million yen
  - Average term of insurance .....4 years and 10 months
  - Average number of employees per client .....8
  - Approximately 70% of the outstanding amount of insurance accepted is insurance to enterprises with fewer than 20 employees, and approximately 65% have capital of 10 million yen or less.
  - Covers a wide range of industries
- Note: Number of enterprises utilizing the Credit Guarantee System

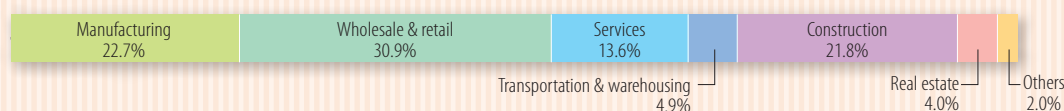
Note: Figures are as of March 31, 2013.

The SME Unit also helps to maintain employment, with the number of employees at the 47 thousand companies receiving support (direct loans) rising to approximately 2.66 million persons (as of March 31, 2013).

#### ▼ Outstanding Loans by Type of Industry (Loan Programs) (FY2012 year-end)



#### ▼ Outstanding Amount of Insurance Accepted by Type of Industry (Credit Insurance Programs) (FY2012 year-end)



## Loan Programs

### Supplementing Private Financial Institutions Both in Quality and Quantity with a Stable Supply of Long-term Funds

#### ➔ Dedicated to Long-term Funding

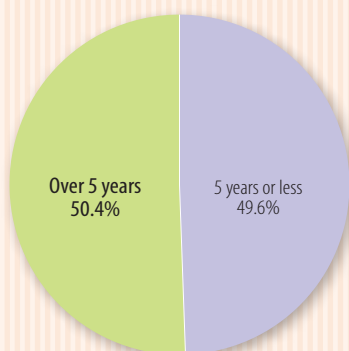
If SMEs are to grow and prosper, they must continually invest capital appropriately and consolidate their financial strength. To do this, they need to be able to raise long-term funds in a stable manner.

However, SMEs are at a disadvantage to larger enterprises in gaining access to funds from capital markets. In addition, private financial institutions tend to prefer short-term loans of one year or less, thus making it difficult for SMEs to raise sufficient long-term funds.

The SME Unit specializes in long-term funds that private financial institutions have difficulty in providing. Over 50% of the Unit's loans have lending periods of longer than five years, with fixed-interest rates that make it easier to map out repayment schedules.

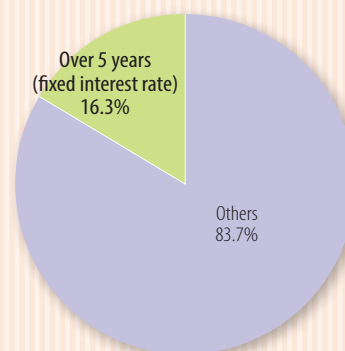
By covering those areas that private financial institutions find it hard to cover, the SME Unit meets the long-term funding needs of SMEs, which are a vital component of the Japanese economy.

#### ▼ Breakdown of Loans of the SME Unit by Lending Period (Share in Terms of Value) (FY2012)



Note: Data are for fixed-interest rate loans only

#### ▼ (Reference) Breakdown of Long-term Loans of Private Financial Institutions by Lending Period (Share in Terms of Number of Borrowers) (FY2012)



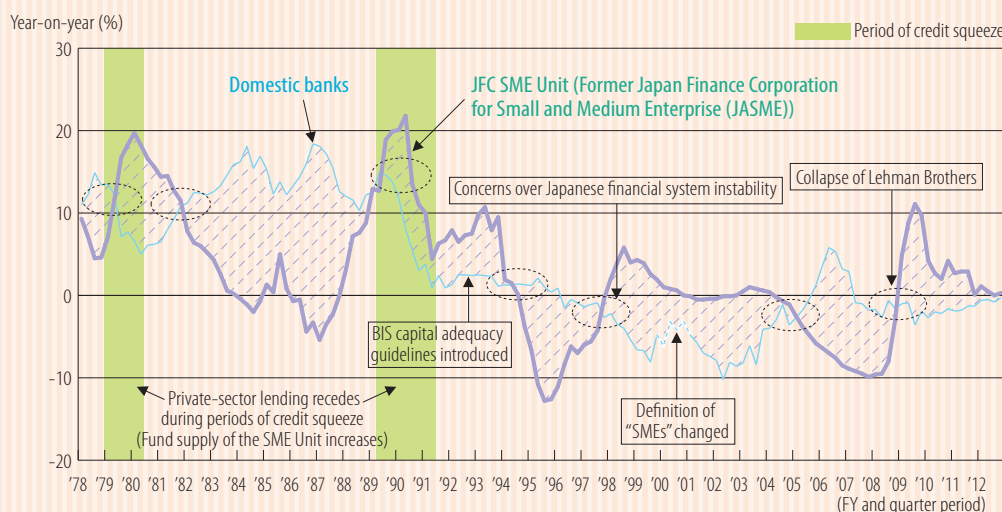
Source: JFC, "Quarterly Survey on SME Trends" (FY2012)

#### ➔ Stable Supply of Business Funds

The SME Unit's lending volume tends to rise sharply during a credit squeeze or when financial institutions are positioned for risk aversion (examples include the post-"Bubble" financial adjustment phase and periods of strategically tight lending) and declines when credit becomes easier to obtain.

Over the years, the Unit has provided SMEs with stable, long-term business funds by supplementing private financial institutions whose lending attitudes and activities are subject to impact by changes in prevailing business conditions.

#### ▼ Growth Rate Changes in Outstanding Loans to SMEs (Year-on-year changes)



Notes: 1. Domestic bank balances refer to loans to SMEs to cover banking accounts only. From FY1993 forward, overdrafts have been included in the calculation base. Second-tier regional banks have been included in this category since FY1990.

2. Figures for domestic banks prior to September 1996 refer to those for all Japanese banks.

3. The definition of "SMEs" was changed in April 2000: The SME Unit has estimated the growth rate for domestic banks in the period from June 2000 to March 2001 based on the ratio between the old and new standards.

Source: Bank of Japan, "Financial and Economic Statistics Monthly"

## Promoting Special-purpose Loans Based on Government Policies to Meet the Needs of the Times

### Safety Net

By providing finance through the Great East Japan Earthquake Recovery Special Loans and Safety-net Loans, the SME Unit assisted with the financing requirements and business reconstruction needs of SMEs experiencing a harsh business environment, including those SMEs that sustained damage during the Great East Japan Earthquake.

The Great East Japan Earthquake Recovery Special Loan  
**295.0 billion yen**

Safety-net Loans provided in FY2012  
**1,154.7 billion yen**

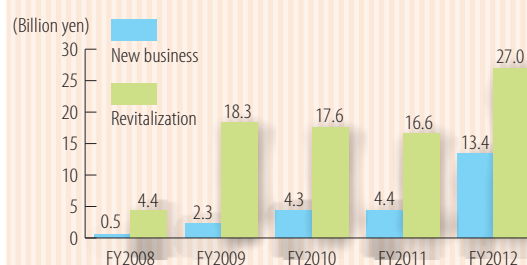
### Subordinated Capital Loans

The SME Unit supports reinforcing the financial standing of SMEs engaged in new business, business reconstruction or so forth, by applying the Provision Scheme for Challenge Support and Capital Enhancement (Subordinated Capital Loans) in cooperation with private financial institutions.

Liabilities under this Provision Scheme may be treated as shareholders' equity under the borrower classifications determined by financial institutions. They are expected to have a "pump-priming" effect on co-financing with private financial institutions.

Use of these loans has steadily expanded since the program was established in FY2008.

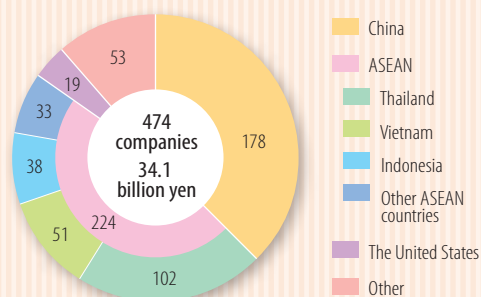
#### ▼ Provision of Capital Loans



### Support for Overseas Investment

The SME Unit provides active support for the overseas expansion of SMEs, such as providing Loans for Overseas Investment, offering support for local currency denominated fund-raising by their overseas subsidiaries through the Standby Letter of Credit program, offering management consulting services and holding business network meetings abroad. In FY2012, Loans for Overseas Investment were utilized by 474 companies, for a total of 34.1 billion yen.

#### ▼ Investment by Country (Number of Companies) (FY2012)



### Supporting New Businesses

The SME Unit provides active support to SMEs looking to develop new businesses with high growth potential, such as venture companies, through Loans for New Business Development. Since the system began in February 2000, 257.5 billion yen has

#### ▼ Loans for New Business Development

Fiscal year	FY2010		FY2011		FY2012	
	Companies	Yen	Companies	Yen	Companies	Yen
No. of companies and amount of loans (billion yen)	653	24.6	636	23.1	686	28.3
(Intellectual property utilization) <sup>(Note)</sup>	354	12.3	361	13.0	398	15.9

(Note) Loans for Intellectual Property Utilization are loans made to SMEs for the purpose of utilizing intellectual property rights (patents, utility model rights etc.) held by other companies for new businesses with high growth potential.

been loaned to 5,981 SMEs (as of March 31, 2013). In addition, the Unit also offers an unsecured loan system through acquisition of new share options issued by companies.

#### ▼ Stock Subscription Rights Loans

Fiscal year	FY2010	FY2011	FY2012
Number of companies	18	14	16
Amount of loans (million yen)	630	580	520

## Supporting the Growth of Businesses

### ➡ Supporting Local Funds Procurement Overseas with the Standby Letter of Credit Program

The SME Unit has commenced its operation of the Standby Letter of Credit program from FY2012 and has built business partnerships with overseas financial institutions.

#### About the Standby Letter of Credit Program

The Standby Letter of Credit program supports SME's overseas subsidiaries' smooth procurement of long-term local currency denominated funds from JFC's partnering overseas financial institution by using JFC's Standby Letter of Credit as a guar-

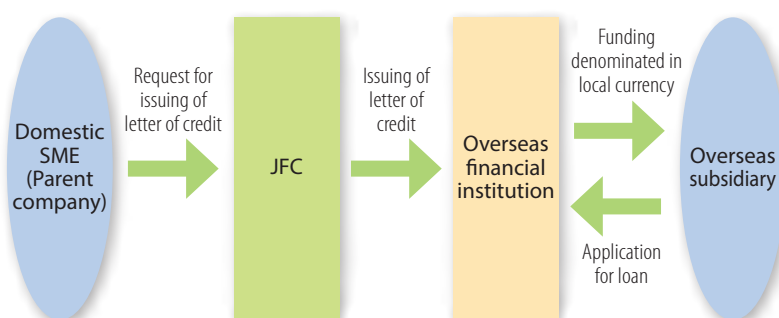
antee. This program makes it possible to procure funds in local circulating currency, avoid foreign exchange risks and take advantage of various financial services/products provided by overseas financial institutions.

#### ▼ Affiliated Overseas Financial Institutions <sup>(Note)</sup> (countries listed in alphabetical order)

Country	Financial Institution
Indonesia	Pt Bank Negara Indonesia (Persero) TBK
Republic of Korea	KB Kookmin Bank
Malaysia	CIMB Bank
Philippines	Metropolitan Bank & Trust Company
Singapore	United Overseas Bank
Thailand	Bangkok Bank
Vietnam	VietinBank

Note: Correct as of June 30, 2013. Affiliated business partners will be expanded.

#### Standby Letter of Credit Program Organizational Chart



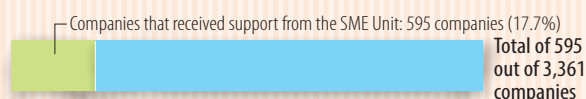
### ➡ Businesses that Have Borrowed JFC Funds are Flourishing in Many Fields

A total of 595 companies <sup>(Note)</sup> have gone public after receiving support from the SME Unit, representing roughly one sixth of all Japanese corporations that are publicly held. Many of these are flourishing as leading corporations in Japan.

Since 1989, the number of companies going public after receiving support from the SME Unit has increased dramatically to 408 <sup>(Note)</sup>, accounting for roughly 30% of the total increase in the number of companies going public during the same period, or 1,375 companies <sup>(Note)</sup>.

Note: The number of publicly listed companies is as of March 31, 2013 (excluding delisted companies and companies that have dissolved due to merger, etc.).

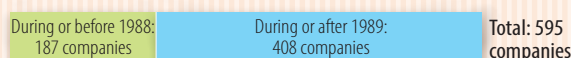
#### ▼ Public Companies that Received Support from the SME Unit



Note: The number of publicly held corporations is as of March 31, 2013. Companies in agriculture, forestry, fisheries, finance, and insurance, as well as foreign-owned corporations are excluded.

Source: JFC SME Unit

#### ▼ Companies Going Public after Receiving Support from the SME Unit by Time Period



### An Invaluable Source of Financing During Our Start-up Period

Kazuo Inamori, Honorary Chairman of Kyocera Corporation (listed in the first section of the Tokyo Stock Exchange) Around the third year after Kyocera was founded, I was managing executive director and visited banks in search of funding for capital investment. However, we did not have collateral and were ultimately unsuccessful in borrowing funds. Eventually I was introduced to JFC, and gratefully accepted the opportunity to meet with the branch manager. I made a faltering pitch, "We are a small venture company that just started up. We have generated over 10% profits since our first year of operation. I ask that you believe in the results my 3 years of hard work have produced and grant our company a loan."

Perhaps my earnest appeal hit the mark. After a pause, the branch manager replied "Alright. We will extend you a loan against the machinery you plan to buy with the funds." I remember how deeply moved I was by the manager's courageous decision to believe in us and grant a loan against collateral to be purchased later, in what amounted to a very risky decision in light of the accepted wisdom of financial institutions at the time.

It is thanks to this decision 40 years ago by the branch manager, who extended funding to us on the basis of our character when no other financial institute would, that today's Kyocera exists.

Extracted from a column entitled A 50 Year History of Japan Finance Corporation for Small and Medium Enterprise (JASME), published by JASME in December 2003. (author's title is that held at time of writing)



## Credit Insurance Programs

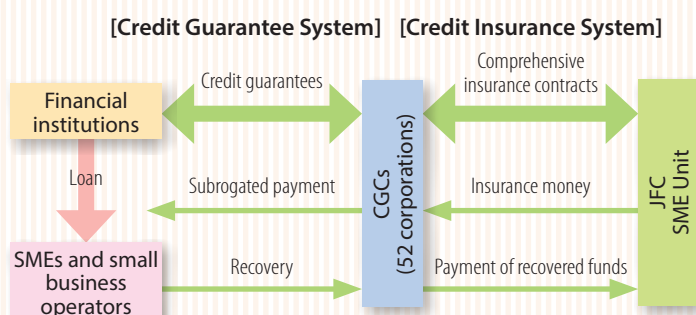
### Working with the Credit Guarantee System to Facilitate the Smooth Flow of Funds to SMEs and Small Business Operators

#### ➡ Roles of the Credit Insurance System

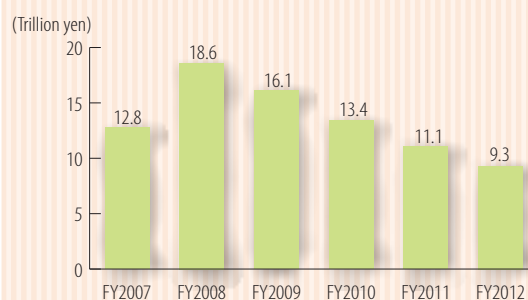
The SME Unit insures guaranteed liabilities (i.e., credit guarantees) provided by CGCs to SMEs and small business operators that fall short in terms of collateral or creditworthiness when raising funds from financial institutions or issuing corporate bonds. Instituted under the Small and Medium-sized Enterprise Credit Insurance Act (Act No. 264 of 1950), the purpose of the Credit Insurance System is to promote the development of SMEs

and small business operators by insuring guarantees for SME loans and similar liabilities. It is designed so that the Credit Insurance System and the Credit Guarantee System together facilitate smooth supply of business funds for SMEs and small business operators. This mechanism is known as the Credit Supplementation System and plays a vital role in the Japanese government's SME finance policy.

#### ▼ Overview of the Credit Supplementation System



#### ▼ Changes in the Amount of Insurance Accepted



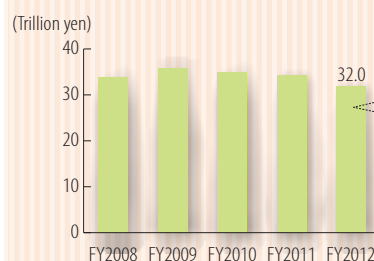
#### ➡ Approximately 36% of SMEs Utilize the Credit Supplementation System

As of the end of March 2013, the portion of outstanding loans to SMEs guaranteed by CGCs (i.e., outstanding guaranteed liabilities) amounted to some 32 trillion yen, accounting for approximately 13% of all loans to SMEs.

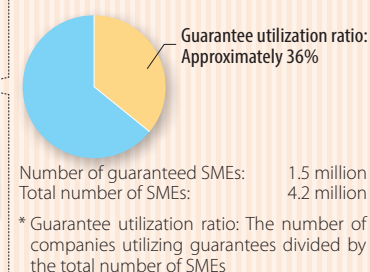
Moreover, some 1.5 million SMEs and small business operators, or approximately 36% of all SMEs in Japan, were raising funds with the support of the Credit Guarantee System.

By providing insurance on such guarantees, the Credit Insurance System is contributing to the management stability of SMEs and small business operators, and to their growth and prosperity by facilitating the smooth flow of funds.

#### ▼ Changes in Outstanding Guaranteed Liabilities and Guarantee Utilization Ratio of 52 CGCs throughout Japan



##### FY2012 Guarantee Utilization Ratio



## Securitization Support Programs

### ➡ Supporting the Smooth Supply of Unsecured Funds by Private Financial Institutions Using Securitization Methods

The securitization of loan claims for SMEs is conducted from the standpoint of ensuring smooth facilitation of SME financing.

By appropriately sharing the credit risks, credit analysis and administrative burdens of securitization, the SME Unit offers securitization methods conve-

nient for private financial institutions to use in facilitating unsecured funds to SMEs and to diversify measures to obtain funds. While fulfilling its pioneering roles as a policy-based financial institution, the Unit will also contribute to the promotion and development of the debt securitization market.

#### Methods of Securitization Support

##### Purchase-type

Operations that involve the securitization of unsecured SME loans, etc., acquired by way of transfer from private financial institutions or the use of credit default swap (CDS) contracts.

##### Guarantee-type

Operations that involve the partial guarantee of unsecured SME loan claims, etc., securitized by private financial institutions as well as the guarantee of partial purchase of securitized instruments.

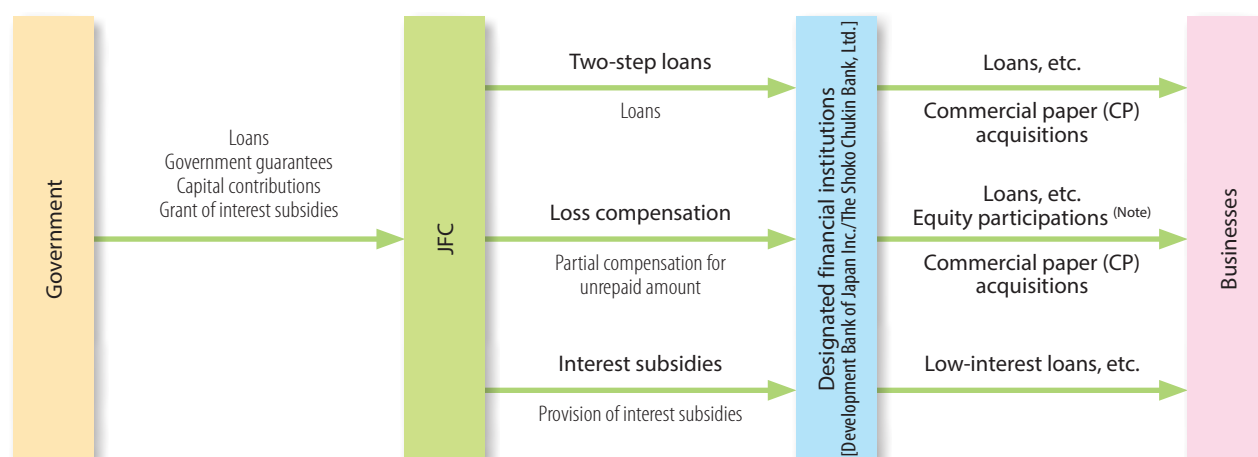
##### Securitization of Account Receivables

Operations that involve support in the securitization of account receivable claims held by SMEs (suppliers) through such means as the provision of guarantees by the SME Unit for private financial institution loan claims against a special-purpose company (SPC) as well as the provision of loans by the Unit to SPCs.

Note: In addition to "Purchase-type" and "Guarantee-type" Operations, the SME Unit implements the Synthetic CDO program, under which it securitizes claims on loans provided by itself or corporate bonds acquired by itself.

## Overview of Operations to Facilitate Crisis Responses

At the occurrence of such event as domestic or international financial disorder and large-scale natural disasters that is declared a crisis by the competent ministers, JFC provides certain specified type of credit to the financial institutions designated by the competent ministers. Since the credit risks of businesses generally increases at the time of a crisis, it is assumed that private financial institutions would be unable to provide a satisfactory amount of funds. As a measure to counter this situation, JFC supplies credit to the designated financial institutions to encourage smooth funding of the affected businesses.



Note: Loss compensation for equity participations of designated financial institutions based on the Act on Special Measures for Industrial Revitalization and Innovation (Industrial Revitalization Act) (Until the end of March 2013)

### [Crisis Response Operations to date]

- o Cases related to the Disaster Relief Act
- o Cases related to special consultation desks
- o Cases related to turmoil in the international financial order
- o Cases related to the Great East Japan Earthquake

### ➡ Loans (Two-step Loans)

JFC lends fiscal loan funds, etc., to the designated financial institutions. The balance as of the end of FY2012 was 5,362.0 billion yen.

### ➡ Interest Subsidies

JFC provides interest subsidies to designated financial institutions for loans, etc., made by those institutions through loans and partial risk complementation by JFC.

### ➡ Partial Risk Complementation (Loss Compensation Transaction)

JFC collects compensation premiums from the designated financial institutions, and compensates for a certain proportion of losses incurred through loans, etc. (including equity participations related to the Industrial Revitalization Act) conducted by the designated financial institutions. The balance of underwritten loss compensation as of the end of FY2012 was 3,692.7 billion yen (on a basis of reports from designated financial institutions).

### ▼ Results of Operations to Facilitate Crisis Responses

(Unit: billion yen)

	Second Half FY2008	FY2009	FY2010	FY2011	FY2012
Two-step loans	1,430.1	3,869.3	405.2	1,153.4	733.7
Loans, etc.	1,130.3	3,529.4	405.2	1,153.4	733.7
Commercial paper (CP) acquisitions	299.8	339.8	—	—	—
Loss compensation	345.1	1,811.9	1,893.3	1,739.8	1,470.2
Loans, etc.	345.1	1,781.9	1,893.3	1,739.8	1,470.2
Commercial paper (CP) acquisitions	—	—	—	—	—
Equity participations	—	30.0	—	—	—
Interest subsidies	—	—	0.3	2.4	7.8

Notes: 1. The figures of the two-step loans refer to the amount of loans provided by JFC to the designated financial institutions (Development Bank of Japan Inc. and The Shoko Chukin Bank, Ltd.) through March 2013.

2. With respect to the loss compensation, the figures for loans, etc., represent the amounts of loans provided by the designated financial institutions through the end of March 2013, with loss compensation underwritten by JFC for the incurred losses by May 10, 2013.

Equity participation figures pertaining to the Industrial Revitalization Act are the amounts of equity investments made by the designated financial institutions through the end of March 2013, with loss compensation underwritten by JFC.

3. The figures for interest subsidies represent the amounts of interest subsidies JFC provided to the designated financial institutions for loans, etc., provided by the institutions through the end of September 2012. (Disbursements pertaining to the period from October 1 each year to March 31 of the following year are made by June 10, while those pertaining to the period from April 1 to September 30 are made by December 10.)

## Overview of Operations to Facilitate Specific Businesses Promotion

In accordance with the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Law No. 38 of 2010, in effect on August 16, 2010), JFC lends funds (two-step loans<sup>(Note 1)</sup>) needed for loans that are provided by designated financial institutions<sup>(Note 2)</sup> to certified businesses<sup>(Note 3)</sup> who are going to implement specific businesses certified by competent ministers. The balance as of the end of FY2012 was 29.1 billion yen.

Notes: 1. Loans made by JFC out of the fiscal loan funds to designated financial institutions.

2. Financial institutions that submit applications and receive designations from competent ministers.

3. Businesses that prepare plans related to development or manufacturing of energy-efficient and/or environmentally-friendly products, and receive approval from competent ministers.

### ▼ Results of Operations to Facilitate Specific Businesses Promotion

(Unit: billion yen)

	FY2010	FY2011	FY2012
Two-step loans	20.0	1.3	7.8

Notes: 1. Operations to Facilitate Specific Businesses Promotion commenced on August 16, 2010.

2. The figures for two-step loans refer to the amount of loans provided by JFC to the designated financial institution (Development Bank of Japan Inc.) through March 2013.

## Overview of Operations to Facilitate Business Restructuring Promotion, etc.

In accordance with the Act on Special Measures for Industrial Revitalization and Innovation (Law No. 131 of 1999, revised act came into effect on July 1, 2011), JFC lends funds (two-step loans<sup>(Note 1)</sup>) needed for loans that are provided by designated financial institutions<sup>(Note 2)</sup> to certified businesses or their related business operators<sup>(Note 3)</sup> who are going to implement business restructuring certified by competent ministers for the purpose of strengthening international competitiveness. The balance as of the end of FY2012 was 25.0 billion yen.

Notes: 1. Loans made by JFC out of the fiscal loan funds to designated financial institutions.

2. Financial institutions that submit applications and receive designations from competent ministers.

3. Businesses including their related business operators that prepare plans for business restructuring and receive approval from competent ministers.

### ▼ Results of Operations to Facilitate Business Restructuring Promotion, etc.

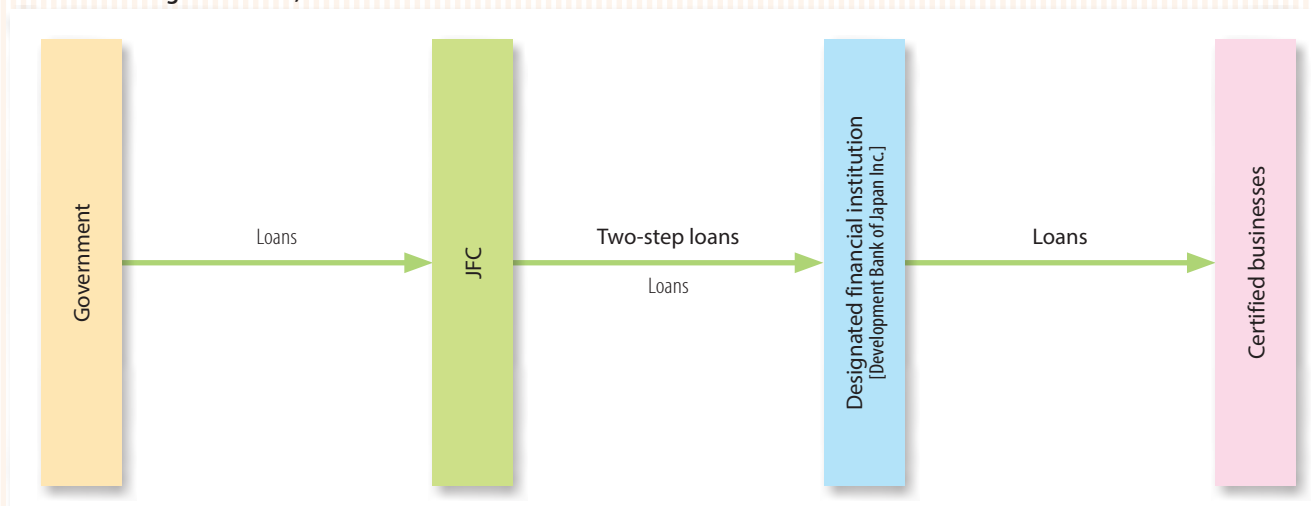
(Unit: billion yen)

	FY2011	FY2012
Two-step loans	—	25.0

Notes: 1. Operations to Facilitate Businesses Restructuring Promotion, etc. commenced on July 1, 2011.

2. The figures for two-step loans refer to the amount of loans provided by JFC to the designated financial institution (Development Bank of Japan Inc.) through March 2013.

### ▼ Two-step Loans Mechanism for Operations to Facilitate Specific Businesses Promotion and Operations to Facilitate Business Restructuring Promotion, etc.

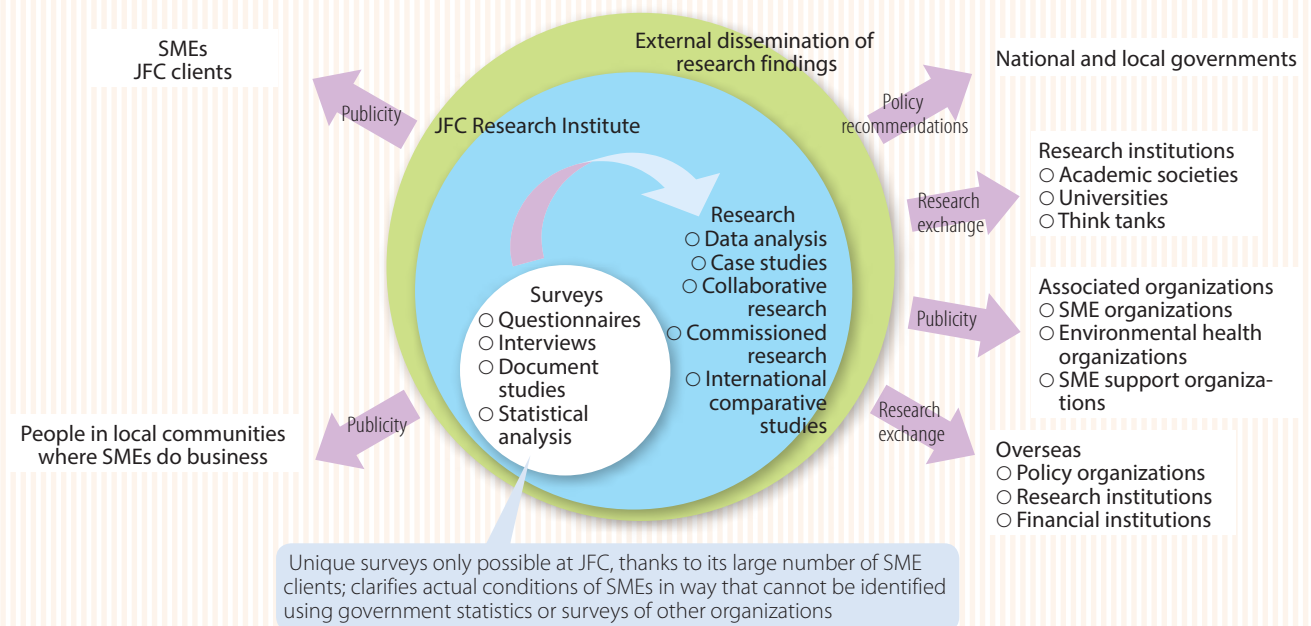


## Pursuit of Specialization, Originality and Advancement Striving for Globally High Quality in SME Research

### Functions and Features of the Research Institute

The Japan Finance Corporation (JFC) Research Institute conducts research on the latest trends of small and medium enterprises (SMEs) and on the internal and external economic and financial circumstances surrounding SMEs. As a comprehensive research institution that investigates a diverse range of SMEs, from “self-employment” type businesses operated by sole proprietors and families to high-tech ventures on the verge of going public, the

Research Institute maintains an invaluable presence in the global community. Relying on questionnaire- and interview-based surveys, as well as other types of field work only possible at JFC with its large number of SME clients, the Research Institute strives for an academic quality of international excellence by engaging in highly specialized, original, and leading-edge research activities.



### Surveys on SME Business Sentiment

#### ➡ Quarterly Survey on SME Trends

This quarterly survey is comprised of two parts: the micro business section, which surveys 10,000 micro businesses having fewer than 20 employees; and the SME section, which surveys 13,000 SMEs that generally employ at least 20 workers. It is a massive survey of economic outlook, which covers the whole gamut of SMEs, from self-employed individuals to businesses employing 300 workers.

#### ➡ Monthly Survey on Micro and Small Business Trends

This monthly survey targets 1,500 micro and small businesses having fewer than 20 employees. The survey captures the current business sentiment of small businesses in a timely manner by telephone surveys, which reduce the turnaround time for reporting.

#### ➡ Monthly Survey on SME Trends

This monthly survey of business sentiment covers 900 relatively large SMEs. The feature of this survey is that in Japan's three major metropolitan areas, the manufacturing industry is given heavy emphasis. The survey has a history of 50 years since its inception in 1963, and its sales forecast diffusion index (DI) has been adopted by the Japanese government as a leading index of economic indicators.

#### ➡ Survey on Capital Investments by Manufacturing SMEs

This biannual survey reports on planned and actual capital investment among 30,000 SME manufacturers that employ between 20 and 299 workers. This is the largest and most detailed survey in Japan of capital investment trends among SMEs.



## Thematic Research on the Current State and Issues Faced by SMEs

Surveys are conducted by selecting timely themes, such as the issues faced by SMEs, industries centered around SMEs, and trends in regional economies. Further research is conducted based on the survey results. Research findings are compiled into papers and

reports, and are disseminated by means of journals, books, and other publications, as well as by way of academic societies, various types of research projects, and symposia.

Note: Most papers, reports, and survey results can be viewed on JFC's website.

### ➡ Research on the Structural Problems of Micro and Small Businesses

Surveys and research are conducted on structural problems faced by micro and small businesses, including new business start-ups, business succession, employment, capital procurement, and involvement in local economies and communities.

#### Main surveys (conducted in FY2012)

- Survey on State of New Business Start-ups (FY2012 regular and special surveys)
- Panel Survey on New Business Start-ups
- Studies into overseas expansion by Japanese companies and related effects

#### Main research papers and reports (released in FY2012)

- ◇ SMEs Utilizing Home-based Workers
- ◇ The Reality for New Business Starters of Different Ages
- ◇ Evaluation of SMEs by Female Employees
- ◇ Role and Management Issues Facing NPOs
- ◇ The Rise of Support Businesses for Overseas Expansion
- ◇ The Characteristics and Dynamic State of Japan's Start-ups
- ◇ Performance and Business Strategy of NPOs
- ◇ Businesses Using Moving Sales Vehicles
- ◇ Efforts by Small Businesses to Develop Customer Bases

### ➡ Research on Management Issues of Micro and Small Businesses

Cases are collected of micro and small businesses that overcame the handicap of limited management resources, such as human resources, equipment and funds, to achieve success. Research findings are published annually as a compilation of case studies.

#### FY2012 survey

- Small Business Case Studies: Effectively Increasing the Added Value of Products and Services

#### FY2012 publication

- ◇ Unearthing New Targets – Market Development Strategy for Small Businesses

### ➡ Research on Domestic and International Industry Trends

The latest trends occurring around SMEs, including innovations in technology and changes in production systems, are viewed from the perspective of industrial policy.

#### Main surveys (conducted in FY2012)

- Hiring and Developing Domestic Workforce to Manage Overseas Expansion
- Study of SMEs Maintaining Business with Domestic Production Sites Only
- Study of Risk Diversification by SMEs as a Result of Great East Japan Earthquake
- Characteristics of and Issues Facing Women Operating SMEs
- Study of SMEs' New Business Domains

#### Main research papers and reports (released in FY2012)

- ◇ Survey on State of Employment of Women in SMEs
- ◇ SME Strategy: Expanding Business Overseas without Production Bases
- ◇ Corporate Behavior by SMEs in Response to Heightening Environmental Conservation Movement
- ◇ Diverse Strategies Adopted by SMEs in the Medical Products Industry
- ◇ Utilization of Non-Japanese Personnel in Overseas Expansion by SMEs
- ◇ Increasing Medical, Health and Sanitation Needs, and Related Business Opportunities for SMEs
- ◇ SMEs Winning through Expansion in Emerging Nations' Production Equipment Markets

### ➡ Research on Regional Economic Trends

The movements of SMEs are tracked from the contemporary perspective of promoting local economies, including their role in regional revitalization.

#### Main research papers and reports (released in FY2012)

- ◇ Innovation in Manufacturing Platforms – Recent Movements in the Consumer Industry

## The Fifth Japan Finance Corporation Symposium

The JFC Research Institute hosts a symposium every year.

Discussions will be held between staff from the Research Institute and external panelists on on-going research findings. Participation of many people interested in this field such as SME scholars/researchers, SME owners and journalists, are highly appreciated. The symposium will be held in November 2013. Further details will be announced on the JFC website and via leaflets.



## Publications Issued by the Research Institute

### Periodical Publications



#### Collection of papers by Japan Finance Corporation

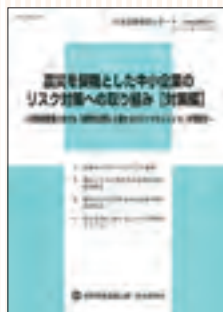
Quarterly (published on the 25th of February, May, August, and November)

Contains academic research papers written by staff from the Research Institute.

Papers from outside the Research Institute are also included, giving SME researchers an opportunity to publish their research.

Main papers published in Volume 19 (May 2013):

- Increase in Support Businesses for Overseas Expansion by SMEs
- Characteristics of Japan's Entrepreneurship
- Company Size and Job Satisfaction
- Study of Regional Expansion by Knowledge-Intensive Business Support Services



#### JFC Research Institute Report

Published occasionally

This research report brings together the latest research findings on the current state of SMEs and the issues they face, and disseminates those findings in a timely manner.



#### Monthly Survey Report

Published on the 5th of every month

The aim of this magazine is to disseminate the research findings of the Research Institute to researchers, business managers and officials from SME support organizations, and other readers in a way that is easy for them to understand.

### Books



#### White Paper on New Business Start-ups

Based on the results of the Survey on State of New Business Start-ups, this paper analyzes the trend of new business start-ups according to the latest themes. Published annually since 1992, the document is important literature in the field of start-ups in Japan.

- Main contents of the 2013 White Paper -

- Overview of the FY2012 Survey on the Condition of New Business Start-ups
- The Characteristics and Changing State of Japanese Start-ups
- Start-ups by Senior Entrepreneurs
- The Senior Market and Issues Facing Businesses Entering



#### Overseas Expansion that Changes SMEs

This book describes the finding of a multifaceted study on the results of the "Questionnaire on Japanese companies' expansion and related effects" and interviews with relevant persons. The study looks at the current state of overseas expansion by SMEs and its effect on other companies through trading, combining a wealth of data with case studies.



#### Corporate Case Studies

#### Management + a – Learn by Example: How to Increase Added Value for SMEs

This is a compilation of case studies on the management of SMEs. The book introduces and analyzes how improving a certain element of an existing business can lead to the creation of valuable products and services that meet current needs.