

# Overview of Operations

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# Micro Business and Individual Unit

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 startups, and educational loans to individuals who are in need of funds for school entrance fees and other educational expenses.

## Overview of Operations

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

- Loans have been disbursed to 0.88 million businesses.
- The average loan balance per business is 6.98 million yen, most of which were small loans.
- Approximately 90% of borrowers are businesses with nine or fewer employees, and approximately half are sole proprietorship.

### Safety Net Financing

- Micro Unit provides Safety Net Loans to support micro/small enterprises experiencing in finance difficulties because of a changing business environment.
- Through loans and other means, 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 and Business Reconstruction

- The number of loans disbursed to business start-ups (consisting of those that have yet to start and those that are within 1 year of start-up) reached 28,392 a year. It is estimated that about 96,000 jobs were created annually as a result.
- Micro Unit supports businesses engaged in innovative businesses through Capital Subordinated Loans.
- Supports business revitalization and succession of micro businesses.

### Supporting Social Businesses and Overseas Expansion, etc.

- Micro Unit supports businesses engaged in social businesses to solve social issues.
- Micro Unit supports micro/small businesses trying to expand overseas.

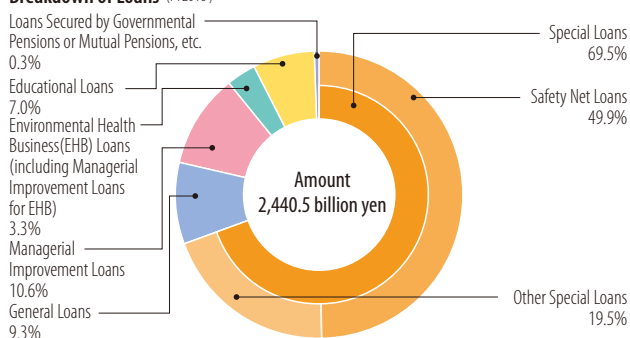
### Collaboration with Chambers of Commerce and Industry, Societies of Commerce and Industry, and Environmental Health Trade Associations, etc.

- 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.
- Micro Unit collaborates with Approved Management Innovation Support Organizations with high specialty such as tax accountant, certified public accountant and SME management consultant.
- Micro Unit proactively collaborates with regional financial institutions.

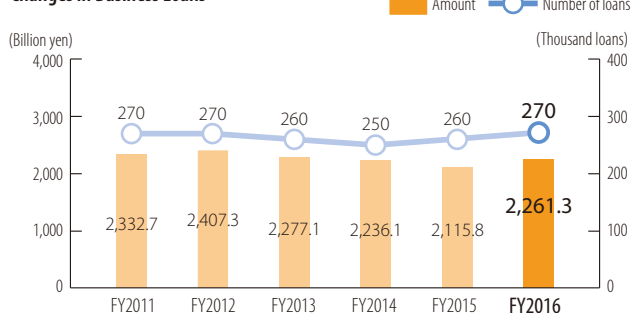
### Support through Educational Loans, etc.

- Approximately 120,000 Educational Loans are disbursed each year.

#### Breakdown of Loans (FY2016)



#### Changes in Business Loans



## Feature of Operations

### Supporting Micro/Small Businesses

Business Loans were provided to 0.88 million businesses. The average loan balance per business is 6.98 million yen, most of which were small loans. Approximately 90% of the borrowers have nine or fewer employees, and approximately half of them are sole proprietorship.

Over 80% of all loans are uncollateralized.

Number of Business Borrowers and Average Loan Balance per Business (as of end of FY2016)

	Micro Business and Individual Unit	Total for Shinkin banks (264 banks)	Total for domestic banks (139 banks)
Number of business borrowers (million)	<b>0.88</b>	1.12	2.02
Average loan balance per business (million yen)	<b>6.98</b>	38.97	94.97

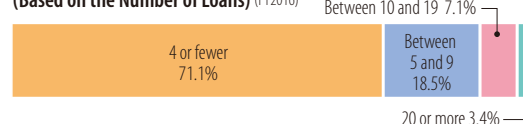
Notes: 1. Figures for Micro Unit are the total of General Loans and Environmental Health Business Loans.

2. Domestic banks include city banks, regional banks, regional banks II, and trust banks.

3. Figures for Shinkin Bank 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 Shinkin Bank 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) (FY2016)



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) (FY2016)



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

### Demonstrating Safety Net Functions

The number of Safety Net Loans (including earthquakes) disbursed in FY2016 to micro/small businesses experiencing difficulties in finance because of a business or financial environment changes reached 121,466.

Furthermore, a special consultation service was immediately established in the event of unforeseen events, such as a natural disaster like the Great East Japan Earthquake, the 2016 Kumamoto Earthquake or a major corporate bankruptcy, so that affected micro/small business owners can receive consultation to find ways to ease their loans and repayment terms.

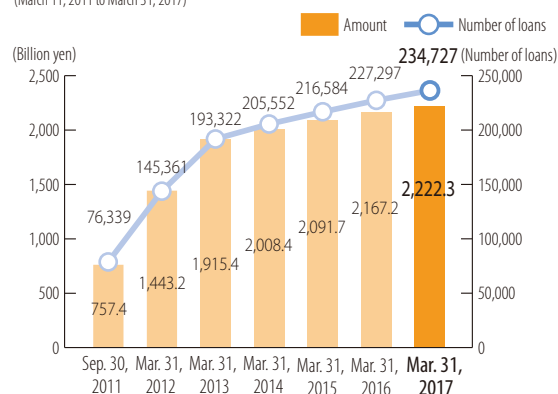
The Micro Unit supports the rehabilitation and reconstruction of micro/small businesses that have suffered damage at times of disaster such as earthquakes, typhoons and heavy snowfalls, by means of Disaster Loans that have more favorable repayment conditions than General loans, such as a longer repayment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

Between March 11, 2011 when the Great East Japan Earthquake occurred and March 31, 2017, the Micro Unit executed 234,727 loans related to the earthquake, amounting to 2,222.3 billion yen.

For loan performance related to the damages suffered from the 2016 Kumamoto earthquake, the Micro Unit executed 12,248 loans, amounting to 112.1 billion yen, by the end of March 31, 2017.

Changes in Loans for the Great East Japan Earthquake (Cumulative)

(March 11, 2011 to March 31, 2017)



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

Main Consultation Desks Currently in Operation (as of May 31, 2017)

	Number of consultation desks	Main consultation desks currently in Operation	Date of establishment
Disaster-related	6	Special Consultation desk for the Great East Japan Earthquake	Mar. 2011
		Special Consultation desk for Damage suffered as a result of Typhoon No. 18 in 2015	Sep. 2015
		Special consultation desk for damage suffered as a result of the 2016 Kumamoto earthquake	Apr. 2016
		Special Consultation desk for Damage suffered as a result of Storms and Torrential Rain between August 16 and September 1, 2016	Sep. 2016
		Special Consultation desk for Damage suffered as a result of the Central Tottori Earthquake in 2016	Oct. 2016
		Special Consultation desk for the large scale Fire in Itoigawa, Niigata in 2016	Dec. 2016
Others	4	Special Consultation desk to Overcome Deflation	Feb. 2014
		Special Consultation desk on Measures for Wage Standard Rise	Jul. 2015

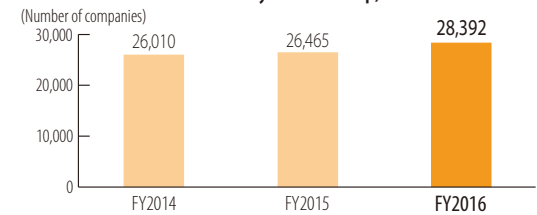
## Supporting Business Start-ups Proactively

### Support for Business Start-ups

Not a few start-ups face difficulties in raising funds for such reasons as a short business history. Micro Unit actively provides loans to these companies to support their business activities.

The number of loans provided to business start-ups (consisting of those that have yet to start and those that are within 1 year of start-up) in FY2016 totals 28,392. It is estimated that about 96,000 jobs were created annually as a result.

Changes in Loans for Start-ups (consisting of those that have yet to start and those that are within 1 year of start-up)



### [Job Creation Effects]

28,392 companies × businesses average of 3.4 employees<sup>(Note)</sup> = 96,532 employees

Note: The average number of employees at time of business start, based on Survey on Business Start-ups in Japan (FY2016) by the JFC Research Institute.

### Supporting Women, Youth and Senior Entrepreneurs

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

Loans for Women, Youth and Senior Entrepreneurs (Number of companies)

Women		Youth (under 30 years of age)		Seniors (aged 55 and above)	
FY2015	FY2016	FY2015	FY2016	FY2015	FY2016
5,555 companies	→ 6,364 companies	2,463 companies	→ 2,806 companies	3,157 companies	→ 3,208 companies

Note: Women who also qualify as youth or seniors are included in both the Women category and the other relevant category.

### 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.

## Establishment of Business Start-up Support Centers and Business Support Plazas and Providing Support for Business Start-ups and Second Business Start-ups<sup>(Note)</sup>

Note: Second business start-ups are businesses diversifying or moving into a new business field.

The Micro Unit has established Business Start-up Support Centers and Business Support Plazas throughout Japan. Through these facilities, we support a wide range of business start-ups and others attempting to start a second business.

### [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.

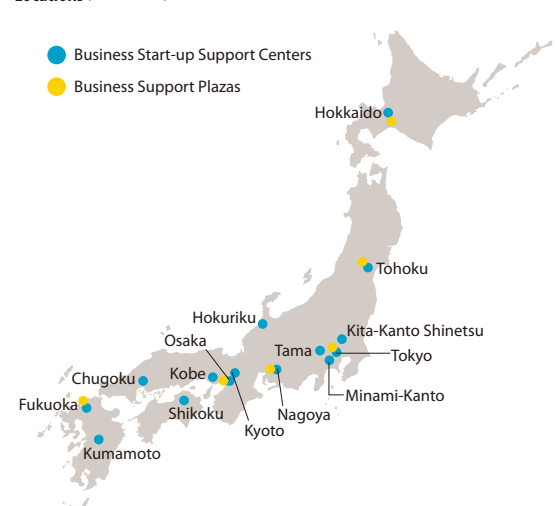
### [Business Support Plazas]

- In six locations: Sapporo, Sendai, Tokyo, Nagoya, Osaka, and Fukuoka.
- 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 (excluding national holidays).

Notes: 1. Sunday consultations are available on first and third Sundays of each month at Tokyo Business Support Plaza.

2. Night consultations are available at Tokyo Business Support Plaza (every Thursday) and Osaka Business Support Plaza (every Tuesday).

Locations (as of June 2017)



## The Micro Unit Proactively Supports Businesses that Take on the Challenge of Innovative New Technologies

The Micro Unit actively supports micro businesses such as research and development venture companies which possess innovative technological capabilities that are expected to achieve long-term high growth.

### Capital Subordinated Loans

Since establishing the program in March 2013, we have extended the loan limit and loan period. In FY2016, we provided Capital Subordinated Loans to 141 businesses. The Micro Unit supports various businesses which possess high technological capabilities and require significant funding for expenses such as research and development.

### Supporting Collaboration between Industry and Academia

The Micro Unit supports collaboration between industry and academia by forwarding technological consultation from micro businesses to universities, and by providing loans to university-originated ventures.

## Supporting Social Business Actively

The Micro Unit supports bearers of social businesses that support regional and social issues, such as supporting the care and welfare of the elderly and disabled, child rearing, environmental conservation, and regional revitalization.

The FY2016 loans to social businesses came to: 9,644 loans (125% compared to the previous fiscal year), 71.7 billion yen (118% compared to the previous fiscal year), of which 1,476 loans (125% compared to the previous fiscal year), 8.6 billion yen (120% compared to the previous fiscal year) were loans to NPOs.

### Social Business Mark



We are engaged in PR activities and have created the Social Business Mark in order to make social business, which works to solve regional and social problems, more widely known.

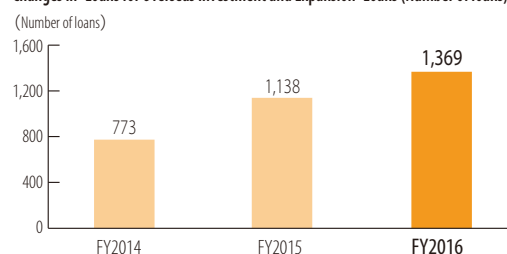
The “S” in social business is used to indicate various actors including businesses, NPOs, residents, government, public institutions, etc. coming together to solve the problems faced in the region.

## Actively Supporting Businesses Seeking for Overseas Expansion

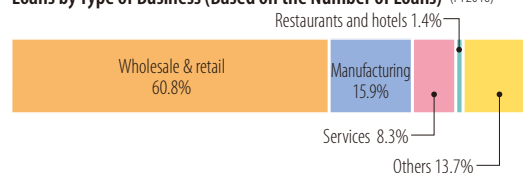
The Micro Unit is ready for consultation to provide information according to customer needs in cooperation with Japan External Trade Organization JETRO, the Japan Federation of Bar Associations, and other specialized organizations that support overseas expansion.

The number of loans provided through the Loans for Overseas Investment and Expansion totaled 1,369 loans in FY2016, with 60% of loans were provided to wholesale and retail businesses. Customers include corporations/individuals working in fields that are popular overseas such as Japanese cuisine and traditional crafts (such as food, sake, ceramics, lacquerware, etc.), the so-called “Cool Japan” products.

Changes in “Loans for Overseas Investment and Expansion” Loans (Number of loans)



Breakdown of “Loans for Overseas Investment and Expansion” Loans by Type of Business (Based on the Number of Loans) (FY2016)



## Supporting Business Revitalization and Succession Actively

Through the loan program for business reconstruction and business succession, the Micro Unit supports parties undergoing corporate reorganization through involvement of the SME Business Rehabilitation Support Co-operative, approval of reconstruction plans based on the Civil Rehabilitation Act, or collaboration with commercial financial institutions, and business succession.

In FY2016, the number of loans for Corporate Reconstruction loans was 1,186, with the number of loans for Business Succession, Intensive and Vitalization loans reaching 279.

In addition, by installing corporate support staff in 152 branch offices nationwide, besides being able to respond flexibly to consultations for easing of loan repayments, such as temporary repayment grace of principal, concessions on repayments, and reduction of payment installments, we also give advice regarding solving business issues and implement development support for business improvement plans.

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

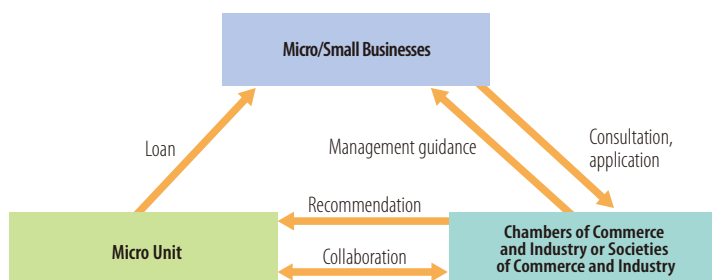
### Collaboration with Chambers of Commerce and Industry, and with Societies of Commerce and Industry

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 through providing Managerial Improvement Loans (MARUKEI Loans) and consultation sessions.

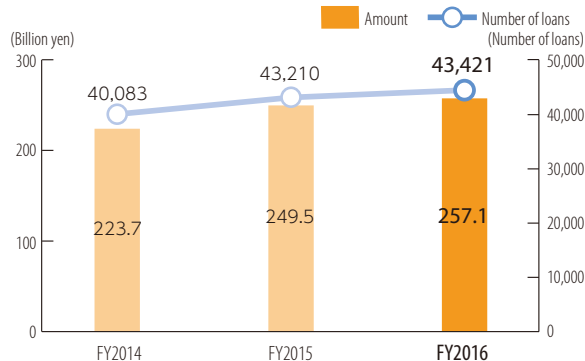
Managerial Improvement Loans (MARUKEI Loans) are a program whereby micro/small businesses receiving management guidance, such as from Chambers of Commerce and Industry or Societies of Commerce and Industry, can utilize funds needed for managerial improvement without collateral and guarantors. Since the establishment of this program in 1973, approximately five million loans have been provided.

Also, in 2015, a “Micro/Small Management Development Support Fund” was established which can be used by micro/small businesses who are working toward sustainable development, and have received assistance in developing and executing a business plan through certified management development support programs offered by Chambers of Commerce and Industry or Societies of Commerce and Industry.

Structure of Managerial Improvement Loans (MARUKEI Loans)



Changes in Managerial Improvement Loans (MARUKEI Loans)



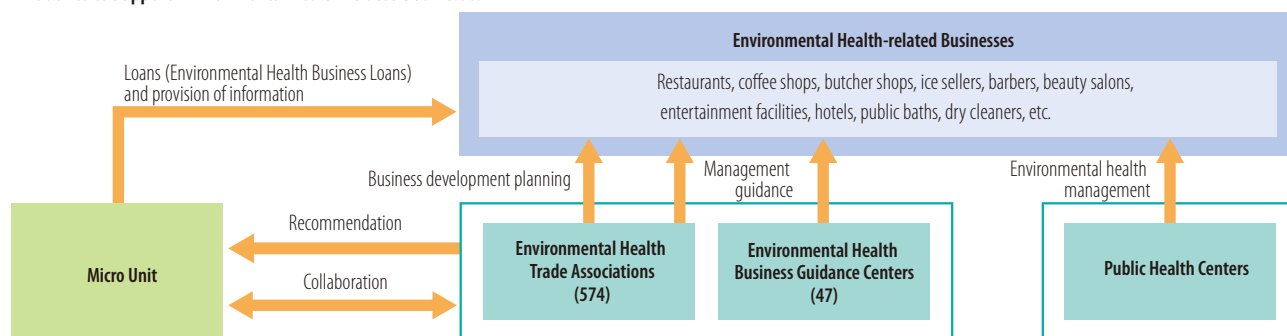
### Holding of “One-Day JFC” Consultation Sessions at Chambers of Commerce and Industry or at Societies of Commerce and Industry

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

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

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 60% have been before start-ups or in business for five years or less.

Initiatives to Support Environmental Health-related Businesses



Note: Figures within parentheses represent the numbers of organizations (as of March 31, 2017).

### Cooperation with Approved Management Innovation Support Organizations<sup>(Note)</sup> such as tax accountants, certified public accountants, and SME management consultants

Management support provided through Approved Management Innovation Support Organizations such as tax accountants, etc. who play a large role in supporting SMEs and micro businesses, and financial support from JFC come together to support small business owners in business sectors like start-ups, management innovation, business revitalization, etc.

Note: Approved Management Innovation Support Organizations are support organizations recognized under The Act for Facilitating New Business Activities of Small and Medium-sized Enterprise. Please visit the Medium Enterprise Agency website for more information.

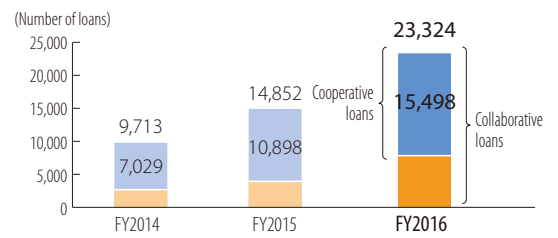
## ● Collaboration with Regional Financial Institutions

We promote cooperation with regional financial institutions to meet the customer's convenience and revitalization of the local economy.

We are actively engaged in providing collaborative loans to help with the development of the cooperative loan scheme<sup>(Note)</sup> and the creation of new products, which is part of efforts to enhance the effectiveness of cooperation with regard to support in various fields including business start-ups, business succession, business revitalization and social businesses.

Note: A cooperative loan scheme has specific referral rules for projects treated as cooperative loans.

### Changes in the Number of Collaborative Loans

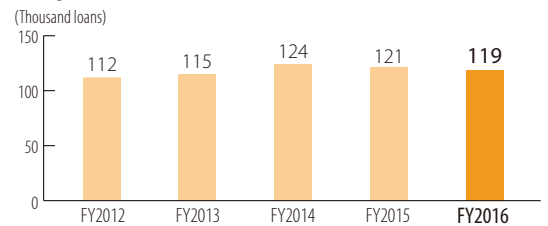


Notes: 1. Cooperative loans are loans issued via referral from a financial institution.  
2. Collaborative loans are the total of cooperative loans and loans issued via referral from a financial institution.

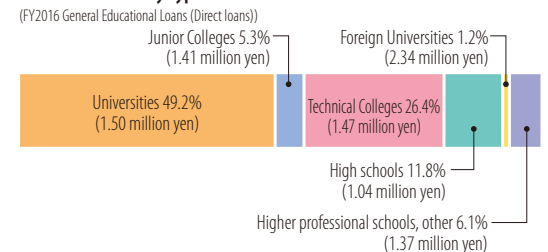
## Educational Loans for School Entrance Fees and Related Expenses

The Micro Unit handles Educational Loans to lighten the financial burden of educational expenses on families and provide equal educational opportunities. Approximately 120,000 Educational Loans were provided in FY2016.

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



### Borrower Details by Type of Educational Institution



(Note) Figures in parentheses denote average loan amount per loans.

## ● Loans to Families with Large Educational Expenses

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

## 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.

## Micro Unit Supports Developing Countries

### Supporting Developing Countries by ODA (Official Development Assistance)

The Micro Unit provides assistance to overcome issues which financial institutions in developing countries are facing through technical cooperation by Official Development Assistance (ODA). This assistance has been implemented by sharing our accumulated credit analysis know-how on micro and small enterprises. In specific terms, the Unit is conducting local and national seminars, etc. concerning small and medium enterprises (SMEs) financing in cooperation with the Ministry of Finance Policy Research Institute.

To date, these have been implemented in Viet Nam and Malaysia and presently cooperating with Laos and Myanmar.

#### i. Laos

The Micro Unit is presently implementing the technical cooperation project that began in 2011 with the Lao Development Bank (LDB), which is a state-owned commercial bank in Laos. Eight seminars have been held in both Laos and Japan with the aim of improving LDB personnel training and credit analysis skills. In addition to lectures about credit analysis of the Micro Unit, we have also cooperated to create LDB's original assessment manuals, etc.

#### ii. Myanmar

In April 2015 we began a technical cooperation project for Myanma Economic Bank (MEB), which is the largest state managed bank in Myanmar. We have held four seminars so far in Myanmar and Japan, with lectures on JFC-Micro's basic loan assessment methods.



Lectures given at local seminars in Laos (Vientiane)



At a seminar in Myanmar (Yangon)



# Agriculture, Forestry, Fisheries and Food Business Unit

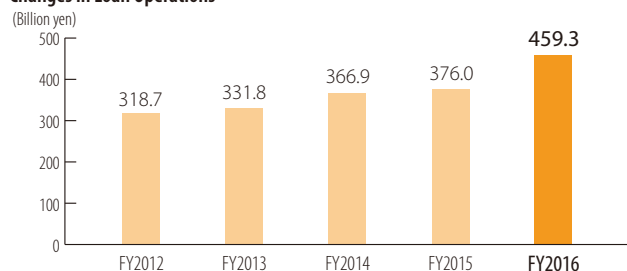
Through providing loans, etc. to businesses in agriculture, forestry and fishery industries as well as the food industry in Japan, the Agriculture, Forestry, Fisheries and Food Business Unit (AFFF Unit) contributes toward strengthening of these industries while ensuring the stable supply of safe and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

## Overview of Operations

### Loans

The AFFF Unit provides long-term 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 caused by 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 helping to increase value-added levels.

Changes in Loan Operations

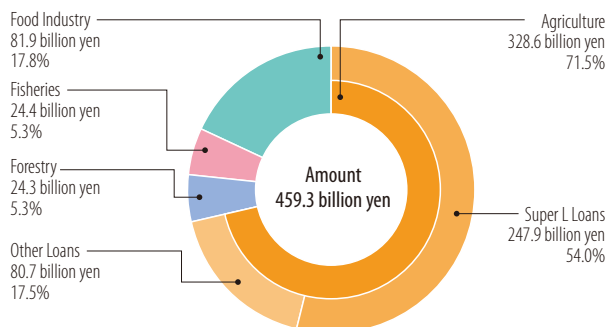


Status of Loans by Repayment Period (FY2016)

Average loan period: 12.9 years



Breakdown of Loans (FY2016)



### 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 and at the 48 branches nationwide where the Unit is permanently based, as well as at 118 consultation service sites that operate throughout Japan on a routine schedule.

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

Advisors in the fields of agriculture, forestry, and fisheries respond to consultation requests from customers concerning all aspects of their business management.

We also cooperate with private financial institutions and external specialized agencies such as the Japan Professional Agriculture total support Organization (J-PAO) and the Japan External Trade Organization (JETRO) on matters concerning business cooperation in order to provide assistance with customer problems.

#### 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 by wide-ranging support for the production, processing and sales of agricultural, forestry, fisheries products.

#### 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 financing of agricultural, forestry and fisheries fields by providing information on industry trends and assessment of agricultural credit risks (Agricultural Credit Risk Information Service (ACRIS)) and also offering capital contributions and securitization support services.



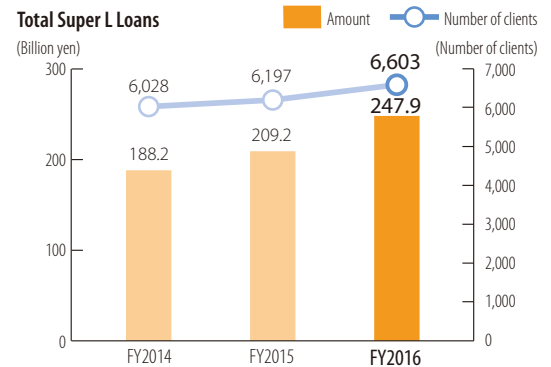
## Feature of Operations

### Agriculture

By providing loans 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 (Law No. 106 of 1999), the AFFF Unit actively supports efforts of farmers to improve their management with drive and innovative ideas.

#### Supporting People Engaged in Agriculture through Long-term Loans

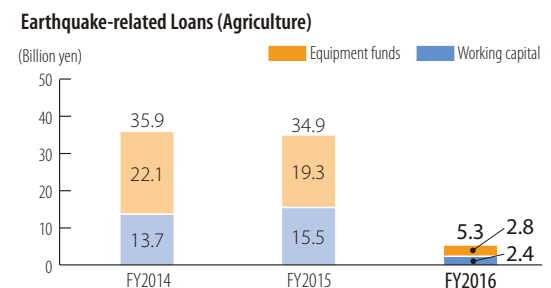
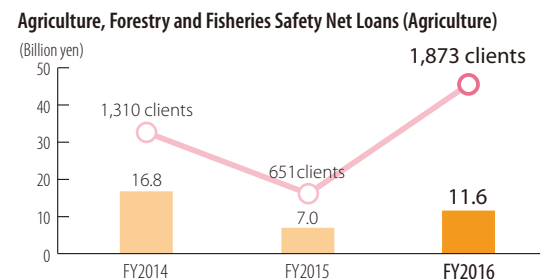
Through long-term financing such as Super L Loans the AFFF Unit supports management improvements such as scale expansion, cost reduction and Sixth Industrialization (e.g., processing, sales, and other business undertaken integrally by agricultural, forestry, and fishery businesses to increase the added value of products) by diverse local farmers, including corporate-run rice growing, horticulture, livestock farming, and other operations, as well as large-scale family-run operations, new farmers, and companies entering the agriculture field.



#### Exercising Safety Net Functions following Disasters and Changes in Business Conditions

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 including earthquake and typhoon, etc., contagious livestock diseases, and falls in the price of agricultural products.

The AFFF Unit supported reconstruction efforts, primarily equipment loans and long-term working capital loans for agricultural businesses affected by the Great East Japan Earthquake.



### Forestry

By providing loans in line with the policies of the Basic Law on Forest and Forestry (Law No. 161 of 1964), 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.

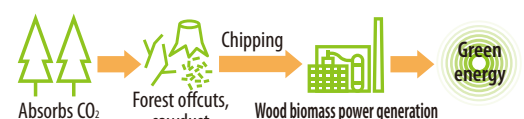
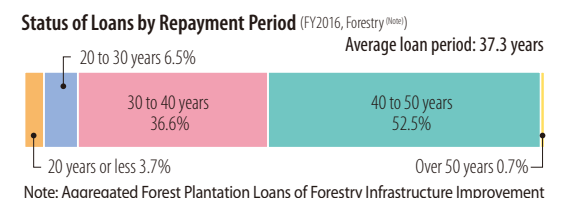
#### Providing Financing to Forestry Operators Facing Difficulties in Procuring Loans

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 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.

The AFFF Unit supports 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.



## Fisheries

By supplying loans in line with the policies of the Fisheries Basic Act (Law No. 89 of 2001), the AFFF Unit actively supports efforts to ensure a stable supply of marine products and the sustained use of marine resources.

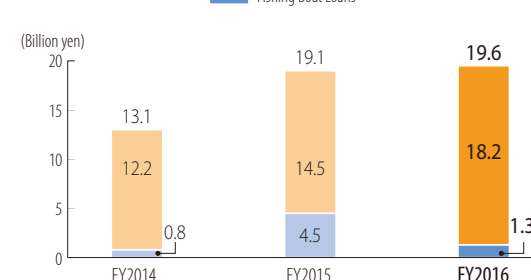
### Supporting Principal Fishery Operators

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 loan amount has remained steady.

In FY2016, loans for fishing vessels, which proactively supported building of larger fishing vessels, came to 19.6 billion yen.

Note: 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 loans 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.

**Loans for Fishing Vessels**

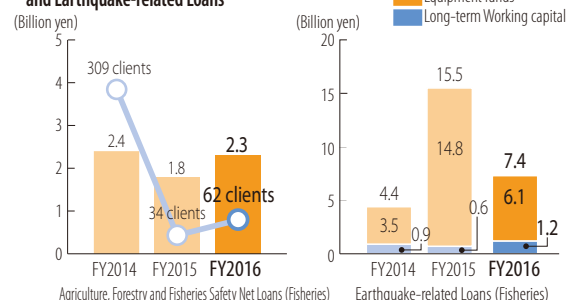


### Exercising Safety Net Functions at Time of Disasters and Changes in Business Conditions

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 tsunami and red tide, falling prices of fisheries products, and rising fuel prices by delivering rapid and flexible assistance, for example, in the form of long-term working capital loans.

In addition, the AFFF Unit supported businesses by providing facility capital loans primarily for fishing boats to fisheries operators who suffered from damage of the Great East Japan Earthquake.

**Loans Provided from Agriculture, Forestry and Fisheries Safety Net Loans (Fisheries) and Earthquake-related Loans**



## Food Industry

Through providing loans to food manufacturing and distribution companies that deal in domestic agricultural, forestry, and fishery products, the AFFF Unit actively supports efforts for the stable supply of domestically produced raw materials and for improving added value.

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

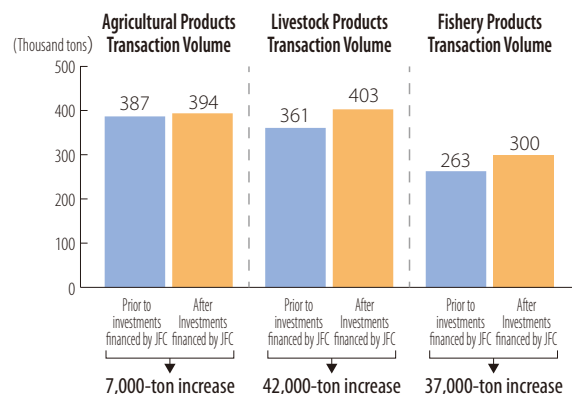
Loans to the food industry requires food companies to use domestically produced agricultural, forestry, and fishery products as raw materials or products, and are aimed at promotion of domestically produced agricultural, forestry and fishery products. An estimation of the effects of the loans made in FY2016 suggests that the transaction volumes of domestically produced agricultural, forestry, and fishery products will increase by approximately 86,000 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 (Food production manufacturing affiliated business facilities, food production and sales affiliated business facilities) is an increase in the trading volume of domestically produced agricultural, forestry and fishery products. 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

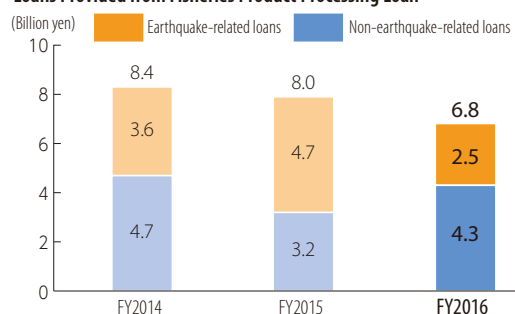
In the Great East Japan Earthquake, many seafood processing facilities in the Tohoku region suffered severe damage. The AFFF Unit supports the recovery and reconstruction of fisheries product processing businesses by loans with zero real interest rates and other special financing programs.

In FY2016, earthquake-related loans made to fisheries product processing operators amounted to 2.5 billion yen, supporting local businesses as the reconstruction effort began in earnest.



Note: The transaction volumes are rounded off by the unit.

**Loans Provided from Fisheries Product Processing Loan**



## 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.

### We support business management through “project assessment financing”.

We implement precision management support towards the achievement of objectives through a new loan scheme emphasizing customer feasibility.

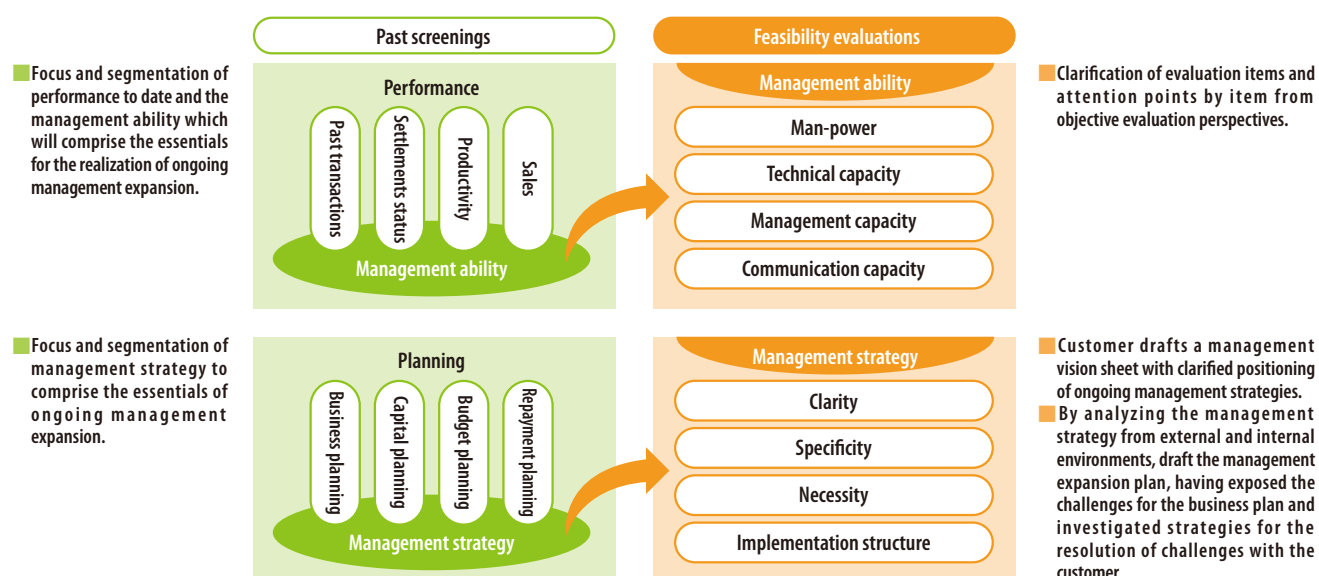
#### Through “project assessment financing”, we support leaders who work proactively toward management development.

By fully implementing the “project assessment financing” scheme to more assertively evaluate the “management ability” and “management strategies” of customers, we support operational expansion efforts of the next generation of agricultural leaders are actively supported.

Under this loan scheme the management strengths and operational deficiencies of customers are coordinated and methods of leverage strengths which would otherwise be difficult for customer's to recognise by themselves, as well as resolution for operational deficiencies are investigated with the Agriculture, Forestry, Fisheries and Food Unit. Subsequently, through proposals for the resolution of challenges and thoroughgoing follow-ups after financing is provided, powerful support is implemented towards the achievement of management objectives.

#### Framework of “project assessment financing”.

Management capacities (including management performance and essentials for the realization of management expansion) and management strategy (essentials for ongoing management expansion) are segmented and evaluated.



### 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 118 consultation service sites such as regional public organizations that operate throughout Japan on a routine schedule.



Customer consultation

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

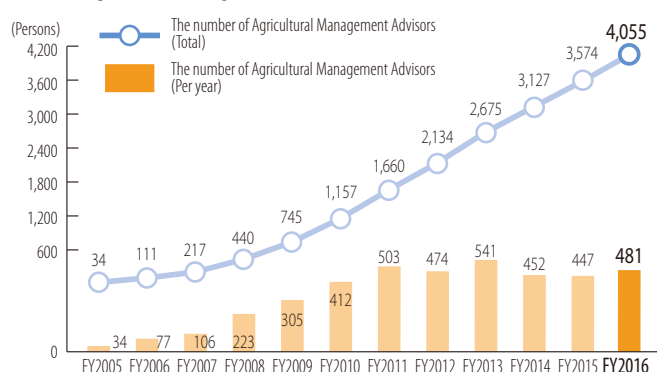
Responding to requests from farmers for advice on taxes, labor, marketing, and other topics from experts who understand the unique characteristics of agriculture, the AFFF Unit created the Agricultural Management Advisor program in FY2005. As of March 31, 2017, examinations had been conducted 24 times and a total of 4,055 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. 58 people across Japan were registered through this program.

In FY2016, in addition to exchanging and sharing information among Agricultural Management Advisors towards the next-level promotion of the Agricultural Management Advisor program, AFFF Unit established the nationwide Agricultural Advisor Promotional Council and the prefectural Agricultural Advisor Liaison Committees to enhance ties with agricultural organizations, and other entities.

The Forestry and Fishery Management Advisor Program, created in FY2008 has produced 65 Forestry Management Advisors and 50 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.

### Results of Agricultural Management Advisor Examinations



### Breakdown of Agricultural Management Advisors (As of March 31, 2017)

Private financial institutions (including agricultural cooperatives)	2,290
Tax accountants and SME management consultants	1,018
Agricultural extension officers, etc.	464
JFC employees	283

## Business Matching Support

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

In FY2016, the AFFF Unit again hosted the Agri-Food EXPO, Japan's nationwide agricultural product exhibition and business fair, in Tokyo (August 2016) and in Osaka (February 2017).

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.

	EXPO Tokyo 2016 (Aug. 18–19, 2016)	EXPO Osaka 2017 (Feb. 22–23, 2017)
Exhibitors	681 companies (560 booths)	454 companies (366 booths)
Visitors	14,410	15,262
Number of business negotiations	7,004	5,249



State of the Agri-Food EXPO in Tokyo

## Advanced Management Supports Such as Overseas Expansion, etc. 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.

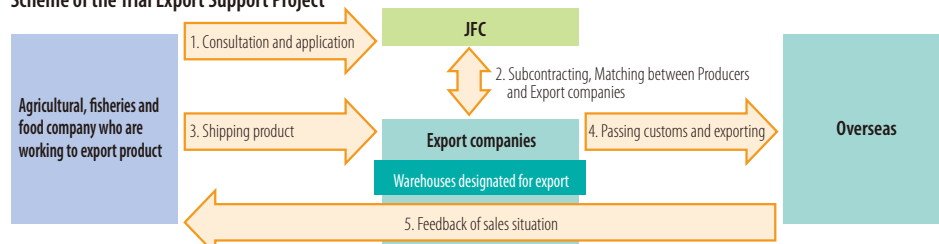
For example, J-PAO gets assistance from its members from a wide variety of types of businesses and uses its agriculture-support know-how to provide sales and commercialization support to customers. JETRO hosts an export business conference at Agri-Food EXPO Tokyo and Osaka, where it provides assistance in the form of matching with overseas buyers.

In addition, the AFFF Unit supports customers of agricultural, forestry, and fisheries businesses who are working to export agricultural produce for the first time through cooperation with domestic and overseas trading companies by conducting "Trial Export Support Projects" (preparations for exporting, exporting procedures, sales feedback from export destinations, etc.).



State of the Briefing on the Trial Export Support Project

### Scheme of the Trial Export Support Project





# 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 loans to agricultural, forestry and fisheries businesses by providing information concerning risk assessments as well as by supporting financing and securitization.

## Working to strengthen cooperation with private financial institutions

The AFFF Unit, in addition to concluding outsourcing agreements with 641 private financial institutions, is committed to support private financial institutions to enter into the market of agricultural, forestry, fisheries finance by concluding "MOU for business collaborations with 410 private financial institutions", beginning with the Kagoshima Bank Ltd., in April 2004.

Based on this commitment, since FY2014, JFC has been focusing on loans in partnership and cooperation with private financial institutions to enhance effectiveness in sectors where partnerships are highly sought after by private financial institutions in areas such as sixth industrialization and agriculture-commerce-industry cooperation, etc.

Institutions under Business Cooperation with JFC (As of March 31, 2017)

The Norinchukin Bank	1
Prefecture credit federations of agricultural cooperatives	33
Prefecture credit federations of fisheries cooperatives	5
Banks	100
Shinkin banks	197
Credit cooperatives	60
Other financial institutions	14
<b>Total</b>	<b>410</b>

## 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 finance (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.

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

Images of Scoring Results Obtained Using ACRIS



## Securitization Support

The AFFF Unit established a credit supplementation program (securitization support operation) to encourage private financial institutions to promote 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 March 31, 2017, a total of 119 financial institutions had signed a basic agreement with the AFFF Unit.

79 of these financial institutions developed new loan products for farmers that incorporated credit supplementation under this program.

Financial Institutions under Basic Agreements with JFC (As of March 31, 2017)

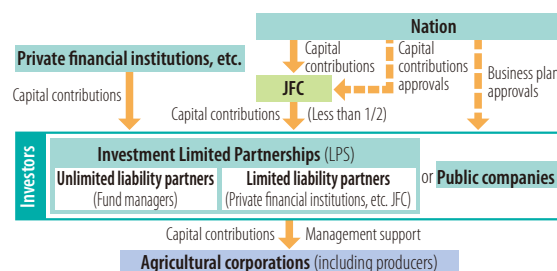
	Banks	Shinkin banks	Credit cooperatives	Total
Hokkaido	1	11	1	13
Tohoku	7	4	1	12
Kanto	2	7	2	11
Chubu	7	19	3	29
Kinki	5	8	0	13
Chugoku	2	10	1	13
Shikoku	5	2	0	7
Kyushu	9	11	1	21
<b>Total</b>	<b>38</b>	<b>72</b>	<b>9</b>	<b>119</b>
(Of these, institutions that developed new products)	(30)	(46)	(3)	(79)

## Providing Investment Support to Agricultural Corporations

The AFFF Unit has been making capital contributions to Investment Limited Partnerships (LPS) and stock companies to invest in agriculture corporations with the business program approval of the Minister of Agriculture, Forestry and Fisheries. This is done to support the adequacy of equity capital of leading agricultural corporations which will sustain regional agriculture businesses.

(As of March 31, 2017)

	LPS	Public companies
No. of capital contributions	12 associations	1 company
Pledged investment amount or investment amount (of which invested by JFC)	5.86 billion yen (2.87 billion yen)	4.07 billion yen (2.03 billion yen)



# Small and Medium Enterprise (SME) Unit

Through its various functions such as Loan Programs and Credit Insurance Programs, the Small and Medium Enterprise Unit (SME Unit) financially supports the growth and development of SME's and micro businesses which are the source of Japan's economic vitality at both the national and regional levels.

## Overview of Operations

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

Policy-based financing in Japan not only provides financial support under the nation's key policies towards certain fields such as new business development, business revitalization and overseas expansion, fields that involve high risks, it also quantitatively supplements the loans provided by private financial institutions whose lending attitudes may be affected by economic stagnations.

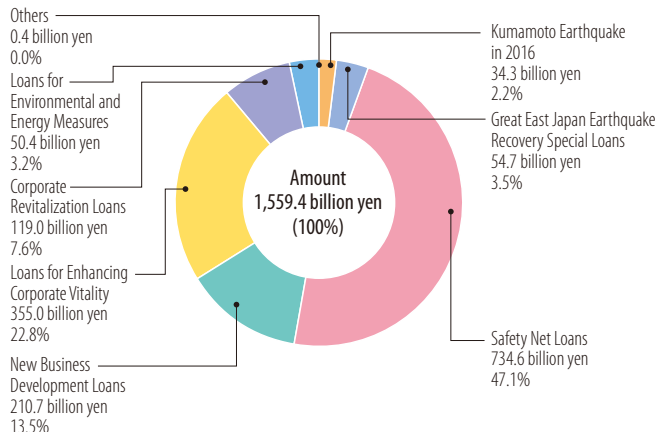
Based on these policies, while supplementing private financial institutions as a policy-based financial institution specialized in SMEs, the SME Unit supports the growth and development of SMEs through its financial tools as well as serving as a safety net functions.



### Loan Programs

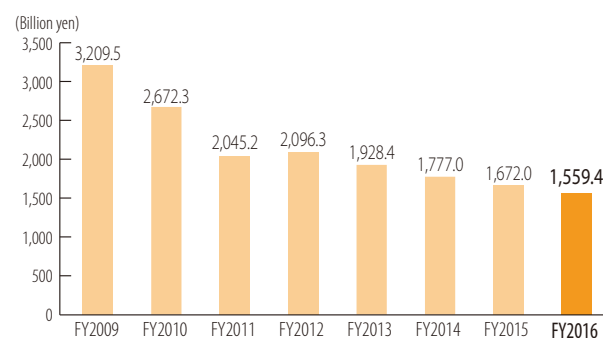
The SME Unit complements the financing of private financial institutions through its stable, long-term, fixed interest rate loans that is needed for the business growth of SMEs.

Breakdown of Loans (FY2016)



Note: Loans include corporate bonds, but excluding loans to Small and Medium Business Investment & Consultation Co., Ltd. Also, performance for respective loan projects is calculated while disregarding amounts of under 100 million yen.

Changes in Loan Performances



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

### Credit Insurance Programs

To facilitate the smooth flow of funds to SMEs and micro businesses, these programs focus on the acceptance of insurance on Credit Guarantee Corporations (CGCs) guaranteed liabilities associated with loans to SMEs and micro businesses.

- Insurance on CGCs guaranteed liabilities involving loans to SMEs and micro businesses
- Loans to CGCs
- Special Insurance Programs for Mid-size Enterprises
- Transitional Operation of the Machinery Credit Insurance Programs <sup>(Note)</sup>

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 already in force (Transitional Operation of the Machinery Credit Insurance Programs).

### Securitization Support Programs

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

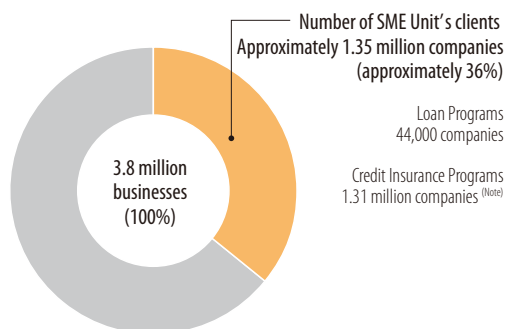
## Feature of Operations

### SME Unit's Clients

SMEs and micro businesses account for 99% of all businesses in Japan, and are both the source of Japanese economic vitality as well the primary force underpinning regional economies. The size and conditions of each SME and micro business 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.

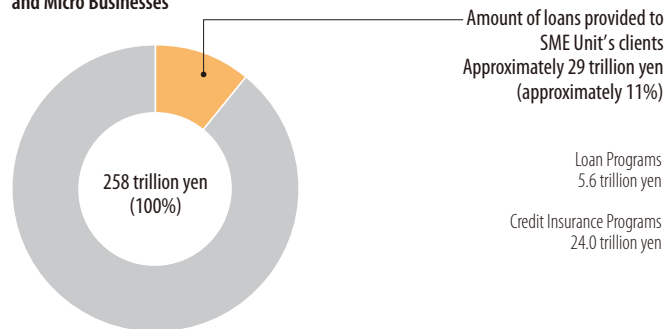
The SME Unit provides a wide range of support to meet the individual needs of each SME and micro business through its financial tools, Loan Programs, Credit Insurance Programs and Securitization Support Programs.

Share of SME Unit's Clients in Total Number of Businesses



Note: Number of companies utilizing the Credit Guarantee System.  
Sources: Ministry of Internal Affairs and Communications, "2014 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 and Micro Businesses



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

The SME Unit facilitates funds to 1.35 million SMEs and micro businesses (approximately 36%) and accounts for 11% of outstanding loans to SMEs and micro businesses.

### Characteristics of SME Unit's Clients

#### Loan Programs (Direct loans)

- Number of clients ..... 44 thousand companies
- Average loan for FY2016
  - Average loan amount per client ..... 102 million yen
  - Average term of loan ..... 7 years and 11 month
  - Average amount of capital per client ..... 44 million yen
  - Average number of employees per client ..... 77
- Approximately 79% of outstanding loans are loans to companies with 20 employees or more, and approximately 94% 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 FY2016)

#### Credit Insurance Programs

- Number of clients ..... 1.31 million companies <sup>(Note)</sup>
- Average insurance for FY2016
  - Average amount of insurance acceptance per client ... 17 million yen
  - Average term of insurance ..... 4 years and 11 months
  - Average number of employees per client ..... 7
- Approximately 74% of the outstanding amounts of insurance is insurance to companies with 20 employees or less, and approximately 68% have capital of 10 million yen or less.
- Covers a wide range of industries

Note: Number of companies utilizing the Credit Guarantee System.

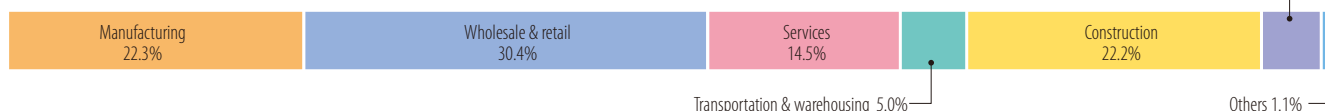
Note: Results are current as of March 31, 2017.

The SME Unit also helps to maintain employment, with the number of employees at the 44 thousand companies receiving support (Direct loans) rising to approximately 2.48 million persons (as of March 31, 2017).

Outstanding Loans by Type of Industry (Loan Programs) (FY2016 year-end)



Outstanding Amounts of Insurance by Type of Industry (Credit Insurance Programs) (FY2016 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

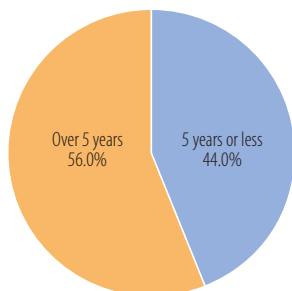
If SMEs are to grow and prosper, they must continually invest capital appropriately and consolidate their financial strength. To do this, they need to be able to raise long-term funds in a stable manner.

However, SMEs are at a disadvantage to larger enterprises in gaining access to funds from capital markets.

The SME Unit specializes in long-term funds. A little more than 50% of the SME Unit's loans have lending periods of over five years, with fixed interest rates that make it easier to map out repayment schedules.

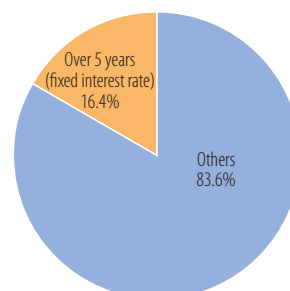
By complementing the activities of private financial institutions, the SME Unit meets the long-term funding needs of SMEs, which are a vital component of the Japanese economy.

Breakdown of Loans by Lending Period  
(Share in Terms of Value) (FY2016)



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 Loans) (FY2016)



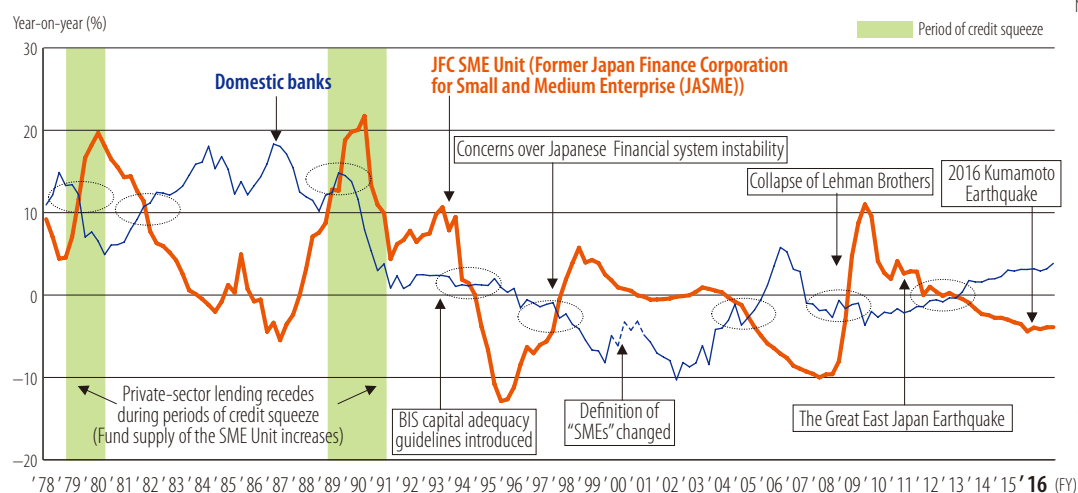
Source: JFC, "Quarterly Survey on SME Trends" (FY2016).

#### 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 SME Unit has provided SMEs with stable, long-term business funds by supplementing private financial institutions whose lending attitudes and activities are subject to be impacted 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. Regional banks II 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.

(Ref) Bank of Japan, Loans and Bills Discounted by Sector

## 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, the Kumamoto Earthquake in 2016 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.

### ● Capital Subordinated Loans

The SME Unit supports reinforcing the financial standing of SMEs engaged in new businesses and business reconstructions, by applying the Provision Scheme for Challenge Support and Capital Enhancement (Capital Subordinated 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.

### ● Supporting New Businesses

The SME Unit provides active support to SMEs trying to develop new businesses with high growth potential, such as venture companies, through Loans to Foster Growth of New Businesses. Since the program began in February 2000, 488.8 billion yen has been loaned to 10,267 companies (as of March 31, 2017). In addition, the SME Unit also offers an unsecured loan program through acquisition of new share options issued by companies.

### ● Support for Overseas Investment

The SME Unit provides active support for the overseas expansion of SMEs, such as providing Loans for Overseas Investment and Expansion, supporting the local currency denominated fundraising by SMEs' overseas subsidiaries and branches through the Standby Letter of Credit Program, offering management consulting services and holding business network meetings abroad.

In FY2016, Loans for Overseas Investment and Expansion were utilized by 501 companies, for a total of 27.2 billion yen (including loans in foreign currency).

We expanded the Loans for Overseas Investment and Expansion in FY 2015 to provide loans in foreign currency (US dollars) to SMEs, being widely used primarily in Asia (China, Viet Nam, Thailand) and the United States. As for FY2016, loans in foreign currency was utilized by 99 companies, for a total of 46.24 million dollars (4.9 billion yen).

Also, the Standby Letter of Credit Program was utilized by 103 companies, for a total of 3.9 billion yen.

Great East Japan Earthquake Recovery Special Loans provided

**54.7 billion yen**

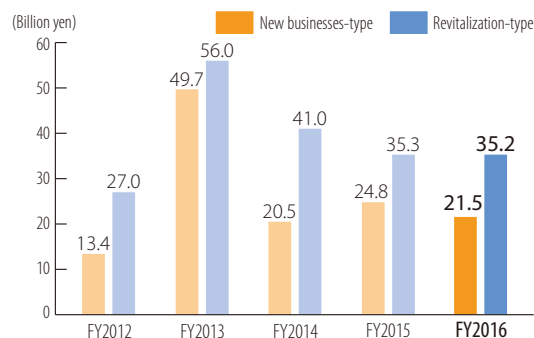
Kumamoto Earthquake in 2016 Recovery Special Loans provided

**34.3 billion yen**

Safety Net Loans provided

**734.6 billion yen**

### Capital Subordinated Loans



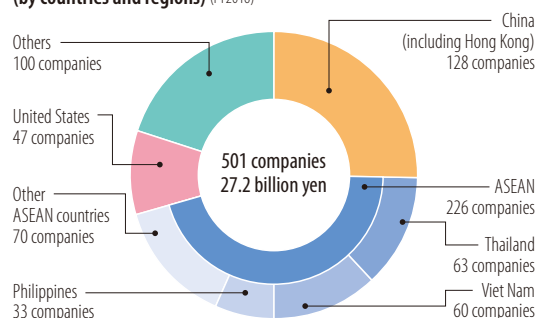
### Loans for New Business Development

Fiscal year	FY2014	FY2015	FY2016
Number of companies	907	1,061	1,641
Amount of loans (billion yen)	47.8	48.0	99.6

### Stock Subscription Rights Loans

Fiscal year	FY2014	FY2015	FY2016
Number of companies	18	30	37
Amount of loans (million yen)	270	740	570

### Loans for Overseas Investment and Expansion (by countries and regions) (FY2016)



### Loans for Overseas Investment and Expansion (of which in foreign currency) (Number of companies)

Breakdown of business target countries and regions	FY2015	FY2016
China (including Hong Kong)	20	27
United States	12	19
Viet Nam	14	12
Thailand	11	6
Others	24	35
Total	81	99

## Supporting the Growth of Businesses

### Supporting the Procurement of Local Funds Overseas through 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. In addition, we work in collaboration with domestic regional financial institutions to allow more SMEs to make use of this program.

#### About the Standby Letter of Credit Program

The Standby Letter of Credit Program supports SMEs and micro businesses' overseas subsidiaries' and branches' smooth procurement of long-term local currency denominated funds from JFC's partnering overseas financial institutions by using JFC's standby letter of credit as a guarantee. In FY2016, partnerships with Ping An Bank of China and State Bank of India were initiated, and the number of affiliated overseas financial institutions expanded to 11 institutions, with cumulative usage (as of the end of March, 2017) of this program reaching 317 companies since its start in FY2012.

In order to allow more SMEs to make use of this program, we launched a scheme to partner regional financial institutions in October 2013. As of the end of March 2017, we have business partnerships with 59 regional financial institutions in Japan, and letters of credit were issued to a total of 19 companies through this partnership scheme.

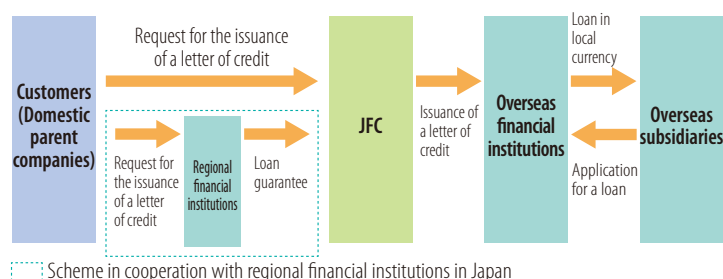
JFC will continue in its efforts to support SMEs and micro businesses' overseas fundraising through this program.

**Affiliated Overseas Financial Institutions** <sup>(Note)</sup> (countries and regions listed in alphabetical order)

Country and region	Financial institution
China	Ping An Bank Co., Ltd.
India	State Bank of India
Indonesia	PT Bank Negara Indonesia (Persero) Tbk
Republic of Korea	KB Kookmin Bank
Malaysia	CIMB Bank Berhad
Mexico	Banco Mercantil del Norte, S.A.
Philippines	Metropolitan Bank & Trust Company
Singapore	United Overseas Bank Limited
Taiwan	Taiwan Cooperative Bank
Thailand	Bangkok Bank Public Company Limited
Viet Nam	VietinBank

Note: As of the end of March, 2017.

#### Standby Letter of Credit Program Schematic Chart



### Businesses that have Utilized JFC Funds are Flourishing in Many Fields

A total of 625 companies <sup>(Note)</sup> have gone public after receiving support from the SME Unit, representing roughly one sixth of all Japanese companies that are publicly held. Many of these are flourishing as leading companies in Japan.

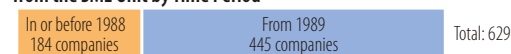
Since 1989, the number of companies going public after receiving support from the SME Unit has increased dramatically to 445 <sup>(Note)</sup>, accounting for roughly 30% of the total increase in the number of companies going public during the same period, or 1,475 companies <sup>(Note)</sup>.

Note: The number of publicly listed companies is as of March 31, 2017 (excluding delisted companies and companies that have dissolved due to merger, etc.).

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



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



Source: JFC SME Unit The number of publicly held companies is as of March 31, 2017. Companies in agriculture, forestry, fisheries, finance, and insurance, as well as foreign-owned corporations are excluded.

### 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 a managing executive director and visited banks in search of funding for capital investment. However, we did not have any collateral and were ultimately unsuccessful in borrowing funds. Eventually I was introduced to Japan Finance Corporation for Small and Medium Enterprise (JASME), (current JFC), and gratefully accepted the opportunity to meet 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 that my three 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 "All right. 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 the decision made 40 years ago by that branch manager, who extended funding to us on the basis of our character when no other financial institution would, that today's Kyocera exists.

Source: 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

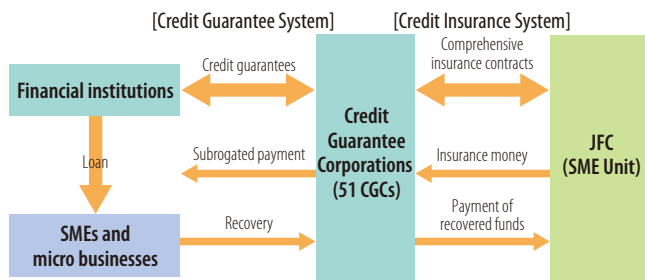
### Facilitating the Smooth Flow of Funds to SMEs and Micro Businesses by Working Together with the Credit Guarantee System

#### ● Role of the Credit Insurance System

The SME Unit insures guaranteed liabilities (credit guarantees) provided by CGCs to SMEs and micro businesses 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 micro businesses 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 the smooth supply of business funds for SMEs and micro businesses. This mechanism is known as the Credit Supplementation System and plays a vital role in the Japanese government's SME finance policy.

Also, reviews on the Credit Supplementation System was conducted by the Financial Working Group established within the Small and Medium Enterprise Policy-Making Council. As a result, the paper on "Towards the establishment of a sustainable Credit Supplementation System to support the business expansion of SMEs and micro businesses" was summarized as of December 2016. Based on this paper, legislation for the partial revision of the "Small and Medium-sized Enterprise Credit Insurance Act to Promote Improvements and Developments of SME's Business Management" was enacted in June 2017. The SME Unit will continue to respond appropriately to various systemic revisions by collaborating with relevant institutions.

#### Overview of the Credit Supplementation System



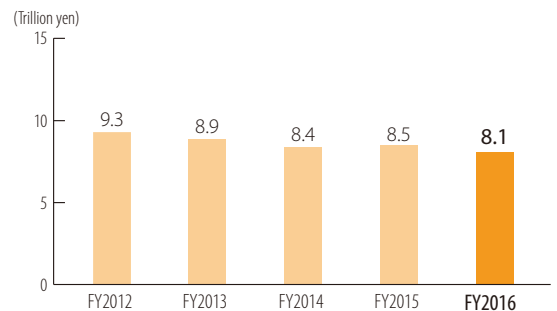
#### ● 34% of SMEs Utilize the Credit Supplementation System

As of the end of March 2017, the portion of outstanding loans to SMEs guaranteed by CGCs (outstanding guaranteed liabilities) amounted to 23 trillion yen, accounting for 9 % of all loans to SMEs.

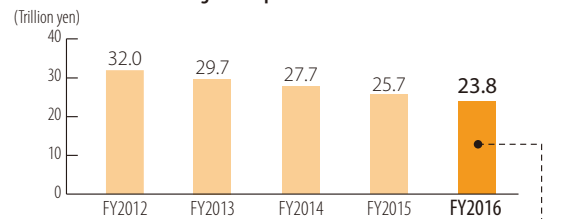
Moreover, 1.31 million SMEs and micro businesses, accounting for 34% of all SMEs in Japan, were raising funds with the support of the Credit Guarantee System.

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

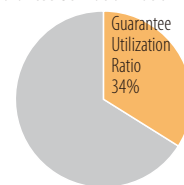
#### Changes in the Amounts of Insurance Acceptance



#### Changes in Outstanding Guaranteed Liabilities and Guarantee Utilization Ratio of 51 CGCs throughout Japan



#### Guarantee Utilization Ratio<sup>(Note)</sup> (FY2016)



Number of guaranteed SMEs: 1.31 million  
Total number of SMEs: 3.8 million

Note : Guarantee utilization ratio is the number of companies utilizing guarantees divided by the total number of SMEs.

## 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.

In FY2016, the "synthetic CLO of regional financial institutions (Clover 2017 LLC)" was issued in the securitization support purchasing business. Together with entering into credit default swap (CDS) contracts with 18 regional financial institutions, the SME Unit acquired 9.2 billion yen of the 24.8 billion yen in corporate bonds issued by the special-purpose company (SPC) (Clover 2017 LLC), and also guaranteed 2.2 billion yen in the bonds. 25.7 billion yen in unsecured loans were provided to 1,009 enterprises in 20 prefectures by this CLO.

By appropriately sharing the credit risks, credit analysis and administrative burdens of securitization, the SME Unit offers securitization methods convenient for private financial institutions to smoothly supply unsecured funds to SMEs and to diversify the means by which SMEs can 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 securitization market.

#### Methods of Securitization Support

##### Purchase-type

Operations that involve the securitization of unsecured SME loan claims, 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

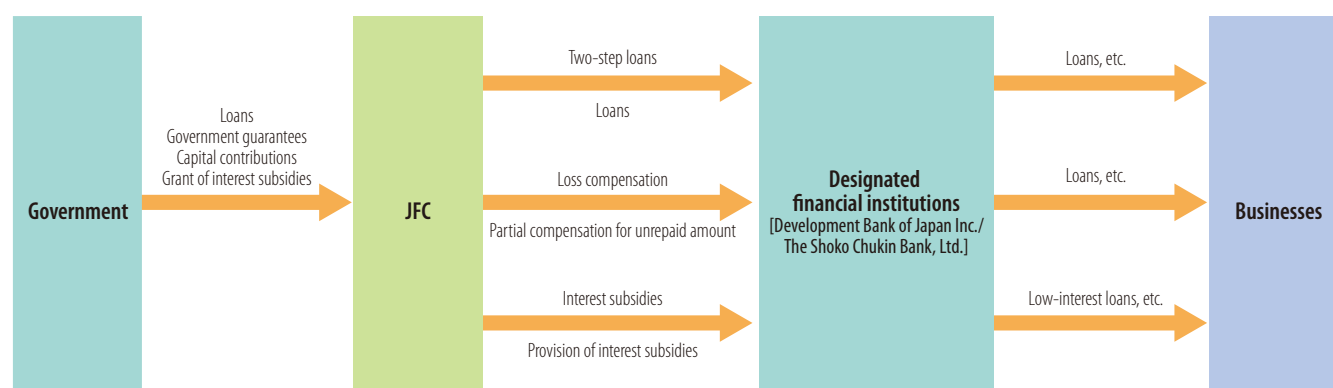
Operations that involve support in the securitization of account receivable claims held by SMEs (suppliers) through such means as the provision of guarantees by the SME Unit for private financial institution loan claims against a special-purpose company (SPC) as well as the provision of loans by the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

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

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

## 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 increase 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 business.



### [Crisis Response Operations to date]

- Cases related to the Disaster Relief Act • Cases related to special consultation desks • Cases related to turmoil in the international financial order • Cases related to the Great East Japan Earthquake
- Cases related to the disaster by the Kumamoto Earthquake in 2016

### Loans (Two-step Loans)

JFC lends fiscal loan funds, etc., to the designated financial institutions. The balance as of the end of FY2016 was 2,824.2 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. conducted by the designated financial institutions. The balance of underwritten loss compensation as of the end of FY2016 was 2,572.3 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	FY2013	FY2014	FY2015	FY2016
<b>Two-step loans</b>	1,430.1	3,869.3	405.2	1,153.4	733.7	559.3	130.0	105.2	529.2
Loans, etc.	1,130.3	3,529.4	405.2	1,153.4	733.7	559.3	130.0	105.2	529.2
Commercial paper (CP) acquisitions	299.8	339.8	—	—	—	—	—	—	—
<b>Loss compensation</b>	345.1	1,811.9	1,893.3	1,739.8	1,470.2	1,409.3	1,234.2	1,077.5	547.3
Loans, etc.	345.1	1,781.9	1,893.3	1,739.8	1,470.2	1,409.3	1,234.2	1,077.5	547.3
Commercial paper (CP) acquisitions	—	—	—	—	—	—	—	—	—
Equity participations	—	30.0	—	—	—	—	—	—	—
<b>Interest subsidies</b>	—	—	0.3	2.4	7.8	10.9	12.4	11.0	5.4

- Notes: 1. The figures for the two-step loans refer to the amounts of loans JFC provided to the designated financial institutions (Development Bank of Japan Inc. and The Shoko Chukin Bank, Ltd.) through the end of March 2017.
2. With respect to loss compensation, the figures for loans, etc. represent the amounts of loans provided by designated financial institutions through the end of March 2017, with loss compensation underwritten by JFC for losses incurred until May 10, 2017. Equity participation figures (pertaining to the Act on Special Measures for Industrial Revitalization) are the amount of equity investments made by 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 designated financial institutions for loans, etc. provided by the designated financial institutions through the end of September 2016. (In principle, 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), 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 FY2016 was 32.7 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	FY2013	FY2014	FY2015	FY2016
Two-step loans	20.0	1.3	7.8	10.6	2.9	1.1	1.0

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 2017.

## Overview of Operations to Facilitate Business Restructuring Promotion

In accordance with the Industrial Competitiveness Enhancement Act (Law No. 98 of 2013), 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, etc. <sup>(Note 3)</sup> who are going to implement business restructuring or specified business restructuring certified by competent ministers for the purpose of improving business productivity in order to enhance industrial competitiveness. The balance as of the end of FY2016 was 35.5 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 who implement approved business restructuring including their related business operators or businesses who implement approved specific business restructuring including specific operators concerned the said approval that prepare plans for business restructuring, etc., and receive approval from competent ministers.

### Results of Operations to Facilitate Business Restructuring Promotion

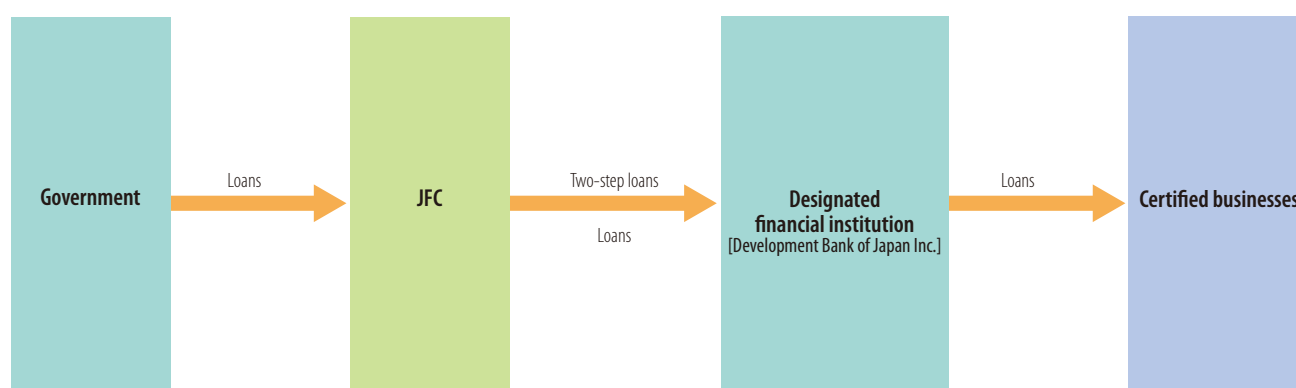
(Unit: billion yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Two-step loans	—	25.0	—	20.0	—	—

Notes: 1. Operations to Facilitate Business Restructuring Promotion commenced on January 20, 2014.

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 2017. (The figures before the start of Operations to Facilitate Business Restructuring Promotion are of loans issued under Operations to Facilitate Business Restructuring Promotion, etc. in accordance with the Act on the Special Measures for Industrial Revitalization and Innovation (Law No. 131 of 1999) that was abolished with the enactment of the Industrial Competitiveness Enhancement Act on January 20, 2014).

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

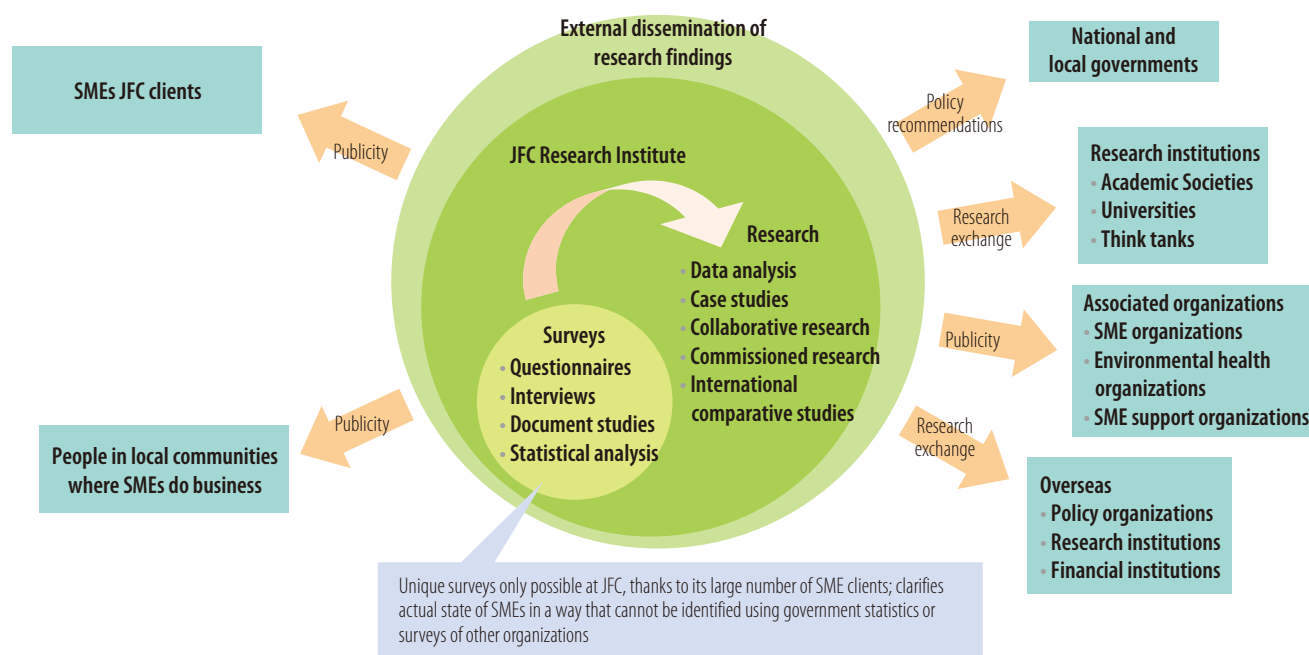




## Pursuit of Specialization, Originality and Advancement Striving for Globally High Quality in SME Research

### Functions and Features of the Research Institute

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.

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

### ● Research on the Structural Problems of SMEs

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

#### - Main Surveys (conducted in FY2016) -

- Survey on State of Business Start-ups (FY2016 regular and special surveys)
- Panel Survey on Business Start-ups
- Survey on Starting Businesses and Entrepreneurial Minds
- Actual State of the Employment of Foreign Workers in SMEs
- Actual State of Succession of Management Resources in Micro Businesses

#### - Main Research Papers and Reports (released in FY2016) -

- ◇ Securing Human Resources in Home-visit Care and Day Service Center for Senior
- ◇ Entrepreneurial Minds of the Young Generation
- ◇ Effects of Building Relationships with Financial Institutions on the Performance of SMEs
- ◇ Actual State and Issues for Business Succession of SMEs
- ◇ Overview of Panel Survey on Business Start-ups Tracking Businesses Commencing in 2011

### ● Research on Management Issues of SMEs

Cases are collected of SMEs 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.

#### - FY2016 Survey -

- Case Study of SMEs which Clarified Management Issues and Improved Business Results by Using ICT

#### - FY2016 Publication -

- ◇ SMEs Surviving in an Era of Population Decline

### ● 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 FY2016) -

- Attitudes to Work of Senior Personnel and Role Played by SMEs
- Survival Strategies of SMEs for Industries with Decreased Domestic Production
- Current State and Issues Faced by SMEs in Information Service Sectors

#### - Main Research Papers and Reports (released in FY2016) -

- ◇ SMEs Engaging in "Cool Japan-related" Non-food Business Sectors
- ◇ Current State and Issues Faced by SMEs in Commerce and Service Sectors
- ◇ SMEs' Innovation Triggered by Efforts in Dealing with Exports
- ◇ Actual State and Issues for SMEs Engaged in M&A
- ◇ Global Market Strategy to Make Use of the Strengths of Japanese Products of Safety, Reliability, and High Quality
- ◇ Current State and Issues for SMEs Engaged in Exports
- ◇ An Empirical Analysis on the Number of Bank Relations of Japanese SMEs

### ● 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 Surveys (conducted in FY2016) -

- Current State and Issues of Regional-origin Venture Companies

#### - Main Research Papers and Reports (released in FY2016) -

- ◇ High Role Awareness and Active Contributions to Regional Employment of SMEs Locating in Regional Spheres
- ◇ SMEs Involved in Promotion of Regional Economy

## The Ninth Japan Finance Corporation Symposium

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 2017. Further details will be announced on the JFC website and via leaflets.

### Periodical Publications



#### JFCRI Quarterly Research Report

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.

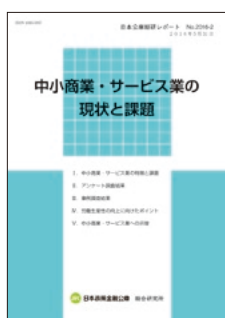
— Main Papers Published in Volume 35 (May 2017) —

Part-time Entrepreneurship Mitigates the Risk of Failure

Role of Foreign Workers in Small and Medium-sized Enterprises

In-house Corporate Consultants as Dormant Resources

Countermeasure Study for Vacant Shopfronts in Shopping Arcades Using Area Management



#### 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 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 Business Start-ups

Based on the results of the Survey on State of Business Start-ups, this paper analyzes the trend of 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 2017 Edition —

Survey on State of Business Start-ups (FY2016)

Start-ups by Habitual Entrepreneurs

Part-time Entrepreneurship Mitigates the Risk of Failure

History of “White Paper on Business Start-ups” and new trends in enterprise foundation



#### Foreign Workers Supporting the Growth of SMEs

Why SMEs employ overseas nationals? What kinds of SMEs do so? How do foreign workers differ from Japanese ones? This book, based on a survey, clarifies the actual state of employment of foreign workers in SMEs.



#### “Self-reflective” Business Administration

This is an achievement of case studies on SME management. Investigates measures to succeed in increasingly harsh operational environments using data from corporate case studies involving visualization of phenomena relating to management to lead improvements in business.