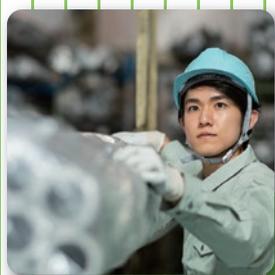


# Japan Finance Corporation

## Annual Report

# 2020



JAPAN FINANCE CORPORATION

# Contents

1	<b>Overview of Japan Finance Corporation</b>
2	Message from the Governor & CEO
4	Profile
5	Main Business Activities
6	Basic Philosophy and Management Policy
7	Business and Management Plan (FY2020-2022)
15	<b>JFC Activities</b>
16	Financing Structure of JFC
17	Responses to the Spread of COVID-19
18	Cooperation with Private Financial Institutions
20	Provision of Policy-based Financing (Exercise of Safety Net Functions)
20	Provision of Policy-based Financing (Supporting Strategic Fields of Growth, etc.)
26	Contribution to Local and Regional Revitalization through Collaboration with Local Communities
28	Provision of Information through the PR Magazine “Connect JFC”
29	Overview of Operations in FY2019 and Outline of Financial Statements
31	Funding
33	<b>Overview of Operations</b>
34	Micro Business and Individual Unit
40	Agriculture, Forestry, Fisheries and Food Business Unit
46	Small and Medium Enterprise (SME) Unit
52	Operations to Facilitate Crisis Responses and Specific Businesses Promotion, etc.
54	Research Institute
57	<b>Systems for Organizational Management</b>
58	Governance
73	<b>Organization and History</b>
74	Organization
75	Office Locations
80	History of JFC
81	<b>Data</b>
82	Operational Performances
95	Financial Statements and Notes
194	Reference Information

## Presentation of quantities and amounts in this Report:

### 1. Quantities and amounts less than one standard unit

Quantities, monetary amounts and other numerical figures presented in this report are truncated (rounded down) to the nearest standard unit of presentation.

Percentages are rounded up or down to the nearest decimal place presented. Consequently, some totals presented differ slightly from the sum of the component figures presented.

### 2. Method of presentation

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

## ■ Overview of Japan Finance Corporation ■

Message from the Governor & CEO.....	2
Profile .....	4
Main Business Activities .....	5
Basic Philosophy and Management Policy.....	6
Business and Management Plan (FY2020-2022) .....	7

## Message from the Governor & CEO

Japan Finance Corporation is a policy-based financial institution that carries out financing within a scope determined by applicable laws and budgets, which are based on government policy for SMEs and micro/small businesses, agriculture, forestry, and fishery policy, etc., with the aim to complement financing carried out by private financial institutions.

JFC arranged around 300,000 business loans in FY2019. Of this total, around 51% were for less than 5 million yen and around 94% were for less than 30 million yen. JFC's primary mission is to meet the capital needs, including small sums, of those starting new businesses, those dealing with natural disasters or a change in business environment, and to serve the capital procurement needs of Japan's SMEs and micro/small businesses and those engaged in business in the fields of agriculture, forestry, or fisheries.

We have responded to customer needs with a deep sense of our mission as a policy-based financial institution to "connect" policies and those involved in business.

Due to the unprecedented threat in the form of the COVID-19 pandemic, Japan is currently confronting previously unseen economic and social crises. Many businesses have been placed in extremely challenging circumstances.

To support those who have been affected by the COVID-19 related crisis, the government has implemented economic measures on an unparalleled budgetary scale. In accordance with these measures, JFC established new consultation desks and on March 17 began handling COVID-19 Special Loan Program, which are substantially interest-free loans without requiring collateral.

As of September 30, 2020, the number of COVID-19 related loan decisions had reached approximately 660,000, exceeding the results for the prior fiscal year, but also substantially surpassing the results for FY2009, which was impacted severely by the collapse of Lehman Brothers and the subsequent financial crisis.

Private financial institutions also began handling substantially interest-free loans which do not require collateral in May, and Managerial Improvement Loans (MARUKEI Loans), which are handled by Chambers of Commerce and Industry and Societies of Commerce and Industry, were also made subject to interest-free. In August, we began handling COVID-19 Hybrid Subordinated Loan Program in order to bolster the financial foundations of businesses that were impacted by the COVID-19 related crisis. In addition, in October we launched a website to gather case studies of business that have implemented various ideas and innovations for weathering the crisis, providing additional support to businesses that are doing their best.

The future outlook remains unclear, but we aim to deepen our collaboration with private financial institutions, Chambers of Commerce and Industry, Societies of Commerce and Industry, and others. And to work with all supporting organizations to prop up businesses in order to provide effective financial support to businesses.

JFC will support businesses affected by the COVID-19 related crisis, support reconstruction from the Great East Japan Earthquake and other earthquakes, typhoons, and other natural disasters, and perform safety net functions while focusing our efforts on supporting the Strategic Fields of Growth, etc. including entrepreneurialism and new business establishment as well as overseas expansion.



As the number of aging business managers increases, JFC will provide financial support for business succession and continue existing initiatives such as business succession diagnosis and business succession matching services.

To contribute to regional revitalization, we will carefully ascertain the circumstances surrounding regions and businesses and adopt a bird's-eye perspective of regions to work towards solving their problems. In the meantime, we will perform our function of connecting the various relevant organizations such as private financial institutions while utilizing our nationwide network of 152 branches to deepen collaboration with local communities.

In order to provide high-quality services regarding policy-based financing, JFC will exercise appropriate risk-taking functions and make every effort to provide expert consulting. To reinforce our policy-based financing functions, we will work to streamline business and increase operational efficiency in the aspect of our organizational management.

We sincerely hope for your further understanding and support in the future.

October 6, 2020

田中一穂

TANAKA Kazuho  
Governor & CEO

## Profile (as of March 31, 2020)

<b>Name</b>	Japan Finance Corporation (JFC)	
<b>Establishment</b>	October 1, 2008	
<b>Statutory Law</b>	The Japan Finance Corporation Act	
<b>Head Office</b>	Otemachi Financial City North Tower, 1-9-4, Otemachi, Chiyoda-ku, Tokyo, Japan	
<b>Governor &amp; CEO</b>	TANAKA Kazuho	
<b>Capital, etc.</b>	Capital: 4,324.2 billion yen Reserve fund: 2,052.2 billion yen	
<b>Branch Offices</b>	Branch offices in Japan: 152 Overseas representative offices: 2	
<b>Employees</b>	7,364 (budgetary fixed number for FY2020)	
<b>Total of Outstanding Loans</b>	Total of Outstanding Loans:	17,043.3 billion yen
	Micro Business and Individual Unit:	7,178.3 billion yen
	Agriculture, Forestry, Fisheries and Food Business Unit:	3,196.1 billion yen
	Small and Medium Enterprise (SME) Unit:	5,208.1 billion yen (Finance Operations)
	Operations to Facilitate Crisis Responses:	1,327.7 billion yen
	Operations to Facilitate Specific Businesses Promotion, etc.:	132.9 billion yen

### Key Points in JFC's Establishment

Japan Finance Corporation (JFC) is a policy-based financial institution which developed out of the National Life Finance Corporation, the Agriculture, Forestry and Fisheries Finance Corporation and the Japan Finance Corporation for Small and Medium Enterprise.

#### ● Creating a highly public corporation

JFC is a highly public corporation established under a special law stipulating that the national government must always own all shares issued by JFC.

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

#### ● Inheriting rights and obligations

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

#### ● Offering a broad range of services

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

# Main Business Activities

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

## Major Business Operations of JFC



# Basic Philosophy and Management Policy

## Basic Philosophy

### 1. Focused policy-based financing

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

### 2. Mainstreaming governance

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

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

## Management Policy

### 1. Exercise of safety net functions

Perform policy-based financing functions to the greatest extent possible and respond agilely to demands for safety net services due to natural disasters, pandemics, economic change, etc.

### 2. Contribution to the growth and development of the Japanese economy

JFC will respond properly to meet the diverse needs required for policy-based financing including support for the creation of new businesses, business revitalization, business succession, overseas expansion, new expansion of agricultural, forestry, and fisheries businesses, and review of business taking into consideration environmental and energy measures intended to create a sustainable society as well as changes in the business environment caused by pandemic in accordance with national policies and will contribute to the growth and development of the Japanese economy.

### 3. Contribution to regional revitalization

A. Promote support to demonstrate vitality of SMEs and micro/small businesses and agricultural, forestry, and fishery businesses sustaining regional economies by creating and maintaining employment, etc.

B. Promote coordination with local communities and contribute to regional revitalization by ascertaining results in regions that have been affected by changes in the business environment from the pandemic and participating in regional projects such as comprehensive strategies of the local government.

C. Commit to contributing to local communities by expanding activities rooted in local areas.

### 4. Improving customer service

A. JFC is committed to being a familiar and reliable organization that responds with compassion from the customer's perspective.

B. JFC will fully understand its role in policy-based financing and appropriately operate systems, improve the quality of services by augmenting consulting functions and capacity, and respond promptly and precisely to the needs of a range of clients requiring policy-based financing, by leveraging funds and information.

### 5. Use digital technologies to promote efficient business operations that show awareness of environment and energy issues

A. To promote enhancement of customer services and rationalization and greater efficiency in administrative operations, put in place efficient information systems using state-of-the-art technologies.

B. Responding to active improvement proposals from staff, work to rationalize administrative operations and realize efficient business operations.

C. Contribute to society by promoting corporate activity that shows awareness of environment and energy issues.

### 6. Creation of a rewarding workplace

A. Encourage diversity and create workplaces where staff can fully utilize their capacities with pride and a sense of mission.

B. Achieve diverse and flexible working styles by expanding telework and other measures.

C. Further promote career opportunities for women, including the active appointment of female employees to managerial positions and by promoting career development for women.

D. Boost training to increase the quality and ability of each employee's professional expertise for conducting policy-based financing.

### 7. Engage in enhancement of risk management system and entrenchment of compliance awareness

From the perspective of corporate governance, enhance risk management system and instill strong compliance awareness into management and staff.

JFC has formulated the following Business and Management Plan for the period from FY2020 on.

## Business and Management Plan (FY2020-2022)

JFC has taken all possible measures to support clients affected by the COVID-19 related crisis and responded steadily and agilely to demonstrate its safety net functions of assisting recovery and restoration from earthquakes, typhoons, and other natural disasters. Also, JFC will focus its efforts on Strategic Fields of Growth, etc. including start-ups, new business, business revitalization, business succession, social business, overseas expansion, new development of agriculture, forestry, and fisheries business operators, and support for business reviews taking into consideration changes in the business environment caused by environmental and energy measures and the COVID-19 crisis for the future development of the Japanese economy. Of these, as are addressing business succession by placing particular emphasis on collaborating with relevant organizations to provide effective information including matching. With regard to overseas development, we will strengthen existing collaboration with relevant organizations and bolster support for overseas expansion and export growth.

Furthermore, in order to contribute to regional revitalization, JFC carefully ascertains the circumstances surrounding regions and businesses, taking into consideration the changes in the business environment during the COVID-19 crisis in particular, and adopts a bird's eye perspective of regions to work towards solving their problems. In doing so, we will perform our function of connecting the various relevant organizations such as private financial institutions while using our nationwide network of 152 branches to utilize the unique characteristics of the JFC and promote further collaboration with local communities.

Also, given the significance of the policy finance function, we are working to perform an appropriate risk-taking function, and to provide high-quality services by enhancing our consulting functions and capabilities and demonstrating our policy recommendation abilities, as well as consistently promoting publicity activities.

In carrying out our affairs, we will follow the principle of "doing ordinary tasks with excellence" while maintaining a high level of awareness of compliance and steadily and appropriately building on each individual task. In addition, taking a bottom-up approach to management as our motto, we aim to gain an accurate understanding of customer and regional needs, respond empathetically, and become a more familiar and reliable presence. To this end, we are working to reinforce our nationwide network of 152 branches. In particular, the integrated branch office manager will continue endeavoring to fulfill the role of the cornerstone of the network. Furthermore, in order to reinforce policy-based finance functions, we will address organizational operations by reviewing administrative work including greater digitalization, taking into consideration responses to the COVID-19 crisis, and undertaking measures to carry out proposals made from an on-site perspective to continuously streamline administration including abolishing unnecessary procedures and raise the efficiency of operations. When carrying out IT strategies, we will deeply analyze the trends of digitalization of private financial institutions, select the methods most suitable for JFC, and work closely with IT departments with the active participation of individual business units. We will also address human resource development and utilization and promote diversity by creating rewarding workplaces where employees can maximize their abilities through measures such as telework and staggered commuting times.

Through the above measures, we plan to work towards maturation as "One Finance Corporation", and under that concept, each employee strives with a sense of mission, as a policy-based finance operator, to demonstrate their roles to connect this policy to its various business endeavors while achieving ever higher levels of collaboration with private financial institutions. In doing so, JFC is working to achieve the following plans.

### Business Operation Plans

#### 1. Support Clients Affected by the COVID-19 Crisis

- A. Respond in a supportive manner to loan, repayment and other inquiries from clients affected by the COVID-19 crisis.
  - (a) Effectively and promptly provide detailed responses by the COVID-19 Special Consultation Desk.
  - (b) Provide loans in a timely and appropriate manner through COVID-19 Special Loan Program, Special Loans for Agricultural, Forestry, and Fisheries Business Operators, and other programs.
  - (c) Respond attentively and swiftly to repayment inquiries.
  - (d) Respond in detail and at a timely manner through insurance for Safety-net Guarantees No. 4 and 5 and Crisis-related Guarantees.
- B. Appropriately implement Operations to Facilitate Crisis Responses to cope with any crises recognized as COVID-19 Related Matters.
- C. Collect and disseminate case studies of business maintenance and development for overcoming the COVID-19 crisis and demonstrate consulting functions through follow-ups after the provision of loans.  
(Also include "4 Contribution to Local and Regional Revitalization through Collaboration with Local Communities" and "5 Improve customer service and demonstrate policy significance.")

## 2. Respond carefully to the needs for safety net services, provide a stable supply of funds, and collaborate with private financial institutions

- (1) Support for reconstruction from the Great East Japan Earthquake.
  - A. Respond sincerely to Earthquake-affected customers seeking advice on financing and repayments, etc.
    - (a) Respond smoothly, promptly, and carefully through special consultation desks for the Great East Japan Earthquake.
    - (b) Provide loans in an appropriate and timely manner through the Great East Japan Earthquake Recovery Special Loan and the Special Earthquake Loan for Agricultural, Forestry and Fishery Business Owners and for Food Business Operators.
    - (c) Respond attentively and swiftly to repayment inquiries and issues with overlapping debt.
    - (d) Endeavor to make prompt and precisely tailored responses through credit insurance such as the Great East Japan Earthquake Recovery Emergency Guarantee Program.
  - B. Make precisely tailored responses to reconstruction projects implemented in affected areas.
  - C. Appropriately implement Operations to Facilitate Crisis Responses to cope with any crises recognized as Cases Related to the Great East Japan Earthquake.
- (2) Make precisely tailored responses to the needs of customers for safety net services.
 

Safety net financing such as funding support.

  - (a) Provide precisely tailored support to SMEs and micro/small businesses confronted with changes in the management environment as a result of natural disaster, pandemic, economic circumstances, or other factors and working towards business improvement.
  - (b) Provide safety net functions to agricultural, forestry, and fishery business owners who have suffered the effects of natural disasters, infectious livestock diseases, pandemic, falling prices of farm produce, or some other adversity, and those working towards business improvement.
- (3) Provide funds to customers in a timely and efficient manner.
  - A. Support the funding needs, etc., of customers.
 

Swiftly handle the funding needs of customers such as various loans, funding programs, and securitization.
  - B. Respond quickly to emergencies and conduct operations in a prompt and smooth manner.
 

Facilitate precise operations to facilitate crisis responses.
- (4) Steadily implement the Credit Supplementation System.
  - A. Support for SMEs and micro/small businesses through the Credit Supplementation System.
    - (a) Respond appropriately to demands for safety net services related to credit guarantees.
    - (b) Respond appropriately to various systemic and operational revisions by collaborating with relevant institutions.
  - B. Strengthen collaboration with Credit Guarantee Corporations, etc.
- (5) Ongoing initiatives for collaborative measures with private financial institutions in the new stage.
  - A. Continue efforts to promote cooperative loans with private financial institutions, etc. and reinforce collaboration relating to responses to clients affected by the COVID-19 crisis.
  - B. Encourage dialogue on the officer level and at worksites.
  - C. Hold periodical practical level meetings, refer customers from JFC to private financial institutions, and reinforce measures for effective press releases.
  - D. Create and promote cooperative loan products. <sup>(Note 1)</sup>

## 3. Supply funds with priority given to Strategic Fields of Growth, etc.

In light of changes in the business environment during the COVID-19 crisis, JFC supports active responses to new development of start-ups, new business, business revitalization, business succession, social business, overseas expansion, and agricultural, forestry, and fisheries business operators and environment and energy measures for the development of a sustainable society.

- A. Support for business start-ups and new businesses.
  - (a) Contribute to regional innovation and job creation through increased support to business start-ups.
 

New development loans (number of companies) (before establishment and within one year after establishment): <sup>(Note 2)</sup>
  - (b) Proactively supply funds and support growth of SMEs engaged in new business activities.
 

Number of companies contracted with start-up and entrepreneurial support loans: <sup>(Note 2)</sup>
  - (c) Cooperation with institutions that support start-ups and new business.
  - (d) Hosting of High School Student Business Plan Grand Prix. <sup>(Note 1)</sup>
- B. Support for business revitalization.
  - (a) Strengthen support functions for business revitalization.
 

Number of companies contracted with corporate revitalization loans (including business succession-related loans): <sup>(Note 2)</sup>
  - (b) Enhanced collaboration with Revitalization Support Council, etc.
  - (c) Promotion and reinforcement of fundamental revitalization financing support such as DDS and DES.
  - (d) Appropriate implementation of two-step loans for business restructuring based on the Industrial Competitiveness Enhancement Act.

- C. Support for business succession.
  - (a) Promote consulting including matching through collaboration with relevant organizations such as business succession support organizations, private financial institutions, tax accountants, and other outside professionals.
  - (b) Proactively participate in regional business succession networks and contribute to the revitalization of networks.
  - (c) Support funding needs for diverse business succession.
- D. Social business support.
  - (a) Response to requests for funds.
    - Number of loans to businesses engaged in social business: <sup>(Note 2)</sup>
  - (b) Expansion of support services for the resolution of business challenges.
  - (c) Strengthen coordination with organizations supporting social business.
- E. Support for overseas expansion.
  - (a) Facilitate support for fundraising by SMEs engaged in overseas development and reinforce direct financing support for overseas subsidiaries.
    - Number of companies contracted with support for overseas expansion: <sup>(Note 2)</sup>
  - (b) Support for the overseas business expansion of micro/small businesses.
    - Number of loans for overseas expansion: <sup>(Note 2)</sup>
  - (c) Support agricultural, forestry and fisheries business operators that plan to develop overseas business in accordance with the Act on Facilitating the Export of Agricultural, Forestry, and Fishery Products and Food and other laws and regulations
  - (d) Provide information to customers seeking to expand overseas.
  - (e) Collaboration with institutions that support overseas expansion.
- F. Support for new expansion by agricultural, forestry, and fisheries businesses.
  - (a) Support business improvement initiatives for corporations and large family businesses while utilizing valuation techniques with an emphasis on profitability.
    - Number of borrowers in areas as defined by the farmers and farmland plan: <sup>(Note 2)</sup>
  - (b) Support efforts to secure new farmers.
    - Number of borrowers of people entering agricultural management and agricultural management entities hiring new farmers: <sup>(Note 2)</sup>
  - (c) Support for agricultural, forestry, and fishery businesses initiatives to improve businesses in the “Sixth Industrialization” sector. Number of the “Sixth Industrialization” borrowers: <sup>(Note 2)</sup>
  - (d) Support efforts to promote the use of domestic timber by large-scale wood-related businesses.
  - (e) Support fishery production enhancement, construction of ships to replace fishing boats, and enhancement of cultivation foundations.
  - (f) Support for food businesses engaged in expansion of domestic and foreign demand through increased collaboration with agricultural, forestry, and fishery businesses.
  - (g) Provide information such as policy information and results of various surveys.
- G. Support environmental and energy measures.
  - (a) Promote initiatives supporting environmental and energy measures by SMEs and micro/small businesses.
  - (b) Support environmental and energy measures by agricultural, forestry and fisheries business operators.
  - (c) Gather and provide information to promote understanding inside and outside JFC regarding environmental and energy measures. <sup>(Note 1)</sup>
  - (d) Appropriate implementation of two-step loans for specific businesses based on the Low Carbon Investment Promotion Act.
- H. Contribute to equal educational opportunities.
- I. Support development, provision, and introduction of advanced information and communications systems.
  - Create systems and reliably conduct business for two-step loan business commencement relating to the development, provision, and introduction of advanced information and communications systems.

#### 4. Contribution to Local and Regional Revitalization through Collaboration with Local Communities

- (1) Reinforce collaboration with local government through active participation in regional comprehensive strategies.
  - A. Actively disseminate information to local government regarding JFC’s efforts relating to the COVID-19 crisis and actively participate in measures to overcome COVID-19 that are under consideration by local governments.
  - B. Contribute to implementation and promotion of various measures relating to local comprehensive strategies and the like.
  - C. Provide information to local governments.
- (2) Provision of useful service that meets customer and local needs through coordination of multibusiness branches and units.
  - A. Collect and disseminate case studies of business maintenance and development for overcoming the COVID-19 crisis.
  - B. Promote efforts to utilize our nationwide network of 152 branches.
  - C. Promote matching customers.
  - D. Holding of consultancy meetings and seminars.

- (3) Performance of the role of connecting related organizations.
- A. Adopt a bird's eye perspective of regions, perform functions unique to JFC including connecting related organizations, and implement measures intended to solve the problems that clients and regions are facing including business maintenance and management during the COVID-19 crisis.
  - B. Reinforce collaboration with related organizations including Chambers of Commerce and Industry, Societies of Commerce and Industry, and tax accountants.

#### 5. Improve customer service and demonstrate policy significance

- (1) Promote various measures such as enhancing the consultation capability to improve services and appropriately perform a risk-taking function.
- A. Appropriately perform a risk-taking function.
  - B. Provide useful information consistent with customer and local needs and enhance consultation capability.
    - (a) Provide to clients that have been affected by the COVID-19 crisis information that will be effective for clients such as indicating means of procuring funds including private financial institutions.
    - (b) Strengthen management support in combination with financing through financial assessments, income and expenditure simulations, etc.
    - (c) Promote appropriate proposals and advice for customers.  
Promote the provision of customer support tools tailored to the needs of customers.
    - (d) Cooperation with network of outside specialists.
  - C. Promote branch management and various service improvements from the customer's point of view through implementation of customer satisfaction surveys, etc.
- (2) Promote public relations activities such as through strengthening information dissemination.
- A. Promote public relations activities with mass media.
  - B. Promote public relations activities to enhance the content of the PR magazine such as case studies of business maintenance and development that has overcome the COVID-19 crisis.
  - C. Promote public relations activities by utilizing the special characteristics of various media such as the Internet.
- (3) Enhance surveys and research and reinforce policy proposals to further demonstrate think tank functions.
- A. Pursue high research levels through original methods that utilize field work unique to JFC thanks to its large number of SME clients.
    - (a) Regularly conduct economic conditions research.
    - (b) Conduct thematic surveys and publish research results based on these surveys.
  - B. Improve evaluations of think tanks through the strengthening of external communication capabilities.
    - (a) Edit and publish periodical publications, books, etc.
    - (b) Hold JFC Symposiums.<sup>(Note 1)</sup>
    - (c) Disseminate research results through lectures, etc. at universities.
    - (d) General academic publication of survey data.
  - C. Strengthen exchanges with other think tanks.
    - (a) Hold and participate in domestic and international research presentations, information exchange sessions, etc.
    - (b) Participate in external research groups and research projects.
    - (c) Enhance personnel exchanged with outside organizations by individual researchers.
  - D. Support measures for the provision of advice on SME policy in Japan.
    - (a) Conduct surveys and research with abundant policy implications.
    - (b) Collaborate with government agencies, relevant organizations, and business divisions regarding policy advice.
- (4) Efforts to improve systems and measures through policy recommendations that conform to customer feedback and the needs on-site.
- A. Collect the views expressed by customers, and reflect them in policy recommendations and measures.  
Allow customer trends and the opinions of SMEs and micro/small businesses, and agricultural, forestry, and fisheries and food businesses to be reflected in our business management (new establishment and improvement of loan program).
  - B. Understand the challenges for the region, and promote policy recommendations aimed at resolving them.  
Gain a detailed understanding the needs of the region regarding policy-based finance, and allow them to be reflected in policy recommendation and business management.

#### 6. Appropriate management of credit risk

- Appropriately manage credit risks taking into consideration outstanding loan balances and the substantial increase in clients in conjunction with COVID-19 Special Loan Program.
- A. Implementation of appropriate credit management.
  - B. Appropriate management of credit cost.
  - C. Reinforcement of insurance underwriting risk management system.
  - D. Maintenance of a risk management system for loss compensation transactions.

## &lt;Monitoring items&gt;

Initial default rate (%)

Upward-downward transition of debtor segment (number, etc.) [Agriculture and forestry/SMEs]

Credit related expense ratio (%)

**Organizational Plans****1. Enhancing branch office functions**

A. The branch office manager will faithfully exhibit its role.

The branch office manager will carefully ascertain the circumstances surrounding regions and businesses and adopt a bird's-eye perspective of regions to work towards solving their problems.

B. Strengthen our nationwide network of 152 branches.

C. Constantly strengthen the branch management framework based on a bottom-up approach to management.

**2. Conduct efficient and effective operations taking into consideration issues that have become clear as a result of responses to the COVID-19**

## &lt;Basic policy&gt;

Solve organizational management problems that were noticed as a result of responses to the COVID-19 crisis such as further streamlining of administration, increasing operational efficiency, and securing personnel in the event of an emergency.

## &lt;Overall plans&gt;

A. Further promote digitalization, review administrative work, and take other measures to enable timely and detailed responses to the rapid increase in applications.

B. Investigate measures to strengthen organizational responsiveness, such as effectively securing personnel required in the event of an emergency and build effective personnel systems.

C. Promote streamlining of administrative work and the efficiency of operations while effectively utilizing the latest digital technologies based on centrally collected proposals from branches.

D. Broadly collect opinions and requests from worksites and implement measures to use them in operational improvements.

E. Implement fair procurement procedures.

F. Improve branches and other facilities based on the needs of customers and branches.

G. Effectively procure supplies necessary to address COVID-19.

H. Establish an expense management system (multifaceted expense analysis measures)<sup>(Note 1)</sup>

I. Increase use of paper using thinned wood for printed materials.

**3. Carry out IT strategies in collaboration with IT departments with the active participation of individual business units**

A. Formulate and implement IT strategies based on close collaboration with individual business divisions.

(a) Establish a council to investigate the strategic use of IT and propose a medium- to long-term IT strategy.

(b) Determine the trends of other financial institutions, research the latest IT technologies, investigate optimal IT use by JFC in light of responses during the COVID-19 crisis, and promote digitalization.

B. Steadily carry out the next JFC system.

Steadily implement procurement procedures, design, and development relating to the following measures through close collaboration among business divisions.

(a) Develop internet environments as channels to customers and partners.

(b) Consolidate and use customer information to raise operational efficiency and improve customer service.

(c) Improve system functions according to the operations of each business division.

(d) Rebuild terminal environments and groupware for flexible working formats.

(e) Enhance convenience by rebuilding operational systems.

C. Promote efforts toward smooth and efficient system development and operation.

(a) Greater efficiency in systems development, taking stable operation into consideration.

(b) Promote smooth and efficient system operation.

(c) Reinforce effective security measures based on the status of cyber security and the latest developments in technology.

(d) Reinforce systems for fair and accurate IT procurement.

D. Promote further utilization of IT and human resource development.

(a) Investigate and promote the use of IT for further increasing operational efficiency in close collaboration with business divisions and other organizations.

(b) Technical support for expanded use of RPA<sup>(Note)</sup> to raise operational efficiency.

(c) Improve employee IT literacy and strengthen the support organization.

(d) Develop digital human resources who can create strategies and business models that use digital technologies to contribute to improving customer service and improving operational efficiency.

(e) Cultivate personnel who can respond to cyber security threats.

E. Appropriate enforcement of system audits.

Note: Robotic process automation: A mechanism for carrying out various PC-based processes using software and robots in place of humans.

#### 4. Foster and utilize human resources

##### <Basic policy>

- A. Enhance staff training for the realization of high-quality customer service and to nurture high-level management capabilities and expertise.
- B. Achieve diverse and flexible work styles.
- C. Appropriately operate personnel payroll system.
- D. Promote effective utilization of human resources.
- E. Increase expertise.

##### <Overall plans>

- A. Consensus and understanding of the basic philosophy, management policy, and business management plan.  
Build a consensus and raise understanding including background through conferences, training, study groups, and so on.
- B. Establish a training system that is consistent for all employees from new personnel to senior management.
  - (a) Collaborate to implement a personal development system, and training at all levels in addition to those particular to each business unit.
  - (b) Promote self-initiated measures that contribute to regional coordination and client support.
  - (c) Promote the use of online tools and the like through training.
- C. Strengthen management capabilities.
  - (a) Carry out smooth implementation and content enhancement for human resources academy courses.
  - (b) Quality content for level-specific training (newly appointed senior level position and above).
  - (c) Perform multifaceted observations and provide feedback on the results.
- D. Further promote flexible work style that are compatible with work style reforms.
  - (a) Further expand and spread systems that enable flexible work styles such as telecommuting (working from home).
  - (b) Encourage the effective use of vacation time.
- E. Efforts to operate appropriately personnel payroll system.
  - (a) Conduct monitoring of the operational status of human resource and payroll systems (special transfer system, regional comprehensive employment system, re-employment system, etc.).
  - (b) Monitor the operational status of personnel changes (transfer cycles, transfers over wide areas, consecutive transfers unaccompanied by family, etc.).
- F. Make proactive use of personnel transfers between business units, etc.
- G. Expand scope of activities for area employment through administrative employment training systems, etc.
- H. Conduct measures to improve expertise.
  - (a) Implement internal promotion and hiring of experienced personnel.
  - (b) Promote training to improve expertise.
  - (c) Promote programs to help individuals obtain SME Management Consultant and Agricultural, Forestry and Fishery Management Advisor certifications, and effectively utilize those certified.
  - (d) Implement corporate dispatch training.
- I. Increase awareness of recruitment activities, etc.
- J. Efficiently execute salary payment work, etc.
  - ① Employee awareness survey item "Awareness level of basic philosophy and management policy"<sup>(Note 3)</sup>
  - ② Employee awareness survey item "Awareness level of business management plan"<sup>(Note 3)</sup>
  - ③ Employee awareness survey item "Monitoring of business objectives (properly monitor with sufficient interviewing)"<sup>(Note 3)</sup>
  - ④ Employee awareness survey item "Feedback on personnel evaluations (sufficient)"<sup>(Note 3)</sup>

##### (Supplement) Details of employee awareness survey items

- ① Employee awareness survey item "Awareness level of basic philosophy and management policy"  
Target number: positive ratio for all employees  
Actual question: Do you know the details of the JFC basic philosophy and management policy?
- ② Employee awareness survey item "Awareness level of business management plan"  
Target number: positive ratio for all employees  
Actual question: Do you know the details of the business management plan for your business unit/Planning and Administration Unit, etc.?
- ③ Employee awareness survey item "Monitoring of business objectives (properly monitor with sufficient interviewing)"  
Target number: positive ratio for all employees  
Actual question: Do you think you are properly monitored by your supervisor through interim progress management and support?
- ④ Employee awareness survey item "Feedback on personnel evaluations (sufficient)"  
Target number: positive ratio for all employees  
Actual question: Do you get feedback from your superiors regarding achievement and employee performance evaluation results?

<Monitoring items>

- Number of certified SME management consultants.
- Number of certified Agricultural, Forestry and Fishery Management Advisors.

## 5. Promote diversity and improve the workplace environment

<Basic policy>

- A. Create a workplace where diverse human resources can fulfill their potential
- B. Promote women's empowerment including actively appointing women to management positions.
- C. Strengthen harassment prevention.

<Overall plans>

- A. Implement measures to promote diversity at the Head Office.
  - (a) Take measures including reform of awareness to establish workplaces where each employee is free to fulfill their potential.
  - (b) Encourage men to participate in housework, childcare, and family care.
- B. Practice work-life management (WLM).
  - (a) Encourage personnel to use programs and so on that enable flexible working styles.
  - (b) Promote a varied working style and increase working time productivity.
- C. Promote career development for female.
  - (a) Implement measures for career development by female.
  - (b) Conduct training and implement other measures to support the development of management candidates in order to actively appoint women to management position.
- D. Strengthen measures to prevent harassment (same initiative as "6. Establishment and strengthening risk management and compliance structures").
- E. Create a workplace that makes an effort to encourage every employee to maintain his or her health.
  - (a) Conduct training on health and encourage medical examinations pursuant to specified health guidance.
  - (b) Enforce 2 no-overtime days per week.
- F. Understand management issues through employee awareness surveys.

- ① Ratio of female managers      7% (By April, 2023)

<Monitoring items>

Ratio of numbers of female manager and manager candidates (female senior management positions) in each year compared to the number of female manager positions equivalent to plan values.

- ② Employee awareness survey item "Management support to develop capabilities of female employees (females)"<sup>(Note 3)</sup>
- ③ Rate of enforcement of 2 no-overtime days per week.<sup>(Note 2)</sup>
- ④ Encourage male employees to take vacation time or leave for at least one month for childcare (including responses to surveys of issues).<sup>(Note 4)</sup>

(Supplement) Details of employee awareness survey items.

- ② Employee awareness survey item "Management support to develop capabilities of female employees (females)"
  - Target number: positive ratio for female employees.
  - Actual question: Do you think managers support the promotion of career development for women through daily guidance?

## 6. Establishment and strengthening of risk management and compliance structures

<Basic policy>

- A. Carry out appropriate risk management in response to policy requests.
- B. Carry out appropriate monitoring together with establishing and strengthening compliance awareness.
- C. Further strengthen risk management framework.

<Overall plans>

- A. Formulate and ensure implementation of risk management programs and compliance programs, and monitor the implementation status of those programs by the Corporate Governance Committee, etc.
- B. Establish systems to eliminate antisocial forces, financial fraud, and special fraud and prevent the provision of funds to terrorists.
- C. Further reinforce awareness of compliance as officers and employees of a policy-based finance institution.
- D. Thorough reporting and consultation concerning compliance.
- E. Review BCP in light of responses to the COVID-19 crisis and strengthen crisis management awareness at the individual level through practical training from the head office concerning BCP.
- F. Branch managers should properly fulfill their roles in handling compliance concerns and risk management.

Note 1. JFC will not implement this measure in FY2020 in order to take all possible action to respond to customers during the COVID-19 crisis.

Note 2. JFC will not set this plan in FY2020 in order to take all possible action to respond to customers during the COVID-19 crisis.

Note 3. In FY2020, JFC will limit questions to those relating to JFC's responses to the COVID-19 crisis and consequently, will not set planned values for these questions.

Note 4. JFC will not set guidelines for the number of days in FY2020 so that the range will not cause any impediment to taking all possible action to respond to customers during the COVID-19 crisis.

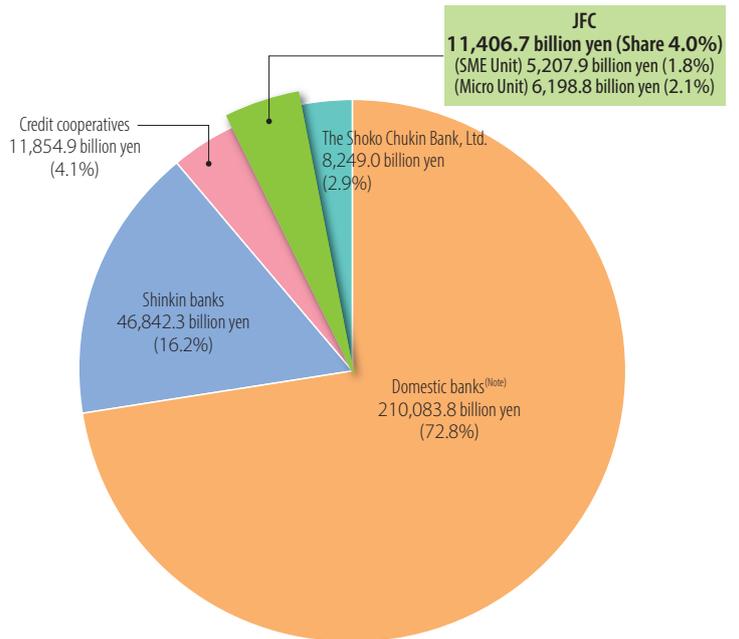
## ■ JFC Activities ■

Financing Structure of JFC .....	16
Responses to the Spread of COVID-19 .....	17
Cooperation with Private Financial Institutions .....	18
Provision of Policy-based Financing (Exercise of Safety Net Functions) .....	20
Provision of Policy-based Financing (Supporting Strategic Fields of Growth, etc.) .....	20
Contribution to Local and Regional Revitalization through Collaboration with Local Communities .....	26
Provision of Information through the PR Magazine "Connect JFC" .....	28
Overview of Operations in FY2019 and Outline of Financial Statements .....	29
Funding .....	31

# Financing Structure of JFC

JFC's share of the balance of financing to SMEs (Micro Unit and SME Unit) is **4.0%**.

Share of balance of financing to SMEs <sup>(Note)</sup> (as of March 31, 2020)

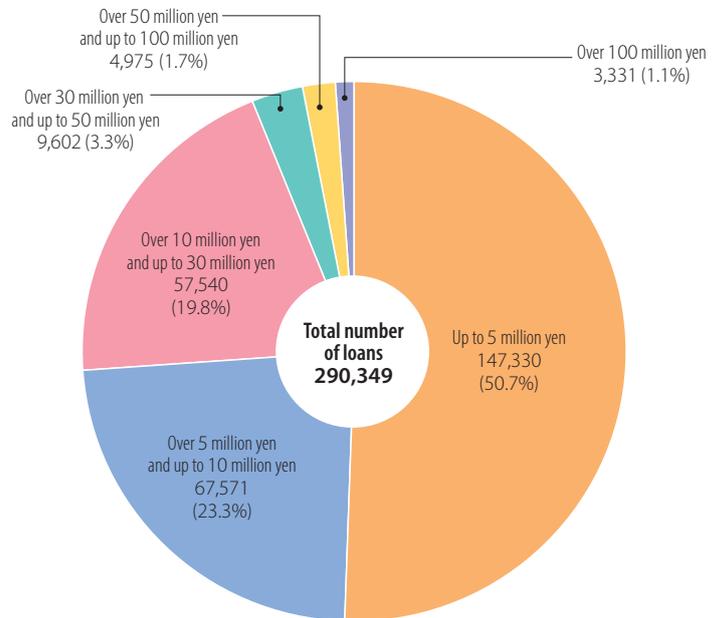


Note: Total of city banks, regional banks, regional banks II, and trust banks  
 Sources: Bank of Japan, "Loans by Borrower," "Cash, Deposits, and Loans"; Shinkumi Bank, "Main Accounts of Nationwide Credit Unions"; Japan Finance Corporation, "Business Statistics"; Shoko Chukin Bank, "Business Statistics"

The composition of JFC's financing by loan amount in FY2019 was as follows. Of the total of approximately 300,000 business loans, **51% had loan amounts of 5 million yen or less, and 94% were for 30 million yen or less.**

JFC also provides educational loans to the public (approximately 120,000 loans annually).

Financial results by loan amount in FY2019 <sup>(Note)</sup>



Note: Total of Micro Unit, AFFF Unit, and SME Unit (financing) business loans

# Responses to the Spread of COVID-19

## COVID-19 Related Loan

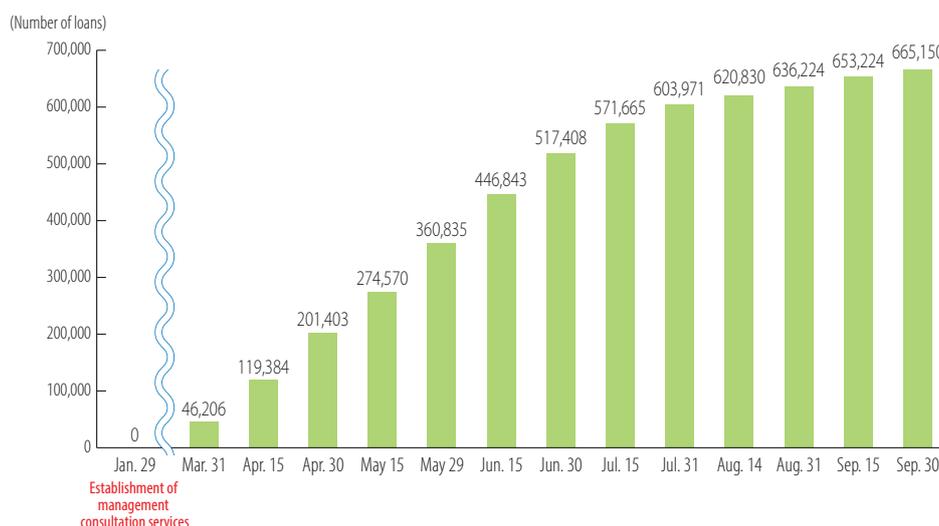
As of September 30, 2020, a total of 665,150 COVID-19 related loan decisions were made worth a total of 11,395.7 billion yen.

The number of loan decisions exceeded last year's result and even substantially surpassed the level of FY2009 when there was considerable impact from the collapse of Lehman Brothers and the subsequent financial crisis.

COVID-19 related loan decision results  
(as of September 30, 2020)

Number of loans	Amount
665,150	11,395.7 billion yen

Changes in number of COVID-19 related loan decisions (January–September 30, 2020)



## Measures to Reinforce Consultation Systems and Address the Spread of COVID-19

We are reinforcing consultation systems and taking measures to prevent infection of clients and employees in order to respond to the rapid increase in financing inquiries from businesses affected by the COVID-19 pandemic.

### Main measures to reinforce consultation systems

- Freeze on periodic personnel transfers
- Hiring of former employees
- Dispatch of personnel from the head office and other sites to branches to provide support
- Telephone consultation on holidays
- Operations on holidays
- Increase in the number of toll-free consultation lines
- Simplification of documents to be submitted
- Simplification of screening procedures

### Main measures to prevent infection of clients and employees

- Measures to reduce visits to branches
  - Enhancement of websites (posting of explanatory videos and updating of FAQs as needed)
  - Launch of branch visit reservation system
  - Encouragement of mailing documents and online applications
- Measures in response to visits to branches
  - Creation of environments that avoid the "Three Cs" (closed spaces, crowded places, close-contact settings)
  - Installation of transparent acrylic panels at consultation desks
  - Thorough preventive measures (wearing masks, provision of alcohol-based sanitizers, etc.)
- Measures to continue branch operations when employees are infected
  - Prompt disinfection of branches
  - Securing alternative consultation sites until disinfection is completed

## Measures to Provide Funds to Businesses in Collaboration with Private Financial Institutions

- Supported by private financial institutions concerning preparation of documents necessary for businesses to submit an application to JFC
- Provision of bridge loans by private financial institutions until JFC provides financing to businesses
- Provision of information on the JFC website concerning programs for substantially interest-free loans without requiring collateral provided by private financial institutions and on COVID-19 related support by individual financial institutions



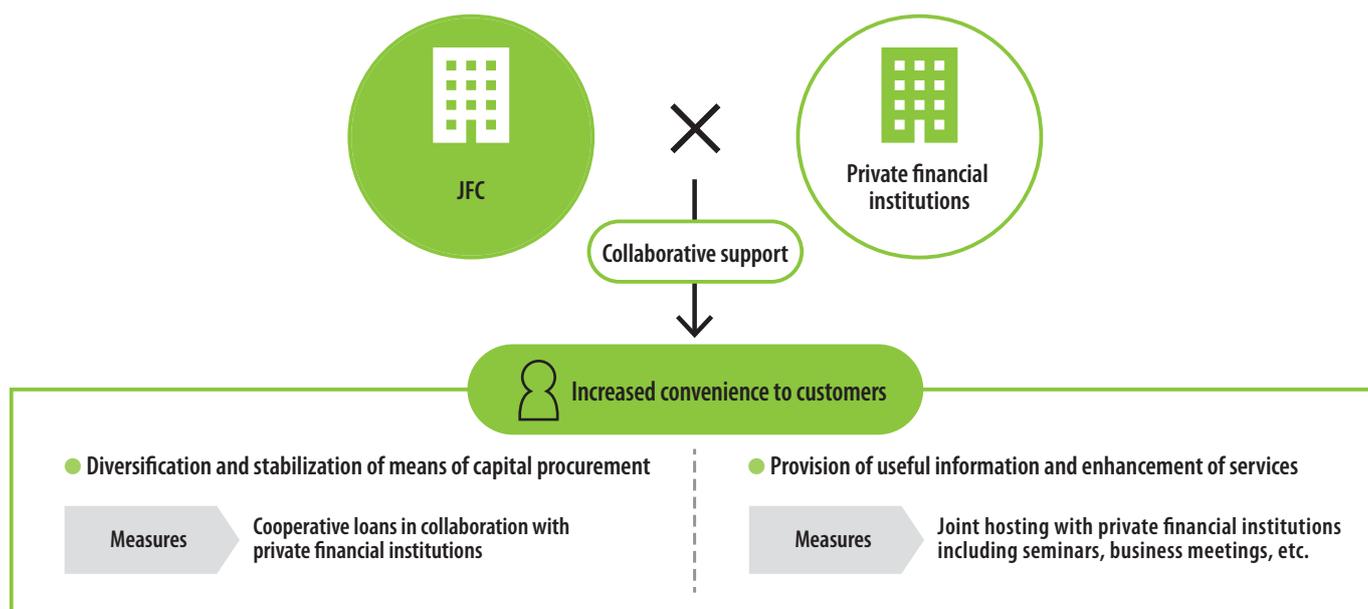
We provide information on COVID-19 related support handled by private financial institutions. (184 financial institutions as of September 30)

# Cooperation with Private Financial Institutions

## Working in Cooperation with Private Financial Institutions

### (1) Purpose of cooperation with private financial institutions

JFC supports SMEs, micro/small businesses, agricultural, forestry, and fishery businesses, and other businesses based on the premise of complementing the activities of private financial institutions. We strive to increase convenience to customers in collaboration with private financial institutions by providing various services that combine their respective strengths and expertise.



### (2) MOU conclusion status on business partnerships and collaboration

JFC has been promoting business partnerships with many private financial institutions. **As of March 31, 2020**, MOUs on business cooperation and collaboration have been concluded with **489 financial institutions**.

### (3) Creation of cooperative loan programs

Since FY2014, JFC has been focusing on establishing loan schemes<sup>(Note)</sup> in cooperation with private financial institutions to enhance partnership effectiveness and the number of private financial institutions which established the cooperative loan schemes reached **441 financial institutions as of March 31, 2020**. For some of the cooperative loan scheme, private financial institutions and the JFC collaborate to establish cooperative loan programs to support businesses. **As of March 31, 2020, 402 programs** were created in collaboration with **281 financial institutions**.

Note: A specific introduction rules are set for projects treated as cooperative loans.

#### Creation of cooperative loan programs (as of March 31, 2020)

	City banks	Regional banks	Regional banks II	Shinkin banks	Credit cooperatives	Others	Total <sup>(Note)</sup>
Number of financial institutions created cooperative loan programs	–	33	28	158	57	5	281
Number of cooperative loan programs <sup>(Note)</sup>	–	44	45	236	75	5	402

Note: Some cooperative loan programs were created jointly by multiple institutions, and as a result, the total number of programs does not equal the total of programs in each category.

#### (4) Total of cooperative loans <sup>(Note)</sup>

In FY2019, total cooperative loans from private financial institutions came to: **28,736 loans (93% compared to the previous fiscal year), 1,255.6 billion yen (97% compared to the previous fiscal year).**

Note: Loans (guarantees) that are disbursed or decided by both JFC and private financial institutions after consultation by both parties for loan plans with identical objectives (Calculated by JFC. Including loans made on different dates between both parties).

##### Cooperative loans by business category (FY2019)

	City banks	Regional banks	Regional banks II	Shinkin banks	Credit cooperatives	Others	Total <sup>(Note)</sup>		Reference FY2018 results
								Compared to the previous fiscal year	
Number of loans	1,996	9,015	3,431	12,375	1,864	602	28,736	93%	30,768
Amount	238.7 billion yen	592.5 billion yen	145.9 billion yen	296.9 billion yen	34.9 billion yen	60.4 billion yen	1,255.6 billion yen	97%	1,292.9 billion yen

Note: In cases where cooperative loans are provided with multiple private financial institutions, the number of loans and loan amounts indicated in the breakdown are totaled for each financial institution, and as a result, the totals do not match.

Example: In the case of a 100 million yen loan provided by a regional bank and regional bank II, the amounts for both the regional bank and regional bank II are reported as 100 million yen, and the total is reported as 100 million yen.

#### (5) Results of JFC customer referrals to private financial institutions

To respond to the diversifying capital needs of customers and increased customer options for capital procurement, JFC refers customers to private financial institutions.

In FY2019, **JFC referred 6,972 customers to private financial institutions.**

#### (6) Results of private financial institution customer referrals to JFC

JFC actively responds to referrals of customers from private financial institutions so that it can implement the stable provision of capital to more businesses.

In FY2019, **private financial institutions referred 26,774 customers to JFC.** Of these, in addition to cooperative loans, **JFC independently provided 11,093 loans** to start-ups and businesses in the agricultural, forestry, and fishery sectors.

# Provision of Policy-based Financing (Exercise of Safety Net Functions)

## Responses to Typhoon No. 19 of 2019 and Other Disasters

In response to Typhoon No. 19 of 2019 and other disasters, JFC established special consultation desks at branches in the affected regions and other areas. We provided timely and detailed financing and economic consultations on loans and repayments from SMEs, micro/small businesses, and agricultural, forestry, and fishery businesses that were damaged by these disasters. We also provided support to customers that incurred damage through programs such as the Special Loans for the Typhoon No. 19 of 2019 and Other Disasters for SMEs and micro/small businesses.

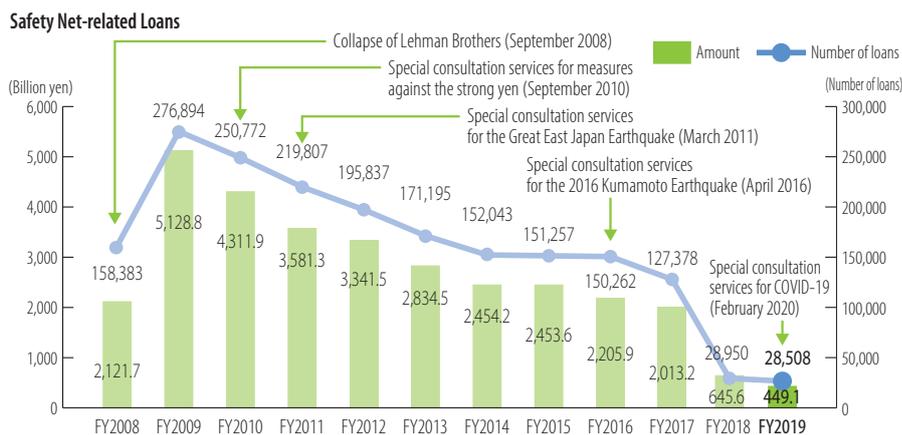
Typhoon No. 19 of 2019 related loan results

FY2019	
Number of loans	Amount
1,489	21.4 billion yen

## Safety Net-related Loans

In FY2019, financing related to Safety Net Loans<sup>(Note)</sup> to those facing obstacles due to international financial instability and economic contraction, and those impacted by the Great East Japan Earthquake, the 2016 Kumamoto Earthquake, typhoon and other disasters came to **28,508 loans (98% compared to the previous fiscal year) for 449.1 billion yen (70% compared to the previous fiscal year)**.

Note: The loans related to Safety Net Loans include Disaster Recovery Loans, Great East Japan Earthquake Recovery Special Loan, funds for changes in operating environments, funds for changes in financial environment, and funds for Safety Net Loans to agricultural, forestry, and fisheries businesses, etc.



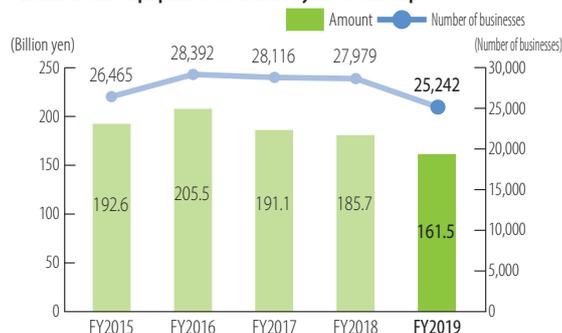
# Provision of Policy-based Financing (Supporting Strategic Fields of Growth, etc.)

## (1) Support for start-ups and new business

### (i) Loans to start-ups

The FY2019 loans to start-ups (consisting of those that have yet to start and those that are within 1 year of start-up) came to: **25,242 businesses (90% compared to the previous fiscal year), 161.5 billion yen (87% compared to the previous fiscal year)**.

Loans to start-ups prior to or within 1 year of start-up



### Start-up loans to women, youth, and senior entrepreneurs

	FY2017	FY2018	FY2019	Compared to the previous fiscal year
Women	6,174 businesses	6,116 businesses	<b>5,513 businesses</b>	<b>90%</b>
Seniors (aged 55 and older)	2,995 businesses	3,071 businesses	<b>2,603 businesses</b>	<b>85%</b>
Youth (aged under 35)	7,931 businesses	7,787 businesses	<b>6,954 businesses</b>	<b>89%</b>

Note: Women who also qualify as youth or seniors included in the women category.

### (ii) Loans to Foster Growth of New Businesses<sup>(Note)</sup>

In FY2019, Loans to Foster Growth of New Businesses came to: **1,319 businesses (101% compared to the previous fiscal year), 63.4 billion yen (101% compared to the previous fiscal year)**.

Note: A special loan program that provides support to venture SMEs working to develop new businesses with high growth potential.

Loans to Foster Growth of New Businesses



### (iii) Stock subscription rights loans

Loans to Foster Growth of New Businesses includes a program to provide unsecured loans through acquisition of new company-issued share options by SMEs, aimed at venture companies intending to publicly offer stocks.

In FY2019, loans came to: **31 businesses (97% compared to the previous fiscal year), 3.04 billion yen (203% compared to the previous fiscal year).**

### (iv) Capital Subordinated Loans <sup>(Note)</sup>

In FY2019, Capital Subordinated Loans came to: **207 businesses (74% compared to the previous fiscal year), 18.9 billion yen (115% compared to the previous fiscal year).**

Note: A Loan Program for providing capital-like funds for reinforcing the financial standing of small and medium enterprises (SMEs). The feature of this loan program is unsecured/ unguaranteed loans subordinated to other debts at the time of legal bankruptcy proceedings. In addition, it can be regarded as self-owned capital on financial inspection.

### (v) Cooperation with regional venture support institutions

We are working on discovery and support for regional venture companies by holding information exchange events and presentation events for venture support in local areas in cooperation with regional venture support institutions (regional banks, venture capitalists, brokerages, etc.).

#### Results of stock subscription rights loans included in Loans to Foster Growth of New Businesses

	FY2017	FY2018	FY2019	Compared to the previous fiscal year
Number of businesses	33	32	31	97%
Amount	570 million yen	1.5 billion yen	3.04 billion yen	203%

#### Results of Capital Subordinated Loans

	FY2017	FY2018	FY2019	Compared to the previous fiscal year
Number of businesses	373	279	207	74%
Amount	22.8 billion yen	16.4 billion yen	18.9 billion yen	115%



Information exchange meetings by venture support organizations in the six prefectures of the Tohoku region

## (2) Support for business revitalization

Results of financing relating to business revitalization in FY2019 came to **6,466 businesses (84% compared to the previous fiscal year) and 246.9 billion yen (111% compared to the previous fiscal year)** for Corporate Revitalization Loans, whereas Capital Subordinated Loans came to **485 businesses (89% compared to the previous fiscal year) and 33.5 billion yen (97% compared to the previous fiscal year)**. In addition, financing support relating to revitalization support was provided to **160 businesses (97% compared to the previous fiscal year)**.

#### Results of loans related to support for revitalization

		FY2017	FY2018	FY2019	Compared to the previous fiscal year
Corporate Revitalization Loans	Number of businesses	4,564	7,669	6,466	84%
	Amount	175.7 billion yen	221.5 billion yen	246.9 billion yen	111%
Capital Subordinated Loans	Number of businesses	588	548	485	89%
	Amount	37.7 billion yen	34.5 billion yen	33.5 billion yen	97%

#### Results of financial support for revitalization

		FY2017	FY2018	FY2019	Compared to the previous fiscal year
Methods of financing for comprehensive revitalization such as DDS and DES <sup>(Note)</sup>	Number of businesses	160	165	160	97%

Note: These results are the total of DDS, DES, non-equivalent transfer of claims, secondary company method, and debt waiver; calculated by adding up the number of businesses agreed by JFC for the corresponding period.

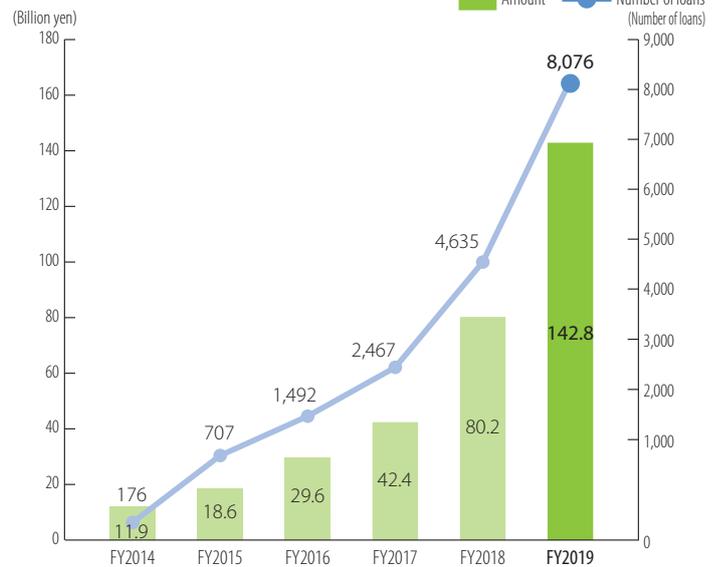
- **DDS (Debt Debt Swap):** A financial technique for exchanging a part of an existing debt for a subordinated debt.
- **DES (Debt Equity Swap):** A financial method that seeks to improve company's financial constitution by equitizing a portion of existing liabilities.
- **Non-equivalent transfer of claims:** A financial method where creditors exchange their claims to a regional revitalization fund for less than face value (market value).
- **Secondary company method:** A financial method where a profitable business is spun off through a corporation division or business transfer and assumed by another business. The excess debt and non-profitable business are retained by the original company and debt relief is obtained through special liquidation or other legal reorganization proceedings.
- **Debt waiver:** A financial method where creditors waive a portion of their claims to improve the cash flows and financial status of a reorganized company.

### (3) Support for business succession

The business succession-related loans in FY2019 came to **8,076 loans (174% compared to the previous fiscal year) and 142.8 billion yen (178% compared to the previous fiscal year)**.

As the managers of SMEs and micro/small businesses age, JFC is responding to diverse demands for funds relating to business succession so that valuable management assets including the technologies and know-how that businesses have accumulated can be effectively transferred.

### Loans related to business succession



Notes: 1. JFC is expanding financing subjects in order to respond to broader demand for funds such as providing funds for business succession preparations as of April 2017.  
 2. The figure above includes results from the New Business Activity Promotion Funds (business succession-related\*) established in February 2015.  
 \*Integrated into Business Success, Consolidation, and Revitalization Funds in 2017, etc.

### Examples of measures to raise manager awareness

#### Gift, a collection of examples of third-party business succession



A pamphlet that introduces the ideas and efforts of prior managers who successfully implemented business succession to third parties who were not relatives or employees and of the current managers who acquired the businesses (Issued in December 2019)

#### Baton for the Future



A pamphlet that encourages self-diagnosis concerning business succession and provides information on sharing information with JFC officials concerning issues regarding business success and the direction the company should take (Issued in June 2018)

#### Business succession support video



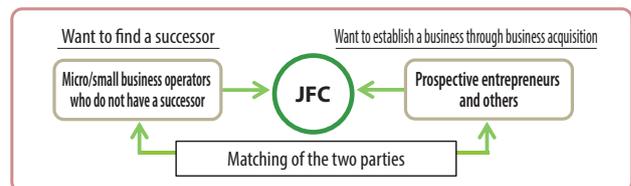
A video that provides information on the significance of business succession, the importance of preparation, and other topics (Currently available on the JFC website)

### Business succession matching support

Business succession matching support is an initiative that identifies the needs of micro/small business operators who do not have a successor and want to transfer their business to a third party, searches for potential entrepreneurs or businesses that want to acquire a business and have matching wishes, and introduces them to each other.

The program was launched on a trial basis in Tokyo in FY2019, and it was confirmed that there is a certain level of need for support. There are many people in urban areas who wish to start a business, but it is said that the problem of business succession is particularly severe in regional areas.

In light of these circumstances and taking into consideration changes in the business environment due to the impact of the COVID-19 pandemic, JFC began matching support on a nationwide scale.



Notes: 1. In principle, the program is intended for businesses that have an outstanding loan balance owed to JFC (including those who register for this service within five years from the date of final repayment of a loan), but even businesses that do not have a loan balance can make use of this service through introduction by an organization or expert working to support SMEs and micro/small businesses such as a Societies of Commerce and Industry, Chamber of Commerce and Industry, Environmental Health Trade Association, or tax accountant.  
 2. This program is not available to certain business types.

#### Business succession matching support results in FY2019

Number of matches	Want to transfer business	Want to acquire business
Number of application registrations	93	238 (72)
Number of inquiries		32

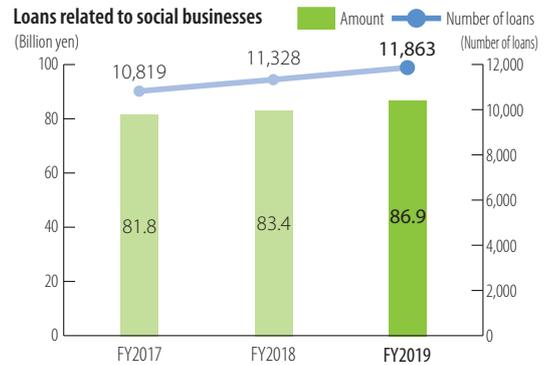
Note: The figure in parentheses for application registrations is the number of registrations from persons wishing to establish a business.

**(4) Support for social business** <sup>(Note)</sup>

**(i) Loans related to social businesses**

In FY2019, loans related to social businesses came to: **11,863 loans (105% compared to the previous fiscal year)**, **86.9 billion yen (104% compared to the previous fiscal year)**, of which **1,155 loans (84% compared to the previous fiscal year)**, **7.1 billion yen (82% compared to the previous fiscal year)** were loans to NPOs.

Note: Businesses that tackle regional and social issues, such as supporting the care and welfare of the elderly and disabled, child rearing, regional revitalization and environmental conservation, etc.



**Breakdown of loans related to social businesses results by recipient**

		FY2017	FY2018	FY2019	Compared to the previous fiscal year
Number of loans related to social businesses <sup>(Note)</sup>	Number of loans	10,819	11,328	<b>11,863</b>	<b>105%</b>
	Amount	81.8 billion yen	83.4 billion yen	<b>86.9 billion yen</b>	<b>104%</b>
(i) For NPOs	Number of loans	1,552	1,381	<b>1,155</b>	<b>84%</b>
	Amount	9.7 billion yen	8.7 billion yen	<b>7.1 billion yen</b>	<b>82%</b>
(ii) For nursing care and welfare businesses	Number of loans	8,375	8,440	<b>8,095</b>	<b>96%</b>
	Amount	65.5 billion yen	64.6 billion yen	<b>59.2 billion yen</b>	<b>92%</b>
(iii) For businesses addressing social issues	Number of loans	2,021	2,527	<b>3,447</b>	<b>136%</b>
	Amount	14.2 billion yen	17.0 billion yen	<b>26.2 billion yen</b>	<b>154%</b>

Note: Total for loan performance (excluding duplicate loans to (i), (ii) to (i), (ii), and (iii)).

**(ii) Supporting business plan formulation by issuing the Business Plan Visualization Book**

Sustainable growth of social business activities requires the formulation of a highly feasible business plan and securing adequate profits. The JFC Micro Unit issued the Business Plan Visualization Book (referred to as the "Visualization Book") to support the formulation of business plans.

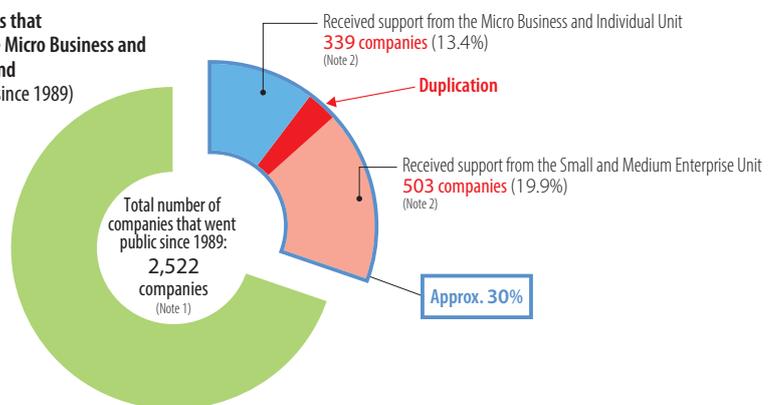
The Visualization Book is a workbook that helps businesses organize six elements relating to business planning (organizational mission, understanding of current conditions, implementation hypotheses, results targets, financial foundations, and organizational foundations). The Visualization Book can be used when those engaged in social business formulate business plans.



**Record of JFC transactions with publicly-traded companies**

Of those companies listed since 1989, the total numbers of companies that went public after receiving support from the Micro Business and Individual Unit or Small and Medium Enterprise Unit were 339 companies and 503 companies, respectively, with 750 companies receiving support from both (excluding duplication), accounting for approximately 30% of the total.

Publicly-traded companies that received support from the Micro Business and Individual Unit or Small and Medium Enterprise Unit (since 1989)



Notes: 1. Of those companies listed on each market since 1989, the total number of companies whose shares are publicly traded as of March 31, 2020 (according to JFC investigations)  
2. Of those companies indicated in Note 1, companies confirmed to have received support from Micro Business and Individual Unit or Small and Medium Enterprise Unit.

## (5) Support for overseas expansion

### (i) Loans for Overseas Investment and Expansion

As a result of detailed financing support meeting the needs of SMEs and micro/small businesses actively undertaking imports and exports, in FY2019, Loans for Overseas Investment and Expansion were provided to **2,066 businesses (97% compared to the previous fiscal year), totaling 54.9 billion yen (108% compared to the previous fiscal year).**

Loans for Overseas Investment and Expansion



Breakdown of business target countries and regions utilizing Loans for Overseas Investment and Expansion

	FY2017		FY2018		FY2019		Compared to the previous fiscal year
	Number of businesses	Ratio	Number of businesses	Ratio	Number of businesses	Ratio	
China (including Hong Kong)	655	30%	701	33%	<b>667</b>	<b>32%</b>	<b>95%</b>
ASEAN	600	27%	532	25%	<b>547</b>	<b>26%</b>	<b>103%</b>
Viet Nam	174	8%	154	7%	<b>169</b>	<b>8%</b>	<b>110%</b>
Thailand	147	7%	124	6%	<b>126</b>	<b>6%</b>	<b>102%</b>
Philippines	78	4%	88	4%	<b>62</b>	<b>3%</b>	<b>70%</b>
Malaysia	45	2%	44	2%	<b>46</b>	<b>2%</b>	<b>105%</b>
Other ASEAN countries	156	7%	122	6%	<b>144</b>	<b>7%</b>	<b>118%</b>
Others	928	43%	899	42%	<b>852</b>	<b>41%</b>	<b>95%</b>
<b>Total</b>	<b>2,183</b>	<b>100%</b>	<b>2,132</b>	<b>100%</b>	<b>2,066</b>	<b>100%</b>	<b>97%</b>

### (ii) Standby Letter of Credit Program <sup>(Note)</sup>

As for FY2019, letters of credit were issued to the financial institutions in Thailand, China, Republic of Korea, the Philippines, Indonesia, Malaysia, Viet Nam, Hong Kong, Mexico, Singapore, and Taiwan, being utilized by **106 businesses**. The cumulative usage (until March 31, 2020) of this program since its start in FY2012 has reached **637 businesses**.

As of March 31, 2020, and the number of affiliated financial institutions expanded to 15 institutions.

In order to allow more SMEs to make use of this program, JFC established a scheme to partner regional financial institutions throughout Japan in FY2013. As of March 31, 2020, we have business partnerships with 61 regional financial institutions in Japan, and since the start of the program, letters of credit have been issued to a total of **40 businesses** through this partnership scheme.

Note: The Standby Letter of Credit Program supports SMEs' overseas subsidiaries' and branches' smooth procurement of long-term local currency denominated funds from JFC's affiliated financial institutions by using JFC's standby letter of credit as a guarantee.

Standby Letter of Credit Program



### (iii) Performance of Trial Export Support Project on agricultural and fishery businesses <sup>(Note)</sup>

In partnership with trading companies, the Trial Export Support Project has coordinated to provide support to domestic agricultural and food manufacturing businesses showing an eagerness to export their products. This has resulted in support for **40 cases** of trial exports in FY2019.

Countries to which products were exported include Taiwan, the largest with 22 cases; Hong Kong and Macau with 5 cases respectively; Singapore and France with 3 cases respectively; and Malaysia with 2 cases.

Actual types of products exported included 19 agricultural products (rice, tomato, sweet potato, etc.), 3 livestock products (egg), 18 processed foods (tea, gelato, vegetable juice, perilla oil, umeshu (plum wine), processed marine products, etc.), and others.

Note: As a part of business support services, the Trial Export Support Project was established by JFC AFF unit in FY2013, to support our customers attempting to export of agricultural, forestry and fishery products for the first time, cooperating with experienced trade companies in the exportation of those products.

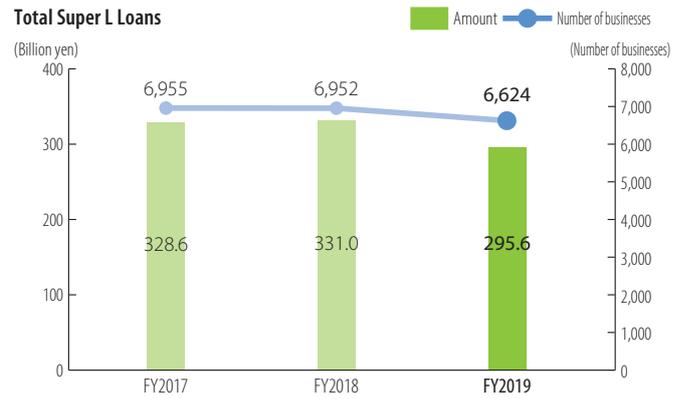
Performance of Trial Main Export Support Project

Country or region of export	FY2017 Number of trials	FY2018 Number of trials	FY2019 Number of trials	Items (FY2019)
Taiwan	30	12	22	Rice, umeshu (plum wine), processed marine products, pumpkin soup, cherry wine, perilla oil, etc.
Hong Kong	—	—	5	Rice, green onion, sweet potato, egg, etc.
Macau	1	6	5	Sweet potato, vegetable juice, tea, etc.
Singapore	11	15	3	Tomato, gelato, etc.
China	—	1	—	
Malaysia	7	4	2	Tomato, kaki (Japanese persimmon), etc.
Thailand	—	5	—	
France	—	—	3	Lotus root, enoki mushroom, tea
<b>Total</b>	<b>55</b>	<b>43</b>	<b>40</b>	

**(6) Support for new expansion by agricultural, forestry, and fisheries businesses**

**(i) Supporting leaders of agriculture (new entry farmers, large family run businesses, corporations)**

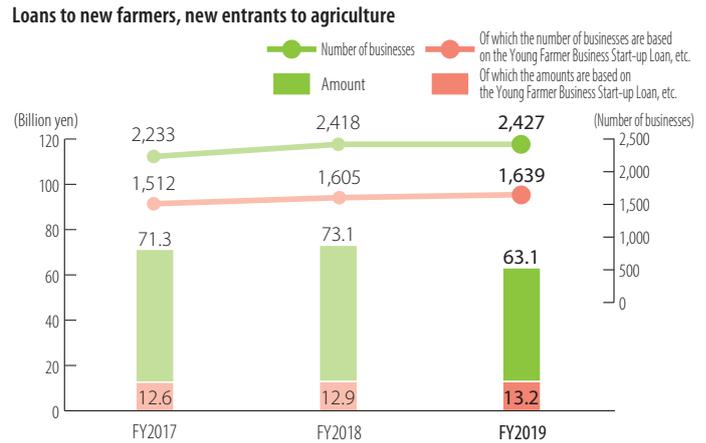
Agricultural Management Framework Reinforcement Loans (name: Super L Loan) in FY2019, came to: **6,624 businesses (95% compared to the previous fiscal year), 295.6 billion yen (89% compared to the previous fiscal year).**



In FY2019, loans to new agricultural business and new entry farmers came to **2,427 businesses (100% compared to the previous fiscal year), and 63.1 billion yen (86% compared to the previous fiscal year).**

From FY2014, newly started loans to Young Farmer Business Start-up Loan, etc. <sup>(Note)</sup> came to: **1,639 businesses (102% compared to the previous fiscal year), 13.2 billion yen (102% compared to the previous fiscal year).**

Note: Loans to support authorized new farmers certified by municipalities under the Young Farmers Plan as young people engaging in farming businesses.



**(ii) Supporting the “Sixth Industrialization” activities**

FY2019 loans to activities due to improved management by the “Sixth Industrialization” (e.g., processing, sales, and other business undertaken integrally by agricultural, forestry, and fishery businesses to increase the added value of products) increased to: **1,590 businesses (87% compared to the previous fiscal year), 117.4 billion yen (75% compared to the previous fiscal year).**



**(iii) Providing investment support to agricultural corporations by private financial institutions, etc.**

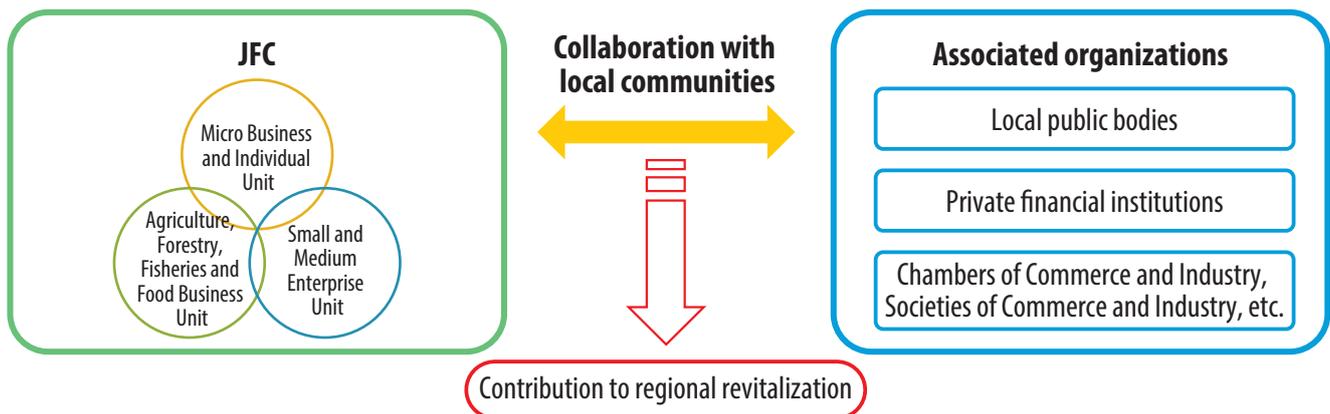
At the end of FY2019, investments came to **15 Limited Partnerships (LPS) (pledged investment amount by JFC: 3.56 billion yen),** established by private financial institutions based on agricultural corporation investment development businesses <sup>(Note)</sup> and **1 stock company (investment amount by JFC: 2.03 billion yen).**

Note: Businesses providing management and technical guidance by acquisition/holding of stock from agricultural corporations based on the Act on Special Measures to Facilitate in Agricultural Corporations (Act No. 52 of 2002).

# Contribution to Local and Regional Revitalization through Collaboration with Local Communities

JFC actively participates in regional comprehensive strategies and contributes to local and regional revitalization through programs such as matching, business discussion meetings, and seminars implemented through use of its nationwide network of 152 branches.

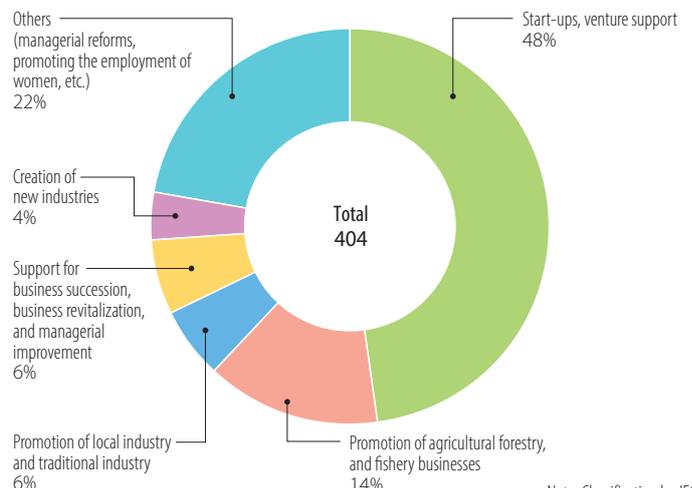
<p>(1) <b>Reinforcement of collaboration with local government through active participation in regional comprehensive strategies</b></p>	<p>In order to contribute to regional revitalization, JFC supports the implementation and promotion of regional comprehensive strategies formulated by regional local governments through collaboration with private financial institutions and others based on requests from regional local governments under the national strategy for overcoming population decline and revitalizing local economies.</p>
<p>(2) <b>Provision of useful services tailored to customer and local needs through use of its nationwide network of 152 branches</b></p>	<p>JFC conducts business discussion meetings and seminars to facilitate appropriate product matching for customers engaged in market and product development by using its nationwide network of 152 branches to better meet customer needs.</p>
<p>(3) <b>Performance of the role of connecting related organizations</b></p>	<p>As a member of local communities, JFC participates in various networks and the like in order to strengthen collaboration with related organizations.</p>



## Reinforcement of Collaboration with Local Government through Active Participation in Regional Comprehensive Strategies

- JFC is attentively responding to regional challenges, taking into consideration local circumstances and needs, at 152 branches nationwide.
- To support the implementation of regional comprehensive strategies, officers and branch managers visited prefectural governors to explain the efforts of JFC, request that they make use of JFC in regional revitalization, and work to strengthen collaboration with local communities.
- In FY2019, JFC participated in a total of **404 regional programs** nationwide. Partnership programs include start-ups and venture support, which at **48%** was the highest to date.

Breakdown of program participation by purpose <sup>(Note)</sup> (FY2019)



Note: Classification by JFC

## Provision of Useful Services Tailored to Customer and Local Needs through Use of its Nationwide Network of 152 Branches

- The FY2019 number of customer matching partnerships came to: **5,447 partnerships.**
- The number of business meetings held in FY2019 in all regions nationwide came to: **74 meetings.**
- National-scale business discussion meetings such as the Agri-Food EXPO and National Business Discussion Meeting were held, and branches throughout Japan held business discussion meetings that made use of local characteristics, providing support for increased business opportunities by customers.
- Through its Internet business matching site, JFC provides a forum offering business opportunities to customers, including new buyers and new suppliers of raw materials.

JFC Internet Business Matching

<https://match.jfc.go.jp/> (Available only in Japanese)



### National Business Discussion Meeting

- JFC held the 12th National Business Discussion Meeting at PACIFICO Yokohama in February 2020 to support expansion of business opportunities for customers. A total of 993 companies from around the country participated, including businesses that were recommended by supporting private financial institutions and other organizations. At the meeting, each company participated in an average of 6.8 business discussions.



The 12th National Business Discussion Meeting

## Performance of the Role of Connecting Related Organizations

- From the perspective of strengthening consulting functions for clients, we collaborate with relevant organizations and hold seminars for clients, study groups for the personnel of JFC and clients, and other programs in various regions.
- As a policy-based finance institution, we held regional economic revitalization symposiums at three locations nationwide (Nagoya, Niigata, and Sendai) in order to carry out our role of “connecting” regional organizations. Local financial institutions, support groups, and local companies and organizations presented at these symposiums, the themes of which were business succession in Nagoya, agricultural support in Niigata, and business start-ups in Sendai. JFC presented information on support options and exchanged information on current initiatives, issues, and future possibilities with regional organizations.

### First Symposium: Nagoya

- Date: December 20, 2019
- Location: Nagoya Convention Hall
- Topic: Local development through business succession
- Number of participants: 260



A scene from the Nagoya venue

### Second Symposium: Niigata

- Date: January 24, 2020
- Location: Toki Messe
- Topic: Local development through support for agriculture
- Number of participants: 165



A scene from the Niigata venue

### Third Symposium: Sendai

- Date: February 7, 2020
- Location: Sendai International Center
- Topic: Local development through support for business start-up
- Number of participants: 200



A scene from the Sendai venue

## Hosting of the 7th High School Student Business Plan Grand Prix

JFC hosted the 7th Infinite ∞ Creativity High School Student Business Plan Grand Prix targeted for high school and higher professional school students all across the country.

The numbers of applicants in the event came to: **409 schools, 3,808 applicants** (396 schools, 4,359 applicants in the 6th Grand Prix). By the leading act by the Business Start-up Support Center nationwide, we promoted this event to many schools. Business Start-up Support Centers visited **353 schools** (331 schools in the 6th Grand Prix), and gave lectures about how to create a business plan.

At the final competition held in January 2020, ten finalist groups gave passionate presentations. The entry from Osaka Prefectural Mikunigaoka High School "PeriPeri: Don't Make You Tell Me You're Being Wasteful" won the Grand Prix and garnered much attention from the media.

Nurturing entrepreneurship to develop the leaders of next generation is crucial for Japan's future, and JFC will continue to provide its business start-up experience and expertise to sites of entrepreneurial education.

### (The 8th High School Student Business Plan Grand Prix)

The 8th High School Student Business Plan Grand Prix has been canceled due to COVID-19.

Please visit the JFC website for more information.

<https://www.jfc.go.jp/n/grandprix/> (Available only in Japanese)



The High School Student Business Plan Grand Prix Facebook page is frequently updated with the latest information.

<https://www.facebook.com/grandprix.jfc/> (Available only in Japanese)



Presentation in final competition



Students and teachers from Osaka Prefectural Mikunigaoka High School which received the Grand Prize award.



Participants of the final competition and the award ceremony

## Provision of Information through the PR Magazine "Connect JFC"

JFC is engaged in the provision of information through the PR magazine "Connect JFC," which aims to make the function, roles, and initiatives of JFC better known and create connections among those involved in policy and operations. In "Connect JFC," we introduce not only the efforts of JFC, but also those of regional corporations.

Please visit the JFC website for more information.

[https://www.jfc.go.jp/n/findings/tsunagu\\_index.html](https://www.jfc.go.jp/n/findings/tsunagu_index.html) (Available only in Japanese)



# Overview of Operations in FY2019 and Outline of Financial Statements

## Overview of Operations in FY2019

The Japanese economy had been recovering at a moderate pace in FY 2019, mainly driven by domestic demand reflecting an improvement in the employment and income situation, despite weakness in external demand due to a slowdown in overseas economies. Since January 2020, however, the economy is in severe situation, extremely depressed by COVID-19 pandemic.

JFC actively engaged in exercising of safety net functions, cooperation with private financial institutions, contributing to strategic fields of growth, improving customer services, and contributing to local and regional revitalization, etc.

### Exercising of Safety Net Functions

JFC provides refinancing support and managerial advice to SMEs, micro/small businesses, and agricultural, forestry, and fishery businesses affected by the Great East Japan Earthquake, natural disasters such as typhoons, pandemic, changes in the management environment due to economic circumstances, or other factors.

In response to the heavy rain event associated with weather fronts in August 2019, Typhoon No. 15 and No. 19 of 2019, COVID-19 pandemic, and other natural disasters, JFC established special consultation desks and provided timely and detailed responses to financing and repayment inquiries to affected SMEs, micro/small businesses, and agricultural, forestry, and fishery businesses.

As a result of these measures, total safety net related loans in FY2019 was 28,508 loans worth 449.1 billion yen. In addition, JFC conducted credit guarantee underwriting to ensure the effective provision of guarantees by the Credit Guarantee Corporation (CGC) and carried out the Operations to Facilitate Crisis Responses.

JFC established a Disaster and Accident Response Headquarters to respond to the COVID-19 pandemic, took measures to reinforce consultations while implementing countermeasures to prevent the spread of infections among customers and employees, and courteously, methodically, and promptly provided consultations on financing and repayment to alleviate the concerns of customers.

Starting in March in particular, loan programs were created and expanded pursuant to the Second Novel Coronavirus Disease (COVID-19) Emergency Response Package implemented by the government, and consultations and requests regarding loans increased rapidly, with applications through the end of March reaching 93,559. At this point, the number of applications per business day substantially exceeded the numbers during the global financial crisis precipitated by the Lehman Brothers bankruptcy and during the Great East Japan Earthquake in 2011.

To respond to these conditions, JFC began conducting consultations on weekends and holidays, dispatched support staff to branches, greatly reduced non-urgent work, postponed the regular reassignment of personnel scheduled for March, and took other measures with all its abilities and build support structures for customers.

### Cooperation with Private Financial Institutions

Based on the premise of playing a complementary role with private financial institutions as specified in Article 1 of the Japan

Finance Corporation Act, JFC promoted partnerships with many private financial institutions.

Measures for a new stage of cooperation with private financial institutions in FY2019 included continuation of the exchanges of opinions with the Japanese Bankers Association, Regional Banks Association of Japan, and other organizations that began the previous fiscal year, developing personal relationships on the worksite and officer levels, and creating and promoting cooperative loan products whereby JFC refers customers to private financial institutions. With respect to responses to the COVID-19 pandemic as well, existing relationships were used to implement cooperative measures.

### Contributions to Strategic Fields of Growth, etc.

Based on the government's policies, JFC appropriately determined its risk-taking functions and proactively engaged in supporting start-ups, new businesses, business revitalization and succession, social businesses and overseas expansion as well as new expansion of agriculture, forestry, and fisheries business operators in hopes of contributing to the development and growth of the Japanese economy. Also, JFC hosted the 7th "High School Student Business Plan Grand Prix" to help foster entrepreneurship mindset in future generations of business leaders.

In FY2019, in addition to existing business succession support programs, JFC began providing business succession matching support to match small business operators who do not have successor with prospective entrepreneurs on a trial basis in Tokyo. JFC will also present case studies of business succession to customers and place priority on providing information and other support, not just from JFC, but also in collaboration with other support organizations.

### Improving Customer Service and Contributions to Local and Regional Revitalization

JFC actively engaged in improving customer services. Under these circumstances, JFC strived to provide useful information consistent with customer and local needs and enhance consultation capability, fully understanding its role in policy-based financing and appropriately operating systems.

Specifically, JFC actively participated in local projects such as regional comprehensive strategies and provided financing support based on the needs of customers and local communities, and JFC again held regional economic revitalization symposiums at three locations nationwide, as in the previous fiscal year.

In addition, the Agri-Food EXPO and National Business Discussion Meetings were continuously held on a nationwide scale, business discussion meetings were held at branches around the country taking into consideration local characteristics, and JFC used its nationwide network of 152 branches to conduct business matching, actively responding to the issues faced by customers and local communities.

As a result, JFC's loan results for FY2019 were 3,912.7 billion yen.

JFC's financial results during FY2019 were as follows: ordinary income was 469.4 billion yen and net loss including extraordinary incomes and losses was 29.6 billion yen.

## Outline of Financial Statements for FY2019

### 1. Profit and loss

At the closing of FY2019 (ended March 31, 2020), JFC recorded a loss of 106.1 billion yen over the previous fiscal year, for a net loss of 29.6 billion yen.

The key factor was a decrease of current net income by 94.4 billion yen over the previous term in the Account for Credit Insurance Programs.

#### Profit and Loss Statement

(Unit: billion yen)

		Ordinary income		Ordinary expenses		Ordinary profit (loss)		Net income (loss)	
		2019	2020	2019	2020	2019	2020	2019	2020
Japan Finance Corporation		570.7	469.4	493.7	498.7	76.9	(29.3)	76.4	(29.6)
Micro Business and Individual Unit (Account for Micro Business and Individual Operations)		137.2	138.2	146.8	152.0	(9.6)	(13.7)	(10.0)	(13.9)
Agriculture, Forestry, Fisheries and Food Business Unit (Account for Agriculture, Forestry, Fisheries and Food Business Operations)		41.5	43.2	41.4	43.2	0.0	0.0	(0.0)	(0.0)
Small and Medium Enterprise (SME) Unit	Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)	84.3	80.8	76.8	84.7	7.5	(3.9)	7.4	(4.0)
	Account for Securitization Support Programs (Purchase-type Operation)	0.4	0.6	0.4	0.5	0.0	0.1	0.0	0.1
	Account for Credit Insurance Programs	291.3	195.3	199.3	197.7	92.0	(2.3)	92.0	(2.3)
Operations to Facilitate Crisis Responses (Account for Operations to Facilitate Crisis Responses)		15.8	11.2	29.0	20.6	(13.1)	(9.3)	(13.1)	(9.3)
Operations to Facilitate Specific Businesses Promotion, etc. (Account for Operations to Facilitate Specific Businesses Promotion, etc.)		0.3	0.2	0.3	0.2	(0.0)	(0.0)	(0.0)	(0.0)

### 2. Assets

Total assets were 21,038.3 billion yen, the majority of which were loans and bills discounted.

Loans and bills discounted decreased 404.7 billion yen from March 31, 2019, to 16,680.9 billion yen.

Total net assets stood at 5,776.7 billion yen, taking into account an increase from having received capital contributions from the government of 192.2 billion yen, against a net loss of 29.6 billion yen, etc.

#### Balance Sheet

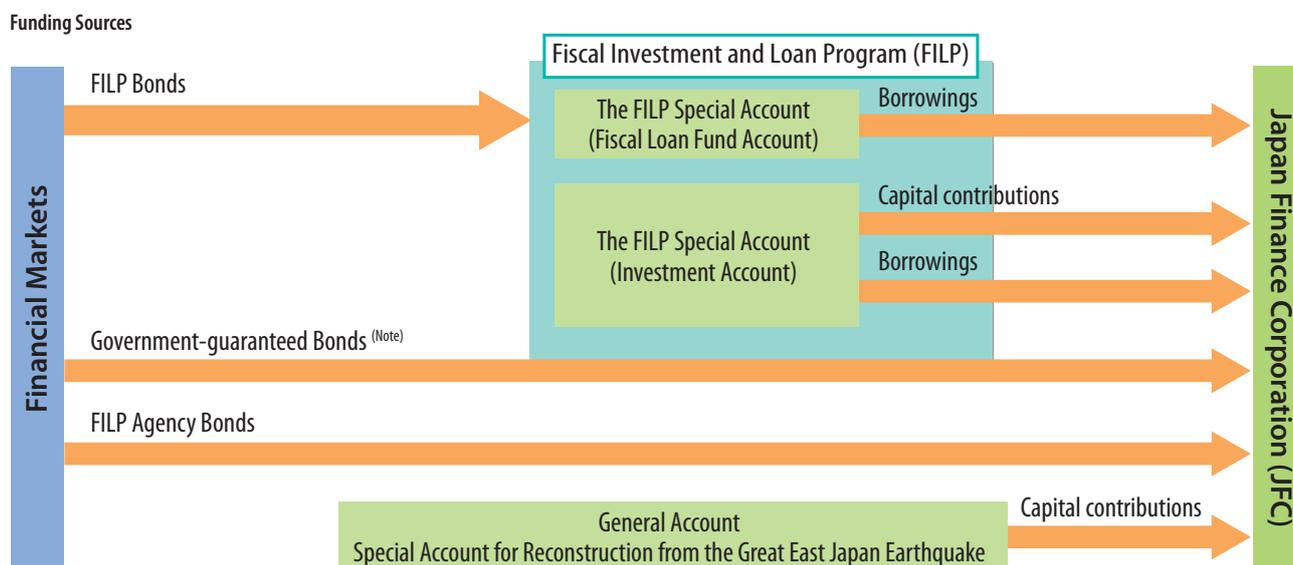
(Unit: billion yen)

Assets			Liabilities and net assets		
Items	Amount		Items	Amount	
	2019	2020		2019	2020
Cash and due from banks	4,033.9	4,401.1	Borrowed money	12,885.0	12,810.3
Securities	42.5	41.9	Bonds payable	1,490.3	1,410.4
Loans and bills discounted	17,085.7	16,680.9	Entrusted funds	27.9	27.0
Other assets	33.0	37.8	Reserve for insurance policy liabilities	838.4	773.1
Property, plant and equipment	195.6	194.6	Other liabilities	21.6	19.7
Intangible assets	11.3	15.7	Provision for bonuses	5.2	5.3
Customers' liabilities for acceptances and guarantees	86.4	100.9	Provision for directors' bonuses	0.0	0.0
Allowance for loan losses	(400.6)	(434.9)	Provision for retirement benefits	89.5	88.7
			Provision for directors' retirement benefits	0.0	0.0
			Reserve for compensation losses	29.2	25.6
			Acceptances and guarantees	86.4	100.9
			<b>Total liabilities</b>	<b>15,473.9</b>	<b>15,261.5</b>
			Capital stock	4,195.8	4,324.2
			Capital surplus	2,169.8	2,233.7
			Retained earnings	(751.5)	(781.2)
			<b>Total net assets</b>	<b>5,614.2</b>	<b>5,776.7</b>
<b>Total assets</b>	<b>21,088.1</b>	<b>21,038.3</b>	<b>Total liabilities and net assets</b>	<b>21,088.1</b>	<b>21,038.3</b>

# Funding

## Funding Sources

JFC obtains funds through various sources such as borrowings from the Fiscal Loan Fund, Government-guaranteed Bonds, FILP Agency Bonds, and capital contributions from the government.



Note: Government-guaranteed bonds with a redemption period of five years or more are included in FILP.

### Breakdown of funding sources

(Unit: billion yen)

	FY2020 budget	FY2019 budget	FY2019 results
Borrowings from Fiscal Loan Fund, etc.	44,098.7	3,757.5	3,207.0
Government-guaranteed Bonds	7,600.0	220.0	45.0
Capital contributions from the government	10,739.6	199.0	192.2
Funding from the government (percentage of overall funding)	62,438.3 (100%)	4,176.5 (93%)	3,444.2 (94%)
FILP Agency Bonds	300.0	320.0	205.0
Total funding	62,738.3	4,496.5	3,649.2

Notes: 1. The budget amounts for each fiscal year are the revised levels following the supplementary budget.

The budget amounts for FY2020 include expenditures under the reserve funds.

2. The item "Borrowings from Fiscal Loan Fund, etc." refers to borrowings from the Fiscal Loan Fund, borrowings from the FILP Special Account (Investment Account) of the national budget, and entrusted funds from the Agriculture, Forestry and Fisheries Credit Foundations.

## ● Government-guaranteed Bonds

JFC has issued government-guaranteed general mortgage bonds within the issue-amount limits of the budget.

(Unit: billion yen)

Fiscal year / Maturity	FY2020		FY2019		FY2018		FY2017	
	Budget	Results	Budget	Results	Budget	Results	Budget	Results
10-year bond	500.0	—	30.0	—	70.0	50.0	60.0	40.0
6-year bond	—	—	90.0	45.0	115.0	55.0	125.0	75.0
Over 5-year bond (excluding 10-year bond)	6,000.0	—	—	—	—	—	—	—
Less than 5-year bond	600.0	150.0	100.0	—	200.0	—	270.0	—
Short-term bond (Less than 1 year)	500.0	—	—	—	—	—	—	—
<b>Total</b>	<b>7,600.0</b>	<b>150.0</b>	<b>220.0</b>	<b>45.0</b>	<b>385.0</b>	<b>105.0</b>	<b>455.0</b>	<b>115.0</b>

- Notes: 1. The FY2020 budget amounts are the revised levels following the supplementary budget. Within the budget amounts for FY2020, JFC plans to issue up to 6.6 trillion yen depending on the progress of operations.
2. The budget amounts for each fiscal year are the issue-amount limits, that is, the maximum amount of the government guaranty in the relevant fiscal year (excluding short-term bond (less than 1 year)\*). The budget amounts for short-term bond (less than 1 year) are the outstanding-amount limits in the relevant fiscal year.
3. The issue-result amounts for FY2020 are the amounts issued as at the end of August 2020.

## ● FILP Agency Bonds

JFC has issued general mortgage bonds within the issue-amount limits of the budget.

(Unit: billion yen)

Fiscal year / Month of issue/Maturity	FY2020		FY2019				FY2018				FY2017			
	(Budget 300.0)		(Budget 320.0)				(Budget 320.0)				(Budget 318.0)			
Amount of issue	Results 250.0		Results 205.0				Results 235.0				Results 240.0			
Month of issue	May	August	May	August	November	March	May	August	November	March	May	August	November	March
10-year bond	—	—	10.0	10.0	—	—	—	25.0	—	—	—	—	—	—
4-year bond	—	80.0	30.0	—	—	15.0	30.0	—	—	15.0	40.0	—	—	15.0
3-year bond	—	—	—	—	—	—	—	25.0	—	—	—	30.0	—	15.0
2-year bond	60.0	110.0	50.0	40.0	50.0	—	60.0	50.0	30.0	—	50.0	40.0	50.0	—

- Notes: 1. The FY2017 budget amounts are the increased amounts approved by the Minister of Finance by applying Article 2, Paragraph 2 of the General Rules on Government-Affiliated Institutions Budgets.
2. The budget amounts for each fiscal year are the issue-amount limits in the relevant fiscal year.
3. The issue-result amounts for FY2020 are the amounts issued as at the end of August 2020.

## Ratings of JFC (As of August 31, 2020)

Rating and Investment Information (R&I)	AA+ (Stable)
Moody's Japan (Moody's)	A1 (Stable)

## ■ Overview of Operations ■

Micro Business and Individual Unit .....	34
Agriculture, Forestry, Fisheries and Food Business Unit ..	40
Small and Medium Enterprise (SME) Unit .....	46
Operations to Facilitate Crisis Responses and Specific Businesses Promotion, etc. ....	52
Research Institute .....	54

# 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 start-ups, 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/Small Businesses

- Loans have been disbursed to 0.88 million businesses.
- The average loan balance per business is 7.03 million yen, most of which were small loans.
- Approximately 90% of borrowers are micro/small businesses with nine or fewer employees, and many are sole proprietors.

### Safety Net Financing

- Micro Unit provides Safety Net Loans and other means 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, Business Revitalization, and Business Succession

- 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 25,242 a year. It is estimated that about 91,000 jobs were created annually as a result.
- Micro Unit supports businesses engaged in innovative businesses or seeking business revitalization through Capital Subordinated Loans and other means.
- Supports succession of micro/small businesses.

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

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

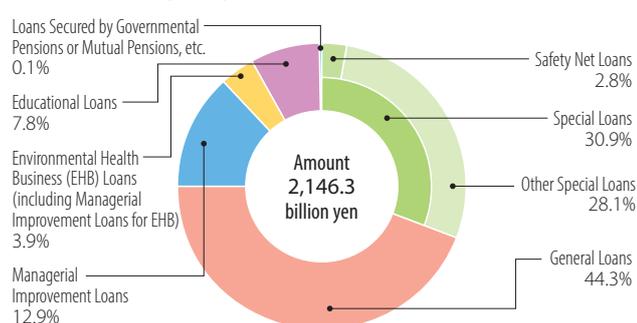
### Collaboration with Chambers of Commerce and Industry, Societies of Commerce and Industry, Environmental Health Trade Associations, and Regional Financial Institutions, etc.

- Micro Unit works in close collaboration with such organizations as Chambers of Commerce and Industry, Societies of Commerce and Industry, Environmental Health Trade Associations and regional financial institutions 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.

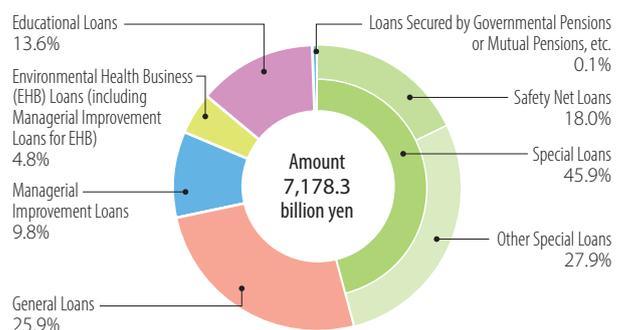
### Support through Educational Loans, etc.

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

Breakdown of Loans (FY2019)



Breakdown of loan balance (as of March 31 2020)



## Supporting Micro/Small Businesses

Business Loans in FY2019 were provided to 0.88 million businesses. The average loan balance per business is 7.03 million yen, most of which were small loans. Approximately 90% of borrowers are micro/small businesses with nine or fewer employees, and many are sole proprietors. Over 80% of all loans are uncollateralized.

In 2020, we are working to support businesses affected by COVID-19, and as of August 31, 2020, approximately 1.13 million businesses have received business loans.

Number of business borrowers and average loan balance per business (as of March 31, 2020)

	Micro Business and Individual Unit	Total for shinkin banks (255 banks)	Total for domestic banks (134 banks)
Number of business borrowers (million)	0.88	1.13	1.97
Average loan balance per business (million yen)	7.03	41.33	105.61

Notes: 1. Figures for Micro Unit are the total of General Loans and Environmental Health Business Loans.  
 2. Domestic banks include major commercial banks, regional banks, regional banks II, and trust banks.  
 3. Figures for shinkin banks 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 banks 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) (FY2019)



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

## Demonstrating Safety Net Functions

### ● Response to the Spread of COVID-19

The Micro Unit created special consultation desks at its 152 branches nationwide and is providing consultations on financing and repayment for businesses that have been impacted by the COVID-19 pandemic. We are providing COVID-19 Special Loan Program, which are practically interest-free and require no collateral, and other means to clients that meet certain conditions such as a decline in sales.

From January 29, 2020, the day that the consultation desks were created, to September 30, 2020, we provided a total of 624,649 COVID-19 related loans worth a total of 7,704.9 billion yen. During this approximately eight-month period, loan results increased substantially compared to the previously year (the number of loans doubled and the loan amount more than tripled). These loan results surpassed even the results of FY2009, when businesses were greatly affected by the collapse of Lehman Brothers and the subsequent financial crisis, and loans related to the Great East Japan Earthquake.

### ● Measures during disasters

A special consultation desk was immediately established in the event of a natural disaster like the Great East Japan Earthquake, the 2016 Kumamoto Earthquake, and the Typhoon No. 19 of 2019 and other disasters, so that affected micro/small business owners can receive consultation concerning their loans and repayment.

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 easier 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, 2020, the Micro Unit executed 239,659 loans related to the earthquake, amounting to 2,256.6 billion yen.

For loan performance related to the damages suffered from the 2016 Kumamoto Earthquake, the Micro Unit executed 18,544 loans, amounting to 153.6 billion yen, by the end of March 31, 2020. For loan performance related to the damages suffered from the Heavy Rain Event of July 2018, the Micro Unit executed 1,593 loans, amounting to 14.5 billion yen, by the end of March 31, 2020. For loan performance related to the damages suffered from Typhoon No. 19 of 2019 and other disasters, the Micro Unit executed 1,305 loans, amounting to 13.2 billion yen, by the end of March 31, 2020.

Main consultation desks currently in operation (as of July 31, 2020)

	Number of consultation desks	Consultation desks currently in operation	Date of establishment
Disaster-related	8	Special consultation desk for the Great East Japan Earthquake	Mar. 2011
		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 May 20 and July 10, 2018	Jul. 2018
		Special consultation desk for damage suffered as a result of the 2018 Hokkaido Eastern Iburi Earthquake	Sep. 2018
		Special consultation desk for damage suffered as a result of heavy rain associated with weather fronts in August 2019	Aug. 2019
		Special consultation desk for damage suffered as a result of Typhoon No. 15 of 2019	Sep. 2019
		Special consultation desk for damage suffered as a result of Typhoon No. 19 of 2019	Oct. 2019
		Special consultation desk for damage suffered as a result of heavy rain from July 3, 2020	Jul. 2020
Others	1	Special consultation desk relating to COVID-19	Feb. 2020

## 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 disbursed to business start-ups (consisting of those that have yet to start and those that are within 1 year of start-up) in FY2019 totaled 25,242. It is estimated that about 91,000 jobs were created annually as a result.

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]

25,242 businesses × average of 3.6 employees<sup>(Note)</sup> = 90,871 employees

Note: The average number of employees at time of business start, based on Survey on Business Start-ups in Japan (FY2019) by the JFC Research Institute.

### ● Supporting women, youth, and senior entrepreneurs

As the economic society diversify, the range of business start-ups has been expanding start-ups by women who take advantage of their ability to notice the small things in daily life, young people who utilize novel ideas, and seniors who draw on their many years of experience. In such trend, Micro Unit actively provides loans to such women, youth, and senior entrepreneurs.

Loans for women, youth, and senior entrepreneurs (number of businesses)



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 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.

Locations (as of September 2020)



### ● Establishment of business start-up support centers throughout Japan

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

### ● Establishment of business support plazas throughout Japan

In six locations: Sapporo, Sendai, Tokyo (Shinjuku), 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 consult during regular business hours, weekend appointments are also available (excluding national holidays).

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

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

The Micro Unit actively supports micro/small 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

The merits of Capital Subordinated Loans are certain term lump-sum repayment and fixed interest rates according to the business performance. The loan itself can be treated as “owned capital” rather than a “debt” for the purpose of asset audits by financial institutions. We provided Capital Subordinated Loans to 801 businesses until March 31, 2020. 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/small 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 FY2019 loans to social businesses came to: 11,863 loans, 86.9 billion yen, of which 1,155 loans, 7.1 billion yen 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 1,578 loans in FY2019, with 70% 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.).

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



Breakdown of Loans for Overseas Investment and Expansion by type of business (based on the number of loans) (FY2019)



## Supporting Business Revitalization and Succession Actively

Through the Loan Programs for business revitalization support, the Micro Unit supports businesses undergoing corporate reorganization through collaboration with regional financial institutions, involvement of the Small and Medium Enterprises Revitalization Support Council, or approval of reconstruction plans based on the Civil Rehabilitation Act.

In FY2019, the total number for Corporate Reconstruction Loans was 4,430.

In addition, by installing business revitalization 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 support for creating business improvement plans.

JFC also collaborated with local financial institutions, tax accounts, business succession support centers, and others to provide financial and information support to businesses that are addressing business succession.

In FY2019, the number of loans for business succession <sup>(Note)</sup> was 6,658, totaling 64.1 billion yen.

We extend various loans to provide the funds necessary to acquire shares or business assets, funds necessary for preparations for business succession including development of a successor, and so on. In addition, by collaboration with organizations that support business succession, JFC also undertook development of consultation arrangements that can provide information according to the business succession issues of each customer.

Note: Number of loans providing funds necessary for business succession (funds necessary for business diversification, business transformation, or other new measures at the time of a business succession are not included).

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

### ● 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 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 5.13 million loans have been provided.

Also, in 2015, the Micro/Small Management Development Support Fund was established which can be used by micro/small businesses who are working towards 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)



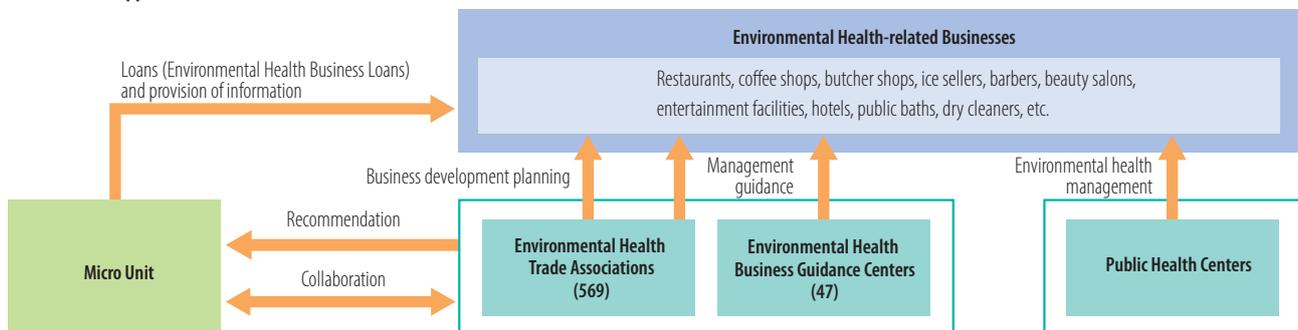
### ● Holding of "One-Day JFC" consultation sessions at Chambers of Commerce and Industry or at Societies of Commerce and Industry

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

The Micro Unit works in close collaboration with such organizations as Environmental Health Trade Associations and Environmental Health Business Guidance Centers to support the maintenance and enhancement of the sanitation levels of environmental health-related businesses, which are closely involved in the daily lives of the public and are subject to strong demands to maintain sanitation levels, through Environmental Health Business Loans. The majority of the borrowers of Environmental Health Business Loans are businesses with nine or fewer employees. Approximately 80% are sole proprietorship, and approximately 50% 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, 2020).

### ● 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 accountant, etc. who play a large role in supporting SMEs and micro/small businesses, and financial support from JFC come together to support micro/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 Small and Medium-sized Enterprises Business Enhancement Act. Please visit the Small and 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 cooperative loan products, which is part of efforts to enhance the effectiveness of cooperation with regard to support in various fields including business start-ups, business revitalization, business succession, 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 (guarantees) that are executed or decided by both parties after consultation by JFC and regional financial institutions for loan plans with identical objectives (calculated by JFC. Including loans made on different dates).  
2. Collaborative loans are the total of cooperative loans and loans issued by referral from financial institutions.

**Educational Loans for School Entrance Fees and Related Expenses**

The Micro Unit handles Educational Loans, which funds necessary expenses when entering educational institutions or continuing one's education, to lighten the financial burden of educational expenses on families and provide equal educational opportunities. Approximately 120,000 Educational Loans were provided in FY2019.

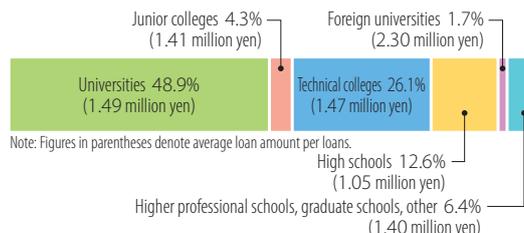
**● Loans to families with large educational expenses**

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

**Changes in Educational Loans**



**Borrower details by type of educational institution (FY2019 General Educational Loans (Direct loans))**



Note: Figures in parentheses denote average loan amount per loans.

**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 (Act No. 91 of 1954). 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, Malaysia and Laos and presently implementing the technical cooperation with Myanmar.

**i. Laos**

The Micro Unit implemented the technical cooperation project from FY2011 to FY2017 with the Lao Development Bank (LDB), which is a state-owned commercial bank in Laos. With the aim of developing LDB human resources and credit analysis skills, eight seminars were held in Laos and Japan and the Micro Unit provided lectures about our credit analysis. We also cooperated to create their own credit analysis manual.



Lectures given at local seminars in Laos (Vientiane)

**ii. Myanmar**

We have been conducting technical cooperation project for Myanma Economic Bank (MEB), which is the largest state managed bank in Myanmar, since April 2015. We provided support through four seminars in Myanmar and Japan. These measures have been highly valued in Myanmar, and we launched second phase of the project in June 2018.



Seminar in Myanmar (Yangon)

# Agriculture, Forestry, Fisheries and Food Business Unit

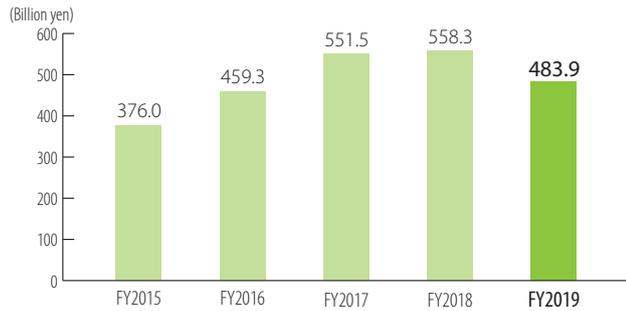
Through providing loans, etc. to businesses in agriculture, forestry and fishery industries as well as the food industry in Japan, the Agriculture, Forestry, Fisheries and Food Business Unit (AFFF Unit) contributes towards strengthening of these industries while ensuring the stable supply of safe and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

## Overview of Operations

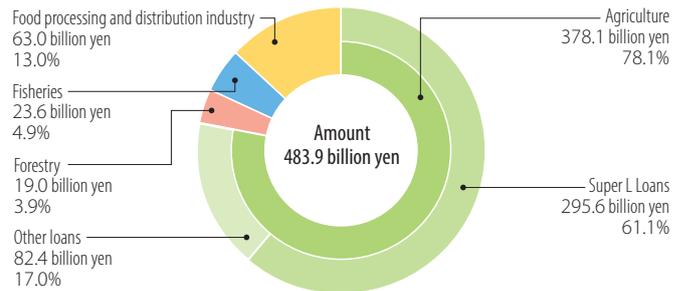
### Status of Loan and Feature of Operations

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 amounts

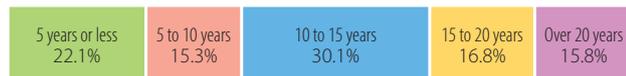


#### Breakdown of loans (FY2019)



#### Status of loans by repayment period (FY2019)

Average period: 13.0 years



### Exercise of Safety Net Functions

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

### Promotion of Consulting Activities through Project Assessment

The AFFF Unit organizes managerial strengths and deficiencies with customers, investigates means of leveraging managerial strengths that the customer may have difficulty recognising and measures to overcome weaknesses, and performs project assessment to promise solutions to problems in order to provide robust support for achieving the customer's management objectives.

### 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 121 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 on matters concerning business cooperation in order to provide assistance with customer issues.

#### ● Business matching support

The AFFF Unit supports efforts by agricultural, forestry and fishery business operators as well as food industry to expand their own sales channels. 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 news releases, the website and the email distribution service.

### Promoting Cooperation with Private Financial Institutions in the Agricultural, Forestry, and Fisheries Sectors

The AFFF Unit promotes collaborative financing with private financial institutions such as cooperative loans and outsourced lending and is working to build an environment that encourages private financial institutions to actively enter financing of agricultural, forestry and fisheries fields by providing information service on industry trends and assessment of agricultural credit risks (Agricultural Credit Risk Information Service (ACRIS)) and also offering capital contributions and securitization support services.

## 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, 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 the “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 companies of rice growing, horticulture, livestock farming, and other operations, as well as large-scale family-run operations, new farmers, and companies entering the agriculture field.

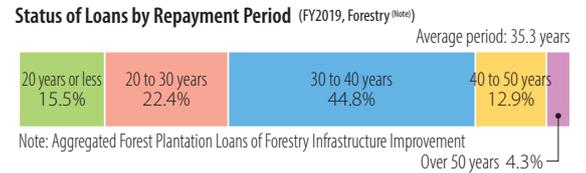


## Forestry

By providing loans 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.

### ● The AFFF Unit provides financing to customers in the forestry business, for which capital recovery periods are very long.

It generally takes about 50 years for a forest to develop and so recovering any capital takes a very long time. For this reason, the AFFF Unit supports forestry operators by providing the ultra-long-term finance that is required until logging.



## Fisheries

By supplying loans 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.

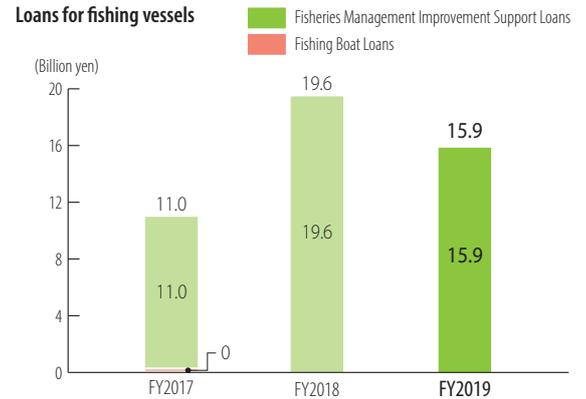
### ● Supporting principal fishery operators

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 loan amount has remained steady.

In FY2019, Fisheries Management Improvement Support Loans, which proactively supported building of larger fishing vessels, came to 15.9 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.



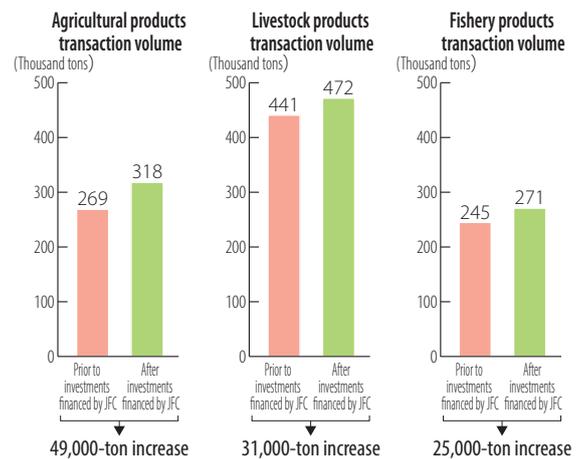
## Food Processing and Distribution Industry

Through providing loans to food processing and distribution industry 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 processing and distribution industry 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 FY2019 suggests that the transaction volumes of domestically produced agricultural, forestry, and fishery products will increase by approximately 106,000 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.

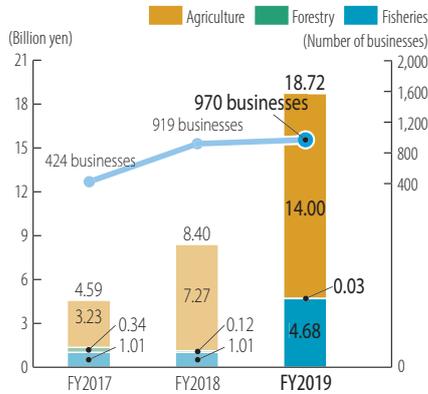


## Exercising Safety Net Functions Following Disasters and Changes in Business Conditions

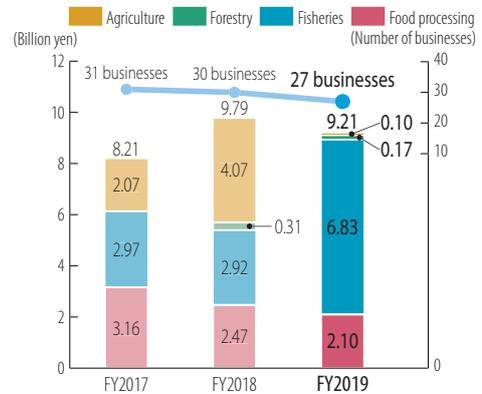
The AFFF Unit offers dynamic support in the form of long-term working capital loans to provide agricultural, forestry, and fisheries operators as a safety net function against short-term crises such as natural disasters including earthquake, typhoon, tsunami, etc., contagious livestock diseases, and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

Also, the AFFF Unit created special consultation desks and is providing consultations on financing and repayment for agricultural, forestry, and fisheries operators that have been impacted by the COVID-19 pandemic.

Safety net loans



Disaster-related loans

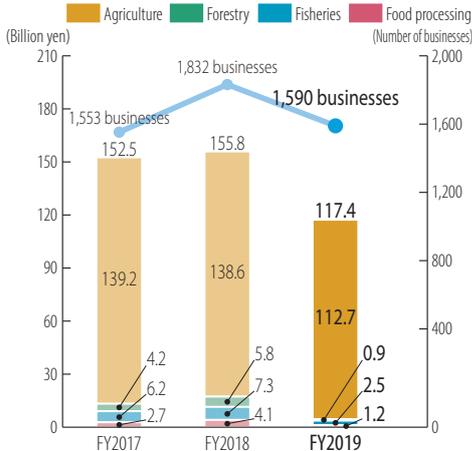


## “Sixth Industrialization” Development and Export Measures

The AFFF Unit supports measures for the development of “Sixth Industrialization” (integrated processing and sales measures for increasing the added value of products) by agricultural, forestry, and fisheries business operators through various financing programs and the provision of information.

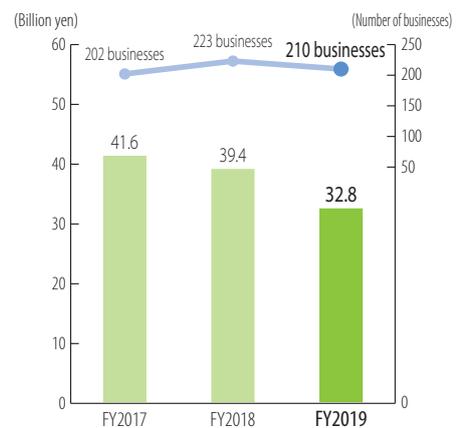
In addition to the agricultural, forestry, and fisheries products and processed foods export promotion loan program created in 2019, the AFFF Unit also provides support through various financing programs and the provision of information in cases where agricultural, forestry, and fisheries business operators and companies in the food industry export domestic agricultural products and other processed products to improve their own business or promote domestic agricultural, forestry, and fisheries products.

Loans to those engaged in the “Sixth Industrialization”



FY2019 loans to activities due to improved management by the “Sixth Industrialization” (e.g., processing, sales, and other business undertaken integrally by agricultural, forestry, and fishery businesses to increase the added value of products) decreased to: 1,590 businesses (87% compared to the previous fiscal year), 117.4 billion yen (75% compared to the previous fiscal year).

Loans to those engaged in export



In FY2019, loans to improve management through exports were made to 210 businesses (94% compared to the previous fiscal year) and amounted to 32.8 billion yen (83% compared to the previous fiscal year).

## Support for New Farmers and New Entrants to Agriculture

Support was provided to various financing programs such as the Agricultural Employment Fund for Youth, etc. which offers loans to new farmers, new entrants to agricultural business, and authorized new farmers and information was provided.

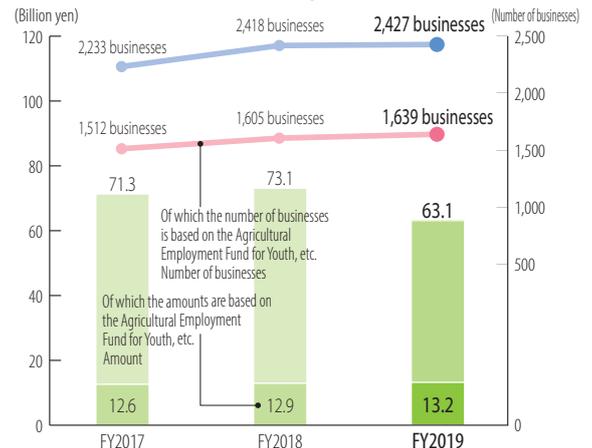
### Loans to new farmers, new entrants to agriculture

In FY2019, loans to new agricultural business and new entry farmers came to 2,427 businesses (100% compared to the previous fiscal year), and 63.1 billion yen (86% compared to the previous fiscal year).

From FY2014, newly started loans to Agricultural Employment Fund for Youth, etc.<sup>(Note)</sup> came to: 1,639 businesses (102% compared to the previous fiscal year), 13.2 billion yen (102% compared to the previous fiscal year).

Note: Loans to support authorized new farmers certified by municipalities under the Young Farmers Plan as young people engaging in new farming businesses.

Loans to new farmers, new entrants to agriculture



## Consulting Activities through Project Assessment

By conducting project assessments and follow-ups based on the results, active support is provided to customers who seek to expand the scope of business, diversify business, or undertake determined business development.

### ● Framework of project assessment

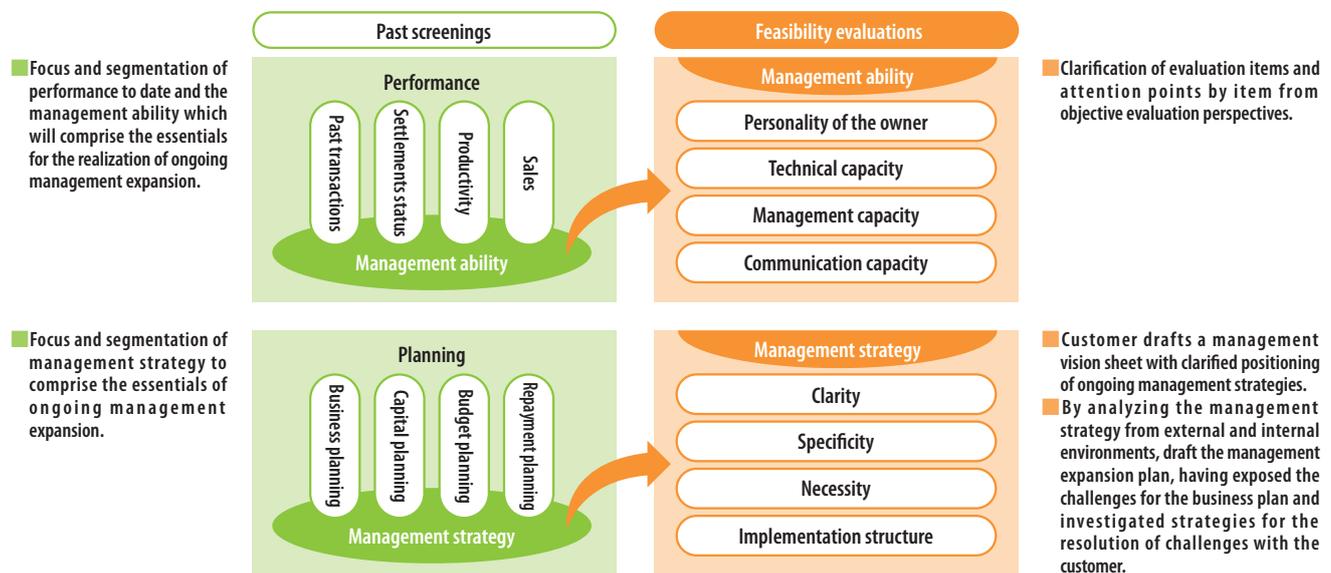
The AFFF Unit organizes managerial strengths and deficiencies with customers, investigates means of leveraging managerial strengths that the customer may have difficulty recognising and measures to overcome weaknesses, and performs project assessment to promise solutions to problems in order to provide robust support for achieving the customer's management objectives.

### ● Main points of project assessment

The AFFF Unit has customers prepare Management Vision Sheets to review past management and reaffirm strengths and weaknesses and to clarify their vision for the future.

The AFFF Unit segments and actively evaluates management capacities (including past management performance and the basis for realizing management development) and management strategies (the basis for future management development) in order to accurately discern management strengths and growth potentials.

Management issues are then identified, taking into consideration the external environment and other factors, solutions to those issues are investigated with the customer, and various problem-solving support not limited to financing but also providing management support services.



### ● Consulting activities through project assessment

The AFFF Unit provides consulting services through project assessments, linking aspects from determining the customer's current status to sharing issues and supporting solutions.



## Supporting Business Succession of Customers

To address the business succession issues of agricultural, forestry, and fisheries business operators, the AFFF Unit supports customers by providing information tailored according to the type and stage of business succession, referring and dispatching outside experts and relevant organizations, providing funds, and other means.

In addition, the AFFF Unit is reinforcing its information gathering and support relating to M&A and the like in the agricultural, forestry, and fisheries fields and providing business succession support to customers so that the management resources of customers in these fields can effectively be handed down to the next generation.

## 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.

### 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, 2020, examinations had been conducted 30 times and a total of 4,443 Agricultural Management Advisors now serve in all 47 prefectures. The AFFF Unit also conducted the Senior Agricultural Management Advisor program to develop staff with the skills to play a leading role in more advanced management issues. 77 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 119 forestry management advisors and 70 fishery management advisors.

The AFFF Unit also provides comprehensive management support services in collaboration with tax accountants, SME management consultants, and management advisors of private financial institutions.

Breakdown of personnel with agricultural, forestry, and fishery management advisory qualifications (as of March 31, 2020)

	Agricultural management advisors	Senior agricultural management advisors	Forestry management advisors	Fishery management advisors
Private financial institutions	2,632	24	33	25
Professionals (tax accountants, SME management consultants, etc.)	802	18	25	13
Others (agricultural extension officers, etc.)	665	15	13	11
JFC employees	344	20	48	21
<b>Total</b>	<b>4,443</b>	<b>77</b>	<b>119</b>	<b>70</b>

### Business Matching Support

- **Agri-Food EXPO, Domestic agricultural product exhibition and business fair held**

In FY2019, the AFFF Unit again hosted the Agri-Food EXPO, Japan's nationwide agricultural product exhibition and business fair, in Tokyo (August 2019) and in Osaka (February 2020).

Held since FY2006, the Agri-Food EXPO is an exhibition and business fair for providing business matching opportunities that link farmers and food companies, who are looking for market expansion, together with buyers.

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



State of the Agri-Food EXPO Tokyo 2019

### 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 in conjunction with the Agri-Food EXPO, 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.).



Briefing session 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 provides loans to agricultural, forestry, and fisheries business operators and companies in the processed food industry in cooperation with private financial institutions. In FY2019, a total of 1,089 cooperative loans were provided to agricultural, forestry, and fisheries business operators in cooperation with private financial institutions <sup>(note)</sup>.

The AFFF Unit also provides JFC loans to agricultural, forestry, and fisheries business operators and companies in the processed food industry through 626 private financial institutions with which it has entered into outsourcing agreements. In FY2019, the number of JFC loans provided through private financial institutions increased by 22 from the previous fiscal year to 7,010.

Note: Loans (guarantees) that are disbursed or decided by both JFC and private financial institutions after consultation by both parties for loan plans with identical objectives (Calculated by JFC. Including loans made on different dates between both parties).

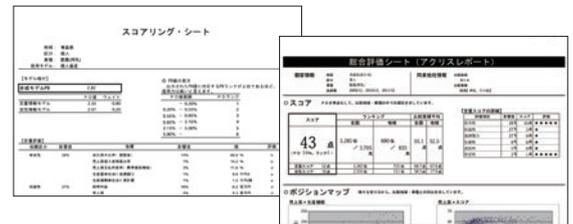
### Agricultural Credit Risk Information Service (ACRIS)

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, 2020, a total of 134 financial institutions had signed a basic agreement with the AFFF Unit.

93 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, 2020)

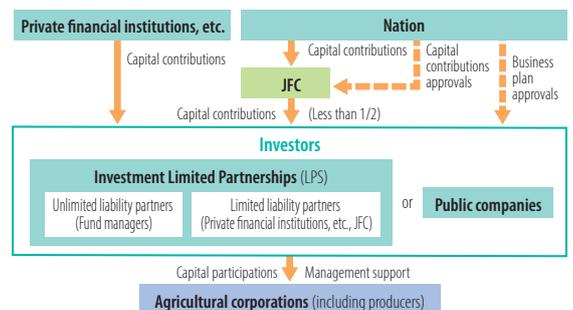
	Banks	Shinkin banks	Credit cooperatives	Total
Hokkaido	1	12	2	15
Tohoku	7	5	1	13
Kanto	3	8	2	13
Chubu	7	23	4	34
Kinki	5	10	—	15
Chugoku	2	11	1	14
Shikoku	5	2	—	7
Kyushu	10	12	1	23
<b>Total</b>	<b>40</b>	<b>83</b>	<b>11</b>	<b>134</b>
(Of these, institutions that developed new programs)	(32)	(55)	(6)	(93)

### 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, 2020)

	LPS	Public companies
Number of capital contributions	15 associations	1 company
Pledged investment amount or investment amount (of which invested by JFC)	7.26 billion yen (3.56 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/small 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

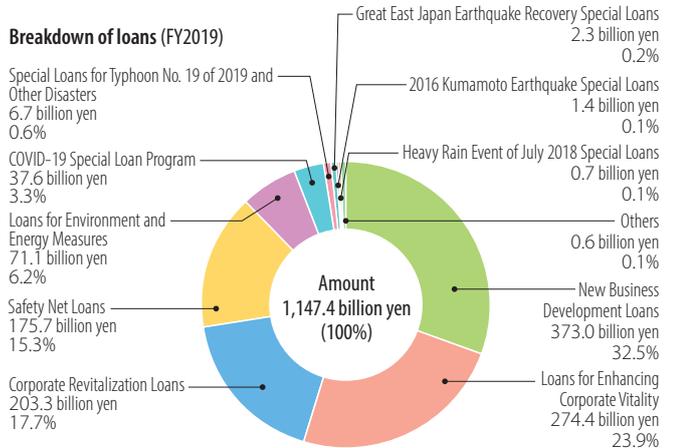
Policy-based financing in Japan provides financial support under the nation's key policies towards certain fields, such as new business development, business revitalization, business succession, and overseas expansion, that involve high risks.

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 and micro/small businesses 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.



Note: Loans include corporate bonds, but excluding loans to Small and Medium Business Investment & Consultation Co., Ltd. Also, performance for respective loans 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/small businesses, these programs focus on the acceptance of insurance on Credit Guarantee Corporations (CGCs) guaranteed liabilities associated with loans to SMEs and micro/small businesses.

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

Note: Suspending the acceptance of new insurance since FY2003, 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" and "guarantee-type."

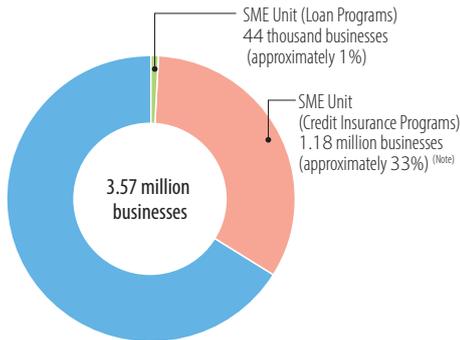
## SME Unit's Clients

SMEs and micro/small businesses 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 and micro/small 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.

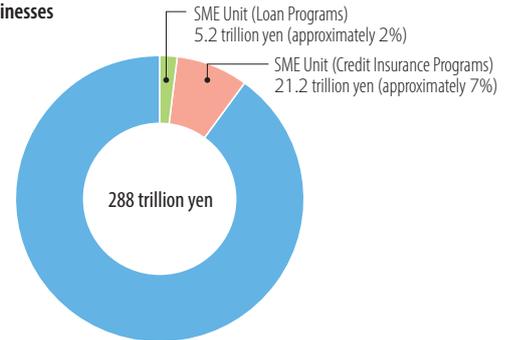
The SME Unit provides a wide range of support to meet the individual needs of each SME and micro/small business through its financial tools, Loan Programs, Credit Insurance Programs and Securitization Support Programs.

Share of SME Unit's clients in total number of businesses



Note: Number of businesses utilizing the Credit Guarantee System  
Sources: Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry, "2016 Economic Census for Business Activity," 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/small businesses



Source: Bank of Japan, "Deposits, Vault Cash, and Loans and Bills Discounted," and others.

The SME Unit facilitates funds to 1.22 million SMEs and micro/small businesses (approximately 34%) and accounts for 9% of outstanding loans to SMEs and micro/small businesses.

### Characteristics of SME Unit's Clients

#### Loan Programs (Direct Loans)

- Number of businesses ..... 44 thousand businesses
- Average loan for FY2019
  - Average loan amount per business ..... 80 million yen
  - Average term of loan ..... 9 years and 5 months
  - Average amount of capital per business ..... 38 million yen
  - Average number of employees per business ..... 72
- Approximately 78% of outstanding loans are loans to businesses with 20 employees or more, and approximately 92% have capital of 10 million yen or more.
- Covers a wide range of industries particularly manufacturing (approximately 46% of outstanding loans as of the end of FY2019)

#### Credit Insurance Programs

- Number of businesses ..... 1.18 million businesses <sup>(Note)</sup>
- Average insurance for FY2019
  - Average amount of insurance acceptance per business... 18 million yen
  - Average term of insurance ..... 4 years and 11 months
  - Average number of employees per business ..... 7
- Approximately 76% of the outstanding amounts of insurance are insurance to businesses with 20 employees or less, and approximately 72% have capital of 10 million yen or less.
- Covers a wide range of industries

Note: Number of businesses utilizing the Credit Guarantee System

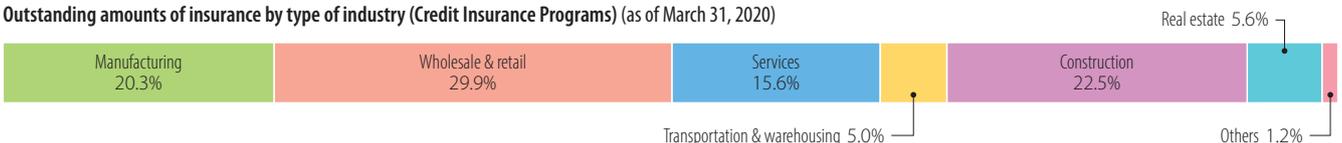
Note: Results are current as of March 31, 2020.

The SME Unit also helps to maintain employment, with the number of employees at the 44 thousand businesses receiving support (direct loans) rising to approximately 2.62 million persons (as of March 31, 2020).

Outstanding loans by type of industry (Loan Programs) (as of March 31, 2020)



Outstanding amounts of insurance by type of industry (Credit Insurance Programs) (as of March 31, 2020)



## Loan Programs

### Supplementing private financial institutions both in quality and quantity with a stable supply of long-term funds

#### ● Dedicated to long-term funding

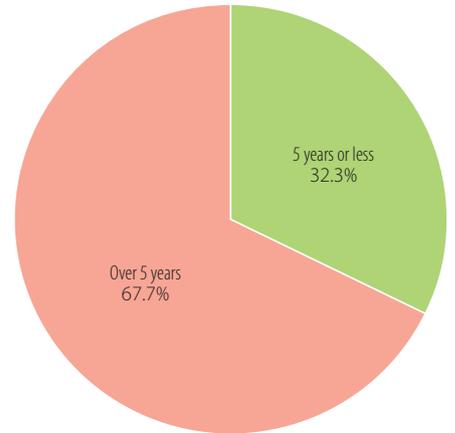
If SMEs are to grow and prosper, they must continually invest capital appropriately and consolidate their financial strength. To do this, they need to be able to raise long-term funds in a stable manner.

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. More than 50% of the SME Unit's loans have lending periods of over 5 years, with fixed interest rates that make it easier to map out repayment schedules.

By complementing 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) (FY2019)



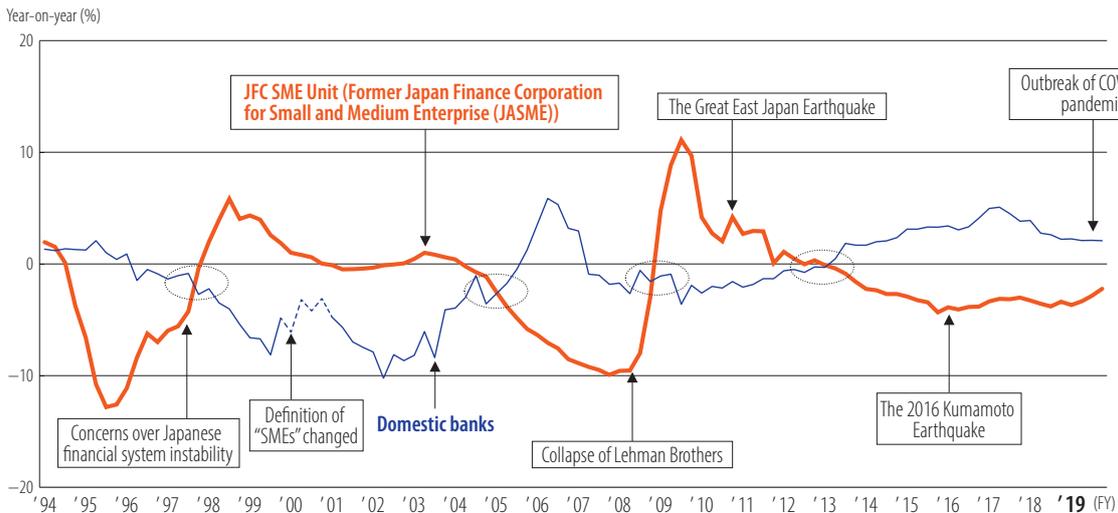
Note: Data are for fixed interest rate loans only.

#### ● Stable supply of business funds

Growth in loans to SMEs was high during the economic downturn precipitated by the collapse of Lehman Brothers and conversely has been declining during the period of economic recovery.

Over the years, the SME Unit has provided SMEs with stable, long-term business funds by supplementing private financial institutions.

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. (As of March 31, 2020, not including credit cooperatives, etc.)  
 2. 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, "Deposits, Vault Cash, and Loans and Bills Discounted"

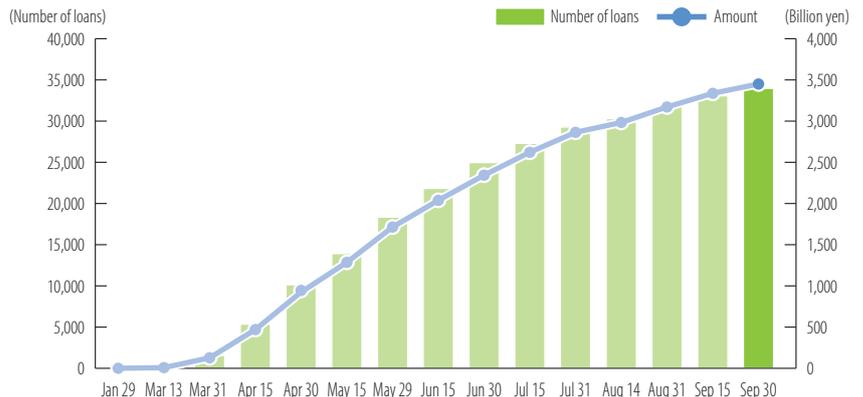
### Promoting special-purpose loans based on government policies to meet the needs of the times

#### ● Safety net

By providing finance through the Great East Japan Earthquake Recovery Special Loans, the 2016 Kumamoto Earthquake Recovery Special Loans, the Heavy Rain Event of July 2018 Special Loans, Safety Net Loans, and COVID-19 Special Loan Program, 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 COVID-19 pandemic.

A total of 33,974 loans amounting to 3,450.5 billion yen have been disbursed to borrowers affected by COVID-19 through September 30, 2020.

COVID-19 related loan results



### ● 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, 677.1 billion yen has been loaned to 14,214 businesses (as of March 31, 2020). In addition, the SME Unit also offers Stock Subscription Rights Loans, an unsecured loan program through acquisition of new share options issued by companies.

Loans to Foster Growth of New Businesses

	FY2017	FY2018	FY2019
Number of businesses	1,318	1,310	<b>1,319</b>
Amount of loans (billion yen)	62.0	62.8	<b>63.4</b>

### ● 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.

Stock Subscription Rights Loans

	FY2017	FY2018	FY2019
Number of businesses	33	32	<b>31</b>
Amount of loans (billion yen)	0.57	1.5	<b>3.04</b>

### ● 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 FY2019, Loans for Overseas Investment and Expansion were utilized by 619 businesses, for a total of 41.7 billion yen.

The SME Unit commenced its operation of the Standby Letter of Credit Program from FY2012 and supports efficient capital procurement overseas.

The Standby Letter of Credit Program supports SMEs and micro/small 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. As of March 31, 2020, the number of affiliated financial institutions, mainly in Asia, was 15 institutions.

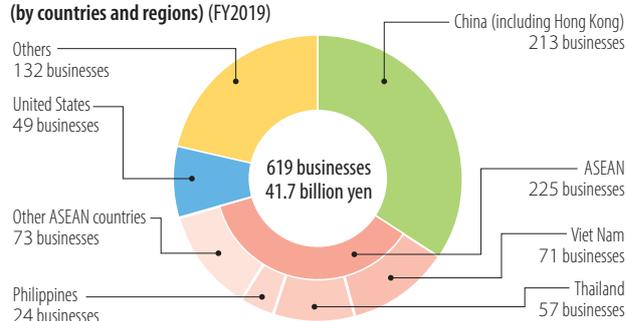
In order to allow more SMEs to make use of this program, JFC established a scheme to partner regional financial institutions throughout Japan in FY2013, and through the end of March 2020, JFC established collaborative relationships with 61 regional financial institutions.

As for FY2019, letters of credit were issued to the financial institutions in Thailand, China, Republic of Korea, the Philippines, Indonesia, Malaysia, Viet Nam, Hong Kong, Mexico, Singapore, and Taiwan, being utilized by 106 businesses.

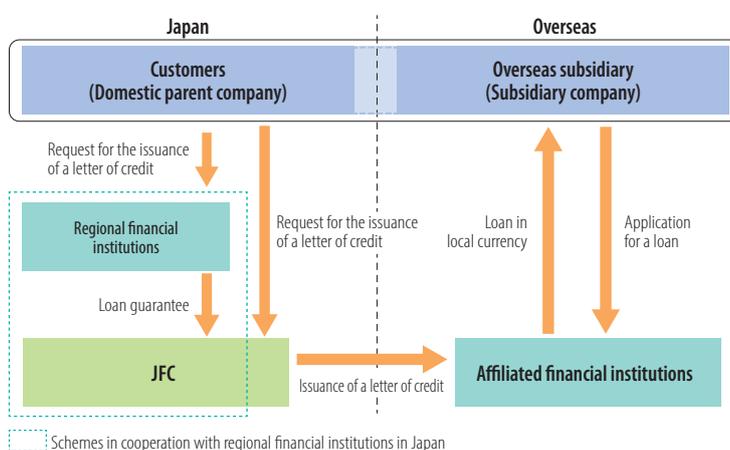
Changes in loan operations



Loans for Overseas Investment and Expansion (by countries and regions) (FY2019)



Standby Letter of Credit Program Schematic Chart



**● Cooperative loans and securitization support in collaboration with private financial institutions**

The SME Unit makes use of various functions including loans, securitization support, and credit guarantees as well as the screening capabilities that it has accumulated over many years and information in a database of approximately 44,000 customers nationwide to collaborate with private financial institutions and provide support to SMEs in the areas of business start-up and new business, overseas expansion, rapid business revitalization, business succession, securitization, management consultation, and human resource development. Specific activities include close exchanges of information with private financial institutions, support for cooperative loans, and joint sponsorship of business matching events and seminars on overseas business development and business succession.

In particular, since FY2018 the SME unit has actively undertaken collaboration with private financial institutions by promoting collaborative measures with private financial institutions to enter a new stage.

**Number of businesses that utilize cooperative loan<sup>(note)</sup> and change in loan amount (SME Unit)**



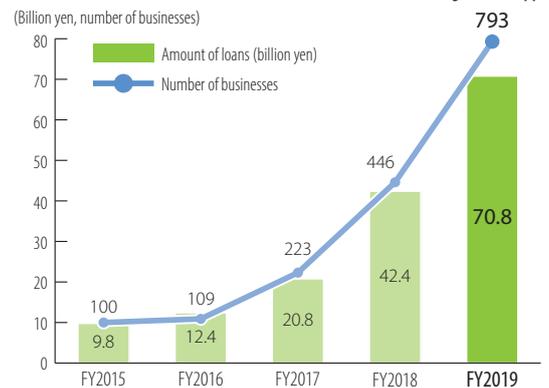
Note: Loans (guarantees) that are disbursed or decided by both JFC and private financial institutions after consultation by both parties for loan plans with identical objectives (Calculated by JFC. Including loans made on different dates between both parties).

**● Disbursement of loans for business succession, consolidation, and invigoration support**

The SME Unit provides support through special loans for business succession, consolidation, and invigoration support so that SME is without a successor can acquire their own shares in order to carry out M&A or secure stable management rights so that they can carry out succession and consolidation of their businesses or companies.

The Small and Medium Enterprise Agency positioned the promotion of business revitalization through succession, reorganization, and consolidation as a priority measure for FY 2018 and later. The SME Unit will continue to use these loan programs to support SMEs that are undertaking business or company succession and consolidation.

**Disbursement of loans for business succession, consolidation, and invigoration support**



**Supporting the growth of businesses**

**● Businesses that have utilized JFC funds are flourishing in many fields**

A total of 676 businesses<sup>(Note)</sup> have gone public after receiving support from the SME Unit, representing roughly 20% of all Japanese businesses that are publicly held. Many of these are flourishing as leading companies in Japan.

The number of businesses going public after receiving support from the SME Unit since 1989 is 503<sup>(Note)</sup>, accounting for roughly 20% of the total number of businesses that went.

Note: The number of publicly listed businesses is as of March 31, 2020 (excluding delisted businesses and businesses that have dissolved due to merger, etc.).

**Businesses that went public after receiving support from the SME Unit**



**Businesses that went public after receiving support from the SME Unit since 1989**



Source: JFC SME Unit. The number of publicly held businesses is as of March 31, 2020. Businesses 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**

INAMORI Kazuo, 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).

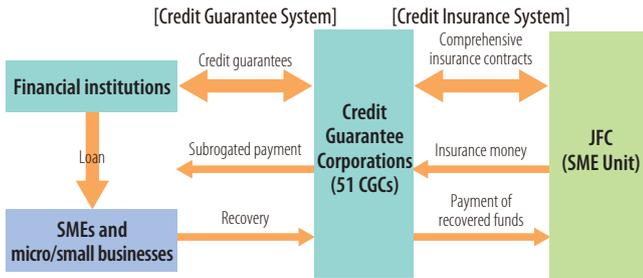
## Credit Insurance Programs

### Facilitating the smooth flow of funds to SMEs and micro/small businesses by working together with the Credit Guarantee System

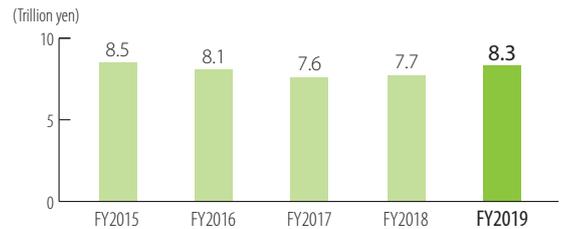
#### ● Role of the Credit Insurance System

The SME Unit insures guaranteed liabilities (credit guarantees) provided by CGCs to SMEs and micro/small 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/small 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/small businesses. 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 amounts of insurance acceptance



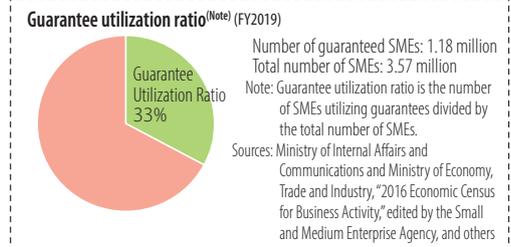
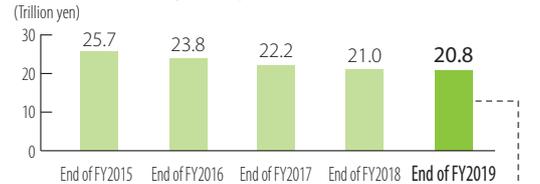
#### ● 33% of SMEs utilize the Credit Supplementation System

As of March 31, 2020, the portion of outstanding loans to SMEs guaranteed by CGCs (outstanding guaranteed liabilities) amounted to 20 trillion yen, accounting for 7% of all loans to SMEs.

Moreover, 1.18 million SMEs and micro/small businesses, accounting for 33% 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/small businesses, and to their growth and prosperity by facilitating smooth flow of funds.

#### Changes in outstanding guaranteed liabilities and guarantee utilization ratio of 51 CGCs throughout Japan



## 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 FY2019, the "synthetic CLO of regional financial institutions (Clover 2020 LLC)" was issued in the securitization support purchasing business. Besides entering into credit default swap (CDS) contracts with 30 regional financial institutions, the SME Unit acquired 5.8 billion yen of the 32.1 billion yen in corporate bonds issued by the special-purpose company (SPC) (Clover 2020 LLC), and also guaranteed 6.0 billion yen in the bonds. 33.2 billion yen in unsecured loans were provided to 1,793 businesses in 35 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

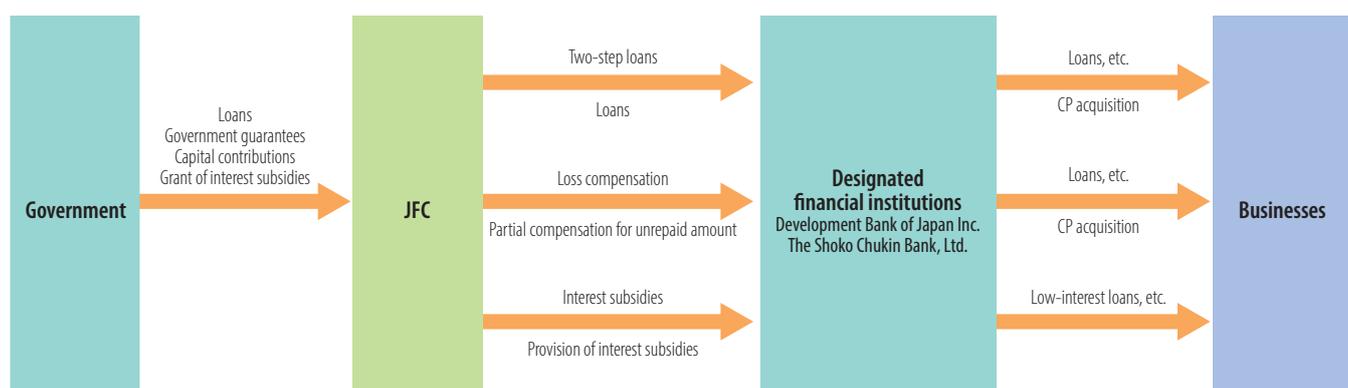
##### Guarantee-type

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

# 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 a business's credit risk 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 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
- Cases related to COVID-19 pandemic

(As of July 31, 2020)

### Loans (two-step loans)

JFC provides loans from fiscal loan funds, etc. to designated financial institutions. The balance as of March 31, 2020 was 1,327.7 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 March 31, 2020 was 598.6 billion yen (on a basis of reports from designated financial institutions).

### Results of operations to facilitate crisis responses

(Billion yen)

	Second Half FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
<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	85.4	—	35.0
Loans, etc.	1,130.3	3,529.4	405.2	1,153.4	733.7	559.3	130.0	105.2	529.2	85.4	—	35.0
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	89.2	1.0	0.8
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	89.2	1.0	0.8
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	12.6	4.9	2.7

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 2020.

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 2020, with loss compensation underwritten by JFC for losses incurred until May 10, 2020.

Equity participation figures (pertaining to the Act on Special Measures for Industrial Revitalization) are the amounts 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 2019 (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 (Act 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 March 31, 2020 was 19.4 billion yen.

- Notes: 1. Loans provided by JFC from 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

(Billion yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Two-step loans	20.0	1.3	7.8	10.6	2.9	1.1	1.0	0.5	—	—

- 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 the end of March 2020.

## Overview of Operations to Facilitate Business Restructuring Promotion

In accordance with the Industrial Competitiveness Enhancement Act (Act 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 special business restructuring certified by competent ministers for the purpose of improving business productivity in order to enhance industrial competitiveness. The balance as of March 31, 2020 was 113.5 billion yen.

- Notes: 1. Loans provided by JFC from fiscal loan funds to designated financial institutions.  
 2. Financial institutions that submit applications and receive designations from competent ministers.  
 3. Business who implement approved business restructuring including their related business operators or businesses who implement approved special business restructuring including their related business operators that prepare plans for business restructuring, etc., and receive approval from competent ministers.

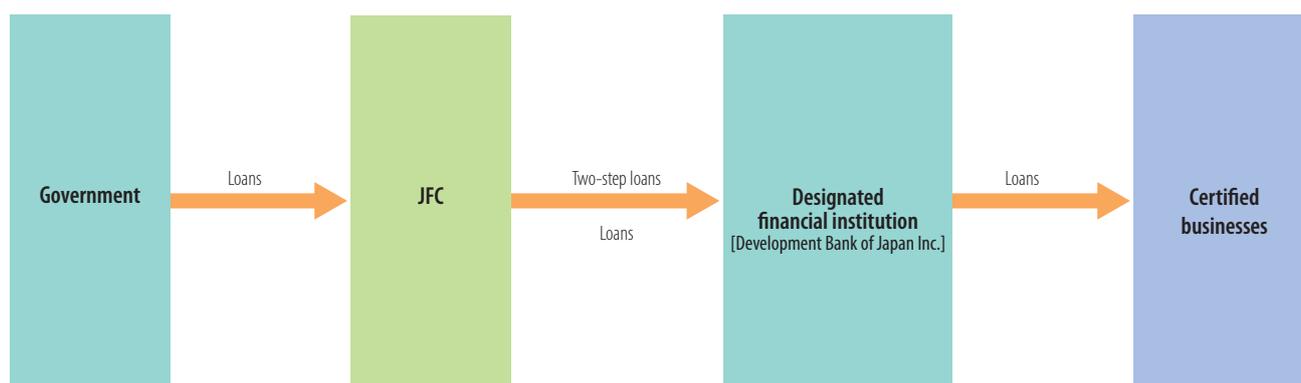
### Results of Operations to Facilitate Business Restructuring Promotion

(Billion yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Two-step loans	—	25.0	—	20.0	—	—	—	—	100.0

- 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 the end of March 2020 (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 (Act 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





## 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, financing, and involvement in local economies and communities.

#### – Main Surveys (conducted in FY2019) –

- Survey on Business Start-ups (FY2019 regular and special surveys)
- Panel Survey on Business Start-ups
- Survey on Starting Businesses and Entrepreneurial Minds
- Alternative Finance for SMEs in Japan
- Survey on Business Succession of SMEs
- Survey on Retirement of Business Owners and Business Closure

#### – Main Research Papers and Reports (released in FY2019) –

- ◇ Actual State of Quasi-Entrepreneurs and the Role in Promoting Entrepreneurship
- ◇ Factors that have an Impact on the Job Satisfaction of Micro Business Employees
- ◇ Decisive Factors in Corporate Performance After Business Succession
- ◇ Actual State of Micro Businesses Practicing Diverse Work Styles
- ◇ Actual State and Management Issues of "Hobbyist Entrepreneurs" Expanding Entrepreneurship Perspectives
- ◇ Entrepreneurs' Activities to Develop Networks before Business Start-up and how they Contribute to It
- ◇ Growth Patterns and Attributes of Business Start-ups

### ● 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 book of case studies.

#### – FY2019 survey –

- Case Studies on Companies that Customers Choose

#### – FY2019 publication –

- ◇ Overcoming Human Resource Disparities through Diversity

### ● Research on Domestic and International Industry and Regional Economic Trends

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

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

#### – Main Surveys (conducted in FY2019) –

- Measures for SME Mold Manufacturers to Survive in the IT Era
- Actual State of SMEs' Utilization of AI
- SME Technologies That Can Be Used in the Medical Device Manufacturing Industry
- Actual State and Issues of Skill Succession in SMEs
- Measures for SMEs in *Ryokan* and Hotel Businesses to Survive
- New Globalization of SME Machinery Makers

#### – Main Research Papers and Reports (released in FY2019) –

- ◇ Business Development in the Sports Equipment Manufacturing Industry in Response to Structure Changes
- ◇ Responses Required of SME Suppliers in Response to the Spread of Clean Energy Vehicles (CEVs)
- ◇ Reforms Required of SME Hot Spring *Ryokan*: How to Increase Customers
- ◇ Initial Stage of the Utilization of AI among SMEs
- ◇ The SME Mold Manufacturing Industry Addressing a Challenging Business Environment through Utilization of IT

### 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.

In FY2019, the Research Institute held an event on "Regional Revitalization and SME Development in the Tourism Nation Era: Results and Possibilities Brought About by the Increase in Inbound Tourists."

## Publications Issued by the Research Institute

### ● 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 47 (May 2020) —

Impact of SME Closures on the Macro Economy

Consideration of People with a Borderless Awareness on Entrepreneurship

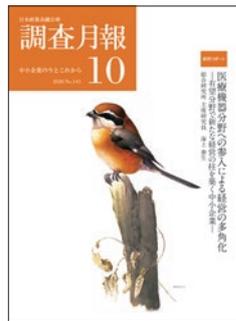
Actual State and Issues Relating to Employment-Like Work Styles

Actual State and Outlook on Alternative Finance for Japan's SMEs



#### 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 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 researches on business start-ups in Japan.

— Main Contents of 2020 Edition —

Work Styles and Awareness of Diverse Business Start-ups

Summary of Results: Survey on Business Start-ups (FY2019)

Summary of Results: Survey on Starting Businesses and Entrepreneurial Minds (FY2019)

The Actual State and Awareness of People who Repeatedly Switch between Business Management and Employment

Actual State and Issues Relating to Employment-Like Work Styles

Significance and Issues Concerning the Promotion of Self-employment and Business Start-ups



#### Research on Retirement of Business Owners, Business Closure, and Business Succession

The actual conditions of business closure resulting from the retirement of owners and the prospects for business succession were analyzed based on the latest survey results. Problems that arise and means of providing support from the perspectives of the Japanese economy, local communities, and SME management are considered.



#### Companies that Customers Choose

Those companies securing regular customers by valuing relationships with them can be regarded as “companies that customers choose.” Based on the management of such companies, this book discusses measures for small companies to build beneficial relationships with customers.

## ■ Systems for Organizational Management ■

Governance .....	58
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# Governance

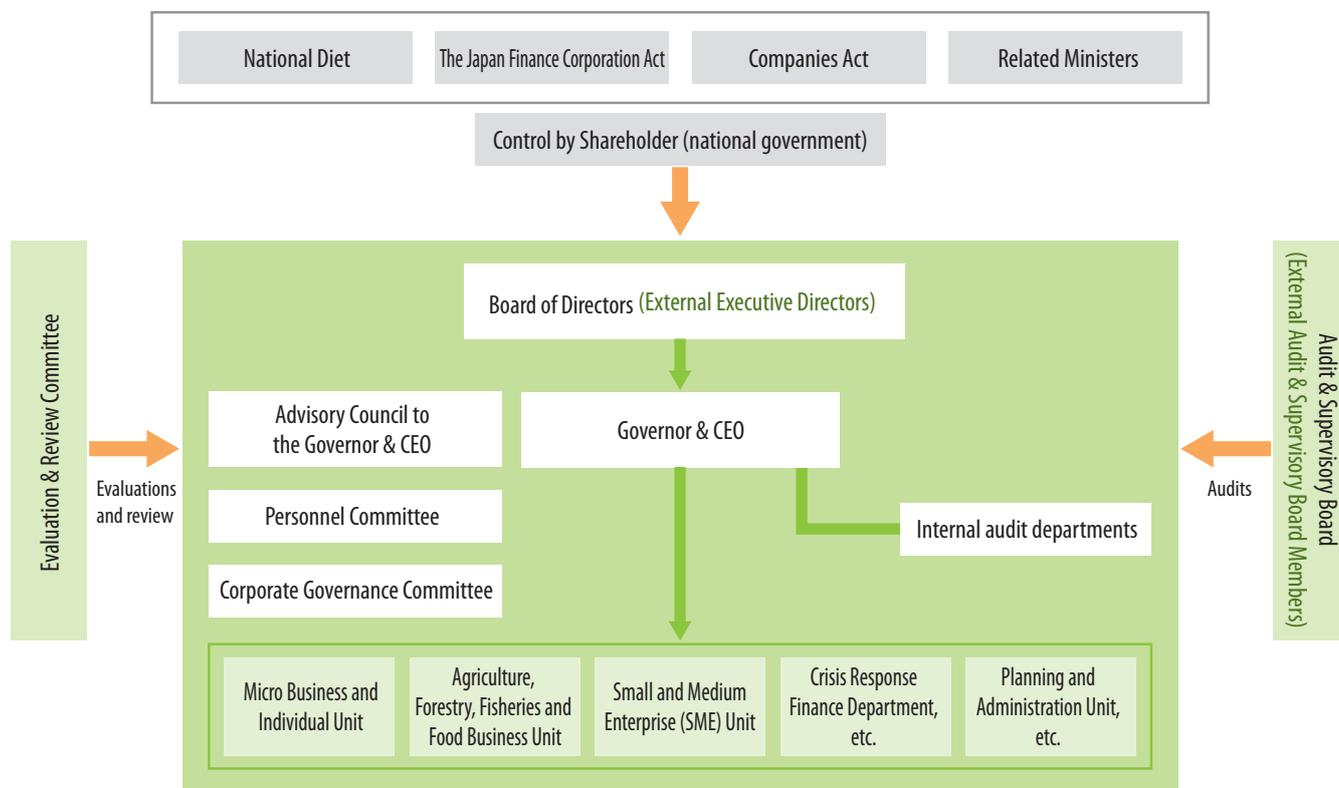
## Fundamental Approach

In order to fulfill its mission as a government-affiliated financial institution, Japan Finance Corporation (JFC) conducts appropriate and sound operations with a constant awareness of its social responsibilities. The governance structure is built from the perspectives of transparency, fairness, and timely action.

To ensure transparency, fairness, and timely action, JFC has established systems for undergoing external evaluations and reviews by an Evaluation & Review Committee as well as internal and external audits by the internal audit departments, the Audit & Supervisory Board, and accounting auditors.

In addition, the Board of Directors has delegated authority to the Governor & CEO to ensure rapid decision making, while transparency and fairness are ensured by the deliberations of bodies such as the Advisory Council to the Governor & CEO.

## Governance Structure



### 1 Control by national government

Unlike general stock corporations, a special law provides that the national government must always own all shares issued by JFC, making JFC a chartered corporation under the strict control of the government. <sup>(Note)</sup>

Note: Control by the government

- Control by the government as a shareholder (pursuant to the Companies Act and other legislation)
- Control by related ministries and agencies (including audits by the Financial Services Agency and the Board of Audit of Japan)
- Control by the Diet (through budgets and other means)

### 2 Board of Directors

JFC's Board of Directors consists of up to 18 directors, 2 of whom are external directors. In principle, the Board of Directors meets monthly to make decisions on key matters relating to JFC operations and for directors to make periodic reports on the performance of their duties.

### 3 Audit & Supervisory Board

The Audit & Supervisory Board comprises 4 members, 3 of whom are external members. The Audit & Supervisory Board members attend key meetings, including meetings of the Board of Directors, review significant documents, periodically meet with directors, and take other measures to monitor the performance of duties by the directors pursuant to fundamental audit policies and audit plans adopted by the Audit & Supervisory Board.

## 4 Evaluation & Review Committee

JFC established an Evaluation & Review Committee comprised of external advisers based on a decision made by the government (regarding the designing of a system pertaining to policy-based finance reform). The purpose of the Committee is to evaluate and review whether the corporation's management and operations are performed properly and efficiently in accordance with policy goals, and to assess and examine candidates for the positions of director and Audit & Supervisory Board member in order to ensure the fairness and transparency of personnel matters relating to such positions.

The Evaluation & Review Committee evaluates and reviews the management and operations of the overall JFC, as well as that of its individual units. It also evaluates and reviews the performance of the directors responsible for executing JFC operations, and assesses and examines candidates for the positions of director and Audit & Supervisory Board member. The standards and results of evaluations and reviews relating to management and operations are made public.

The members of the Committee consist of Evaluation & Review Members, who are made up of external advisers and JFC's external executive directors, and Expert Members, who are external experts having specialized knowledge about the operations of JFC.

### Member of the Evaluation & Review Committee

(as of October 1, 2020; in Japanese alphabetical order)

#### Evaluation & Review Members

UZAWA Shizuka	External Executive Director, Sapporo Holdings, Ltd.
OTANI Kunio	Chairman and Representative Director, Nichirei Corporation
	External Executive Director, Japan Finance Corporation
SUMI Shuzo	Senior Executive Advisor, Tokio Marine & Nichido Fire Insurance Co., Ltd.
NISHIOKA Seiichiro	Attorney at Law
	Former President, Hiroshima High Court
NUMAGAMI Tsuyoshi	Professor, Graduate School of Business Administration, Hitotsubashi University
MIYAJIMA Kazumi	News Commentator, Nippon Television Network Corporation
WATANABE Yoshiko	Auditor, PMI Japan Chapter
	External Executive Director, Japan Finance Corporation

#### Expert Members

SHOGENJI Shinichi	Professor, Faculty of Food and Agricultural Sciences, Fukushima University
TSURU Kotaro	Professor, Graduate School of Business and Commerce, Keio University
NAKATA Masao	Professor, Faculty of Economics, Seijo University
NEMOTO Tadanobu	Professor, Faculty of Commerce, Chuo University

### Meetings of Evaluation & Review Committee

(Main agenda)

- **First meeting of FY2019 (May 20, 2019)**
  - Report on the FY2019 business management plan
  - FY2018 evaluation of the performance of directors
  - Evaluation and review of candidate directors and Audit & Supervisory Board members
- **Second meeting of FY2019 (July 5, 2019)**
  - Report on the evaluation of FY2018 business performance
  - Performance evaluations of retiring directors
- **Third meeting of FY2019 (November 19, 2019)**
  - Mid-year review of the FY2019 business management plan

## 5 Advisory Council to the Governor & CEO

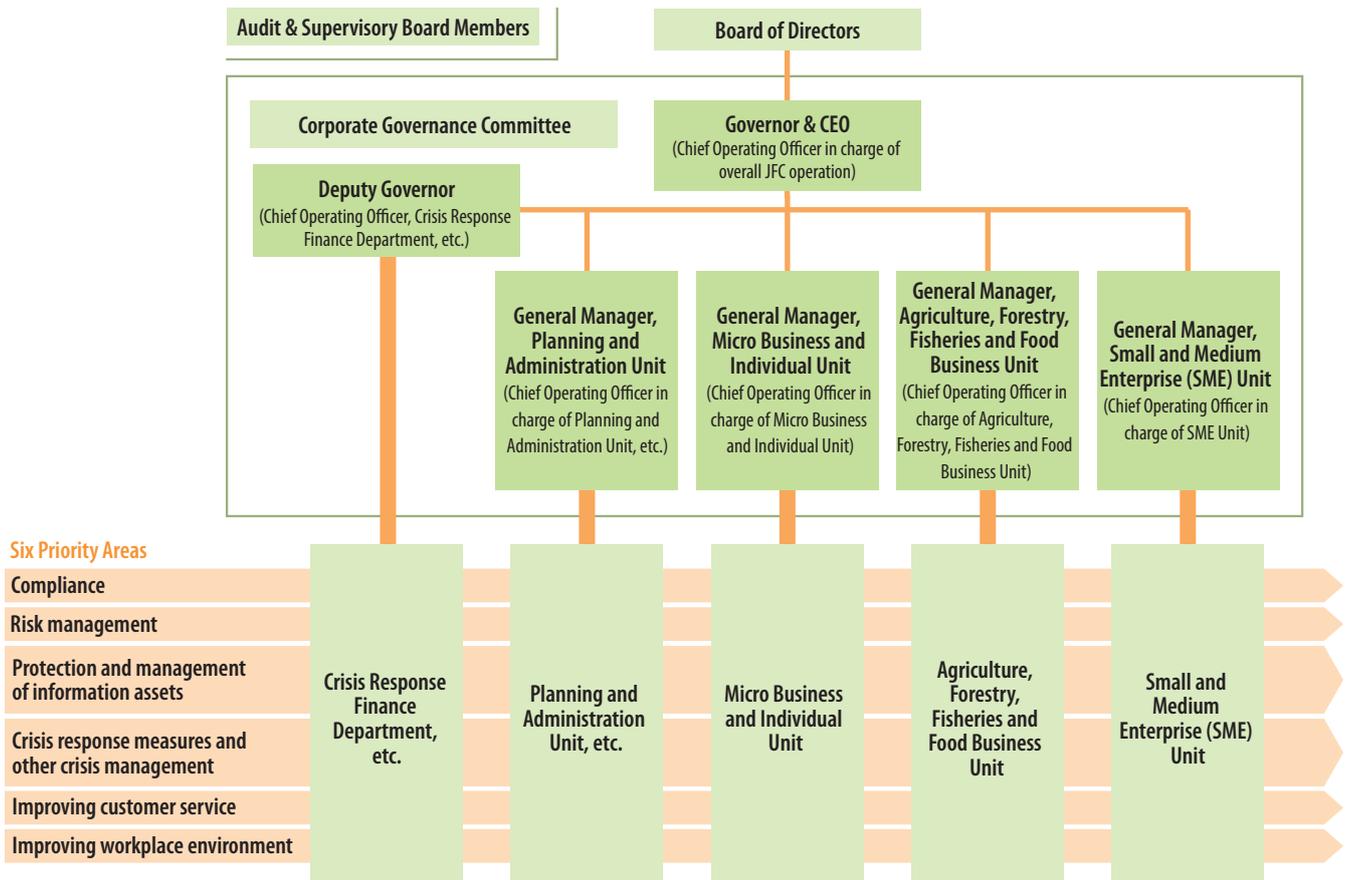
The Advisory Council to the Governor & CEO receives reports and reviews and investigates key matters concerning management of JFC in response to inquiries from the Governor.

## 6 Corporate Governance Committee

JFC has designated six priority areas for action concerning internal control with the aim of achieving sophisticated governance. JFC has appointed operating officers responsible for each of its business units<sup>(Note)</sup> and has clearly established their authority and responsibilities. The operating officers have taken steps to establish a necessary structure in their respective units.

The Corporate Governance Committee deliberates matters related to the six priority areas and which require its attention and control as they relate to JFC's overall operation.

Note: The units are the Micro Business and Individual Unit, the Agriculture, Forestry, Fisheries and Food Business Unit, the SME Unit, the Crisis Response Finance Department, etc., and the Planning and Administration Unit, etc.



## 7 Internal Audit

JFC established the Audit Department and the System Audit Department as the internal audit departments to contribute to effective operations and the fulfillment of its operational objectives. The departments assess the suitability and effectiveness of internal controls over all operations and make proposals for improvements.

The Audit Department and the System Audit Department operate independently from other departments under the direct authority of the Governor. It is responsible for conducting internal audits of all other departments, including JFC's head office, branches, and overseas representative offices.

When conducting audits, the Audit Department assesses and verifies the suitability and effectiveness of internal control structures, the suitability of operational processes, the reasonableness of asset appraisals, and the status of compliance with laws, regulations, and internal rules in individual departments, and makes recommendations for improvement as necessary.

The Governor approves an annual plan for internal audits, and reports concerning the results of internal audits are submitted to the Governor to ensure prompt action concerning matters needing attention.

Proper and effective execution of internal audits by the internal audit departments thus ensure that JFC functions properly as a government-affiliated financial institution and its operations continue to be sound.

## ◆ Fundamental Policy on Internal Control

Pursuant to the provisions of the Companies Act and the Ordinance for Enforcement of the Companies Act (Law No. 86 of 2005), JFC adopted a fundamental policy on internal controls concerning the establishment of structures for ensuring compliance with laws and regulations and proper activities by directors and employees when performing their duties.

### Fundamental Policy on Internal Control

#### Article 1. Systems for ensuring compliance with laws, regulations, and the Articles of Incorporation in the performance of duties by directors and employees

1. JFC shall adopt Regulations Concerning Compliance with Laws and Regulations, as well as other rules concerning compliance, to ensure that the performance of duties by directors and employees, including temporary workers (this definition applies to the remainder of this document), comply with laws, regulations, and the Articles of Incorporation (hereinafter referred to as the "Laws and Regulations"). Furthermore, JFC shall make such regulations known to all directors and employees.
2. Directors and employees shall abide by all rules concerning compliance.
3. JFC shall appoint persons responsible for compliance so as to establish and reinforce structures relating to compliance with the Laws and Regulations.
4. JFC shall establish a committee with the Governor & CEO as its chairman to review key matters relating to compliance and to monitor the status of compliance with the Laws and Regulations.
5. JFC shall establish effective internal reporting systems and operate them appropriately so that material matters relating to compliance can be discovered promptly and necessary corrective measures can be introduced.
6. JFC shall not maintain any relationships whatsoever with antisocial forces. It shall maintain an uncompromising attitude throughout the organization toward antisocial forces, and decisively reject all improper demands from such forces.

#### Article 2. Systems relating to retention and management of information concerning performance of duties by directors

1. JFC shall establish Information Asset Management Regulations and other rules concerning the retention and management of information assets so that information concerning the performance of duties by directors, customer information, and other information handled by JFC can be appropriately retained and managed.
2. JFC shall retain and manage minutes of Board of Directors' meetings and other documents concerning the performance of duties by directors in accordance with laws, regulations, and rules relating to the retention and management of information assets.
3. Directors and employees shall appropriately retain and manage information assets in line with laws, regulations, and rules relating to the retention and management of information assets.

#### Article 3. Regulations and other systems relating to management of loss exposure

1. In recognition of the importance of risk management, JFC shall adopt Comprehensive Risk Management Regulations and other rules relating to risk management, including an organizational structure to enable risk management specific to different types of risks that should be recognized in the performance of operations, as well as comprehensive risk management. JFC shall apply appropriate risk management tools to control various types of risks.
2. JFC shall appoint persons responsible for the management of various types of risks and establish a committee with the Governor & CEO as its chairman to conduct reviews and examinations to ensure effective risk management.
3. JFC shall adopt Crisis Management Regulations and other rules relating to crisis management and establish crisis management systems to prepare for the occurrence of disasters and other critical events.
4. If a critical event occurs that either disrupts or is feared to disrupt normal operations, JFC shall establish a response headquarters as necessary and take measures for the speedy and efficient restoration of operations in accordance with various rules concerning crisis management.

#### Article 4. Systems to ensure efficient performance of duties by directors

1. The Board of Directors shall meet monthly and as necessary to make decisions on significant matters relating to the basic policy of operation for the entire JFC organization, and receive reports from directors concerning the performance status of their duties.
2. JFC shall establish an Advisory Council to the Governor & CEO and other deliberative bodies to ensure the efficient performance of duties by directors.
3. JFC shall clearly define the authority vested in the Governor & CEO and general managers, as well as that vested in directors, managing executive officers, department managers at the head office and other individuals with operational responsibility. Such individuals shall efficiently perform their duties in line with the authority vested upon them.

#### Article 5. Internal audit systems for ensuring proper operations

1. JFC shall adopt Internal Audit Regulations and other rules relating to internal audits to ensure the appropriateness and soundness of its operations.
2. JFC shall establish the internal audit departments, which shall be independent of audited divisions and under the direct authority of the Governor, to handle matters relating to internal audits.
3. The internal audit departments shall perform internal audits pursuant to various rules relating to internal audits under the direction of the Governor & CEO, and report the results of its audits to the Governor.
4. The internal audit departments shall periodically and as necessary, as well as upon request by a director or an Audit & Supervisory Board Member, report the results of internal audits to either the Board of Directors or other organizations or deliberative bodies under the direction of the Governor & CEO.
5. The internal audit departments shall exchange information as necessary with the Audit & Supervisory Board Members and the accounting auditors and shall strive to perform internal audits efficiently under the Governor's direction.

**Article 6. Matters relating to employees assigned to assist Audit & Supervisory Board Members in performing their duties upon request by Audit & Supervisory Board Members**

1. JFC shall assign full-time employees to assist the Audit & Supervisory Board Members in performing their duties.
2. Those full-time employees shall perform their duties in line with instructions from the Audit & Supervisory Board Members.
3. When deemed necessary, the Audit & Supervisory Board Members may assign employees other than the full-time employees referred to above to assist in the performance of audits with the approval of the Governor.

**Article 7. Matters relating to independence from directors of employees assisting Audit & Supervisory Board Members**

JFC shall secure prior approval of the full-time Audit & Supervisory Board Members on any decision concerning personnel evaluations, transfers, or other personnel matters relating to employees assisting with the performance of duties by the Audit & Supervisory Board Members.

**Article 8. Matters relating to the effectiveness of instruction to employees assisting Audit & Supervisory Board Members**

In addition to compliance with the preceding two articles, JFC shall not prevent employees from carrying out directives received from Audit & Supervisory Board Members when assisting such Audit & Supervisory Board Members.

**Article 9. System of reporting by directors and employees to Audit & Supervisory Board Members and other systems of reporting to Audit & Supervisory Board Members**

1. The representative director and other directors who perform operational duties shall make accurate reports concerning the status of performance of their duties from time to time at the Board of Directors' meetings and other important meetings attended by the Audit & Supervisory Board Members.
2. In the event that a director or an employee discovers any fact that has the potential of inflicting substantial harm upon JFC, or improper conduct or serious violations of the Laws and Regulations, such director or employee shall promptly report the fact to the Audit & Supervisory Board Members.

**Article 10. System to ensure that directors and employees that have reported to Audit & Supervisory Board Members are not treated unfairly due to having submitted such reports**

JFC shall not unfairly treat directors and employees that have submitted reports in accordance with Paragraph 2 of the preceding article.

**Article 11. Matters relating to policy on procedures for prepayment or reimbursement of costs incurred due to the execution of Audit & Supervisory Board Members directives as well as the processing of costs and debt incurred due to the execution of other related duties**

JFC shall not refuse invoices for costs incurred from the Audit & Supervisory Board Members seeking the advice of attorneys, certified public accountants, and other professionals concerning audits when deemed necessary for the effective performance of audits.

**Article 12. System for ensuring effective performance of audits by Audit & Supervisory Board Members**

1. The Audit & Supervisory Board Members shall be entitled to request reports from directors and employees concerning the status of performance of their duties whenever they determine such reports are necessary for the effective performance of audits. A director or employee who receives such a request shall promptly furnish a report in line with the request.
2. The Audit & Supervisory Board Members may attend important meetings, including the Board of Directors' meetings and those of the Advisory Council to the Governor & CEO, to express their opinions as necessary. Audit & Supervisory Board Members may also request to review minutes and other related documents concerning meetings they did not attend.
3. The Governor & CEO shall hold periodic meetings with the Audit & Supervisory Board Members to exchange opinions.
4. The Audit & Supervisory Board Members may request the cooperation of the internal audit departments and divisions that oversee risk management and compliance matters.
5. The Audit & Supervisory Board Members may seek the advice of attorneys, certified public accountants, and other professionals concerning audits when deemed necessary for the effective performance of audits.

## Priority Areas of Internal Control

JFC has designated six priority areas for action concerning internal control with the aim of achieving sophisticated governance.

### 1 Compliance

JFC is pursuing highly transparent and efficient business operations and developing a compliance regime aimed at not only strict compliance with laws and regulations but also compliance fully congruent with social norms.

#### (1) Compliance Manual

JFC publishes a Compliance Manual that serves as a guidebook for practicing compliance, and ensures that all management and staff are fully knowledgeable of its contents.

#### (2) Internal Reporting System

With the goal of promptly recognizing and resolving behavior that poses or has the potential of posing compliance issues, JFC has established compliance help lines inside the company and at an attorney's office to allow employees to directly inform the company of any such behavior.

#### (3) Handling of Antisocial Forces

Recognizing that adopting a firm stance and rejecting all relationships with antisocial forces is essential for maintaining the trust of the public in JFC and for ensuring the appropriateness and soundness of its operations, JFC responds properly to antisocial forces in cooperation with the police and other competent organizations.

#### (4) Preventing Insider Trading

In an effort to prevent insider trading by its management and staff, JFC has adopted regulations that stipulate fundamental compliance requirements that all management and staff must follow. They are all required to be thoroughly knowledgeable of these regulations and to comply with them.

### 2 Risk Management

JFC is conducting integrated management of the risks it is facing to perform sustainable and stable policy-based financing.

#### Risks Subject to Management

Managed risk	Definition
Credit risk	Potential losses from a decline or loss of the value of credit assets (including off-balance sheet assets) due to deterioration in the financial conditions of borrowers.
Credit insurance underwriting risk	Potential losses that result from unexpected fluctuations in the covered risk occurrence rate, collection rate, or other factors not anticipated when insurance premiums are set.
Market risk	Potential losses from changes in the value of assets and liabilities (including off-balance sheet assets and liabilities) or in returns generated by them, as a result of fluctuations in various market risk factors, including interest rates, foreign exchange rates and stock prices.
Liquidity risk	Potential losses from difficulties in funding due to a maturity mismatch between financing and funding or from being forced to fund at an interest rate significantly higher than in normal circumstances, as well as potential losses from a failure to make transactions in the market due to market turmoil or from being forced to make transactions at a significantly disadvantageous price than in normal circumstances.
Operational risk	Potential losses from inadequate or failed internal processes, people and systems or from external events.
Administrative risk	Potential losses from negligence of duty or from accidents or misdeeds.
Information technology risk	Potential losses from breakdown or malfunction in computer systems as well as from their misuse.
Human risk	Potential losses as the result of inappropriate work conditions, improper workplace and safety environments, personnel turnovers, declines in morale, inadequate employee training, etc.
Legal risk	Potential losses resulting from violations of laws, breaches of contracts, signing of inappropriate contracts, and other legal factors.
Tangible asset risk	Potential losses from damage to tangible assets as the result of a disaster or other events.
Reputational risk	Potential losses and damage from a decline in creditworthiness caused by such factors as a tarnished reputation or spread of rumors.

### 3 Protection and Management of Information Assets

JFC has built a structure for conducting proper and efficient operations by adopting a security policy and ensuring information security that meets the highest standards. JFC also conducts appropriate document management pursuant to the provisions of the Act on the Management of Official Documents (Act No. 66 of 2009).

#### Security Policy

Japan Finance Corporation (hereinafter “JFC”) adopts the following fundamental policy concerning the use and management of information assets and will properly handle, manage, protect, and maintain information assets to achieve information security that meets the highest standards so as to support the proper and efficient operations of JFC.

##### (1) Basic Principles

JFC shall use and manage information assets in line with the basic principles set forth hereunder while complying with all applicable laws, regulations, and rules.

A. Information assets shall be used appropriately and only for their intended purposes.

B. Authority concerning the management of information assets shall be granted only after careful consideration of the nature of the work and necessity.

C. When adopting and implementing information security measures, the following matters shall be taken into consideration, based on the nature of the work:

a. clarification of responsibilities and roles within implementation structures;

b. timely and prompt implementation of necessary, sufficient, effective, and efficient measures.

##### (2) Proper Management of Information Assets

Information assets refer to information and information systems. Information assets are classified according to such factors as their degree of confidentiality, completeness, usability, and importance, and are managed appropriately in line with their classification.

##### (3) Information Asset Management Structures

Structures shall be established for ensuring the security of information assets.

##### (4) Protection of Personal Information

JFC shall protect and manage personal information by establishing a Privacy Policy in line with the provisions of the Act on the Protection of Personal Information Held by Incorporated Administrative Agencies (Law No. 59 of 2003).

##### (5) Information Security Training

JFC shall provide necessary training to all officers and employees who handle information assets as called for by the duties they perform and when needed so as to ensure that they understand the requirements imposed by applicable laws and regulations, as well as by this policy and other applicable rules, and prevent the occurrence of information security-related problems.

##### (6) Outsourcing of Work

In the event that JFC engages persons other than its officers and employees to manage its information assets by outsourcing such work, it shall verify that information security is ensured and take appropriate measures in line with the content of the information assets.

##### (7) Responses to Information Security Incidents

A. In the event of improper disclosure of personal or customer information or other incidents that present information security problems, JFC shall promptly introduce appropriate measures.

B. In the event information is obtained via cyber-attack of information systems, JFC shall promptly contact the Ministry of Finance.

##### (8) Evaluation and Review

This policy shall be evaluated and reviewed as necessary to enable flexible responses to such changes in the external environment as the enactment, amendment, or repeal of applicable laws and regulations, as well as innovations in information security technology, and to those in the internal environment, including organizational and operational changes, and updates to JFC's information systems.

#### 4 Crisis Response Measures and Other Crisis Management

JFC has in place such organizations as a disaster and accident response headquarters, and an overseas crisis management committee to restore and maintain appropriate operational structures in the event of such disasters as earthquakes or fire, as well as emergency situations, such as accidents, or the outbreak of an infectious disease. We have also established the Business Continuity Plan (BCP <sup>(Note)</sup>) in anticipation of such disasters as earthquakes occurring in the Tokyo Metropolitan area or new strains of pandemic influenza to limit the effects of these disasters to the extent possible and facilitate a quick recovery.

Note: The Business Continuity Plan (BCP) enables the continuation or early restoration of core business operations which thereby minimizes economic loss in the event of a natural disaster or some other emergency situation.

#### 5 Improving Customer Service

JFC strives to protect the interests of customers and enhance their convenience, and assumes the perspective of customers in its behavior under its Customer Protection Management Policy.

##### Customer Protection Management Policy

- (1) Japan Finance Corporation (hereinafter "JFC") shall continuously protect the interests of its customers and strive to enhance the convenience afforded to customers by providing appropriate and adequate explanations and support in line with applicable laws and regulations.
- (2) JFC shall provide customers with appropriate and adequate explanations and information concerning transactions and products.
- (3) JFC shall respond fairly, promptly, and sincerely to customer inquiries and complaints in order to gain their understanding and trust, and shall strive to properly reflect them in its operations.
- (4) JFC shall appropriately protect and manage customer-related information.
- (5) JFC shall take steps to ensure that customer information is properly managed and responses to customers are properly handled when it outsources its work to outside parties.

\* In this policy, "customers" refer to corporations, other organizations, and individuals who meet the following criteria:

- i) Those who currently use JFC's services;
- ii) Those who previously used JFC's services; and
- iii) Those considering the use of JFC's services.

\* JFC operations that require the protection of its customers are stipulated in Article 11 of the Japan Finance Corporation Act (Act No. 57 of May 25, 2007) and other JFC operations stipulated by laws and regulations.

#### 6 Improving Workplace Environment

JFC conducts an awareness survey on all employees once per year to assess working environment and other challenges and help determine future initiatives to overcome these challenges. JFC makes active use of the views and assessments of the workers expressed in this survey to improve the workplace environment.

## Promote Diversity and Improve the Workplace Environment

JFC has adopted a managerial policy of creating a workplace where employees can engage in meaningful work and promotes career development for women while also striving to create a workplace where it is possible regardless of gender to carry out work-life management<sup>(Note)</sup>.

(Note) "Work-life management": Employees actively and willingly managing how they work and live so that they can enrich both their work and lives as they wish while also fulfilling their roles and responsibilities in each.

### 1 Promotion of Career Development for Women

We set a target of women making up 7% or more of managerial staff by April 2023<sup>(Note)</sup>, and are undertaking training and promoting of women to achieve that target.

Among the specific measures are a training system to take participants from clerical work to business operations, and female employees are sent to external seminars with the aim of increasing their skills. A training program launched in FY2011 for female management candidates to be appointed to management is currently being continued into a third phase.

In addition, a Mentoring System was introduced for young employees in which veteran employees act not only as advisors for work related issues but also provide individual support by discussing issues related to work-life management, etc.

(Note) Act on Promotion of Women's Participation and Advancement in the Workplace (Act No. 64 of 2015)

### 2 Create a Workplace Where Diverse Human Resources Can Fulfill Their Potential

We are working to create a workplace where diverse human resources can fulfill their potential, such as by establishing teaching units that deepen understanding of the importance of diversity at each training level.

### 3 Supporting Work-life Balance

In order to realize flexible working styles, we are developing measures to support work-life balance in accordance with the current life stage of employees.

Also JFC has obtained special Platinum Kurumin (certification) in accordance with the Next Generation Nurturing Support Measures Promotion Act (Act No. 120 of 2003) as an enterprise that offers superior child-rearing support.



@Platinum Kurumin

### 4 Promotion of Diverse Work Styles

As part of our implementation of work-life management, we promote the implementation of "two no overtime days per week" and the planning vacation acquisition. In addition, we are promoting participation in childcare by men by encouraging men to take childcare leave. Through these initiatives, we are raising time productivity and promoting diverse work styles for each employee.

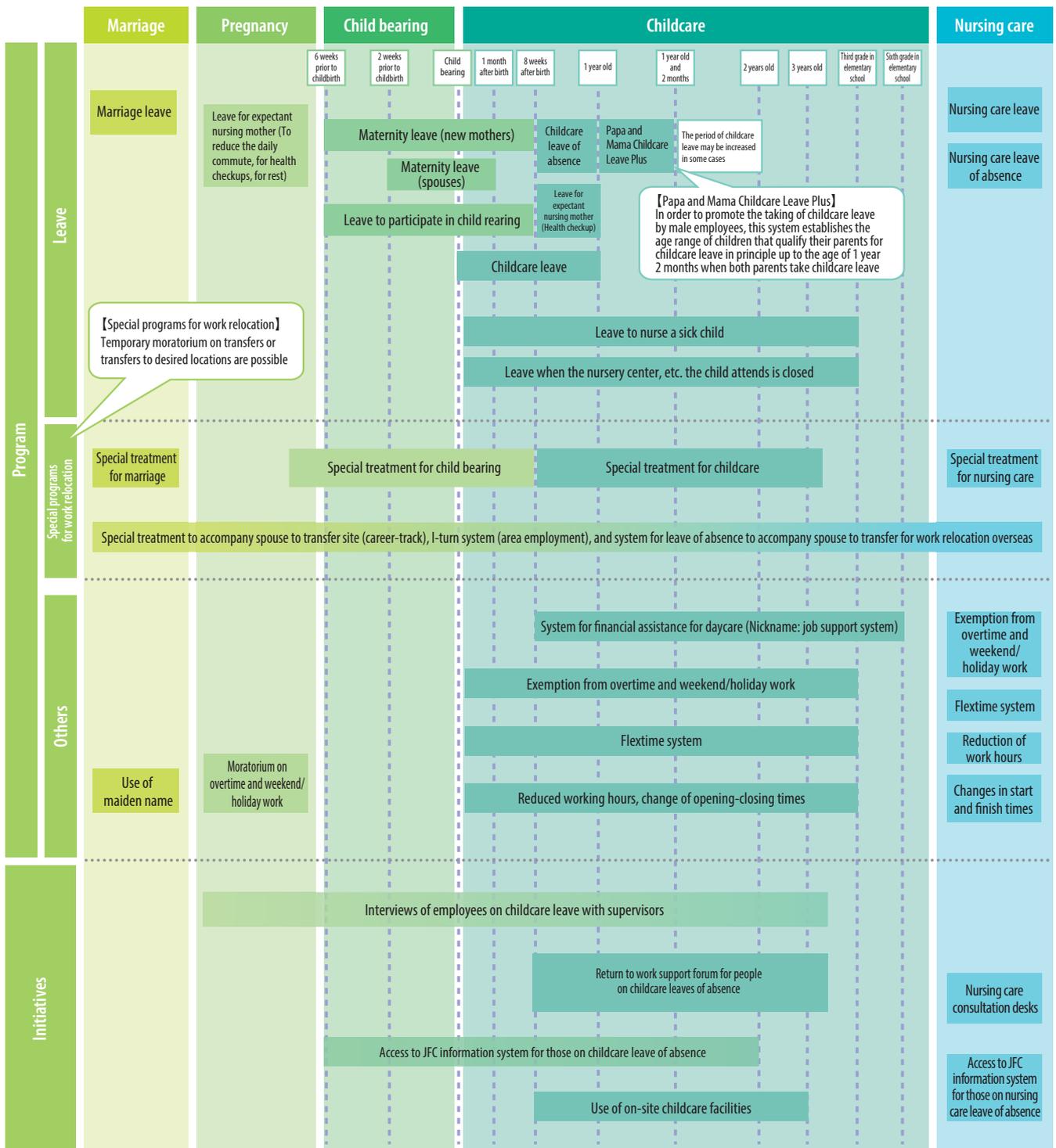
### 5 Promotion of Employee Activities

We are undertaking activities to solve regional and workplaces issues through active collaboration with private business firms and local public bodies at all 152 branches nationwide, mainly through the ten "Regional Committees for the Promotion of Diversity" blocks (located in the Sapporo, Sendai, Saitama, Tokyo, Yokohama, Nagoya, Osaka, Hiroshima, Takamatsu, Fukuoka branches). In addition, we appointed seven dedicated staff members nationwide to promote diversity and created a system that makes coordination and implementation of activities within each block easier.

### 6 Reflection of Employee Needs in All Policies

Once a year we conduct an awareness survey of all employees to ascertain problems related to workplace environments. We reflect the views of the employees expressed in this survey in all of our policies to improve workplace environments.

Balance support measures for major life stage



## Protection of Personal Information

JFC adopted and made available to the public its Privacy Policy with provisions necessary for the appropriate management of personal information in its possession in accordance with the Act on the Protection of Personal Information Held by Incorporated Administrative Agencies (Law No. 59 of 2003) and other laws relating to the protection of personal information.

### Privacy Policy

Japan Finance Corporation (hereinafter "JFC") positions the trust of our clients as our first priority, deeply recognizes the importance of our clients' personal information, and believes that it is our duty to our clients to properly manage and protect their personal information.

With a view to protecting our clients' personal information, JFC will conduct our operations in a manner whereby we observe the Act on the Protection of Personal Information Held by Incorporated Administrative Agencies, etc. (hereinafter called the "Law"), the Guidance concerning the Measures to Properly Manage the Personal Information Held by Incorporated Administrative Agencies, etc., and so forth.

#### 1 Acquisition of Personal Information

JFC will acquire our clients' personal information through proper and lawful means.

When we acquire personal information from our clients directly in writing, we will specify in advance the purposes for its use that are within the necessary scope of JFC's operations.

#### 2 Use of Personal Information

JFC will specify the purposes for use in obtaining the necessary personal information of our clients as listed below, and will use it within the scope that is necessary to achieve such purposes:

##### For all JFC Sectors

- ① To confirm the clients' personal identity (including qualifications and requirements for our various Loan Programs).
- ② To receive loan applications, decide loan approvals, and conduct loan management after disbursements and/or repayments.
- ③ To make contracts, and exercise legal rights and obligations.
- ④ To conduct surveys and research through issuing questionnaires and providing reference information.
- ⑤ To respond properly and smoothly to questions and inquiries, and deal with transactions including queries from JFC.

##### Micro Business and Individual Unit

- ① Direct mailings providing information on Loan Programs, etc. <sup>(Note)</sup>

Note: JFC may use direct mailing to furnish its customers with information on its Loan Programs that it believes to be in the best interest of the customers. Customers who do not wish to receive such mailings may request to be removed from the mailing list by contacting a local branch of the Micro Business and Individual Unit.

- ② Disclosure to designated recipients of information listed in the following table.

Customer information disclosed	Recipient
a. Customers who inquire about or submit applications for business improvement Loan Program	Chambers of commerce and industry, commerce and industry associations, and prefectural federations of societies of commerce and industry
b. Customers who inquire about or submit applications for environmental health improvement Loan Program	Prefectural environmental health industry associations and prefectural environmental health business guidance centers
c. Customers who submit applications for general loans, Managerial improvement Loan (limited to Micro/Small Business Management Development Support Fund), special loans and environmental health business loans (excluding environmental health improvement loans) and educational Loan Program	Consumer credit agencies
d. Customers who submit applications for government pension- and mutual aid pension-backed Loan Programs	Government agencies that determine government pensions, etc.
e. Customers who submit applications for loan guarantees by Educational Financing Guarantee Fund (limited to education Loan Program)	Educational Financing Guarantee Fund
f. Customers who submit applications for group credit life insurance	Kouko Group Credit Life Insurance Association
g. Customers who submit applications for loans with guarantee from Credit Guarantee Corporations	Prefectural Credit Guarantee Corporations

##### Agriculture, Forestry, Fisheries and Food Business Unit

- ① Screening procedures by administrative agencies necessary for loans, and procedures for receipt of confirmatory documents and opinion letters from administrative agencies necessary for loans.
- ② Disclosure of information to third parties to the extent necessary for proper execution of operations, such as reporting to competent ministries and supervisory agencies.
- ③ Preparation of documents for use in making loan decisions, such as by conducting data analysis.
- ④ Disclosure of information relating to loans/repayment, such as the mailing of payment notices.
- ⑤ Surveys and research using questionnaires and so on, and the provision of reference information such as through direct mail. <sup>(Note)</sup>

Note: JFC may use direct mailing to furnish its customers with information on its Loan Programs that it believes to be in the best interest of the customers. Customers who do not wish to receive such mailings may request to be removed from the mailing list by contacting a local branch of the Agriculture, Forestry, Fisheries and Food Business Unit.

**Small and Medium Enterprise (SME) Unit**

- ① Accepts letters of credit, decides on issuance of letters of credit and management after issuance.
- ② Decides on continuous trading related to credit business.
- ③ Acceptance of credit insurance, payment of insurance money, and management of insurance after insurance accepted.
- ④ Cancelled transactions and post-management following transaction cancellation.
- ⑤ Provision of business management information necessary for SMEs to aid the client's growth and development.
- ⑥ Implementation and disclosure of survey results on business trends among SMEs to aid the client's growth and development.
- ⑦ Provision of information or suggestions concerning Loan Programs.<sup>(Note)</sup>

Note: JFC may use direct mailing to furnish its customers with information on its Loan Programs that it believes to be in the best interest of the customers. Customers who do not wish to receive such mailings may request to be removed from the mailing list by contacting a local branch of the Small and Medium Enterprise (SME) Unit.

- ⑧ Evaluation of policies regarding SMEs, and release of evaluation results, as well as research and development concerning new policy-based financing methods.

**Crisis Response Finance Department, etc.**

- ① Casualty insurance underwriting, damage compensation, and post-crisis management.
- ② Payment of interest subsidies and management subsequent to payment.

**3 Provision of Personal Information to Third Parties**

JFC will not provide the personal information acquired from its clients to third parties except for in the following cases:

- (1) It is required by law.
- (2) It is provided within the scope of the purposes for use as prescribed above.
- (3) Consent is obtained from the clients.
- (4) There are convincing reasons why executive agencies, incorporated administrative agencies, local municipal entities or local incorporated administrative agencies would use it to the necessary extent to carry out the law-stipulated operations.
- (5) It is used for statistics compilation or academic research.
- (6) It is clearly beneficial to the clients or there exist special reasons to provide personal information.

**4 Subcontract**

JFC may subcontract the handling of our clients' personal information to conduct such operations more smoothly. In such cases, JFC will attempt to select a trustworthy subcontractor, enter into a confidentiality agreement, supervise the handling and administering of the personal information impeccably, and assure the protection of personal information.

**5 Personal Information Management**

- (1) JFC will attempt to keep our clients' personal information correct and updated, and take prevention and safety measures against unauthorized access, leakage, loss, damage, and alteration of personal information.
- (2) JFC will constantly educate its employees about the protection and proper management of our clients' personal information to thoroughly make sure of its proper handling in its daily operations.
- (3) JFC will audit whether the protection and management of personal information is undertaken properly.

**6 Disclosure, Correction, and Disuse**

If a client wishes to make a request to disclose, correct or disuse the clients' personal information held by JFC, we will deal with such a request by following the procedure of disclosure stipulated in the Law.

Meanwhile, there are some cases when such disclosure could be made out of the procedure of disclosure stipulated in the Law, for which please contact our nearest office of the relevant Unit.

**7 Inquiries about Personal Information Management**

For inquiries or complaints about the clients' personal information management at JFC, please contact our nearest office of the relevant Unit.

**8 Continuous Improvement**

JFC will continuously improve the clients' personal information management as necessary.

JFC has formulated a “Basic policy on safety management of Specific Personal Information, etc.” that establishes the items necessary for appropriate management of personal numbers and specific personal information (hereafter referred to as “Specific Personal Information, etc.”) in accordance with the Act on the Use of Numbers to Identify a Specific Individuals in Administrative Procedures (2013 Act No. 27).

## Basic policy on safety management of Specific Personal Information, etc.

### 1 Approach to the Protection of Specific Personal Information, etc.

Japan Finance Corporation handles personal numbers and specific personal information (hereafter referred to as “Specific Personal Information, etc.”) in administrative procedures specified in the Act on the Use of Numbers to Identify a Specific Individuals in Administrative Procedures (Act No. 27 of 2013; referred to as the “Social Security and Tax Number Law”). The Social Security and Tax Number Law provides for stricter protective measures such as limiting the scope of use of Specific Personal Information, etc., with the measures specified in the Act on the Protection of Personal Information Held by Incorporated Administrative Agencies (Act No. 59 of 2003) as special provisions, and accordingly, Japan Finance Corporation established management systems and rules on the handling of Specific Personal Information, etc., takes measures to ensure compliance by officers and employees, and properly handles Specific Personal Information, etc.

### 2 Policy for Protection of Specific Personal Information, etc.

All work that deals with Specific Personal Information, etc. should properly handle it in accordance with the following principles.

#### (1) Regulatory compliance

Comply with all laws, etc. <sup>(Note)</sup> relating to appropriate handling of Specific Personal Information, etc.

Note: Laws, etc. includes the following

- Social Security and Tax Number Law
- Laws and ordinances relating to protection of personal information by independent administrative entities, etc.
- Guidelines relating to the proper handling of specific personal information (version for administrative organizations, regional public organizations, etc.) (2014 Specific Personal Information Protection Commission Public Notice No. 6)
- Guidance on measures for the appropriate management of personal information held by independent administrative entities (Notice from the Head of the Ministry of Internal Affairs and Communications Administrative Management Bureau: “Soukanjou” No. 85 dated Sep. 14th, 2004)

#### (2) Safety Management Measures

Take necessary safety management measures to prevent disclosure, damage or destruction of Specific Personal Information, etc., and carry out other appropriate management.

#### (3) Utilization for Purposes Other Than Proper Collection, Storage, Use and Disposal Is Forbidden

Collection, storage and provision of Specific Personal Information, etc. should only be carried out for use within the scope necessary to achieve the purposes reported beforehand to the person identified by said information as part of the work established in the Social Security and Tax Number Law. Said Specific Personal Information, etc. should be swiftly disposed of when no longer needed. Moreover, measures should be taken to prevent utilization for other than intended purposes.

#### (4) Outsourcing and Subcontracting

When work that handles Specific Personal Information, etc. is outsourced in whole or in part, contractors (including subcontractors) should be properly supervised as necessary to ensure that safety management measures are in place which are equivalent to the measures that JFC should itself carry out based on compliance with Social Security and Tax Number Law.

#### (5) Continuous Improvement

Regulations for handling Specific Personal Information, etc. and safety management measures should be continuously reviewed in an attempt to improve upon them.

## Information Disclosure Systems

JFC is working to expand the disclosure of information in its possession in order to hold itself accountable to the public.

JFC is subject to the Act on Access to Information Held by Incorporated Administrative Agencies (Act No. 140 of 2001). JFC works to promote better information disclosure through a system for filing requests as well as a system for information provision.

The main types of information made available to the public are as follows:

### Major Types of Information Made Available to the Public

Information type	Disclosure site and method	Disclosure period
Business reports	<ul style="list-style-type: none"> <li>• Available at all branches</li> <li>• Distributed to National Diet Library, regional public organizations, and business groups</li> </ul>	June-September
Supporting schedules		
Asset inventories		
Financial statements		
Opinions by Audit & Supervisory Board Members		
Audit reports by Audit & Supervisory Board		
Audit reports by CPA firm	<ul style="list-style-type: none"> <li>• Available at all branches</li> <li>• Distributed upon request</li> </ul>	August (ordinary year)
Annual Reports (this document)		
Website <ul style="list-style-type: none"> <li>• Includes explanations of business activities, business performance, organizational structures, financial conditions, etc.</li> <li>• Electronic public notice</li> </ul>	<ul style="list-style-type: none"> <li>• Available on Internet (<a href="https://www.jfc.go.jp/n/english/">https://www.jfc.go.jp/n/english/</a>)</li> </ul>	Updated as necessary

# Memo

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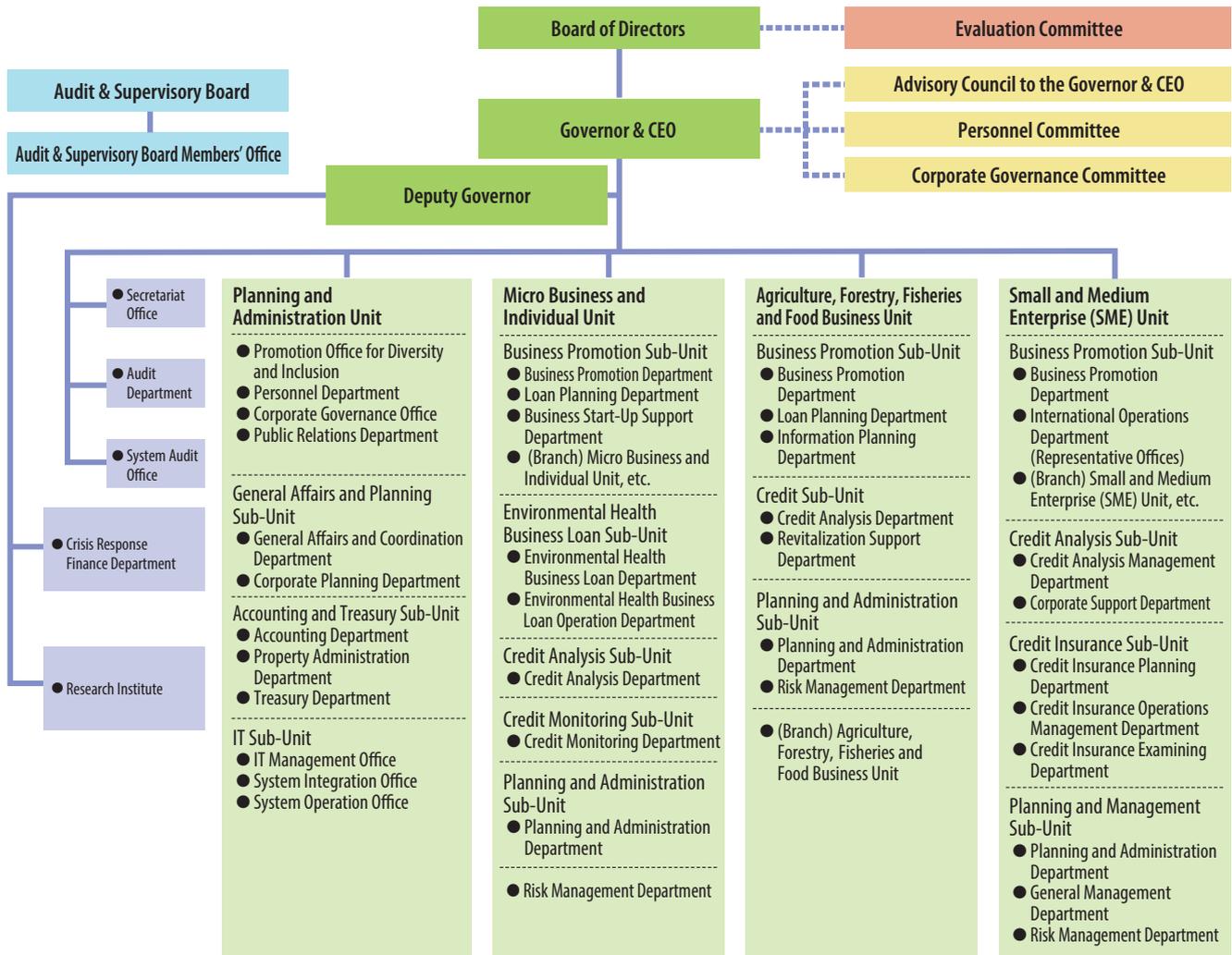
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## ■ Organization and History ■

Organization .....	74
Office Locations .....	75
History of JFC .....	80

# Organization

## Organization Chart of Japan Finance Corporation



### Directors and Audit & Supervisory Board Members (As of November 4, 2020)

Governor & CEO	TANAKA Kazuho	Managing Director	TAGUCHI Katsuyuki	External Executive Director	WATANABE Yoshiko
Deputy Governor	IWAMA Kunihiro	Managing Director	MARUYAMA Takanori	External Executive Director	OTANI Kunio
Senior Managing Director	ARAI Tsuyoshi	Executive Director	UNO Masao	Audit & Supervisory Board Member	JOKO Keisuke
Senior Managing Director	ICHIKAWA Kenta	Executive Director	MUNETOMO Teruo	Audit & Supervisory Board Member	KUSUMI Nobuyasu
Senior Managing Director	YOSHINO Kyoji	Executive Director	ESUMI Hirokazu	External Audit & Supervisory Board Member	YAMADA Yuichi
Senior Managing Director	HAMABE Tetsuya	Executive Director	SUZUKI Naoto	External Audit & Supervisory Board Member	MURATA Tsuneko
Managing Director	KATAOKA Yoshikazu	Executive Director	SOGAME Mikio		
Managing Director	WAKAI Katsuyuki	Executive Director	MANIWA Noriyuki		

# Office Locations (As of July 2020)

	Location	Telephone Number
<b>Head Office</b>	Otemachi Financial City North Tower, 1-9-4, Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan	
<b>Hokkaido</b>		
<b>Sapporo Branch</b>		
Micro Unit	Hokkaido Keizai Center Bldg., Nishi 2-2-2, Kita 1-jo, Chuo-ku, Sapporo-shi, Hokkaido 060-0001, Japan	+81-11-231-9131
AFFF Unit		+81-11-251-1261
SME Unit		+81-11-281-5221
<b>Sapporo-Kita Branch</b>		
Micro Unit	Ito 110 Bldg., Nishi 4-5-1, Kita 7-jo, Kita-ku, Sapporo-shi, Hokkaido 060-0807, Japan	+81-11-726-4221
<b>Hakodate Branch</b>		
Micro Unit	20-9, Toyokawacho, Hakodate-shi, Hokkaido 040-0065, Japan	+81-138-23-8291
SME Unit		+81-138-23-7175
<b>Otaru Branch</b>		
Micro Unit	2-1-3, Inaho, Otaru-shi, Hokkaido 047-0032, Japan	+81-134-23-1167
<b>Asahikawa Branch</b>		
Micro Unit	Asahi Seimei Asahikawa Bldg., 9-1704-12, Shijo-Dori, Asahikawa-shi, Hokkaido 070-0034, Japan	+81-166-23-5241
SME Unit		+81-166-24-4161
<b>Muroran Branch</b>		
Micro Unit	2-9-8, Higashimachi, Muroran-shi, Hokkaido 050-0083, Japan	+81-143-44-1731
<b>Kushiro Branch</b>		
Micro Unit	Doto Keizai Center Bldg., 1-1-1, Omachi, Kushiro-shi, Hokkaido 085-0847, Japan	+81-154-43-3330
SME Unit		+81-154-43-2541
<b>Obihiro Branch</b>		
Micro Unit	Obihiro Odori Bldg., Odoriminami 9-4, Obihiro-shi, Hokkaido 080-0010, Japan	+81-155-24-3525
AFFF Unit		+81-155-27-4011
<b>Kitami Branch</b>		
Micro Unit	1-2-22, Saiwaicho, Kitami-shi, Hokkaido 090-0036, Japan	+81-157-24-4115
AFFF Unit		+81-157-61-8212
<b>Aomori</b>		
<b>Aomori Branch</b>		
Micro Unit	AQUA Aomori Nagashima Bldg., 1-5-1, Nagashima, Aomori-shi, Aomori 030-0861, Japan	+81-17-723-2331
AFFF Unit		+81-17-777-4211
SME Unit		+81-17-734-2511
<b>Hirosaki Branch</b>		
Micro Unit	Hirosaki Shoko Kaigisho Kaikan, 18-1, Kamisayashimachi, Hirosaki-shi, Aomori 036-8354, Japan	+81-172-36-6303
<b>Hachinohe Branch</b>		
Micro Unit	1-2, Babacho, Hachinohe-shi, Aomori 031-0074, Japan	+81-178-22-6274
<b>Iwate</b>		
<b>Morioka Branch</b>		
Micro Unit	2-7-21, Saien, Morioka-shi, Iwate 020-0024, Japan	+81-19-623-4376
AFFF Unit		+81-19-653-5121
SME Unit		+81-19-623-6125
<b>Ichinoseki Branch</b>		
Micro Unit	1-9, Jonai, Ichinoseki-shi, Iwate 021-0877, Japan	+81-191-23-4157
<b>Miyagi</b>		
<b>Sendai Branch</b>		
Micro Business and Individual Unit I	Tokyo Tatemono Sendai Bldg., 1-6-35, Chuo, Aoba-ku, Sendai-shi, Miyagi 980-8452, Japan	+81-22-222-5173
Micro Business and Individual Unit II		+81-22-222-5377
AFFF Unit	Tokyo Tatemono Sendai Bldg., 1-6-35, Chuo, Aoba-ku, Sendai-shi, Miyagi 980-8454, Japan	+81-22-221-2331
SME Unit	Tokyo Tatemono Sendai Bldg., 1-6-35, Chuo, Aoba-ku, Sendai-shi, Miyagi 980-8453, Japan	+81-22-223-8141
<b>Ishinomaki Branch</b>		
Micro Unit	Meiji Chuo Bldg., 16-1, Kokucho, Ishinomaki-shi, Miyagi 986-0825, Japan	+81-225-94-1201

	Location	Telephone Number
<b>Akita</b>		
<b>Akita Branch</b>		
Micro Unit	Hokuto Bldg., 5-1-51, Naka-dori, Akita-shi, Akita 010-0001, Japan	+81-18-832-5641
AFFF Unit		+81-18-833-8247
SME Unit		+81-18-832-5511
<b>Odate Branch</b>		
Micro Unit	2-3-38, Onaricho, Odate-shi, Akita 017-8567, Japan	+81-186-42-3407
<b>Yamagata</b>		
<b>Yamagata Branch</b>		
Micro Unit	Yamagata Shoko Kaigisho Kaikan, 3-1-9, Nanokamachi, Yamagata-shi, Yamagata 990-0042, Japan	+81-23-642-1331
AFFF Unit		+81-23-625-6135
SME Unit		+81-23-641-7941
<b>Yonezawa Branch</b>		
Micro Unit	Yonezawa Shoko Kaigisho Kaikan, 4-1-30, Chuo, Yonezawa-shi, Yamagata 992-0045, Japan	+81-238-21-5711
<b>Sakata Branch</b>		
Micro Unit	1-1-2, Funabacho, Sakata-shi, Yamagata 998-0036, Japan	+81-234-22-3120
<b>Fukushima</b>		
<b>Fukushima Branch</b>		
Micro Unit	NBF Unix Bldg., 6-6, Sakaemachi, Fukushima-shi, Fukushima 960-8031, Japan	+81-24-523-2341
AFFF Unit		+81-24-521-3328
SME Unit		+81-24-522-9241
<b>Aizuwakamatsu Branch</b>		
Micro Unit	2-35, Nakamachi, Aizuwakamatsu-shi, Fukushima 965-0878, Japan	+81-242-27-3120
<b>Koriyama Branch</b>		
Micro Unit	Yamaso Koriyama Bldg., 1-6-21, Shimizudai, Koriyama-shi, Fukushima 963-8005, Japan	+81-24-923-7140
<b>Iwaki Branch</b>		
Micro Unit	1-5, Hishikawacho, Taira, Iwaki-shi, Fukushima 970-8026, Japan	+81-246-25-7251
<b>Ibaraki</b>		
<b>Mito Branch</b>		
Micro Unit	3-3-55, Minamimachi, Mito-shi, Ibaraki 310-0021, Japan	+81-29-221-7137
AFFF Unit		+81-29-232-3623
SME Unit		+81-29-231-4246
<b>Hitachi Branch</b>		
Micro Unit	Akiyama Bldg., 2-1-48, Saiwaicho, Hitachi-shi, Ibaraki 317-0073, Japan	+81-294-24-2451
<b>Tsuchiura Branch</b>		
Micro Unit	Tamagawa Tsuchiura Bldg., 1-1-26, Chuo, Tsuchiura-shi, Ibaraki 300-0043, Japan	+81-29-822-4141
<b>Tochigi</b>		
<b>Utsunomiya Branch</b>		
Micro Unit	1-31, Nibancho, Utsunomiya-shi, Tochigi 320-0813, Japan	+81-28-634-7141
AFFF Unit		+81-28-636-3901
SME Unit		+81-28-636-7171
<b>Sano Branch</b>		
Micro Unit	2806-1, Takasagocho, Sano-shi, Tochigi 327-0022, Japan	+81-283-22-3011
<b>Gunma</b>		
<b>Maebashi Branch</b>		
Micro Unit	1-6-19, Honmachi, Maebashi-shi, Gunma 371-0023, Japan	+81-27-223-7311
AFFF Unit		+81-27-243-6061
SME Unit		+81-27-243-0050
<b>Takasaki Branch</b>		
Micro Unit	Okaba Takasaki Bldg., 81, Renjakucho, Takasaki-shi, Gunma 370-0826, Japan	+81-27-326-1621

	Location	Telephone Number
<b>Saitama</b>		
<b>Saitama Branch</b>		
Micro Unit AFF Unit SME Unit	Omiya Miyacho Bldg., 1-109-1, Miyacho, Omiyaku, Saitama-shi, Saitama 330-0802, Japan	+81-48-643-3711 +81-48-645-5421 +81-48-643-8320
<b>Urawa Branch</b>		
Micro Unit	4-25-14, Kishicho, Urawa-ku, Saitama-shi, Saitama 330-0064, Japan	+81-48-822-7171
<b>Kawagoe Branch</b>		
Micro Unit	Nihon Seimei Kawagoe Bldg., 14-1, Wakitahoncho, Kawagoe-shi, Saitama 350-1123, Japan	+81-49-246-3211
<b>Kumagaya Branch</b>		
Micro Unit	2-45, Miyacho, Kumagaya-shi, Saitama 360-0041, Japan	+81-48-521-2731
<b>Koshigaya Branch</b>		
Micro Unit	Koshigaya Higashi Ekimae Bldg., 3-33, Yayoicho, Koshigaya-shi, Saitama 343-0816, Japan	+81-48-964-5561
<b>Niigata</b>		
<b>Niigata Branch</b>		
Micro Unit AFF Unit SME Unit	NBF Niigata Telecom Bldg., 4-4-27, Bandai, Chuoku, Niigata-shi, Niigata 950-0088, Japan	+81-25-246-2011 +81-25-240-8511 +81-25-244-3122
<b>Nagaoka Branch</b>		
Micro Unit	3-9-23, Senju, Nagaoka-shi, Niigata 940-0087, Japan	+81-258-36-4360
<b>Sanjo Branch</b>		
Micro Unit	Sanjo Shoko Kaigisho Kaikan, 1-20, Sugoro, Sanjoshi, Niigata 955-0092, Japan	+81-256-34-7511
<b>Takada Branch</b>		
Micro Unit	Asutopia Takada, 5-4-5 Honcho, Joetsu-shi, Niigata 943-0832, Japan	+81-25-524-2340
<b>Nagano</b>		
<b>Nagano Branch</b>		
Micro Unit AFF Unit	1291, Miwatamachi, Nagano-shi, Nagano 380- 0816, Japan	+81-26-233-2141 +81-26-233-2152
<b>Matsumoto Branch</b>		
Micro Unit SME Unit	Nihon Seimei Matsumotoekimae Bldg., 1-4-20, Chuo, Matsumoto-shi, Nagano 390-0811, Japan	+81-263-33-7070 +81-263-33-0300
<b>Komoro Branch</b>		
Micro Unit	Komoro Shoko Kaigisho Kaikan, 3-3-12, Aioicho, Komoro-shi, Nagano 384-0025, Japan	+81-267-22-2591
<b>Ina Branch</b>		
Micro Unit	3413-2, Arai, Ina-shi, Nagano 396-0025, Japan	+81-265-72-5195
<b>Chiba</b>		
<b>Chiba Branch</b>		
Micro Unit AFF Unit SME Unit	Sen City Tower, 1000, Shinmachi, Chuo-ku, Chiba- shi, Chiba 260-0028, Japan	+81-43-241-0078 +81-43-238-8501 +81-43-243-7121
<b>Funabashi Branch</b>		
Micro Unit	Funabashi Shoko Kaigisho Kaikan, 1-10-10, Honcho, Funabashi-shi, Chiba 273-0005, Japan	+81-47-433-8252
<b>Tateyama Branch</b>		
Micro Unit	1063-2, Hojo, Tateyama-shi, Chiba 294-0045, Japan	+81-470-22-2911
<b>Matsudo Branch</b>		
Micro Unit	Chibagin Bldg., 7-10, Honcho, Matsudo-shi, Chiba 271-0091, Japan	+81-47-367-1191
<b>Tokyo</b>		
<b>Tokyo Branch</b>		
Micro Unit AFF Unit SME Unit1, Tokyo Branch SME Unit2, Tokyo Branch SME Unit3, Tokyo Branch	Otemachi Financial City North Tower, 1-9-4, Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan	+81-3-3270-1300 +81-3-3270-9791 +81-3-3270-1282 +81-3-3270-7994 +81-3-3270-6801
<b>Tokyo-Chuo Branch</b>		
Micro Unit	1-17-28, Shinkawa, Chuo-ku, Tokyo 104-0033, Japan	+81-3-3553-3441

	Location	Telephone Number
<b>Shinjuku Branch</b>		
Micro Unit SME Unit	1-14-9, Nishishinjuku, Shinjuku-ku, Tokyo 160- 0023, Japan	+81-3-3342-4171 +81-3-3343-1261
<b>Ueno Branch</b>		
Micro Unit	Nihon Seimei Ueno Bldg., 2-18-10, Higashiueno, Taito-ku, Tokyo 110-0015, Japan	+81-3-3835-1391
<b>Koto Branch</b>		
Micro Unit	Nihon Seimei Kinshicho Bldg., 3-7-8, Kotobashi, Sumida-ku, Tokyo 130-0022, Japan	+81-3-3631-8171
<b>Gotanda Branch</b>		
Micro Unit	Nihon Seimei Gotanda Bldg., 1-31-1, Nishigotanda, Shinagawa-ku, Tokyo 141-0031, Japan	+81-3-3490-7370
<b>Omorikita Branch</b>		
Micro Unit SME Unit	1-15-17, Omorikita, Ota-ku, Tokyo 143-0016, Japan	+81-3-3761-7551 +81-3-5763-3001
<b>Shibuya Branch</b>		
Micro Unit	Nihon Seimei Bldg., 1-21-1, Jinnan, Shibuya-ku, Tokyo 150-0041, Japan	+81-3-3464-3311
<b>Ikebukuro Branch</b>		
Micro Unit SME Unit	Nissei Ikebukuro Bldg., 1-24-1, Higashiikebukuro, Toshima-ku, Tokyo 170-0013, Japan	+81-3-3983-2131 +81-3-3986-1261
<b>Itabashi Branch</b>		
Micro Unit	Itabashi Hojin Kaikan, 39-2, Hikawacho, Itabashi- ku, Tokyo 173-0013, Japan	+81-3-3964-1811
<b>Senju Branch</b>		
Micro Unit SME Unit	Taiju Seimei Kitasenju Bldg., 41-1, Senjunakacho, Adachi-ku, Tokyo 120-0036, Japan	+81-3-3881-6175 +81-3-3870-2125
<b>Hachioji Branch</b>		
Micro Unit	T-5place, 7-3, Azumacho, Hachioji-shi, Tokyo 192- 0082, Japan	+81-42-646-7711
<b>Tachikawa Branch</b>		
Micro Unit SME Unit	Shin-Suzuharu Bldg., 2-8-3 Akebonocho, Tachikawa-shi, Tokyo 190-8551, Japan	+81-42-524-4191 +81-42-528-1261
<b>Mitaka Branch</b>		
Micro Unit	Sanshiro Bldg., 3-26-9, Shimorenjaku, Mitaka-shi, Tokyo 181-0013, Japan	+81-422-43-1151
<b>Kanagawa</b>		
<b>Yokohama Branch</b>		
Micro Unit AFF Unit SME Unit	2-21-2, Minaminakadori, Naka-ku, Yokohama-shi, Kanagawa 231-8831, Japan	+81-45-201-9912 +81-45-641-1841 +81-45-682-1061
<b>Yokohama Nishiguchi Branch</b>		
Micro Unit	Nihon Seimei Bldg., 1-11-7, Kitasaiwai, Nishi-ku, Yokohama-shi, Kanagawa 220-0004, Japan	+81-45-311-2641
<b>Kawasaki Branch</b>		
Micro Unit	Kawasaki Frontier Bldg., 11-2, Ekimaehoncho, Kawasaki-ku, Kawasaki-shi, Kanagawa 210-0007, Japan	+81-44-211-1211
<b>Odawara Branch</b>		
Micro Unit	Odawara Hakone Shoko Kaigisho Kaikan, 1-21, Jonai, Odawara-shi, Kanagawa 250-0014, Japan	+81-465-23-3175
<b>Atsugi Branch</b>		
Micro Unit SME Unit	Meiji Yasuda Seimei Atsugi Bldg., 3-11-21, Nakacho, Atsugi-shi, Kanagawa 243-8575, Japan	+81-46-222-3315 +81-46-297-5071
<b>Yamanashi</b>		
<b>Kofu Branch</b>		
Micro Unit AFF Unit SME Unit	2-26-2, Marunouchi, Kofu-shi, Yamanashi 400- 0031, Japan	+81-55-224-5361 +81-55-228-2182 +81-55-228-5790
<b>Toyama</b>		
<b>Toyama Branch</b>		
Micro Unit AFF Unit SME Unit	Toyama Daiichi Seimei Bldg., 2-25, Sakurabashidori, Toyama-shi, Toyama 930-0004, Japan	+81-76-431-1191 +81-76-441-8411 +81-76-442-2483
<b>Takaoka Branch</b>		
Micro Unit	Takaoka Shoko Bldg. Annex, 1-40, Marunouchi, Takaoka-shi, Toyama 933-0912, Japan	+81-766-25-1171

	Location	Telephone Number
<b>Ishikawa</b>		
<b>Kanazawa Branch</b>		
Micro Unit AFF Unit SME Unit	Asahi Seimei Kanazawa Bldg., 6-1, Minamicho, Kanazawa-shi, Ishikawa 920-0919, Japan	+81-76-263-7191 +81-76-263-6471 +81-76-231-4275
<b>Komatsu Branch</b>		
Micro Unit	Komatsu Shoko Kaigisho Bldg., Ni-1, Sonomachi, Komatsu-shi, Ishikawa 923-0801, Japan	+81-761-21-9101
<b>Fukui</b>		
<b>Fukui Branch</b>		
Micro Unit AFF Unit SME Unit	Fukui Shoko Kaigisho Bldg., 2-8-1, Nishikida, Fukui-shi, Fukui 918-8004, Japan	+81-776-33-1755 +81-776-33-2385 +81-776-33-0030
<b>Takefu Branch</b>		
Micro Unit	Century Plaza, 1-2-3, Fuchu, Echizen-shi, Fukui 915-0071, Japan	+81-778-23-1133
<b>Gifu</b>		
<b>Gifu Branch</b>		
Micro Unit AFF Unit SME Unit	Gifu Skywing 37 West Building, 6-31, Yoshinomachi, Gifu-shi, Gifu 500-8844, Japan	+81-58-263-2136 +81-58-264-4855 +81-58-265-3171
<b>Tajimi Branch</b>		
Micro Unit	Totetsu Bldg., 2-70-5, Honmachi, Tajimi-shi, Gifu 507-0033, Japan	+81-572-22-6341
<b>Shizuoka</b>		
<b>Shizuoka Branch</b>		
Micro Unit AFF Unit SME Unit	Daido Seimei Shizuoka Bldg., 59-6, Kuroganecho, Aoi-ku, Shizuoka-shi, Shizuoka 420-0851, Japan	+81-54-254-4411 +81-54-205-6070 +81-54-254-3631
<b>Hamamatsu Branch</b>		
Micro Unit SME Unit	Hamamatsu ACT Tower, 111-2, Itayamachi, Naka- ku, Hamamatsu-shi, Shizuoka 430-7723, Japan	+81-53-454-2341 +81-53-453-1611
<b>Numazu Branch</b>		
Micro Unit	5-7, Ichibacho, Numazu-shi, Shizuoka 410-8585, Japan	+81-55-931-5281
<b>Aichi</b>		
<b>Nagoya Branch</b>		
Micro Unit AFF Unit SME Unit	Horiuchi Bldg., 3-25-9, Meieki, Nakamura-ku, Nagoya-shi, Aichi 450-0002, Japan	+81-52-561-6301 +81-52-582-0741 +81-52-551-5181
<b>Nagoya Naka Branch</b>		
Micro Unit	Daiei Bldg., 1-11-20, Nishiki, Naka-ku, Nagoya-shi, Aichi 460-0003, Japan	+81-52-221-7241
<b>Atsuta Branch</b>		
Micro Unit SME Unit	7-30, Tamanoicho, Atsuta-ku, Nagoya-shi, Aichi 456-0025, Japan	+81-52-681-2271 +81-52-682-7881
<b>Toyohashi Branch</b>		
Micro Unit	2-15, Hacchodori, Toyohashi-shi, Aichi 440-0806, Japan	+81-532-52-3191
<b>Okazaki Branch</b>		
Micro Unit SME Unit	Asahi Seimei Okazaki Bldg., 1-4-2, Karasawacho, Okazaki-shi, Aichi 444-0043, Japan	+81-564-24-1711 +81-564-65-3025
<b>Ichinomiya Branch</b>		
Micro Unit	2-3-18, Daishi, Ichinomiya-shi, Aichi 491-0852, Japan	+81-586-73-3131
<b>Mie</b>		
<b>Tsu Branch</b>		
Micro Unit AFF Unit SME Unit	133, Yorozumachitsu, Tsu-shi, Mie 514-0021, Japan	+81-59-227-5211 +81-59-229-5750 +81-59-227-0251
<b>Yokkaichi Branch</b>		
Micro Unit	Asahi Seimei Yokkaichi Bldg., 1-12, Suwasakaemachi, Yokkaichi-shi, Mie 510-0086, Japan	+81-59-352-3121
<b>Ise Branch</b>		
Micro Unit	Sangin Nissei Bldg., 2-5-1, Iwabuchi, Ise-shi, Mie 516-0037, Japan	+81-596-24-5191

	Location	Telephone Number
<b>Shiga</b>		
<b>Otsu Branch</b>		
Micro Unit AFF Unit SME Unit	Shiga Bldg., 1-3-10, Umabayashi, Otsu-shi, Shiga 520-0051, Japan	+81-77-524-1656 +81-77-525-7195 +81-77-524-3825
<b>Hikone Branch</b>		
Micro Unit	11-34, Sawacho, Hikone-shi, Shiga 522-0075, Japan	+81-749-24-0201
<b>Kyoto</b>		
<b>Kyoto Branch</b>		
Micro Unit AFF Unit SME Unit	Urbannet Shijokarasuma Bldg., 101, Kankobokocho, Higashiiru, Shijodorimurumachi, Shimogyo-ku, Kyoto-shi, Kyoto 600-8009, Japan	+81-75-211-3231 +81-75-221-2147 +81-75-221-7825
<b>Nishijin Branch</b>		
Micro Unit	82, Okaminochi, Onmae-dori, Nishiiru, Ichijo-dori, Kamigyo-ku, Kyoto-shi, Kyoto 602-8375, Japan	+81-75-462-5121
<b>Maizuru Branch</b>		
Micro Unit	66, Uoya, Maizuru-shi, Kyoto 624-0923, Japan	+81-773-75-2211
<b>Osaka</b>		
<b>Osaka Branch</b>		
Micro Unit AFF Unit SME Unit1, Osaka Branch SME Unit2, Osaka Branch	Umeshin Dai-ichi Seimei Bldg., 2-3-5, Sonezaki, Kita-ku, Osaka-shi, Osaka 530-0057, Japan	+81-6-6315-0301 +81-6-6131-0750 +81-6-6314-7615 +81-6-6314-7810
<b>Osaka Nishi Branch</b>		
Micro Unit SME Unit	Shin-shinanobashi Bldg., 1-13-47, Nishihonmachi, Nishi-ku, Osaka-shi, Osaka 550-0005, Japan	+81-6-6538-1401 +81-6-4390-0366
<b>Abeno Branch</b>		
Micro Unit SME Unit	3-15-12, Matsuzakicho, Abeno-ku, Osaka-shi, Osaka 545-0053, Japan	+81-6-6621-1441 +81-6-6623-2160
<b>Tamade Branch</b>		
Micro Unit	Meiji Yasuda Seimei Tamade Bldg., 2-15-22, Tamadenaka, Nishinari-ku, Osaka-shi, Osaka 557- 0044, Japan	+81-6-6659-1261
<b>Juso Branch</b>		
Micro Unit	Meiji Yasuda Seimei Juso Bldg., 1-2-13, Shinkitano, Yodogawa-ku, Osaka-shi, Osaka 532-0025, Japan	+81-6-6305-1631
<b>Osaka Minami Branch</b>		
Micro Unit	Midosuji Jun Ashida Bldg., 2-2-7, Nishishinsaibashi, Chuo-ku, Osaka-shi, Osaka 542- 0086, Japan	+81-6-6211-7507
<b>Sakai Branch</b>		
Micro Unit SME Unit	Sakai Shoko Kaigisho Kaikan, 130-23, Nagasonecho, Kita-ku, Sakai-shi, Osaka 591-8025, Japan	+81-72-257-3600 +81-72-255-1261
<b>Suita Branch</b>		
Micro Unit	Matsuoka Bldg., 27-14, Asahimachi, Suita-shi, Osaka 564-0027, Japan	+81-6-6319-2061
<b>Moriguchi Branch</b>		
Micro Unit	4-10, Keihankita-hondori, Moriguchi-shi, Osaka 570-0094, Japan	+81-6-6993-6121
<b>Izumisano Branch</b>		
Micro Unit	3-1-6, Uemachi, Izumisano-shi, Osaka 598-0007, Japan	+81-72-462-1355
<b>Higashiosaka Branch</b>		
Micro Unit SME Unit	2-9-2, Takaidatomomachi, Higashiosaka-shi, Osaka 577-0054, Japan	+81-6-6782-1321 +81-6-6787-2661

	Location	Telephone Number
<b>Hyogo</b>		
<b>Kobe Branch</b>		
Micro Unit	Harborland Dia Nissei Bldg., 1-7-4, Higashikawasakicho, Chuo-ku, Kobe-shi, Hyogo 650-0044, Japan	+81-78-341-4981
AFFF Unit		+81-78-362-8451
SME Unit		+81-78-362-5961
<b>Kobe Higashi Branch</b>		
Micro Unit	KHK Nada Bldg., 3-6-15, Tomodacho, Nada-ku, Kobe-shi, Hyogo 657-0035, Japan	+81-78-854-2900
<b>Himeji Branch</b>		
Micro Unit	200, Shinobumachi, Himeji-shi, Hyogo 670-0917, Japan	+81-79-225-0571
<b>Amagasaki Branch</b>		
Micro Unit	4-18-1, Higashinaniwacho, Amagasaki-shi, Hyogo 660-0892, Japan	+81-6-6481-3601
<b>Akashi Branch</b>		
Micro Unit	8-36, Taruyamachi, Akashi-shi, Hyogo 673-0898, Japan	+81-78-912-4114
<b>Toyooka Branch</b>		
Micro Unit	10-6, Chiyodacho, Toyooka-shi, Hyogo 668-0032, Japan	+81-796-22-4327
<b>Nara</b>		
<b>Nara Branch</b>		
Micro Unit	Nara Center Bldg., 7-1-33, Omiyacho, Nara-shi, Nara 630-8115, Japan	+81-742-36-6700
AFFF Unit		+81-742-32-2270
SME Unit		+81-742-35-9910
<b>Wakayama</b>		
<b>Wakayama Branch</b>		
Micro Unit	58, Junibancho, Wakayama-shi, Wakayama 640- 8158, Japan	+81-73-422-3151
AFFF Unit		+81-73-423-0644
SME Unit		+81-73-431-9301
<b>Tanabe Branch</b>		
Micro Unit	1-11-27, Takao, Tanabe-shi, Wakayama 646-0028, Japan	+81-739-22-6120
<b>Tottori</b>		
<b>Tottori Branch</b>		
Micro Unit	Tottori JA-kaikan, 723, Suehiroonsencho Tottori- shi, Tottori 680-0833, Japan	+81-857-22-3156
AFFF Unit		+81-857-20-2151
SME Unit		+81-857-23-1641
<b>Yonago Branch</b>		
Micro Unit	Kounan-Asset Yonago Bldg., 2-106, Kamocho, Yonago-shi, Tottori 683-0823, Japan	+81-859-34-5821
<b>Shimane</b>		
<b>Matsue Branch</b>		
Micro Unit	Matsue Century Bldg., 111, Tonomachi, Matsue- shi, Shimane 690-0887, Japan	+81-852-23-2651
AFFF Unit		+81-852-26-1133
SME Unit		+81-852-21-0110
<b>Hamada Branch</b>		
Micro Unit	82-7, Tonomachi, Hamada-shi, Shimane 697-0027, Japan	+81-855-22-2835
<b>Okayama</b>		
<b>Okayama Branch</b>		
Micro Unit	Taiyo Seimei Okayama Yanagimachi Bldg., 1-1-27, Yanagimachi, Kita-ku, Okayama-shi, Okayama 700- 0904, Japan	+81-86-225-0011
AFFF Unit		+81-86-232-3611
SME Unit		+81-86-222-7666
<b>Kurashiki Branch</b>		
Micro Unit	Kurashiki Nakayoshi Bldg. II, 1-40, Saiwaicho, Kurashiki-shi, Okayama 710-0051, Japan	+81-86-425-8401
<b>Tsuyama Branch</b>		
Micro Unit	18-1, Sange, Tsuyama-shi, Okayama 708-0022, Japan	+81-868-22-6135
<b>Hiroshima</b>		
<b>Hiroshima Branch</b>		
Micro Unit	Hiroshima Train Vert Bldg., 1-2-22, Kamiyacho, Naka-ku, Hiroshima-shi, Hiroshima 730-0031, Japan	+81-82-244-2231
AFFF Unit		+81-82-249-9152
SME Unit		+81-82-247-9151
<b>Kure Branch</b>		
Micro Unit	Kure Shokokaigisho Bldg., 4-7-1-201, Hondori, Kure-shi, Hiroshima 737-0045, Japan	+81-823-24-2600

	Location	Telephone Number
<b>Onomichi Branch</b>		
Micro Unit	JB Honshi-kosoku Onomichi Bldg., 1-20, Higashigoshicho, Onomichi-shi, Hiroshima 722- 0036, Japan	+81-848-22-6111
<b>Fukuyama Branch</b>		
Micro Unit	2-2-7, Konancho, Fukuyama-shi, Hiroshima 720- 0814, Japan	+81-84-922-6550
<b>Yamaguchi</b>		
<b>Yamaguchi Branch</b>		
Micro Unit	New Media Plaza Yamaguchi, 1-10, Kumanochi, Yamaguchi-shi, Yamaguchi 753-0077, Japan	+81-83-922-3660
AFFF Unit		+81-83-922-2140
<b>Shimonoseki Branch</b>		
Micro Unit	2-4-3, Hosoecho, Shimonoseki-shi, Yamaguchi 750-0016, Japan	+81-83-222-6225
SME Unit		+81-83-223-2251
<b>Iwakuni Branch</b>		
Micro Unit	ARK Bldg. II, 4-1-3, Marifumachi, Iwakuni-shi, Yamaguchi 740-0018, Japan	+81-827-22-6265
<b>Tokuyama Branch</b>		
Micro Unit	Daido Seimei Tokuyama Bldg. 1-3 Honcho, Shunan-shi, Yamaguchi 745-0036, Japan	+81-834-21-3455
<b>Tokushima</b>		
<b>Tokushima Branch</b>		
Micro Unit	1-58, Nakazucho, Tokushima-shi, Tokushima 770- 0856, Japan	+81-88-622-7271
AFFF Unit		+81-88-656-6880
SME Unit		+81-88-625-7790
<b>Kagawa</b>		
<b>Takamatsu Branch</b>		
Micro Unit	ICHIGO Takamatsu Bldg., 2-2-7 Kotobukicho, Takamatsu-shi, Kagawa 760-0023, Japan	+81-87-851-0181
AFFF Unit		+81-87-851-2880
SME Unit		+81-87-851-9141
<b>Ehime</b>		
<b>Matsuyama Branch</b>		
Micro Unit	6-7-3, Sanbancho, Matsuyama-shi, Ehime 790- 0003, Japan	+81-89-941-6148
AFFF Unit		+81-89-933-3371
SME Unit		+81-89-943-1231
<b>Uwajima Branch</b>		
Micro Unit	Shokokaigisho Kaikan, 1-3-24, Marunouchi, Uwajima-shi, Ehime 798-0060, Japan	+81-895-22-4766
<b>Niihama Branch</b>		
Micro Unit	3-3, Shigemotocho, Niihama-shi, Ehime 792-8691, Japan	+81-897-33-9101
<b>Kochi</b>		
<b>Kochi Branch</b>		
Micro Unit	Kochi Chuo Business Square, 2-26, Sakaimachi, Kochi-shi, Kochi 780-0834, Japan	+81-88-822-3191
AFFF Unit		+81-88-825-1091
SME Unit		+81-88-875-0281
<b>Fukuoka</b>		
<b>Fukuoka Branch</b>		
Micro Unit	3-21-12, Hakataekimae, Hakata-ku, Fukuoka-shi, Fukuoka 812-0011, Japan	+81-92-411-9111
AFFF Unit		+81-92-451-1780
SME Unit		+81-92-431-5296
<b>Fukuoka Nishi Branch</b>		
Micro Unit	ND Bldg., 1-4-1, Daimyo, Chuo-ku, Fukuoka-shi, Fukuoka 810-0041, Japan	+81-92-712-4381
<b>Kitakyushu Branch</b>		
Micro Unit	Daido Seimei Kitakyushu Bldg., 1-10-10, Kajimachi, Kokurakita-ku, Kitakyushu-shi, Fukuoka 802-0004, Japan	+81-93-541-7550
SME Unit		+81-93-531-9191
<b>Yahata Branch</b>		
Micro Unit	Earth Court Kurosakiekimae Bldg., 3-1-7, Kurosaki, Yahatanishi-ku, Kitakyushu-shi, Fukuoka 806- 0021, Japan	+81-93-641-7715
<b>Kurume Branch</b>		
Micro Unit	Daido Seimei Kurume Bldg., 38-1, Higashimachi, Kurume-shi, Fukuoka 830-0032, Japan	+81-942-34-1212

	Location	Telephone Number
<b>Saga</b>		
<b>Saga Branch</b>		
Micro Unit AFFF Unit SME Unit	4-21, Ekiminamihonmachi, Saga-shi, Saga 840-0816, Japan	+81-952-22-3341 +81-952-27-4120 +81-952-24-7224
<b>Nagasaki</b>		
<b>Nagasaki Branch</b>		
Micro Unit AFFF Unit SME Unit	10-4, Daikokumachi, Nagasaki-shi, Nagasaki 850-0057, Japan	+81-95-824-3141 +81-95-824-6221 +81-95-823-6191
<b>Sasebo Branch</b>		
Micro Unit	2-21, Tenmachi, Sasebo-shi, Nagasaki 857-0043, Japan	+81-956-22-9155
<b>Kumamoto</b>		
<b>Kumamoto Branch</b>		
Micro Unit AFFF Unit SME Unit	4-22, Anseimachi, Chuo-ku, Kumamoto-shi, Kumamoto 860-0801, Japan	+81-96-353-6121 +81-96-353-3104 +81-96-352-9155
<b>Yatsushiro Branch</b>		
Micro Unit	4-17, Demachi, Yatsushiro-shi, Kumamoto 866-0857, Japan	+81-965-32-5195
<b>Oita</b>		
<b>Oita Branch</b>		
Micro Unit AFFF Unit SME Unit	2-1-12, Miyakomachi, Oita-shi, Oita 870-0034, Japan	+81-97-535-0331 +81-97-532-8491 +81-97-532-4106
<b>Beppu Branch</b>		
Micro Unit	9-1, Mochigahamacho, Beppu-shi, Oita 874-0924, Japan	+81-977-25-1151
<b>Miyazaki</b>		
<b>Miyazaki Branch</b>		
Micro Unit AFFF Unit SME Unit	3-6-30, Tachibanadorihigashi, Miyazaki-shi, Miyazaki 880-0805, Japan	+81-985-23-3274 +81-985-29-6811 +81-985-24-4214
<b>Nobeoka Branch</b>		
Micro Unit	1-3-10, Senokuchimachi, Nobeoka-shi, Miyazaki 882-0045, Japan	+81-982-33-6311
<b>Kagoshima</b>		
<b>Kagoshima Branch</b>		
Micro Unit AFFF Unit SME Unit	1-26, Meizancho, Kagoshima-shi, Kagoshima 892-0821, Japan	+81-99-224-1241 +81-99-805-0511 +81-99-223-2221
<b>Kanoya Branch</b>		
Micro Unit	2-19, Otemachi, Kanoya-shi, Kagoshima 893-0009, Japan	+81-994-42-5141
<b>Sendai Branch</b>		
Micro Unit	Nangoku Shokusan Sendai Bldg., 5-29, Nishimukodacho, Satsumasendai-shi, Kagoshima 895-0027, Japan	+81-996-20-2191

Notes: 1. Operations conducted at branches include those carried out by the Micro Business and Individual Unit; the Agriculture, Forestry, Fisheries and Food Business Unit; and the Small and Medium Enterprise (SME) Unit. In the table above, the listing of specific units under a branch indicates that specialist staff members are permanently assigned to conduct respective unit operations at that branch.

2. For branches that do not have permanently assigned specialist staff for a particular unit, consulting services and information provided by specialists from that unit are available through such measures as regular specialist staff visits.

#### Overseas Representative Offices

	Location	Telephone Number
Representative Office in Bangkok	9th Floor, Park Ventures Ecoplex, 57 Wireless Road, Lumpini, Patumwan, Bangkok 10330, Thailand	+66-2-252-5496
Representative Office in Shanghai	R. N. 1616, Shanghai International Trade Center, No. 2201, Yan An Xi Lu, Shanghai 200336, P. R. China	+86-21-6275-8908

# History of JFC

## [Micro Business and Individual Unit]

Date	People's Finance Corporation-related events	Environmental Sanitation Business Financing Corporation-related events
Jun. 1949	People's Finance Corporation established	
Sep. 1967		Environmental Sanitation Business Financing Corporation established
Oct. 1967	Start of trustee operations for Environmental Sanitation Business Financing Corporation upon its creation	
Jul. 1972		Private financial institutions begin to be engaged directly for trustee operations
Jan. 1982		Direct loans commenced
Date	National Life Finance Corporation-related events	
Sep. 1997	Cabinet decision reached on Reorganization and Rationalization Plan for Special Public Corporations covering integration of People's Finance Corporation and Environmental Sanitation Business Financing Corporation	
May 1999	National Life Finance Corporation Act (or Act on Partial Revision of People's Finance Corporation Act) enacted	
Oct. 1999	The People's Finance Corporation changed its name to the National Life Finance Corporation (NLFC) in accordance with the National Life Finance Corporation Act NLFC inherits all rights and duties of the dissolved Environmental Sanitation Business Financing Corporation	
Oct. 2008	JFC is established based on the Japan Finance Corporation Act and excluding assets inherited by the government, inherited all rights and obligations (Micro Business and Individual Unit)	

## [Agriculture, Forestry, Fisheries and Food Business Unit]

Date	Events
Apr. 1953	Agriculture, Forestry and Fisheries Finance Corporation (AFC) established Begins offering cosigned loans
Sep. 1958	Direct loans commenced
Jul. 2002	Established investment business for agricultural corporation investment development firms
Oct. 2008	JFC is established based on the Japan Finance Corporation Act and excluding assets inherited by the government, inherited all rights and obligations (Agriculture, Forestry, Fisheries and Food Business Unit)

## [Small and Medium Enterprise (SME) Unit]

Date	Japan Finance Corporation for Small and Medium Enterprise-related events	Small Business Credit Insurance Corporation-related events
Aug. 1953	Japan Finance Corporation for Small and Medium Enterprise (JASME) established	
Sep. 1953	Agency loans commenced	
Oct. 1955	Direct loans commenced	
Jul. 1958		Small Business Credit Insurance Corporation (Japan CIC) established (Credit insurance operations for small and medium enterprises and loan operations to Credit Guarantee Corporations (CGC) transferred from Small and Medium Enterprise Agency)
Oct. 1984		Japan CIC takes over machinery credit insurance operations from the Ministry of International Trade and Industry (MITI)
Dec. 1998		Special Insurance Programs for Mid-size Enterprises commenced
Jul. 1999		<b>Japan Small and Medium Enterprise Corporation-related events</b>
Apr. 2003		Japan Small and Medium Enterprise Corporation (JASMEC) established (takes over operations of Small Business Credit Insurance Corporation, etc.)
Jul. 2004		Migration of machinery credit insurance operations to Transitional Operation of the Machinery Credit Insurance Programs
Jul. 2004	Scope of operations expanded as a result of partial revision to the Japan Finance Corporation for Small and Medium Enterprise Act (Securitization Support Programs commenced, JASMEC's Credit Insurance Programs inherited.)	
Oct. 2008	JFC is established based on the Japan Finance Corporation Act and excluding assets inherited by the government, inherits all rights and obligations (Small and Medium Enterprise Unit)	

## [Japan Finance Corporation]

Date	Events
Dec. 2005	Cabinet Decision on Important Policy for Administrative Reform
May 2006	Act on Promotion of Administrative Reform for Realization of Small and Efficient Government enacted
Jun. 2006	System Design regarding the Reform of Policy-based Finance adopted by the council for the Reform of policy-based Finance
May 2007	Japan Finance Corporation Act and "Act on Special Measures to Enable Smooth Restructuring of US Forces" established to regulate the operations of the Finance Department for Facilitating Realignment of U.S. Forces Japan
Oct. 2008	JFC is established based on the Japan Finance Corporation Act JFC inherits all rights and obligations, excluding assets inherited by the government, from the National Life Finance Corporation (NLFC) (now Micro Business and Individual Unit), Agriculture, Forestry and Fisheries Finance Corporation (AFC) (now Agriculture, Forestry and Fisheries and Food Business Unit), Japan Finance Corporation for Small and Medium Enterprise (now Small and Medium Enterprise Unit) and the International Financial Operations (IFOs) of the (former) Japan Bank for International Cooperation (JBIC) (now Japan Bank for International Cooperation (JBIC)) Based on "laws related to establishment of laws concerning implementation of the Japan Finance Corporation Act," even following the establishment of JFC operations of the Finance Department for Facilitating Realignment of U.S. Forces Japan are inherited as operations to be conducted by the Japan Bank for International Cooperation (JBIC) Operations to Facilitate Crisis Responses established
Apr. 2010	Established special account for business related to the Finance Department for Facilitating Realignment of U.S. Forces Japan (Finance Department for Facilitating Realignment of U.S. Forces Japan accounts)
Aug. 2010	Established special account for business related to the Operations to Facilitate Specific Businesses Promotion (Operations to Facilitate Specific Businesses Promotion accounts)
Apr. 2011	The Japan Bank for International Cooperation Act enacted. (Decision to separate JBIC from JFC effective April 1, 2012)
Jul. 2011	Operations to Facilitate Business Restructuring Promotion, etc. commenced
Mar. 2012	"Laws revising portions of the Okinawa Promotion and Development Special Treatment Act" enacted. It is determined that JFC will merge with the Okinawa Development Finance Corporation (ODFC) from FY2022
Apr. 2012	JBIC separated from JFC JBIC operations and financial operations for facilitating realignment of U.S. forces in Japan transferred to the Japan Bank for International Cooperation
Jan. 2014	Operations to Facilitate Business Restructuring Promotion commenced

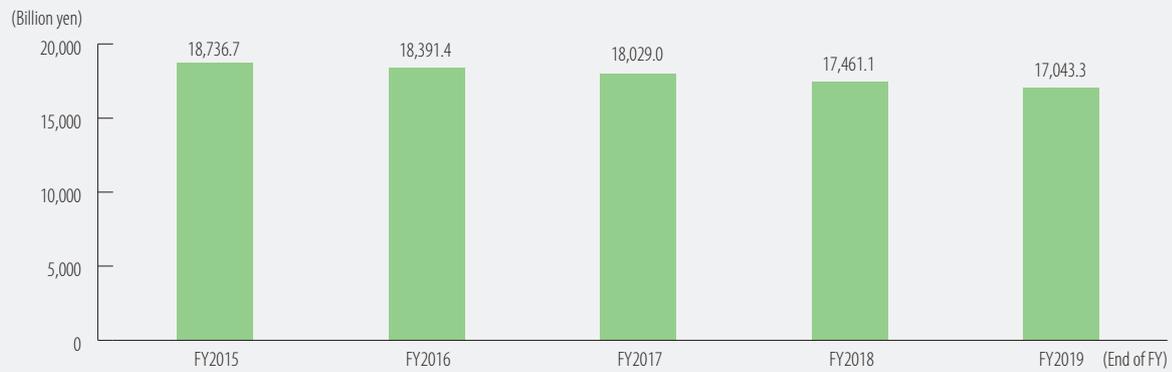
## ■ Data ■

Operational Performances .....	82
Financial Statements and Notes .....	95
Reference Information .....	194

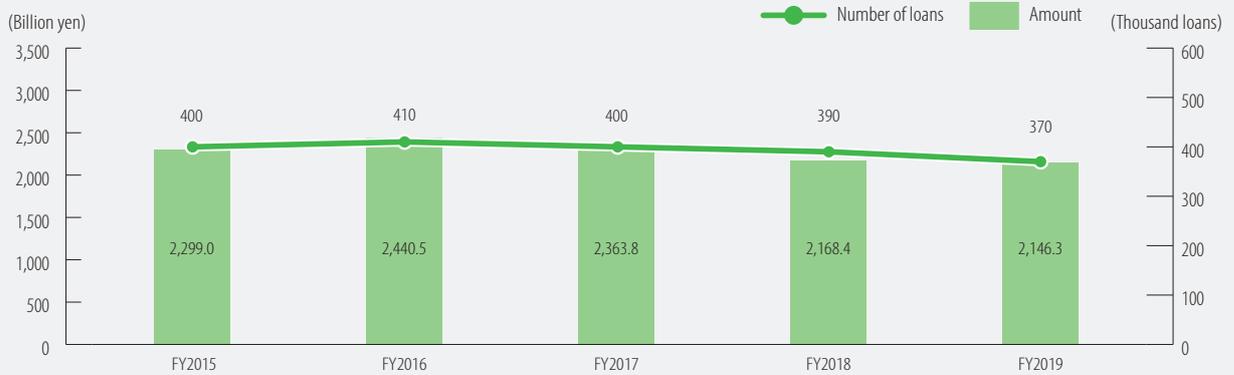
### 1 Changes in Annual Loan Operations



### 2 Changes in Outstanding Loans

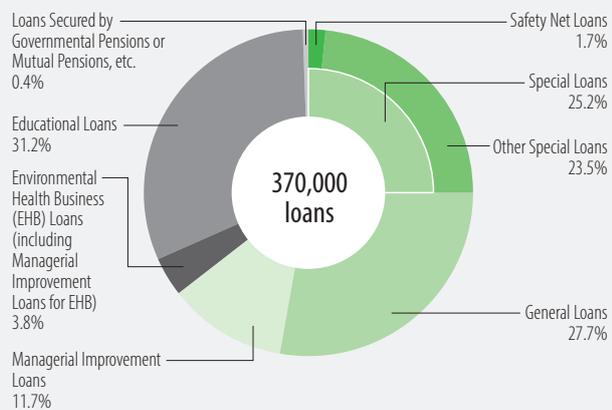


## 1 Changes in Annual Loan Operations

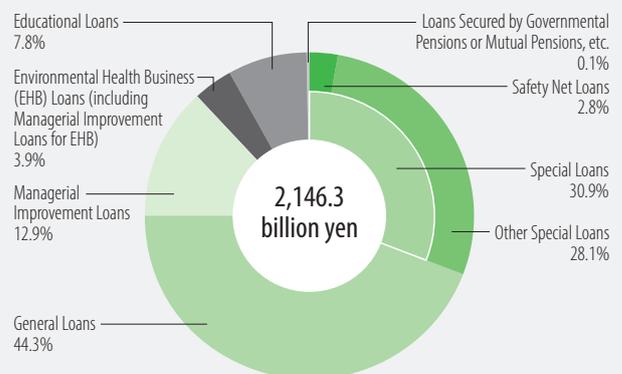


## 2 Breakdown of Loans by Scheme

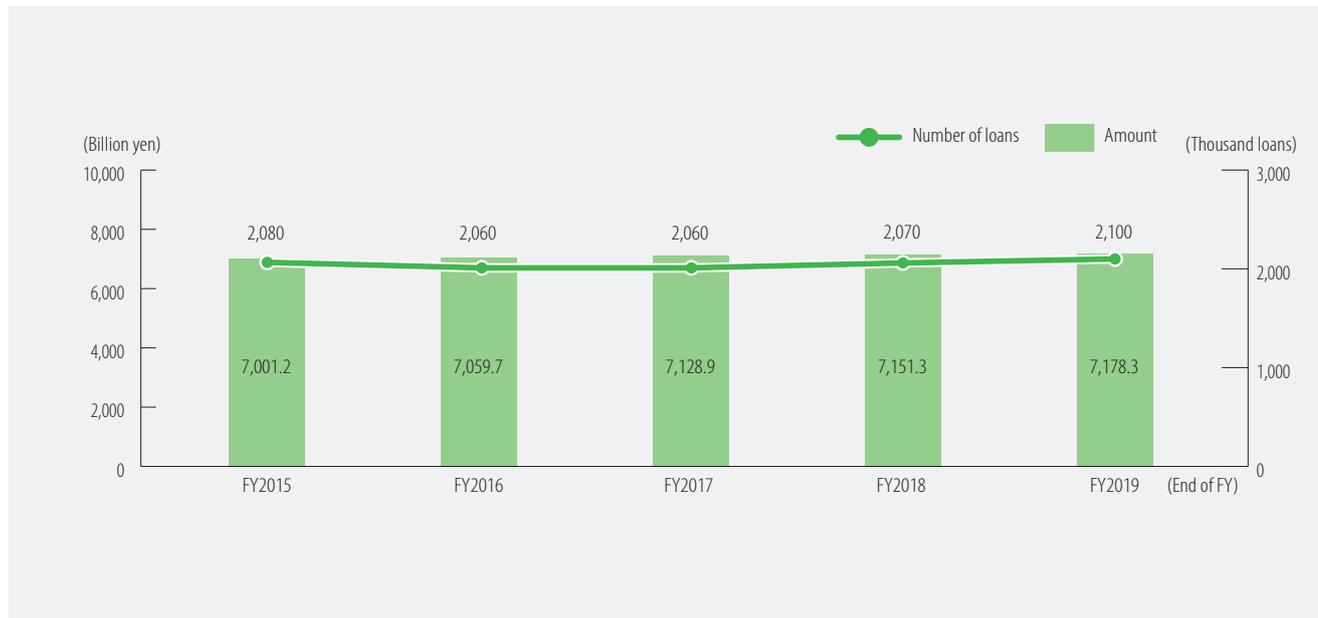
### ▼ Number of Loans (FY2019)



### ▼ Total Amount of Loans (FY2019)



### 3 Changes in Outstanding Loans



### 4 Breakdown of Business Loans Outstanding by Industry

(Unit: billion yen, %)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Manufacturing	644.6 (10.6)	623.8 (10.2)	606.2 (9.8)	586.1 (9.5)	574.2 (9.3)
Wholesale & Retail	1,380.9 (22.6)	1,359.0 (22.1)	1,346.5 (21.8)	1,318.1 (21.3)	1,293.6 (20.9)
Restaurants & Hotels	493.8 (8.1)	512.8 (8.3)	532.7 (8.6)	547.9 (8.9)	580.7 (9.4)
Services	1,403.8 (23.0)	1,434.1 (23.3)	1,472.5 (23.8)	1,501.1 (24.2)	1,525.4 (24.6)
Construction	884.6 (14.5)	900.3 (14.6)	916.8 (14.8)	919.5 (14.9)	911.1 (14.7)
Others	1,299.1 (21.3)	1,316.1 (21.4)	1,315.8 (21.3)	1,317.7 (21.3)	1,313.6 (21.2)
Total	6,107.1 (100.0)	6,146.4 (100.0)	6,190.8 (100.0)	6,190.6 (100.0)	6,198.8 (100.0)

Notes: 1. Loans comprise General Loans and Environmental Health Business Loans.

2. Industries are in accordance with the Japan Standard Industrial Classification as revised in March 2002.

3. Figures in parentheses denote percentage of shares.

## 5 Breakdown of Environmental Health Business Loans Outstanding by Industry

(Unit: billion yen, %)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Restaurant-related services	138.7 (47.9)	148.0 (49.4)	159.1 (50.8)	169.7 (51.7)	178.0 (51.9)
Beauty parlors	58.3 (20.1)	61.3 (20.4)	65.6 (21.0)	69.9 (21.3)	73.1 (21.3)
Hotels	50.1 (17.3)	49.8 (16.6)	48.8 (15.6)	49.4 (15.1)	53.9 (15.7)
Barbershops	19.7 (6.8)	19.4 (6.5)	19.4 (6.2)	19.4 (5.9)	19.4 (5.7)
Public baths	11.8 (4.1)	10.3 (3.5)	9.5 (3.0)	8.7 (2.7)	8.0 (2.4)
Laundries	7.3 (2.5)	7.1 (2.4)	7.1 (2.3)	6.9 (2.1)	6.7 (2.0)
Meat shops	2.1 (0.7)	2.4 (0.8)	2.4 (0.8)	2.6 (0.8)	2.4 (0.7)
Entertainment facilities	0.9 (0.3)	0.8 (0.3)	0.6 (0.2)	0.8 (0.3)	0.5 (0.2)
Others	0.4 (0.1)	0.3 (0.1)	0.3 (0.1)	0.4 (0.1)	0.3 (0.1)
Total	289.7 (100.0)	299.8 (100.0)	313.3 (100.0)	328.0 (100.0)	342.8 (100.0)

Note: Figures in parentheses denote percentage of shares.

## 6 Breakdown of Outstanding Loans by Use

(Unit: billion yen, %)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Operating funds	3,860.7 (63.2)	3,871.2 (63.0)	3,914.0 (63.2)	3,880.7 (62.7)	3,891.8 (62.8)
Facility funds	2,246.3 (36.8)	2,275.1 (37.0)	2,276.7 (36.8)	2,309.9 (37.3)	2,307.0 (37.2)
Total	6,107.1 (100.0)	6,146.4 (100.0)	6,190.8 (100.0)	6,190.6 (100.0)	6,198.8 (100.0)

Notes: 1. Loans comprise General Loans and Environmental Health Business Loans.

2. Figures in parentheses denote percentage of shares.

## 7 Number of Borrowers

(Number of businesses)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Number of borrowers	886,207	880,104	879,639	881,622	881,026

Note: Loans comprise General Loans and Environmental Health Business Loans.

## 8 Average Loan Balance per Business

(Thousand yen)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Average loan balance per business	6,891	6,983	7,037	7,021	7,036

Note: Loans comprise General Loans and Environmental Health Business Loans.

## 9 Educational Loans Outstanding, etc.

(Billion yen)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Educational Loans	882.4	903.4	930.0	953.2	973.6
Loans Secured by Governmental Pensions and Mutual Pensions, etc.	11.6	9.7	7.9	7.3	5.8

## 10 Breakdown of Loans by Credit Amount

(Unit: number of loans, %)

	FY2015	FY2016	FY2017	FY2018	FY2019
Up to 3 million yen	89,022 (33.9)	90,876 (32.8)	89,410 (33.2)	88,280 (34.3)	87,643 (34.2)
Over 3 million yen and up to 5 million yen	52,323 (19.9)	56,115 (20.2)	54,534 (20.2)	53,659 (20.8)	52,774 (20.6)
Over 5 million yen and up to 8 million yen	35,667 (13.6)	37,288 (13.5)	35,830 (13.3)	34,829 (13.5)	34,586 (13.5)
Over 8 million yen	85,679 (32.6)	92,945 (33.5)	89,603 (33.3)	80,872 (31.4)	80,994 (31.6)
Total	262,691 (100.0)	277,224 (100.0)	269,377 (100.0)	257,640 (100.0)	255,997 (100.0)

Notes: 1. Loans comprise General Loans and Environmental Health Business Loans.

2. Figures in parentheses denote percentage of shares.

## 11 Breakdown of Loans by Number of Employees of Borrowers

(Unit: number of loans, %)

	FY2015	FY2016	FY2017	FY2018	FY2019
4 or fewer	186,137 (70.9)	197,007 (71.1)	192,794 (71.6)	172,541 (67.0)	166,749 (65.1)
5–9	49,279 (18.8)	51,279 (18.5)	48,486 (18.0)	51,002 (19.8)	51,647 (20.2)
10–19	18,411 (7.0)	19,550 (7.1)	19,046 (7.1)	21,541 (8.4)	23,108 (9.0)
20 or more	8,861 (3.4)	9,386 (3.4)	9,047 (3.4)	12,555 (4.9)	14,489 (5.7)
Total	262,688 (100.0)	277,222 (100.0)	269,373 (100.0)	257,639 (100.0)	255,993 (100.0)

Notes: 1. Loans comprise General Loans and Environmental Health Business Loans.

2. Figures in parentheses denote percentage of shares.

## 12 Breakdown of Loans by Type of Collateral

(Unit: number of loans, %)

	FY2015	FY2016	FY2017	FY2018	FY2019	
No collateral	213,575 (81.3)	229,665 (82.9)	230,263 (85.5)	223,271 (86.7)	223,441 (87.3)	
Collateral	Real estate (including partial collateral)	49,018 (18.7)	47,488 (17.1)	39,054 (14.5)	34,323 (13.3)	32,522 (12.7)
	Securities	16 (0.0)	21 (0.0)	10 (0.0)	10 (0.0)	4 (0.0)
	Credit Guarantee Corporations (CGCs)	— (—)	— (—)	— (—)	— (—)	— (—)
	Others	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Total	262,609 (100.0)	277,174 (100.0)	269,327 (100.0)	257,604 (100.0)	255,967 (100.0)	

Notes: 1. Loans comprise General Loans and Environmental Health Business Loans.

2. Figures in parentheses denote percentage of shares.

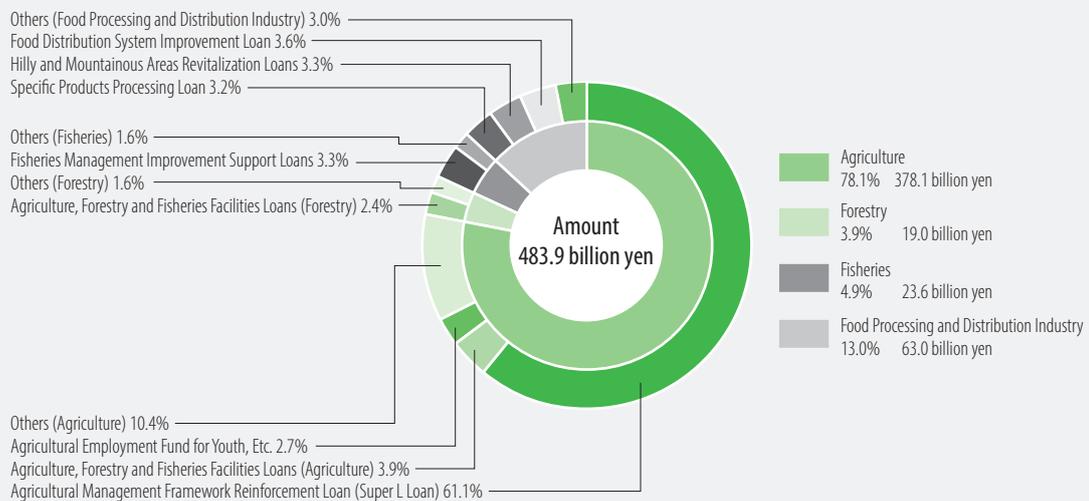
3. Partial collateral refers to real estate or other collateral whose estimated values do not reach amounts borrowed. Partial collateral of "Securities," "Credit Guarantee Corporations" and "Others" are included in "Real estate."

# Agriculture, Forestry, Fisheries and Food Business Unit

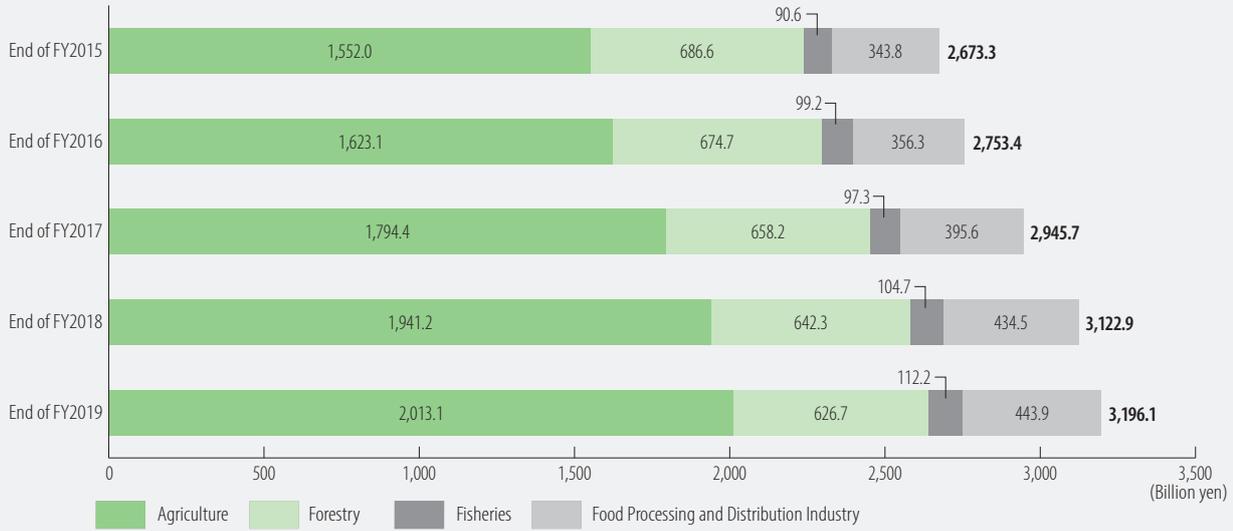
## 1 Changes in Annual Loan Operations



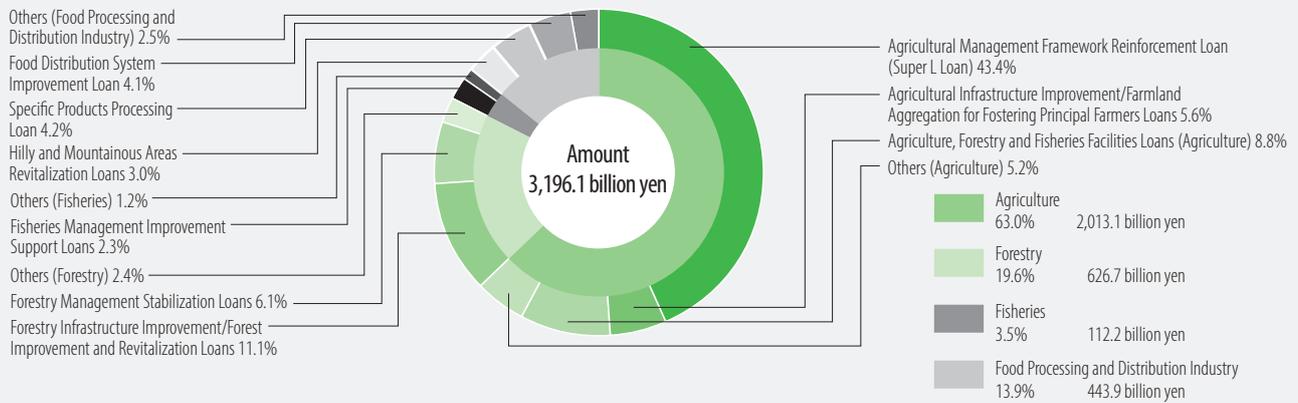
## 2 Breakdown of Loans by Scheme (FY2019)



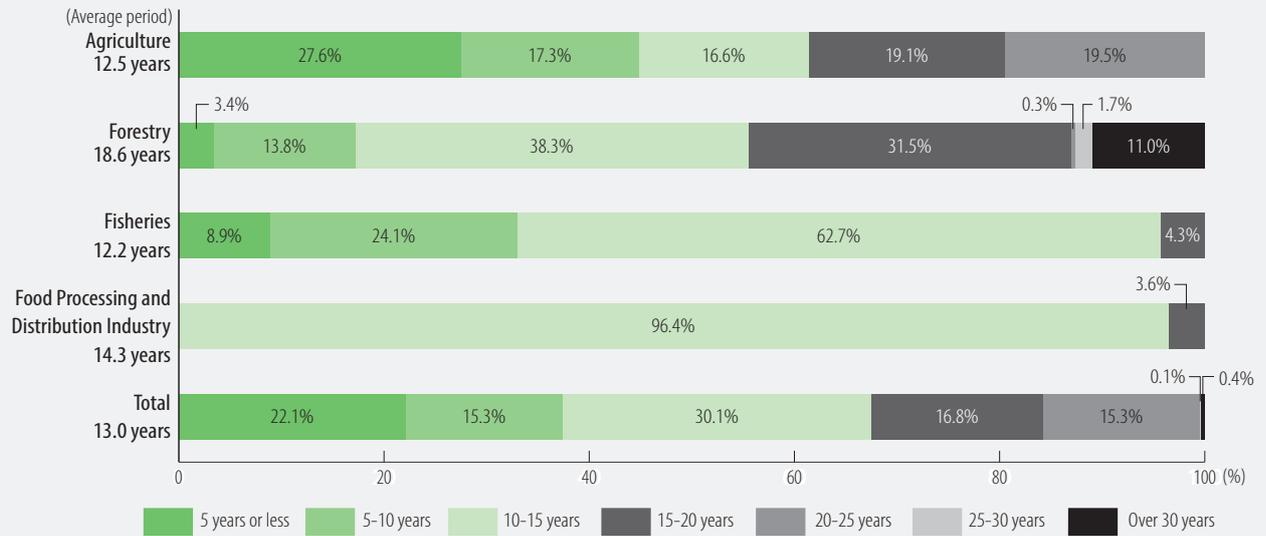
### 3 Changes in Outstanding Loans



### 4 Breakdown of Outstanding Loans by Sector and Use (End of FY2019)

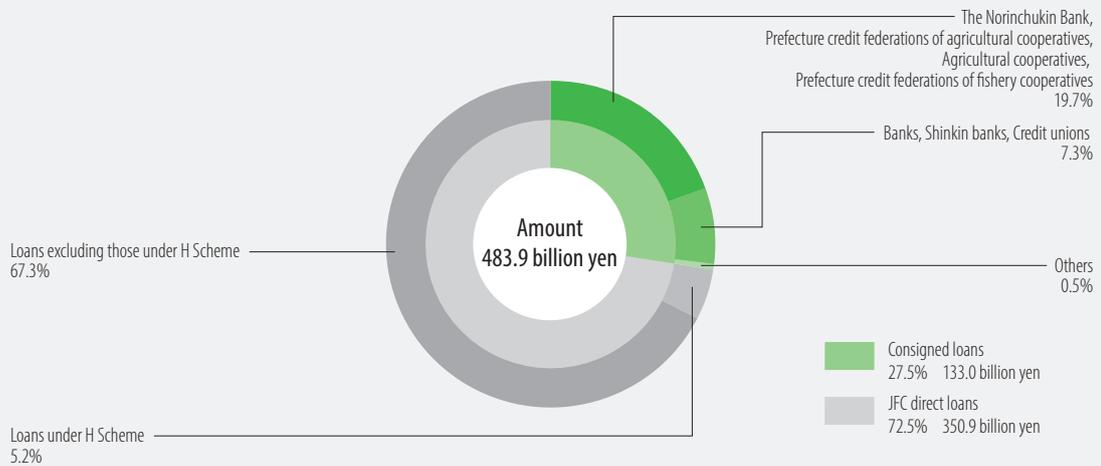


## 5 Loans by Repayment Period (FY2019)



Note: Aggregated by loan amount.

## 6 Loans by Commissioned Financial Institutions (FY2019)

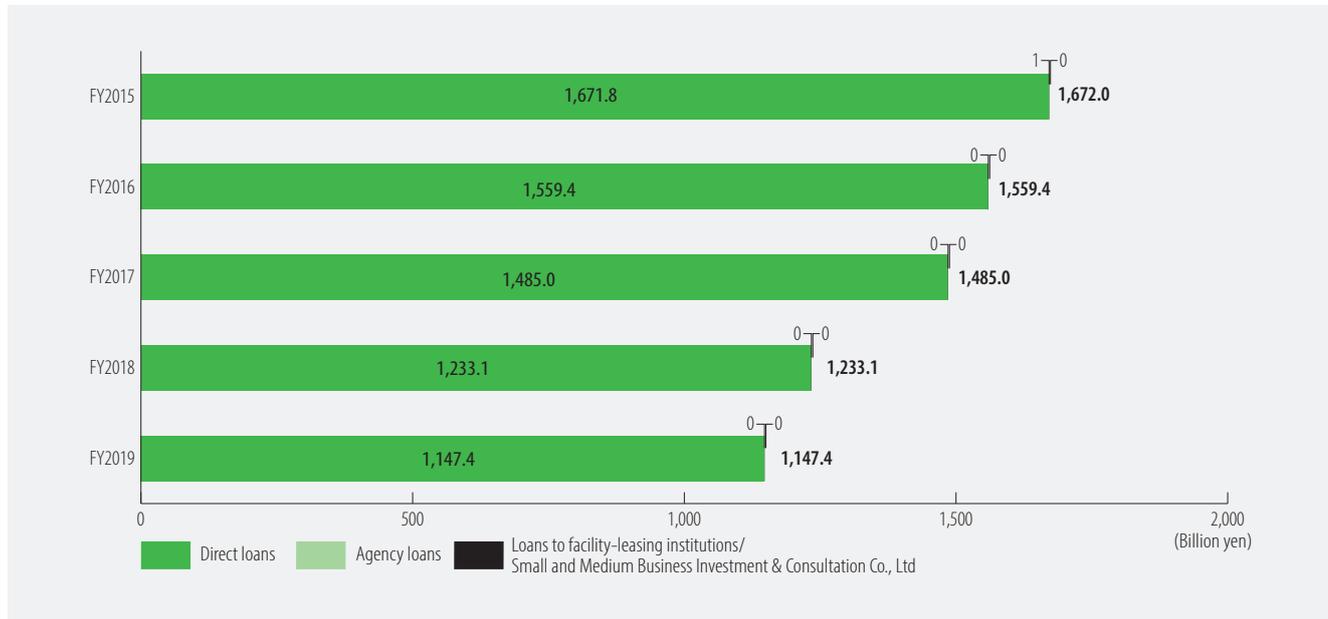


Note: H Scheme refers to a loan system through consignment of part of administration works for JFC's direct loans to agricultural cooperatives, banks, Shinkin banks, etc.

# Small and Medium Enterprise (SME) Unit

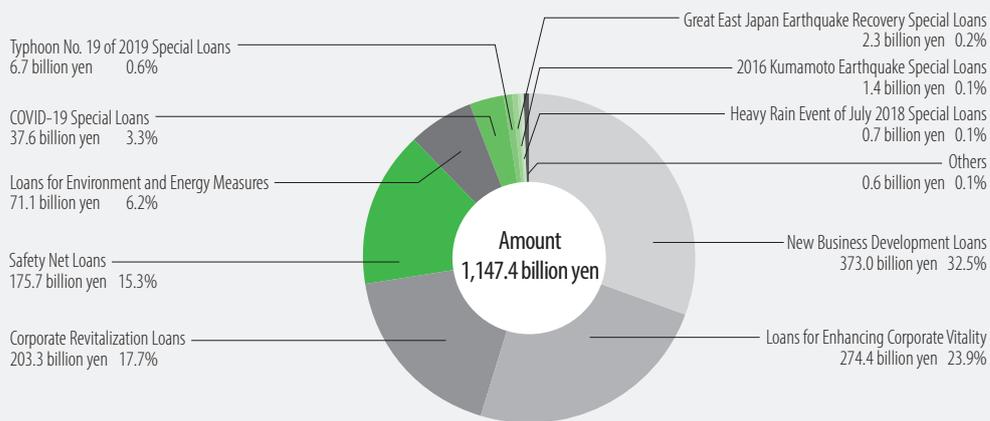
## I. Loan Programs

### 1 Changes in Annual Loan Operations



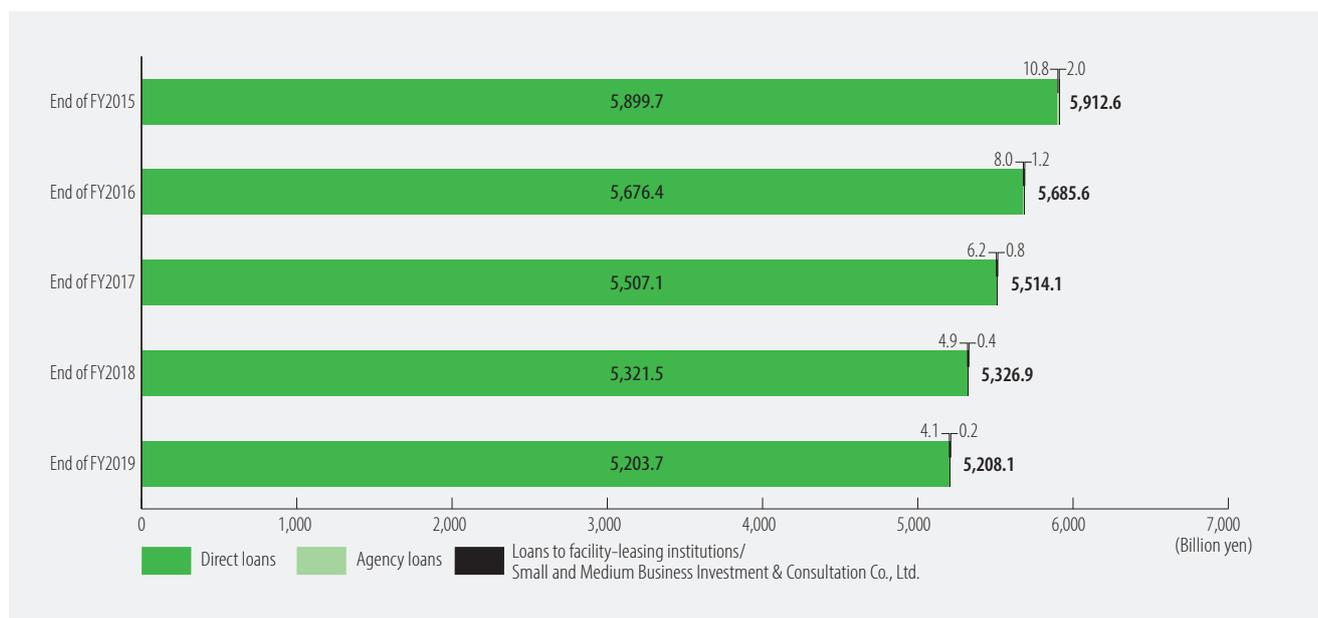
### 2 Breakdown of Loans by Scheme

#### ▼ Total Amount of Loans (FY2019)



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

### 3 Changes in Outstanding Loans



### 4 Breakdown of Outstanding Loans by Industry

(Unit: billion yen, %)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Manufacturing	2,772.9 (46.9)	2,675.2 (47.1)	2,588.1 (46.9)	2,487.1 (46.7)	2,387.4 (45.8)
Construction	274.4 (4.6)	260.2 (4.6)	255.9 (4.6)	252.1 (4.7)	249.4 (4.8)
Wholesale & retail	985.5 (16.7)	920.1 (16.2)	895.5 (16.2)	834.3 (15.7)	787.1 (15.1)
Transport & telecommu- nications	540.9 (9.2)	538.9 (9.5)	535.6 (9.7)	538.2 (10.1)	549.9 (10.6)
Services	618.6 (10.5)	601.0 (10.6)	581.8 (10.6)	584.2 (11.0)	612.5 (11.8)
Others	718.0 (12.1)	688.7 (12.1)	656.2 (11.9)	630.2 (11.8)	621.1 (11.9)
Total	5,910.6 (100.0)	5,684.4 (100.0)	5,513.3 (100.0)	5,326.4 (100.0)	5,207.9 (100.0)

Notes: 1. Loans include corporate bonds. Outstanding balances are calculated by deducting the amounts of loans to facility-leasing institutions/Small and Medium Business Investment & Consultation Co., Ltd. from the total balance.

2. Figures in parentheses denote percentage of shares.

### 5 Breakdown of Outstanding Loans by Use

(Unit: billion yen, %)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Operating funds	3,742.0 (63.3)	3,497.2 (61.5)	3,321.1 (60.2)	3,013.5 (56.6)	2,785.2 (53.5)
Facility funds	2,168.6 (36.7)	2,187.2 (38.5)	2,192.2 (39.8)	2,312.8 (43.4)	2,422.6 (46.5)
Total	5,910.6 (100.0)	5,684.4 (100.0)	5,513.3 (100.0)	5,326.4 (100.0)	5,207.9 (100.0)

Notes: 1. Loans include corporate bonds. Outstanding balances are calculated by deducting the amounts of loans to facility-leasing institutions/Small and Medium Business Investment & Consultation Co., Ltd. from the total balance.

2. Figures in parentheses denote percentage of shares.

## 6 Number of Borrowers

(Number of businesses)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Number of borrowers	45,583	44,665	44,145	43,929	44,102

Note: Figures cover only businesses with direct loans.

## 7 Average Loan Balance per Business

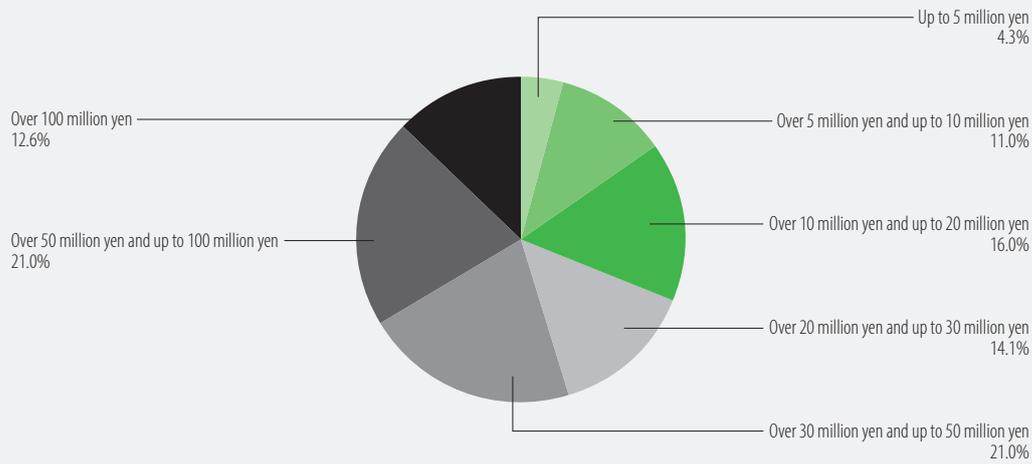
(Million yen)

	End of FY2015	End of FY2016	End of FY2017	End of FY2018	End of FY2019
Average loan balance per business	129	127	124	121	117

Note: Figures cover only businesses with direct loans.

## 8 Loans by Credit Amount

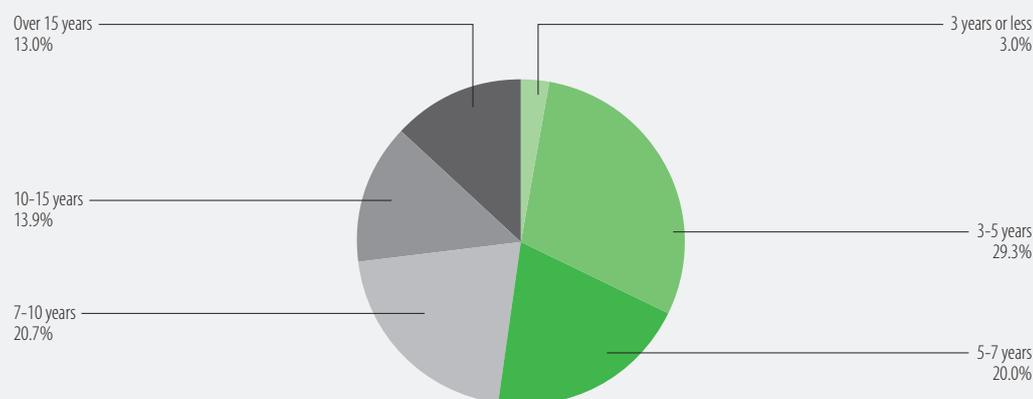
### ▼ Loan Percentage Breakdown (FY2019)



Note: Percentage distribution of the number of loans. Loans include corporate bonds.

## 9 Loans by Repayment Period

### ▼ Loan Percentage Breakdown (FY2019)



Note: Percentage distribution of the amount of loans. Loans include corporate bonds.

## II. Credit Insurance Programs

(Billion yen)

Items	FY2015	FY2016	FY2017	FY2018	FY2019
<b>Amounts of insurance acceptance and loans</b>					
Small Business Credit Insurance	8,561.4	8,101.1	7,635.5	7,707.2	8,324.3
Loans to CGCs	—	—	—	—	—
Special Insurance for Mid-size Enterprises	—	—	—	—	—
<b>Outstanding amounts of insurance and loans</b>					
Small Business Credit Insurance	26,011.1	24,093.6	22,401.0	21,264.0	21,244.8
Loans to CGCs	—	—	—	—	—
Special Insurance for Mid-size Enterprises	0.0	0.0	0.0	0.0	0.0
Machinery Credit Insurance <sup>(Note)</sup>	1.1	0.7	0.4	—	—

Notes: 1. Suspending the acceptance of new insurance since FY2003, 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).

2. Outstanding amounts of insurance and loans are as of March 31, 2020.

## III. Securitization Support Programs

(Billion yen)

Items	FY2015	FY2016	FY2017	FY2018	FY2019
<b>Financing support amount</b>					
Purchase-type	12.1	25.7	27.0	34.5	33.2
Guarantee-type	—	—	—	—	—
<b>Outstanding amount of financing support</b>					
Purchase-type	12.1	33.7	50.1	67.2	78.3
Guarantee-type	—	—	—	—	—
<b>Outstanding amounts of trust beneficiary rights and guaranteed liabilities</b>					
Purchase-type (outstanding amount of trust beneficiary rights)	4.3	12.1	15.1	18.1	17.4
Purchase-type (outstanding amounts of asset-backed securities)	1.5	3.7	6.6	10.3	14.9
Guarantee-type (outstanding amount of guaranteed liabilities)	0.0	0.0	0.0	0.0	0.0
Standby Letter of Credit Program (outstanding amount of guaranteed liabilities)	4.4	4.6	5.3	5.2	4.7

Notes: 1. Purchase-type refers to operations prescribed in Article 11-1-2 of the Japan Finance Corporation Act as well as Items 3, 5, 7 and 8 on the Schedule II thereof.

2. Guarantee-type refers to operations prescribed in Article 11-1-2 of the Japan Finance Corporation Act as well as Items 4 and 6 on the Schedule II thereof.

3. Outstanding amounts of asset-backed securities refer to subordinated amounts acquired by JFC out of asset-backed securities and trust beneficiary rights and regarding the purchase-type securitization support programs.

4. Standby Letter of Credit Program refers to the operations of debt guarantee which are deemed to be operations prescribed in Article 11-1-2 of the Japan Finance Corporation Act as well as Item 4 on the Schedule II thereof by SMEs Business Enhancement Act, etc., Support under the SME Regional Resources Utilization Promotion Law, the Law to Promote Collaboration between Agriculture, Commerce and Industry, the Act on Support for Strengthening Agricultural Competitiveness, and the Act on Rationalization of Foodstuff Distribution and Normalization of Foodstuff Trading. <sup>(Note)</sup>

5. Outstanding amounts of trust beneficiary rights and guaranteed liabilities are as of March 31, 2020.

Note: This is a literal translation, not an official English name.

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

### Results of Operations to Facilitate Crisis Responses

(Billion yen)

	Second Half of FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Two-step loans	1,430.1	3,869.3	405.2	1,153.4	733.7	559.3	130.0	105.2	529.2	85.4	—	35.0
Loans, etc.	1,130.3	3,529.4	405.2	1,153.4	733.7	559.3	130.0	105.2	529.2	85.4	—	35.0
Commercial paper (CP) acquisitions	299.8	339.8	—	—	—	—	—	—	—	—	—	—
Loss compensation	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	89.2	1.0	0.8
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	89.2	1.0	0.8
Commercial paper (CP) acquisitions	—	—	—	—	—	—	—	—	—	—	—	—
Equity participations	—	30.0	—	—	—	—	—	—	—	—	—	—
Interest subsidies	—	—	0.3	2.4	7.8	10.9	12.4	11.0	5.4	12.6	4.9	2.7

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 2020.

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 2020, with loss compensation underwritten by JFC for losses incurred until May 10, 2020. Equity participation figures (pertaining to the Act on Special Measures for Industrial Revitalization) 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 designated financial institutions for loans, etc. provided by the designated financial institutions through the end of September 2019 (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).

### Results of Operations to Facilitate Specific Businesses Promotion

(Billion yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Two-step loans	20.0	1.3	7.8	10.6	2.9	1.1	1.0	0.5	—	—

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 the end of March 2020.

### Results of Operations to Facilitate Business Restructuring Promotion

(Billion yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Two-step loans	—	25.0	—	20.0	—	—	—	—	100.0

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 the end of March 2020 (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 (Act No. 131 of 1999) that was abolished with the enactment of the Industrial Competitiveness Enhancement Act on January 20, 2014).

# Financial Statements and Notes

## Japan Finance Corporation

The balance sheet, statement of operations, statement of changes in net assets, and notes to the non-consolidated financial statements of JFC and each operating account were prepared in Japanese in accordance with Article 42 of the Japan Finance Corporation Act as well as Article 435 Paragraph 2 of the Companies Act, and audited by Ernst & Young ShinNihon LLC in accordance with Article 42 of the Japan Finance Corporation Act as well as Article 436 Paragraph 2 Item 1 of the Companies Act. Financial statements and notes in English were prepared based on these audited financial statements and notes in Japanese.

### Balance Sheet (as of March 31, 2020)

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Cash and due from banks</b>	<b>4,401,127</b>	<b>Borrowed money</b>	<b>12,810,374</b>
Cash	24	Borrowings	12,810,374
Due from banks	4,401,103	<b>Bonds payable</b>	<b>1,410,475</b>
<b>Securities</b>	<b>41,931</b>	<b>Entrusted funds</b>	<b>27,032</b>
Government bonds	21,180	<b>Reserve for insurance policy liabilities</b>	<b>773,166</b>
Corporate bonds	17,525	<b>Other liabilities</b>	<b>19,725</b>
Stocks	2,037	Accrued expenses	6,581
Other securities	1,187	Unearned revenue	951
<b>Loans and bills discounted</b>	<b>16,680,995</b>	Derivatives other than for trading-liabilities	57
Loans on deeds	16,680,995	Lease obligations	2,465
<b>Other assets</b>	<b>37,882</b>	Other	9,668
Prepaid expenses	110	<b>Provision for bonuses</b>	<b>5,345</b>
Accrued income	17,342	<b>Provision for directors' bonuses</b>	<b>24</b>
Agency accounts receivable	2,073	<b>Provision for retirement benefits</b>	<b>88,748</b>
Other	18,355	<b>Provision for directors' retirement benefits</b>	<b>60</b>
<b>Property, plant and equipment</b>	<b>194,629</b>	<b>Reserve for compensation losses</b>	<b>25,652</b>
Buildings	51,931	<b>Acceptances and guarantees</b>	<b>100,967</b>
Land	139,237	<b>Total liabilities</b>	<b>15,261,572</b>
Lease assets	2,137	<b>Net assets</b>	
Construction in progress	319	<b>Capital stock</b>	<b>4,324,220</b>
Other	1,002	<b>Capital surplus</b>	<b>2,233,784</b>
<b>Intangible assets</b>	<b>15,741</b>	Special reserve for administrative improvement funds	181,500
Software	10,665	Legal capital surplus	2,052,284
Lease assets	63	<b>Retained earnings</b>	<b>(781,227)</b>
Other	5,012	Legal retained earnings	291,637
<b>Customers' liabilities for acceptances and guarantees</b>	<b>100,967</b>	Other retained earnings	(1,072,864)
<b>Allowance for loan losses</b>	<b>(434,924)</b>	Retained earnings brought forward	(1,072,864)
		<b>Total shareholders' equity</b>	<b>5,776,777</b>
		<b>Total net assets</b>	<b>5,776,777</b>
<b>Total assets</b>	<b>21,038,349</b>	<b>Total liabilities and net assets</b>	<b>21,038,349</b>

Data

**Statement of Operations (Year ended March 31, 2020)**

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>469,463</b>
Interest income	212,345
Interest on loans and discounts	211,707
Interest and dividends on securities	225
Interest on deposits with banks	384
Other interest income	28
Fees and commissions	1,391
Fees and commissions on compensation security contract	834
Other fees and commissions	557
Insurance premiums and other	194,860
Insurance premiums	122,704
Receipts of burden charges under the Responsibility-sharing System	6,888
Reversal of reserve for insurance policy liabilities	65,267
Receipts from the national budget	54,732
Receipts from general account of the national budget	54,715
Receipts from special account of the national budget	17
Other income	6,133
Recoveries of written-off claims	910
Gain on sales of stocks and other securities	81
Other	5,141
<b>Ordinary expenses</b>	<b>498,790</b>
Interest expenses	38,368
Interest on call money	(7)
Interest on borrowings and rediscounts	33,640
Interest on bonds	4,707
Other interest expenses	27
Fees and commissions payments	3,496
Other fees and commissions	3,496
Expenses on insurance claims and other	189,340
Expenses on insurance claims	261,285
Recoveries of insurance claims	(71,944)
Other ordinary expenses	3,547
Loss on foreign exchange transactions	340
Amortization of bond issuance cost	457
Interest subsidies	2,750
General and administrative expenses	120,380
Other expenses	143,656
Provision of allowance for loan losses	114,915
Provision of reserve for compensation losses	9,507
Written-off of loans	14,338
Other	4,894
<b>Ordinary loss</b>	<b>29,326</b>
<b>Extraordinary income</b>	<b>104</b>
Gain on disposal of noncurrent assets	104
<b>Extraordinary losses</b>	<b>423</b>
Loss on disposal of noncurrent assets	252
Impairment loss	171
<b>Net loss</b>	<b>29,646</b>

**Statement of Changes in Net Assets (Year ended March 31, 2020)**

(Millions of yen)

	Shareholders' equity								Total net assets
	Capital stock	Capital surplus			Retained earnings			Total shareholders' equity	
		Special reserve for administrative improvement funds	Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings		
					Retained earnings brought forward				
Balance at the beginning of current period	4,195,898	181,500	1,988,384	2,169,884	199,537	(951,080)	(751,542)	5,614,239	5,614,239
Changes of items during the period									
Issuance of new shares	128,322		63,900	63,900				192,222	192,222
Provision of legal retained earnings					92,113	(92,113)	—	—	—
Reversal of legal retained earnings					(13)	13	—	—	—
Payment to the national treasury						(38)	(38)	(38)	(38)
Net income (loss)						(29,646)	(29,646)	(29,646)	(29,646)
Total changes of items during the period	128,322	—	63,900	63,900	92,100	(121,784)	(29,684)	162,537	162,537
Balance at the end of current period	4,324,220	181,500	2,052,284	2,233,784	291,637	(1,072,864)	(781,227)	5,776,777	5,776,777

Data

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method) based on the moving average method. Investments in affiliates are carried at cost based on the moving average method. As a rule, available-for-sale securities are stated at fair value based on market prices on the closing date. However, available-for-sale securities whose fair value is extremely difficult to be determined are carried at cost based on the moving average method.

### (b) Valuation method for derivative financial instruments

Derivative financial instruments are carried at fair value. However, certain credit default swap transactions, for which neither quoted market price nor reliably estimated value is available and the fair value is undeterminable, are accounted for as guarantee of obligation.

### (c) Depreciation basis for fixed assets

#### (i) Property, plant and equipment (except for lease assets)

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) and facilities attached to buildings and structures acquired on or after April 1, 2016, which are depreciated under the straight-line method.

Amortization is based on the following range of estimated useful lives:

Buildings: 2 years to 50 years

Other: 2 years to 20 years

#### (ii) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by Japan Finance Corporation (JFC) is amortized over its useful life (5 years).

#### (iii) Lease assets

Lease assets in "property, plant and equipment" or "intangible assets," under finance leases that do not involve transfer of ownership to the lessee are amortized under the straight-line method over the lease term. Depreciation for lease assets is calculated with zero residual value being assigned to the asset.

### (d) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

### (e) Foreign currency translation and revaluation method

JFC maintains its accounting records in Japanese yen. Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the market exchange rate prevailing at the fiscal year end.

### (f) Accounting policy for reserves

#### (i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

The allowance for claims on debtors who are legally bankrupt ("Bankrupt borrowers") or substantially bankrupt ("Substantially bankrupt borrowers") is provided based on the outstanding balance after the write-offs described in the followings and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt but are likely to become bankrupt ("Potentially bankrupt borrowers") is provided based on an assessment of the overall solvency of the debtors after deducting the amount expected to be collected through the disposal of collateral and the execution of guarantees.

The allowance for claims on debtors other than Bankrupt borrowers is provided based on primarily the anticipated loss amount within the next one year or the anticipated loss amount within the next three years. The anticipated loss amount is calculated by seeking the loss rate on the basis of the average default rate over a certain period in the past based on the default rates for one or three years and making necessary adjustments such as future expectations.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments, which are independent from the operational departments, review these self-assessments.

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), the residual booked amount of the claims after deduction of the amount which is deemed collectible through the disposal of collateral or the execution of guarantees is written-off. The amount of accumulated write-off is ¥217,708 million.

Write-offs are recognized by offsetting the current allowance for loan losses for the amount of the claim deemed uncollectible against the year-end claim amount balance; the previous allowance for loan losses and claim balances are reversed at the start of the fiscal year, upon approval received from the competent minister pursuant to Article 4 of the Ministerial Ordinance Concerning Accounting for the JFC (Ordinance of the Ministry of Finance, the Ministry of Health, Labour and Welfare, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Economy, Trade and Industry; Ordinance No. 3 of 2008).

**(ii) Reserve for compensation losses**

The “reserve for compensation losses” provides for losses based on the estimated amounts of future losses attributed to compensation security contracts.

**(iii) Provision for bonuses**

The “provision for bonuses” is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

**(iv) Provision for directors’ bonuses**

The “provision for directors’ bonuses” is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

**(v) Provision for retirement benefits**

The “provision for retirement benefits” represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end. In addition, in calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition are calculated as follows:

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the time of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year at the time of occurrence.

**(vi) Provision for directors’ retirement benefits**

The “provision for directors’ retirement benefits,” which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

**(g) Accounting policies for reserve for insurance policy liabilities**

The “reserve for insurance policy liabilities” consists of the following two items, pursuant to Article 9, Paragraph 1 of the Ministerial Ordinance Concerning Accounting for JFC. Furthermore, in accordance with Article 9, Paragraph 2 of the Ministerial Ordinance Concerning Accounting for JFC, an additional amount shall be provided for insurance policy liabilities in the event that an impediment to the fulfillment of future obligations has been confirmed.

**(i) Policy reserve**

The policy reserve which provides for future obligations under insurance policies has been calculated based on actuarial and statistical method.

**(ii) Outstanding claims reserve**

The outstanding claims reserve represents the accumulation of the estimates for reported losses and includes provision for losses incurred but not reported, after the deduction of collectable amounts based on insurance policies.

**(h) Consumption and other taxes**

Consumption taxes and local consumption taxes (“consumption taxes”) are excluded from transaction amounts. Amounts of non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

**Issued but not yet adopted accounting standards and others**

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

**(1) Overview**

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

**(2) Scheduled date of application**

The accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

**(3) Effects of application of these accounting standards**

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

## (1) Overview

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

## (2) Scheduled date of application

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

## (3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

## 3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

## (1) Overview

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

## (2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

## 4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

## (1) Overview

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

## (2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

## 2. Equity securities of affiliates

Equity securities of affiliates is ¥2,030 million.

## 3. Loans

All loans entered into are loans on deeds. The amounts reported in the balance sheet include the followings:

(Millions of yen)

	As of March 31, 2020		
	Account for Micro Business and Individual Operations	Account for Agriculture, Forestry, Fisheries and Food Business Operations	Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)
Bankrupt loans	4,944	1,273	2,943
Non-accrual loans	104,517	53,539	451,356
Loans with interest or principal repayments more than three months in arrears	30	720	—
Restructured loans	414,525	19,183	71,802
Total	524,017	74,717	526,102

(Note) The description of the following four accounts, Securitization Support Programs (Purchase-type operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. are omitted since there are no balance in these accounts.

(a) "Bankrupt loans" are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the Corporate Tax Law Enforcement Ordinance (Government Ordinance No. 97, 1965), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.

(b) "Non-accrual loans" are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

(c) "Loans with interest or principal repayments more than three months in arrears" are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of "Bankrupt loans" and "Non-accrual loans".

(d) "Restructured loans" are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers' recovery from financial difficulties, and which do not fall under the category of "Bankrupt loans", "Non-accrual loans", and "Loans with interest or principal repayments more than three months in arrears".

(e) The amounts of loans indicated in the table above are the gross amounts prior to the deduction of allowance for possible loan losses.

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheet. The balance of unpaid amounts as of March 31, 2020 is ¥145,333 million.

## 4. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for bonds totaling ¥1,410,475 million.

## 5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥35,848 million.

## 6. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (35,882 contracts)	472,557
Reserve for compensation	25,652
Net amount	446,905

## 7. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*<sup>1</sup>. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*<sup>2</sup> listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*<sup>1</sup> Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No.38, 2010).

\*<sup>2</sup> Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No.38, 2010).

## 8. The account title and the amount related to transactions with affiliates

1. Ordinary income-Other income-Other: ¥0 million
2. Ordinary expenses-General and administrative expenses: ¥0 million

## 9. Issued shares

For the fiscal year ended March 31, 2020, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stock	10,337,226,107,741	192,222,000,000	—	10,529,448,107,741

(Note) Increase is due to the issuance of 192,222,000,000 shares.

## 10. Financial instruments and related disclosure

### 1. Status of financial instruments

#### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

The Account for Micro Business and Individual Operations is for operations, such as business fund financing and educational loans, etc. To conduct these operations funds are raised through the borrowing of fiscal investment funds and loans and the issuing of bonds.

In the Account for Agriculture, Forestry, Fisheries and Food Business Operations, the main operations consist of supplementing the financing provided by general financial institutions and supplying long-term funds at a low interest rate aimed at businesses engaged in agriculture, forestry, fisheries and food manufacturing, etc., in order to contribute to the sustainable and robust

development of the agriculture, forestry, fisheries business and ensure the stable supply of food. To conduct these operations funds are raised through borrowing from fiscal investment funds and loans and the issuing of bonds.

In the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), a stable supply of long-term funds is provided to supplement private sector financial institutions in order to support the growth and development of SMEs. To conduct these operations, funds are raised by borrowing from the government and through the issuing of bonds. Forward exchange contracts are conducted for avoiding foreign exchange risk related to foreign currency loans.

Operations in the Account for Securitization Support Programs (Purchase-type Operation) are conducted for the purpose of promoting the supply of unsecured funds to SMEs from private sector financial institutions, etc., utilizing securitization and fostering the securitization market for SME loan claims. To conduct these operations funds are raised through the issuing of bonds.

In the Account for Credit Insurance Programs, insurance is provided for the guarantees related to the liabilities on SME loans. To conduct these operations funds are raised through capital investment from the government.

In the Account for Operations to Facilitate Crisis Responses financing operations including 1) loans, 2) credit insurance underwriting (a certain portion of compensation paid by JFC to cover losses incurred by specified financial institutions on loans), and 3) interest subsidies (interest subsidies provided by JFC to specified financial institutions for loans, etc., conducted by specified financial institutions that received a credit facility from JFC) are conducted for financial institutions specified by the competent minister for domestic and global financial disturbance that is recognized by the competent minister when a crisis such as a large-scale disaster occurs. To conduct these operations, the financing required for 1) loans is procured funds through the borrowing from Fiscal Investment and Loan Program ("FILP"), and the issuing of government guaranteed bonds. The loan period and borrowing period are equal, and the financing cost is covered by the interest on the loans. The financing required for 2) credit insurance underwriting, and 3) interest subsidies is procured funds through equity participation from the government, etc.

In the Account for Operations to Facilitate Specific Businesses Promotion, etc., this account provides loans to designated financial institutions appointed by the competent minister in order to assist in the smooth financing of required funds for both the execution of business by companies that develop or manufacture energy and environmentally friendly products and the execution of business restructuring in order to strengthen their industrial competitiveness. The funds for these lending operations are financed using fiscal investment and loans. The loan period and borrowing period are equal, and the financing cost is covered by the interest on loans.

## (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts, and the risks associated with the financial assets and liabilities contained within each operation account are described below.

### a. Account for Micro Business and Individual Operations

The financial assets in this operation account mainly include loans to micro business and individuals, and the financial liabilities mainly include borrowings and bonds. The associated risks are described below.

#### (a) Credit risk

The associated credit risk consists of risk of losses arising from uncollectable claims on business and educational loans from deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the entity to which credit is granted.

For this operation account, JFC strives to make a proper financing decision in the financial screening process, conduct detailed claims management based on the condition of the borrower after financing is provided, use statistical management methods, and increase the sophistication of management methods employed. In addition, risks are distributed as the credit portfolio is comprised of small business and educational loans, etc. that are not concentrated in a specified region or industry.

However, based on future economic trends and changes in the business climate of borrowers, the number of borrowers with deteriorated creditworthiness could increase, bringing about requests for financial support including loan restructuring, causing an increase in uncollectable debt and credits costs for this operation account.

#### (b) Market risk

The main type of market risk associated with this operation account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps arise between assets and liabilities. This operation account could incur losses from the interest rate risk caused by this gap.

#### (c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, government-backed bonds, the FILP agency bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

b. Account for Agriculture, Forestry, Fisheries and Food Business Operations

The financial assets in this operation account mainly include loans to agriculture, forestry, fisheries and food businesses, and financial liabilities mainly include borrowings and bonds. The associated risks are described below.

(a) Credit risk

The associated credit risk consists of risk of losses arising from uncollectable claims on credit to agriculture, forestry, fisheries and food businesses from deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the entity to which credit is granted. For this reason, efforts are made to maintain and improve the soundness of assets through proper financial screening and account management throughout the year.

However, among the majority of borrowers that make up this operation account, there are many small businesses in the agriculture, forestry, fisheries sector. These businesses are especially susceptible to natural conditions such as weather, etc., so depending on future conditions, uncollectable debt and credits costs for this operation account could increase.

(b) Market risk

The main type of market risk associated with this operation account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, due to characteristics such as long redemption periods and fixed interest rates that are required by agriculture, forestry, and fisheries policy, not all cash flows can be matched, so some gaps arise between assets and liabilities. This operation account could incur losses from the interest rate risk caused by this gap.

(c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, the FILP agency bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

c. Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)

The financial assets in this operation account mainly include loans and securities for SMEs, and financial liabilities mainly include borrowings and bonds. The associated risks are described below.

(a) Credit risk

The following operations are conducted in this operation account: (1) Loans to SMEs, (2) Acquisition of bonds issued by SMEs, (3) Securitization of loan claims and bonds of SMEs, (4) Partial guarantee of loan claims for private sector financial institutions and guarantee of securitized financial products, (5) Guarantee related to the liabilities of SMEs and micro businesses' overseas subsidiaries and branches, and (6) Acquisition of shares or equity of SMEs that have debt in the form of loans from JFC for the purpose of reducing qualifying debt. For this operation account, JFC identifies and evaluates credit risk by taking steps for appropriate screening and monitoring of loans and implements the necessary management to steadily put in place measures aimed at reducing credit costs. However, future economic trends in Japan and overseas, which may lead to a deterioration in creditworthiness of borrowers, and a fluctuation in the value of the real estate-collateral and other unexpected events could cause losses for this operation account as a result of bad debts and uncollectable claims.

(b) Market risk

The main type of market risks associated with this operation account are interest rate risk and foreign exchange risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps arise between assets and liabilities. This operation account could suffer losses from the interest rate risk caused by this gap.

It is JFC policy to minimize foreign exchange risk arising from foreign currency loans in this operation account by conducting forward exchange contracts.

(c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, government-backed bonds, the FILP agency bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

d. Account for Securitization Support Programs (Purchase-type Operation)

The financial assets in this operation account mainly include securities, and the financial liabilities are bonds payable. The associated risks are described below.

## (a) Credit risk

The following operations are conducted in this operation account: (1) Receipt and securitization of loan claims for private sector financial institutions and (2) Partial purchase of securitized instruments. Since credit is provided to SMEs in this operation account, the account risks losses arising from uncollectable claims caused by deterioration in creditworthiness of the SMEs to which credit is granted and the resulting drop in value of securitized instruments owned.

## (b) Market risk

The main type of market risk associated with this operation account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities.

## (c) Liquidity risk

Long-term and stable funds such as FILP agency bonds are secured to finance this operation account and deposits are not accepted. Proper measures, including establishing overdraft facility accounts with multiple private sector financial institutions, are taken to maintain daily cash flows, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

## e. Account for Credit Insurance Programs

The financial assets in this operation account mainly include deposits. The associated risks are described below.

## (a) Market risk

The main type of market risk associated with this operation account is interest rate risk.

However, this operation account is exposed to limited interest rate risk because funds procured through government investments are managed using highly stable instruments including the deposit for the FILP.

## (b) Liquidity risk

This operation account does not accept deposits and since long-term stable funds such as investments from the Japanese government are secured to finance this operation account, liquidity risk is considered to be limited.

## f. Account for Operations to Facilitate Crisis Responses

The financial assets in this operation account mainly include loans and financial liabilities against designated financial institutions, and the financial liabilities include borrowings. The associated risks are described below.

## (a) Credit risk

The main financial assets in this operation account are loans of funds to designated financial institutions that are required to conduct crisis response operations. The associated credit risk consists of risk of losses arising from uncollectable claims due to deterioration in creditworthiness of the designated financial institution.

JFC is liable for compensation to cover losses incurred by designated financial institution on loans to third parties. This operation account could incur losses if the payment of compensation fluctuates from the projected compensation payments caused by significant changes in the creditworthiness or economic condition of the third party business.

## (b) Market risk

The operations of this operation account consist of loans to designated financial institutions, and fiscal investment and loans are used for financing. Interest rate risk is not present as a type of market risk because the terms and conditions of the loans and borrowings are equal, and the financing cost is covered by the interest on the loans.

## (c) Liquidity risk

Long-term and stable funds such as fiscal investment and loans, and funding provided by government are secured to finance this operation account and deposits are not accepted. Sufficient short-term liquidity is secured for compensation payment funds towards designated financial institutions, and liquidity risk is considered to be limited. However, borrowings are exposed to liquidity risk that payment cannot be made on the payment date due to unexpected events.

## g. Account for Operations to Facilitate Specific Businesses Promotion, etc.

The financial assets in this operation account mainly include loans and financial liabilities against designated financial institutions, and the financial liabilities include borrowings. The associated risks are described below.

## (a) Credit risk

The main financial assets in this operation account are loans to designated financial institutions that are required to conduct specific businesses promotion operations, businesses restructuring promotion, etc. operations, and business restructuring promotion operations. The associated credit risk consists of risk of losses arising from uncollectable claims due to deterioration in creditworthiness of the designated financial institution.

## (b) Market risk

The operations of this operation account consist of loans to designated financial institutions, and fiscal investment and loans are used for financing. Interest rate risk is not present as a market risk because the terms and conditions of the loans and borrowings are equal, and the financing cost is covered by the interest on the loans.

## (c) Liquidity risk

Long-term and stable fiscal investment and loans are secured to finance this operation account and deposits are not accepted. As a result, liquidity risk is considered to be limited. However, borrowings are exposed to liquidity risk that payment cannot be made on the payment date due to unexpected events.

## (3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for each type of operation is described below.

## a. Micro Business and Individual Operations

The risk management structure of these operations is described below.

## (a) Credit risk management

For these operations, JFC has a structure to manage the credit risk of loans through (i) individual credit management, (ii) asset self assessment, and (iii) quantification of credit risk in accordance with regulations concerning financing operations and claims management operations, and management regulations concerning credit risk. This credit risk management is conducted by the Credit Analysis Department and risk management department as well as each branch office, and business operations meetings are regularly held with the General Manager acting as chairman to conduct discussions and reporting.

The specific risk management method is described below.

## (i) Individual credit management

The financial screening process associated with these operations to support appropriate financing decisions is based on consideration of the borrower's financial condition in terms of eligibility for financing, validity of the use of funds, profitability and sustainability of the business, as well as the business's qualitative aspects such as technical capabilities, selling power, and the future potential of the business.

Efforts are made to carefully manage claims after financing has been conducted through assessment of the future business outlook and repayment capacity.

## (ii) Asset self assessment

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In this process, first stage assessments are conducted by the branch offices, second stage assessments by the Asset Self Assessment Office, and internal inspections by the auditing department.

The results of this self assessment are used to properly estimate write-off and allowance, and are used internally for the constant assessment of the credit conditions of the operations. They are also actively used for the disclosure of the quality of assets to enhance the transparency of financial position for the operations.

## (iii) Quantification of credit risk

A credit scoring model for borrowers based on analysis of transaction data collected over a number of years has been constructed for these operations and this model has been used for screening procedures and to monitor credit portfolios. The reliability of this credit scoring model is ensured through continual recalibration based on annual inspections of the model's accuracy.

In addition, to assess the overall risk of the portfolio, efforts are made to quantify credit risk through methods that take into consideration the extremely diversified nature of the portfolios for these operations.

## (b) Market risk management

These operations are subject to the interest rate risk caused by the cash flow gap between assets and liabilities, and the operations could incur losses caused by this risk. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder approach and duration analysis, and appropriate risk management is carried out through adjustment of procurement period limits and other means to reduce interest rate risk by diversifying the year of issue for bonds.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations include loans, borrowings, and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2020 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥18,358 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥17,393 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related to fund procurement

To conduct proper risk management in these operations, long-term and stable funds such as fiscal loan funds, government-backed bonds, FILP agency bonds, and funding provided by government are secured to finance this account and deposits are not accepted. Cash flows are assessed and overdraft facility accounts are established with multiple private sector financial institutions to maintain daily cash flows.

b. Agriculture, Forestry, Fisheries and Food Business Operations

The risk management structure for these operations is described below.

(a) Credit risk management

For these operations, credit risk is properly managed through (i) individual credit management, (ii) credit rating, (iii) asset self assessment, and (iv) quantification of credit risk.

(i) Individual credit management

The screening process for these operations includes screening of the probability of repayment based on eligibility for financing, validity of the financing conditions, and the future potential of the business. Particularly, screening for the certainty of repayment is conducted with a screening standard that gives sufficient consideration to the specific industry (agriculture, forestry, and fisheries) risks. This consists of close examination of the creditworthiness of the borrower, investment-risk, investment-effect, and comprehensive verification and confirmation of repayment ability that takes into account feasibility of the payment and repayment plan, and suitability of financing conditions.

Efforts are also made to continuously assess the customer's economic condition, and maintain and improve the soundness of loan assets through active and detailed support activities.

(ii) Credit rating

These operations strive to maintain and improve the quality of loan assets by using ratings for early discovery of customers with business conditions that could be cause for concern in order to enact business support. Ratings are assigned based on a model built using internal data. The reliability of this scoring model is ensured through continual recalibration based on annual inspection of the model's evaluation accuracy.

The credit ratings are also used for individual credit management, asset self assessment, and quantification of credit risk as the basis for credit risk management. For this reason reassessment of the credit ratings system is conducted as required.

(iii) Asset self assessment

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In this process, first stage assessments are conducted by the branch offices, second stage assessments by the Credit Analysis Department and the Revitalization Support Department, and internal inspections by the auditing departments.

The results of this self assessment are used to appropriately estimate write-offs and allowances, and are used internally for the constant assessment of the credit conditions of the operations. They are also actively used for the disclosure of the quality of assets to enhance the transparency of the financial position of the operations.

(iv) Quantification of credit risk

To assess the overall risk of the portfolio, credit risks are quantified for internal management in these operations.

(b) Market risk management

These operations are subject to the interest rate risk caused by the cash flow gap between assets and liabilities, and the operations could incur losses caused by this risk. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder approach and duration analysis, and appropriate risk management is carried out to reduce interest rate risk by adjustments of financing periods.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations include loans, borrowings, and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2020 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥12,625 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥11,251 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related with fund procurement

Long-term and stable funds such as fiscal loans, FILP agency bonds, and funding provided by government are secured to finance this account and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions have been taken to maintain daily cash flows for proper risk management.

c. SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)

The risk management structure for these operations is described below.

(a) Credit risk management

(i) Individual credit management

For financing operations, the decision on financing and other related matters is conducted upon assessment of the situation of companies applying for funds from a fair and neutral position and verification of the certainty of repayment and validity of use of funds.

Since these financing operations specialize in long-term funding for businesses, in the screening process, verification assessment is made of the likelihood of long-term repayment focusing on business profits as well as on overall judgment being made on the certainty of repayment.

An overall judgment of the company's enterprise power is made, not limited to a quantitative analysis focusing on the financial statements, but taking into consideration various management activities including the combination of people, money, and conducting fact finding surveys from a variety of view points, including the business environment in which the company is placed, in addition to determining the future prospects of the company that has applied for funds.

We strive to continuously assess the situation after financing has been granted through review of financial reports and regular company visits. Based on the classification of the borrower or otherwise as required, and after consideration of the results of management improvement plans, follow-ups will be conducted as required to define transaction policy.

In addition, in order to support the growth and development of the borrower, we will strive to give as much feedback as possible on the screening results and provide consultation support to help resolve management issues. In particular, we will support companies struggling to respond to changes in the business environment by formulating management improvement plans.

(ii) Credit rating

A proprietary credit scoring model based on analysis of transaction data collected over the years for borrowers and a credit rating system that assesses the creditworthiness of borrowers based on qualitative analysis through fact finding surveys and other methods have been developed for these financing operations and have been used in the formulation of lending policy and in the screening process.

(iii) Asset self assessment

For these financing operations, JFC has conducted the asset self assessment such that the characteristics of assets in these financing operations are properly reflected in the assessment results. In this process, first stage assessments of borrower classification are conducted by the front offices and second stage assessments by a separate credit department. An auditing department independent from the other sections then conducts an internal inspection to verify the accuracy of self assessments.

The results of the self assessments are used in providing the allowance for loan losses, taking into account the amount expected to be recovered through the disposal of collateral and the execution of guarantees, the actual rate of loan losses and other factors.

(iv) Quantification of credit risk

In the quantification of credit risk in financing operations, we conduct statistical analysis based on credit ratings and other factors to quantify and monitor the overall risk of the portfolio, and we advance our studies by using this monitoring in controlling credit risk.

## (v) Credit risk management for securitization support operations

In the securitization support operations, we use our proprietary scoring model which was developed based on the analysis of transaction data collected over the years for SMEs, and external models such as the Credit Risk Database (CRD) to conduct screening. In addition, statistical methods such as Monte Carlo simulations are used to accurately assess the overall credit risk for pools of claims to establish a proper guarantee rate based on credit risk.

After formation of a securitization project, the redemption status of the underlying claims is verified and monitoring is performed. With respect to loan receivable-backed securities guaranteed in this operation account, credit risks are accurately determined by using external ratings or statistical methods such as Monte Carlo simulations.

## (b) Market risk management

## (i) Interest rate risk

It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps do arise between assets and liabilities. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder approach, and duration analysis, and conduct proper risk management by attempting to reduce interest rate risk through adjustment of procurement period limits and other means.

## (ii) Foreign exchange risk

It is JFC policy to minimize foreign exchange risk by conducting forward exchange contracts.

With regards to forward exchange contracts transactions, we have established internal control system which is separating the departments executing and managing.

Forward exchange contracts are conducted by actual needs, and are not maintained in speculative positions.

## (iii) Quantitative information relating to market risk

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans, borrowings, and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2020 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥34,338 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥32,245 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

## (c) Liquidity risk management related to fund procurement

Long-term and stable funds such as fiscal loan funds, government-backed bonds, FILP agency bonds, and funding provided by government are secured to finance this account and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions have been taken to maintain daily cash flows for proper risk management.

## d. Securitization Support Programs (Purchase-type Operation)

The risk management structure for these operations is described below.

## (a) Credit risk management

In the securitization support operations, we use our proprietary scoring model developed based on analysis of transaction data collected over a number of years for SMEs, and external models such as CRD (Credit Risk Database) to conduct screening. In addition, statistical methods such as Monte Carlo simulations are used to accurately assess the overall credit risk for pools of claims to establish a proper return based on credit risk.

After formation of a securitization project, the redemption status of the underlying claims is verified and monitoring is performed. With respect to loan receivable-backed securities in this operation account, credit risks are accurately determined by using external ratings or statistical methods such as Monte Carlo simulations.

## (b) Market risk management

The main type of market risk associated with these operations is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities, and we consider that interest rate risk is limited.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations are securities and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2020 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥1,567 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥1,413 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related with fund procurement

It is considered that liquidity risk is limited because a system has been adopted to minimize liquidity risk and sufficient funding support can be expected from the government.

e. Credit Insurance Programs

The risk management structure for these operations is described below.

(a) Market risk management

The main type of market risk associated with these operations is interest rate risk.

These operations strive to undertake appropriate risk management practices by managing funds procured from government investments through using highly stable instruments such as the deposit for the FILP.

(b) Liquidity risk management related to fund procurement

Long-term and stable financing is provided from government funds. Efforts are made for proper risk management through the assessment of cash flows.

f. Operations to Facilitate Crisis Responses

The risk management structure for these operations is described below.

(a) Credit risk management

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In the asset self assessment, an inspection is conducted by the auditing department.

(b) Market risk management

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans and borrowings.

These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans. Since the terms and conditions of lendings and borrowings are equal, cash inflows resulting from lendings and cash outflows resulting from borrowings are matched. Therefore, as a whole operations, interest rate risk does not exist as a market risk.

(c) Liquidity risk management related to fund procurement

Long-term and stable funds, such as fiscal investment and loans, and funding provided by government are secured to finance this account and deposits are not accepted. In addition, the loan period and borrowing period are equal. Sufficient short-term liquidity is secured for compensation payment funds towards designated financial institutions, and liquidity risk is considered to be limited. In addition, continual efforts are being made to make financing plans more sophisticated and minimize liquidity risk.

g. Operations to Facilitate Specific Businesses Promotion, etc.

The risk management structure for these operations is described below.

(a) Credit risk management

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In the asset self assessment, an inspection is conducted by the auditing department.

(b) Market risk management

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans and borrowings.

These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans. Since the terms and conditions of lendings and borrowings are equal, cash inflows resulting from lendings and cash outflows resulting from borrowings are matched. Therefore, as a whole operations, interest rate risk does not exist as a market risk.

## (c) Liquidity risk management related to fund procurement

Long-term stable funds, such as fiscal investment and loans are secured to finance this account and deposits are not accepted. Liquidity risk is believed to be limited because the loan period and borrowing period are equal.

## (4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

## 2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2020, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine are not included in the following chart (refer to Note 3).

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	4,401,127	4,407,573	6,445
(2) Securities			
Held-to-maturity debt securities	21,208	22,484	1,276
Other securities	0	0	—
(3) Loans and bills discounted	16,173,188		
Allowance for loan losses <sup>(*)</sup>	(244,187)		
	15,929,000	16,565,689	636,688
Total assets	20,351,336	20,995,747	644,411
(1) Borrowings	12,656,782	12,807,845	151,063
(2) Bonds payable	1,410,475	1,433,778	23,303
Total liabilities	14,067,257	14,241,624	174,366
Derivative transactions <sup>(**)</sup>			
Derivative transactions not qualifying for hedge accounting	(57)	(57)	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	(57)	(57)	—

(\*1) General allowance for loan losses and specific allowance for loan losses have been deducted from loans.

(\*2) Derivative recorded in "other assets and other liabilities" are collectively displayed. The net values of assets and liabilities arising from derivative transactions are displayed. The figures in parentheses indicate net liabilities.

## (Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

## (1) Cash and due from banks

For due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount. For due from banks that have a maturity over 3 months, fair value is based on the current price calculated by discounting future cash flow by the risk free rate (the standard Japanese government bond rate) based on the appropriate deposit term.

## (2) Securities

Market value is used for bonds. However, for corporate bonds in the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), the carrying amount is used as fair value because fair value approximates the carrying amount. Partnership assets that could be assessed at fair value were measured at fair value, and the amount corresponding to equity holding was recorded as the fair value of the partnership investments.

Notes for securities by purpose of holding are found in "11. Fair value of securities."

## (3) Loans and bills discounted

Loans are calculated as follows.

## a. Account for Micro Business and Individual Operations

All loans, with the exception of subordinated capital loans, have a fixed interest rate and fair value is calculated for all loans other than bankrupt loans, substantially bankrupt loans, potentially bankrupt loans and performing loans that require monitoring by discounting the risk-adjusted principal and interest by the risk free rate (the standard Japanese government bond rate) based on the type of borrower and period of loan. For obligations on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers, allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value resembles the amount of loans on the balance sheet on the closing date after a deduction has been made for allowance for loan losses, so this amount is used for fair value.

b. Account for Agriculture, Forestry, Fisheries and Food Business Operations

All loans except some capital-related subordinated loans have a fixed interest rate and fair value is calculated for each borrower's status by discounting the risk-reflected principal and interest that incorporates risk by the risk free rate (the standard Japanese government bond rate) based on the type of borrower and period of loan.

c. Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)

For loans with fixed interest rates, the fair value is calculated by discounting the risk-adjusted principal and interest by the risk free rate (the standard Japanese government bond rate) based on the type of borrower and period of loan. For loans with variable interest rates, since short-term market rates are reflected, the fair value resembles the carrying amount as long as there is no significant difference in the credit status of the borrower, the carrying amount is used as the fair value. For obligations on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers subject to variable interest rates, allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value resembles the amount of loans on the balance sheet on the closing date after a deduction has been made for allowance for loan losses, so this amount is used for fair value.

d. Account for Securitization Support Programs (Purchase-type Operation) and Account for Credit Insurance Programs  
Not applicable.

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

All loans have a fixed interest rate and fair value is calculated by discounting the principal and interest by the interest rate estimated from the market yield of bonds issued by the borrower based on the type of borrower and period of loan.

#### Liabilities

(1) Borrowings

Borrowings are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

(2) Bonds payable

Market value is used for fair value of bonds.

#### Derivative transactions

Derivative transactions are forward exchange contracts. The fair value of derivative transactions is determined based on the price provided by financial institutions.

(Note 2) For credit insurance underwriting, the credit decision is conducted by a specified financial institution, and JFC does not participate in the credit decision for the individual subject to compensation at the time of loan, and therefore JFC does not retain the financial data of the individuals subject to compensation. Accordingly, it is recognized that fair value is extremely difficult to be determined.

The amount of compensation underwritten for compensation security contract is as follows.

Balance of compensation underwritten: ¥472,557 million

Compensation loss reserve: ¥25,652 million

(Note 3) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

They are not included in "Assets, (2) Securities," "Assets, (3) Loans and bills discounted" or "Liabilities, (1) Borrowings".

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Unlisted stocks <sup>(*)1</sup>	2,037
2) Corporate bonds (specific asset-backed securities) <sup>(*)2</sup>	17,497
3) Partnership investments <sup>(*)3</sup>	1,187
4) Loans on deeds (subordinated capital loans) <sup>(*)4</sup>	507,807
5) Borrowings from general account of the national budget <sup>(*)5</sup>	131,300
6) Borrowings from the FILP special account (investment account) of the national budget <sup>(*)6</sup>	22,292
Total	682,122

(\*)1) Since unlisted stocks do not have quoted market prices available and fair value is extremely difficult to be determined, fair values are not stated.

(\*)2) Corporate bonds (specified asset-backed securities) do not have a market value.

These are securities issues backed by loan claims on SMEs originating from multiple financial institutions. The following steps are followed when constructing the subordination structure for the securities:

(1) First, groups of loan claims from the financial institutions are put into sub-pools, and the most subordinated section is removed;

(2) The remainder of the sub-pool besides the most subordinated section is treated as an amalgamate and divided into levels of senior and subordinate.

For this reason, to evaluate the fair value of corporate bonds (specified asset-backed securities) owned by JFC that have been amalgamated, the individual financial data for the borrowers that back the securities issue is required. Because JFC is not structured to continuously acquire this data, fair value is extremely difficult to be determined and is not stated.

(\*3) For partnership assets composed of unlisted stocks that do not have quoted market prices available and for which fair value is extremely difficult to be determined fair values are not stated.

(\*4) For loans on deed (subordinated capital loans) under the Provision Scheme for Challenge Support and Capital Enhancement or other schemes, fair values are not stated because it is recognized that fair value is extremely difficult to be determined. This is because future cash flow can not be reasonably estimated due to its particular scheme in which applicable interest rates are determined by every year's business performance of the debtor, instead of being determined at the time of loan execution.

(\*5) For borrowings on the Account for Micro Business and Individual Operations from general account of the national budget, fair values are not stated because it is recognized that fair value is extremely difficult to be determined because no redemption period is stipulated and it is not possible to reasonably estimate future cash flows.

(\*6) For borrowings from the FILP special account (investment account) of the national budget, fair values are not stated because it is recognized that fair value is extremely difficult to be determined for the following reason: an interest rate is not set at the time of borrowing, as this type of borrowing consists of a scheme in which a lump interest payment is made after the final installment payment redemption and it is not possible to reasonably estimate future cash flows.

(Note 4) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks <sup>(*)</sup>	3,486,003	140,000	775,100	—	—	—
Securities	18	—	—	—	—	21,078
Held-to-maturity debt securities						
Loans and bills discounted <sup>(*)</sup>	3,209,271	5,247,073	3,286,848	1,855,319	1,466,845	1,443,642
Total	6,695,292	5,387,073	4,061,948	1,855,319	1,466,845	1,464,720

(\*1) Demand deposits contained within due from banks are stated as "Maturities within one year."

(\*2) Within loans, claims against bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers contains an amount of ¥171,993 million that is not expected to be redeemed and not included in the table above.

(Note 5) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings <sup>(*)</sup>	2,867,242	4,590,422	2,606,410	1,160,130	872,674	582,194
Bonds payable	295,000	480,000	280,000	150,000	170,000	35,000
Total	3,162,242	5,070,422	2,886,410	1,310,130	1,042,674	617,194

(\* In borrowings, ¥131,300 million of general accounting investments with no redemption period stipulated are not included.

## 11. Fair value of securities

In addition to "Government bonds," "Corporate bonds," "Stocks" and "Other securities" on the balance sheet, transferable deposits in "Due from banks" are also included.

The fair value of securities at March 31, 2020 is as follows:

### (a) Held-to-maturity debt securities with fair value

	Type	Carrying amount on the balance sheet (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Securities whose fair value exceeds their carrying amount	Japanese government bonds	21,180	22,456	1,276
Securities whose fair value does not exceed their carrying amount	Corporate bonds	28	28	—
Total		21,208	22,484	1,276

### (b) Equity securities of or investment in subsidiaries and affiliates

(Note) These are equity securities of, or investment in, subsidiaries and affiliates whose fair value is extremely difficult to be determined.

	Carrying amount on the balance sheet (Millions of yen)
Equity securities of or investment in affiliates	2,030

They have no quoted market price and their fair value is extremely difficult to be determined.

**(c) Available-for-sale securities**

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount does not exceed their acquisition cost	Others	191,500	191,501	(1)

(Note) Available-for-sale securities whose fair value is extremely difficult to be determined

	Carrying amount on the balance sheet (Millions of yen)
Stocks	7
Bonds	
Corporate Bonds	17,497
Others	1,187
Total	18,692

These are not included in the above table of "Available-for-sale securities" because they have no quoted market price and their fair value is extremely difficult to be determined.

**(d) Available-for-sale securities sold in the fiscal year in review (from April 1, 2019 to March 31, 2020)**

	Sales amount (Millions of yen)	Total gain on sales (Millions of yen)	Total loss on sales (Millions of yen)
Stocks	2	2	—

**12. Deferred tax accounting**

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

**13. Retirement benefits**

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

## Defined benefits plan

## (1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	173,252 million yen
Service cost	6,120
Interest cost	173
Actuarial difference	4,985
Payment of retirement benefits	(9,161)
Prior service cost	—
Other	—
Closing balance of projected benefit obligations	<u>175,370</u>

## (2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	62,635 million yen
Expected return on plan assets	1,252
Actuarial difference	(2,642)
Financing from employer	2,910
Payment of retirement benefits	(3,306)
Other	—
Closing balance of fair value of plan assets	<u>60,848</u>

- (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	85,458 million yen
Fair value of plan assets	<u>(60,848)</u>
	24,610
Projected benefit obligations of unfunded plan	<u>89,911</u>
Unfunded pension obligations	114,522
Actuarial unrecognized difference	(30,713)
Unrecognized prior service cost	<u>4,940</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>88,748</u>
Provision for retirement benefits	88,748
Prepaid pension cost	<u>—</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>88,748</u>

- (4) Net pensions cost and breakdown of included items

Service cost	6,120 million yen
Interest cost	173
Expected return on plan assets	(1,252)
Amount of actuarial difference accounted for as expense	4,290
Amortization of prior service cost accounted for as expense	(1,349)
Other	<u>—</u>
Net pensions cost related to defined benefits plan	<u>7,982</u>

- (5) Items concerning fair value of plan assets

- 1) The percentage of each category of total fair value of plan assets is as follows.

Shares	22%
Debentures	65%
General account	13%
Cash and deposits	<u>1%</u>
Total	<u>100%</u>

- 2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

- (6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.5% to 6.2%

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥372 million.

## 14. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥2,016 million
Profit on investment in affiliates (equity method)	¥27 million

## 15. Related party transactions

Related party transactions in the fiscal year ended March 31, 2020 are as follows:

### Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights(%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2020
Principal shareholder	Ministry of Finance (Minister of Finance) <sup>(Notes i and ii)</sup>	96.77 (Direct)	Administration for policy based financing	Underwriting of capital increase <sup>(Note iii)</sup>	190,893	—	—
				Receipts from general account of the national budget	15,202	—	—
				Receipt of funds <sup>(Note iv)</sup>	3,206,500	Borrowings	12,663,855
				Repayment of borrowing	3,276,583		
				Payment of interest on borrowings	33,668	Accrued expenses	4,743
				Deposit of funds <sup>(Note v)</sup>	6,235,400	Due from banks	3,368,800
				Refund of funds	6,302,400		
Guarantee for bonds payable <sup>(Note vi)</sup>	715,491	—	—				

(Notes)

(i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:

-Ministry of Health, Labour and Welfare (Minister of Health, Labour and Welfare)	0.05%
-Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries)	0.38%
-Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry)	2.80%

(ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:

-Ministry of Health, Labour and Welfare	
Underwriting of capital increase	¥329 million
-Ministry of Economy, Trade and Industry	
Underwriting of capital increase	¥1,000 million
-Ministry of Health, Labour and Welfare	
Receipts from the national budget	¥3,190 million
-Ministry of Agriculture, Forestry and Fisheries	
Receipts from the national budget	¥16,039 million
-Ministry of Economy, Trade and Industry	
Receipts from the national budget	¥75 million
-Agency for Natural Resources and Energy	
Receipts from the national budget	¥0 million
-Small and Medium Enterprise Agency	
Receipts from the national budget	¥20,223 million
-Ministry of Agriculture, Forestry and Fisheries	
Repayment of borrowed money	¥4,557 million

(iii) The underwriting of capital increase represents the increase in capital by JFC at an allocation amount of ¥1 per share.

(iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.

(v) Deposit of funds is the deposit for the FILP and the interest rates applicable under the FILP are applied.

(vi) No guarantee fee has been paid for the guarantee of bonds.

(vii) Figures in the table above do not include consumption taxes.

## 16. Per share information

Net assets per share	¥0.54
Net loss per share	¥0.00

## 17. Subsequent events

Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as the underwriter on June 9, 2020 as set forth below pursuant to a resolution of the Board of Directors adopted on May 19, 2020.

## Overview of the new shares issue

## 1. Account for Micro Business and Individual Operations

Type and number of shares to be issued	573,513,000,000 common shares
Issue price	1 yen per share
Total issue price	573,513,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	573,513,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Funding to expand special loans relating to the spread of the COVID-19

## 2. Account for Agriculture, Forestry, Fisheries and Food Business Operations

Type and number of shares to be issued	16,359,000,000 common shares
Issue price	1 yen per share
Total issue price	16,359,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	16,359,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Funding for substantively unsecured and unguaranteed Young Farmer Business Start-up Loan, etc. and special provision of loans to agriculture, forestry, and fishery businesses affected by the COVID-19

## 3. Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)

Type and number of shares to be issued	398,000,000,000 common shares
Issue price	1 yen per share
Total issue price	398,000,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	398,000,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Funding to expand special loans relating to the spread of the COVID-19

## 4. Account for Credit Insurance Programs

Type and number of shares to be issued	43,500,000,000 common shares
Issue price	1 yen per share
Total issue price	43,500,000,000 yen
Paid-in capital	0 yen per share
Paid-in capital reserves	1 yen per share
Total paid-in capital	0 yen
Total paid-in capital reserves	43,500,000,000 yen
Payment date	June 9, 2020
Use of capital	Reinforcement of insurance foundations and stable operation of systems

## 5. Account for Operations to Facilitate Crisis Response

Type and number of shares to be issued	10,576,000,000 common shares
Issue price	1 yen per share
Total issue price	10,576,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	10,576,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Source of funds for compensation security and implantation of operations relating to crisis certification pertaining to matters involving COVID-19

**Balance Sheet (as of March 31, 2020)**

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Cash and due from banks</b>	<b>335,150</b>	<b>Borrowed money</b>	<b>5,753,200</b>
Cash	17	Borrowings	5,753,200
Due from banks	335,132	<b>Bonds payable</b>	<b>650,416</b>
<b>Loans and bills discounted</b>	<b>7,033,617</b>	<b>Other liabilities</b>	<b>9,072</b>
Loans on deeds	7,033,617	Accrued expenses	1,310
<b>Other assets</b>	<b>10,304</b>	Lease obligations	1,588
Prepaid expenses	15	Other	6,173
Accrued income	6,384	<b>Provision for bonuses</b>	<b>3,243</b>
Agency accounts receivable	675	<b>Provision for directors' bonuses</b>	<b>8</b>
Other	3,228	<b>Provision for retirement benefits</b>	<b>52,612</b>
<b>Property, plant and equipment</b>	<b>96,580</b>	<b>Provision for directors' retirement benefits</b>	<b>18</b>
Buildings	29,731	<b>Total liabilities</b>	<b>6,468,570</b>
Land	64,632	<b>Net assets</b>	
Lease assets	1,395	<b>Capital stock</b>	<b>1,223,643</b>
Construction in progress	117	<b>Capital surplus</b>	<b>181,500</b>
Other	703	Special reserve for administrative improvement funds	181,500
<b>Intangible assets</b>	<b>8,505</b>	<b>Retained earnings</b>	<b>(507,369)</b>
Software	4,968	Other retained earnings	(507,369)
Lease assets	20	Retained earnings brought forward	(507,369)
Other	3,516	<b>Total shareholders' equity</b>	<b>897,773</b>
<b>Allowance for loan losses</b>	<b>(117,813)</b>	<b>Total net assets</b>	<b>897,773</b>
<b>Total assets</b>	<b>7,366,344</b>	<b>Total liabilities and net assets</b>	<b>7,366,344</b>

**Statement of Operations (Year ended March 31, 2020)**

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>138,257</b>
Interest income	112,610
Interest on loans and discounts	112,610
Interest on deposits with banks	0
Other interest income	0
Fees and commissions	0
Other fees and commissions	0
Receipts from the national budget	24,116
Receipts from general account of the national budget	24,116
Receipts from special account of the national budget	0
Other income	1,530
Recoveries of written-off claims	404
Other	1,126
<b>Ordinary expenses</b>	<b>152,019</b>
Interest expenses	4,159
Interest on call money	(4)
Interest on borrowings and rediscounts	3,821
Interest on bonds	342
Fees and commissions payments	545
Other fees and commissions	545
Other ordinary expenses	278
Amortization of bond issuance cost	278
General and administrative expenses	72,644
Other expenses	74,390
Provision of allowance for loan losses	61,555
Written-off of loans	12,711
Other	123
<b>Ordinary loss</b>	<b>13,762</b>
<b>Extraordinary income</b>	<b>98</b>
Gain on disposal of noncurrent assets	98
<b>Extraordinary losses</b>	<b>310</b>
Loss on disposal of noncurrent assets	138
Impairment loss	171
<b>Net loss</b>	<b>13,974</b>

**Statement of Changes in Net Assets (Year ended March 31, 2020)**

(Millions of yen)

	Shareholders' equity						Total net assets
	Capital stock	Capital surplus		Retained earnings		Total share-holders' equity	
		Special reserve for administrative improvement funds	Total capital surplus	Other retained earnings	Total retained earnings		
				Retained earnings brought forward			
Balance at the beginning of current period	1,166,433	181,500	181,500	(493,394)	(493,394)	854,538	854,538
Changes of items during the period							
Issuance of new shares	57,210					57,210	57,210
Net income (loss)				(13,974)	(13,974)	(13,974)	(13,974)
Total changes of items during the period	57,210	—	—	(13,974)	(13,974)	43,235	43,235
Balance at the end of current period	1,223,643	181,500	181,500	(507,369)	(507,369)	897,773	897,773

Data

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Depreciation basis for fixed assets

#### (i) Property, plant and equipment (except for lease assets)

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) and facilities attached to buildings and structures acquired on or after April 1, 2016, which are depreciated under the straight-line method.

Amortization is based on the following range of estimated useful lives:

Buildings: 2 years to 50 years

Other: 2 years to 20 years

#### (ii) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JFC is amortized over its useful life (5 years).

#### (iii) Lease assets

Lease assets in "property, plant and equipment" or "intangible assets," under finance leases that do not involve transfer of ownership to the lessee are amortized under the straight-line method over the lease term. Depreciation for lease assets is calculated with zero residual value being assigned to the asset.

### (b) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

### (c) Accounting policy for reserves

#### (i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

The allowance for claims on debtors who are legally bankrupt ("Bankrupt borrowers") or substantially bankrupt ("Substantially bankrupt borrowers") is provided based on the outstanding balance after the write-offs described in the followings and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt but are likely to become bankrupt ("Potentially bankrupt borrowers") is provided based on an assessment of the overall solvency of the debtors after deducting the amount expected to be collected through the disposal of collateral and the execution of guarantees.

The allowance for claims on debtors other than Bankrupt borrowers, is provided based on primarily the anticipated loss amount within the next one year or the anticipated loss amount within the next three years. The anticipated loss amount is calculated by seeking the loss rate on the basis of the average default rate over a certain period in the past based on the default rates for one or three years and making necessary adjustments such as future expectations.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments which are independent from the operational departments, review these self-assessments.

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), the residual booked amount of the claims after deduction of the amount which is deemed collectible through the disposal of collateral or the execution of guarantees is written-off. The amount of accumulated write-off is ¥139,427 million.

Write-offs of this operation account are recognized by offsetting the current allowance for loan losses for the amount of the claim deemed uncollectible against the year-end claim amount balance; the previous allowance for loan losses and claim balances are reversed at the start of the fiscal year, upon approval received from the competent minister pursuant to Article 4 of the Ministerial Ordinance Concerning Accounting for the JFC (Ordinance of the Ministry of Finance, the Ministry of Health, Labour and Welfare, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Economy, Trade and Industry; Ordinance No. 3 of 2008).

#### (ii) Provision for bonuses

The "provision for bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

#### (iii) Provision for directors' bonuses

The "provision for directors' bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

#### (iv) Provision for retirement benefits

The "provision for retirement benefits" represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end. In addition, in calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition are calculated as follows:

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the time of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year at the time of occurrence.

**(v) Provision for directors' retirement benefits**

The "provision for directors' retirement benefits," which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

**(d) Consumption and other taxes**

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts. Amounts of non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

**Issued but not yet adopted accounting standards and others**

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

(2) Scheduled date of application

The accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

(2) Scheduled date of application

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

## 2. Loans

All loans entered into are loans on deeds. The amounts reported in the balance sheet include the followings:

(Millions of yen)

	As of March 31, 2020 Account for Micro Business and Individual Operations
Bankrupt loans	4,944
Non-accrual loans	104,517
Loans with interest or principal repayments more than three months in arrears	30
Restructured loans	414,525
Total	524,017

(a) "Bankrupt loans" are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the Corporate Tax Law Enforcement Ordinance (Government Ordinance No. 97, 1965), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.

(b) "Non-accrual loans" are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

(c) "Loans with interest or principal repayments more than three months in arrears" are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of "Bankrupt loans" and "Non-accrual loans".

(d) "Restructured loans" are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers' recovery from financial difficulties, and which do not fall under the category of "Bankrupt loans", "Non-accrual loans", and "Loans with interest or principal repayments more than three months in arrears".

(e) The amounts of loans indicated in the table above are the gross amounts prior to the deduction of allowance for possible loan losses.

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheets. The balance of unpaid amounts as of March 31, 2020 is ¥5,734 million.

## 3. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes this operation account bonds issued to a total amount of ¥650,416 million).

## 4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥20,337 million.

## 5. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*<sup>1</sup>. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*<sup>2</sup> listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*<sup>1</sup> Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No.38, 2010).

\*<sup>2</sup> Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No.38, 2010).

## 6. Issued shares

For the fiscal year ended March 31, 2020 types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	1,347,933,000,000	57,210,000,000	—	1,405,143,000,000

(Note) Increases is due to the issuance of 57,210,000,000 shares.

## 7. Financial instruments and related disclosure

### 1. Status of financial instruments

#### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support

Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

This operation account is for operations, such as business fund financing and educational loans, etc. To conduct these operations funds are raised through the borrowing of fiscal investment funds and loans and the issuing of bonds.

## (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this operation account mainly include loans to micro business and individuals, and the financial liabilities mainly include borrowings and bonds. The associated risks are described below.

### (a) Credit risk

The associated credit risk consists of risk of losses arising from uncollectable claims on business and educational loans from deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the entity to which credit is granted.

For this operation account, JFC strives to make a proper financing decision in the financial screening process, conduct detailed claims management based on the condition of the borrower after financing is provided, use statistical management methods, and increase the sophistication of management methods employed. In addition, risks are distributed as the credit portfolio is comprised of small business and educational loans, etc. that are not concentrated in a specified region or industry.

However, based on future economic trends and changes in the business climate of borrowers, the number of borrowers with deteriorated creditworthiness could increase, bringing about requests for financial support including loan restructuring, causing an increase in uncollectable debt and credits costs for this operation account.

### (b) Market risk

The main type of market risk associated with this operation account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps arise between assets and liabilities. This operation account could incur losses from the interest rate risk caused by this gap.

### (c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, government-backed bonds, the FILP agency bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

## (3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure of these operations is described below.

### (a) Credit risk management

For these operations, JFC has a structure to manage the credit risk of loans through (i) individual credit management, (ii) asset self assessment, and (iii) quantification of credit risk in accordance with regulations concerning financing operations and claims management operations, and management regulations concerning credit risk. This credit risk management is conducted by the Credit Analysis Department and risk management department as well as each branch office, and business operations meetings are regularly held with the General Manager acting as chairman to conduct discussions and reporting.

The specific risk management method is described below.

#### (i) Individual credit management

The financial screening process associated with these operations to support appropriate financing decisions is based on consideration of the borrower's financial condition in terms of eligibility for financing, validity of the use of funds, profitability and sustainability of the business, as well as the business's qualitative aspects such as technical capabilities, selling power, and the future potential of the business.

Efforts are made to carefully manage claims after financing has been conducted through assessment of the future business outlook and repayment capacity.

(ii) Asset self assessment

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In this process, first stage assessments are conducted by the branch offices, second stage assessments by the Asset Self Assessment Office, and internal inspections by the auditing department.

The results of this self assessment are used to properly estimate write-off and allowance, and are used internally for the constant assessment of the credit conditions of the operations. They are also actively used for the disclosure of the quality of assets to enhance the transparency of financial position for the operations.

(iii) Quantification of credit risk

A credit scoring model for borrowers based on analysis of transaction data collected over a number of years has been constructed for these operations and this model has been used for screening procedures and to monitor credit portfolios. The reliability of this credit scoring model is ensured through continual recalibration based on annual inspections of the model's accuracy.

In addition, to assess the overall risk of the portfolio, efforts are made to quantify credit risk through methods that take into consideration the extremely diversified nature of the portfolios for these operations.

(b) Market risk management

These operations are subject to the interest rate risk caused by the cash flow gap between assets and liabilities, and the operations could incur losses caused by this risk. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder approach and duration analysis, and appropriate risk management is carried out to reduce interest rate risk by adjustments of financing periods.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations include loans, borrowings, and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2020 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥18,358 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥17,393 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related to fund procurement

To conduct proper risk management in these operations, long-term and stable funds such as fiscal loan funds, government-backed bonds, FILP agency bonds, and funding provided by government are secured to finance this account and deposits are not accepted. Cash flows are assessed and overdraft facility accounts are established with multiple private sector financial institutions to maintain daily cash flows.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2020, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine are not included in the following chart (refer to note 2).

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	335,150	335,150	—
(2) Loans and bills discounted	7,011,697		
Allowance for loan losses <sup>(*)</sup>	(105,015)		
	6,906,681	7,126,686	220,004
Total assets	7,241,831	7,461,836	220,004
(1) Borrowings	5,621,900	5,648,269	26,369
(2) Bonds payable	650,416	651,019	603
Total liabilities	6,272,316	6,299,288	26,972

(\*) General allowance for loan losses and specific allowance for loan losses have been deducted from loans.

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature, the carrying amount is used as fair value because fair value resembles the carrying amount.

(2) Loans and bills discounted

All loans, with the exception of subordinated capital loans, have a fixed interest rate and fair value is calculated for all loans other than bankrupt loans, substantially bankrupt loans, potentially bankrupt loans and performing loans that require monitoring by discounting the risk-adjusted principal and interest by the risk free rate (the standard Japanese government bond rate) based on the type of borrower and period of loan. For obligations on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers, allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value resembles the amount of loans on the balance sheet on the closing date after a deduction has been made for allowance for loan losses, so this amount is used for fair value.

Liabilities

(1) Borrowings

Borrowings through the fiscal investment funds and loans are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

(2) Bonds payable

Market value is used for fair value of bonds.

(Note 2) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

They are not included in "Assets, (2) Loans and bills discounted" or "Liabilities, (1) Borrowings".

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Loans on deeds (subordinated capital loans) <sup>(*)1</sup>	21,920
2) Borrowings from general account of the national budget <sup>(*)2</sup>	131,300
Total	153,220

(\*)1 For loans on deed (subordinated capital loans) under the Provision Scheme for Challenge Support and Capital Enhancement or other schemes, fair values are not stated because it is recognized that fair value is extremely difficult to be determined. This is because future cash flow cannot be reasonably estimated due to its particular scheme in which applicable interest rates are determined by every year's business performance of the debtor, instead of being determined at the time of loan execution.

(\*)2 For borrowings from general account of the national budget, fair values are not stated because it is recognized that fair value is extremely difficult to be determined because no redemption period is stipulated and it is not possible to reasonably estimate future cash flows.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks <sup>(*)1</sup>	335,132	—	—	—	—	—
Loans and bills discounted <sup>(*)2</sup>	1,407,282	2,399,742	1,601,456	767,017	467,339	281,297
Total	1,742,415	2,399,742	1,601,456	767,017	467,339	281,297

(\*)1 Demand deposits contained within due from banks are stated as "Maturities within one year".

(\*)2 Within loans, claims against bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers contains an amount of ¥109,481 million that is not expected to be redeemed and not included in the table above.

(Note 4) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings <sup>(*)</sup>	1,500,161	2,325,014	1,270,733	298,625	174,378	52,989
Bonds payable	190,000	245,000	130,000	65,000	20,000	—
Total	1,690,161	2,570,014	1,400,733	363,625	194,378	52,989

(\*) In borrowings, ¥131,300 million of general accounting investments with no redemption period stipulated are not included.

## 8. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 9. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

Defined benefits plan

### (1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	105,597 million yen
Service cost	3,634
Interest cost	105
Actuarial difference	4,965
Payment of retirement benefits	(6,006)
Prior service cost	—
Other	3
Closing balance of projected benefit obligations	<u>108,301</u>

### (2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	38,858 million yen
Expected return on plan assets	777
Actuarial difference	(1,661)
Financing from employer	1,769
Payment of retirement benefits	(2,023)
Other	2
Closing balance of fair value of plan assets	<u>37,722</u>

### (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	52,979 million yen
Fair value of plan assets	<u>(37,722)</u>
	15,256
Projected benefit obligations of unfunded plan	<u>55,322</u>
Unfunded pension obligations	70,579
Actuarial unrecognized difference	(21,715)
Unrecognized prior service cost	<u>3,749</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>52,612</u>
Provision for retirement benefits	52,612
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>52,612</u>

### (4) Net pensions cost and breakdown of included items

Service cost	3,634 million yen
Interest cost	105
Expected return on plan assets	(777)
Amount of actuarial difference accounted for as expense	2,654
Amortization of prior service cost accounted for as expense	(925)
Other	—
Net pensions cost related to defined benefits plan	<u>4,691</u>

### (5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.

Shares	22%
Debentures	65%
General account	13%
Cash and deposits	1%
Total	<u>100%</u>

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

(6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	2.1% to 5.7%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥226 million.

## 10. Related party transactions

Related party transactions in the fiscal year ended March 31, 2020 are as follows:

### Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2020
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	99.64 (Direct)	Administration for policy based financing	Underwriting of capital increase <sup>(Note iii)</sup>	56,881	—	—
				Receipts from general account of the national budget	15,147	—	—
				Receipt of funds <sup>(Note iv)</sup>	1,872,000	Borrowings	5,621,900
				Repayment of borrowing	1,617,418		
				Payment of interest on borrowings	3,821	Accrued expenses	747
				Guarantee for bonds payable <sup>(Note v)</sup>	370,414	—	—

(Notes)

(i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:

-Ministry of Health, Labour and Welfare (Minister of Health, Labour and Welfare) 0.36%

(ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:

-Ministry of Health, Labour and Welfare  
Underwriting of capital increase ¥329 million  
Receipts from the national budget ¥3,190 million  
-Agency for Natural Resources and Energy  
Receipts from the national budget ¥0 million  
-Small and Medium Enterprise Agency  
Receipts from the national budget ¥5,778 million

(iii) The underwriting of capital increase represents the increase in capital by JFC at an allocation amount of ¥1 per share.

(iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.

(v) No guarantee fee has been paid for the guarantee of bonds.

(vi) Figures in the table above do not include consumption taxes.

## 11. Per share information

Net assets per share	¥0.63
Net loss per share	¥0.01

## 12. Subsequent events

### Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as the underwriter on June 9, 2020 as set forth below pursuant to a resolution of the Board of Directors adopted on May 19, 2020.

## Overview of the new shares issue

Type and number of shares to be issued	573,513,000,000 common shares
Issue price	1 yen per share
Total issue price	573,513,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	573,513,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Funding to expand special loans relating to the spread of the COVID-19

## Balance Sheet (as of March 31, 2020)

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
Cash and due from banks	59,726	Borrowed money	2,487,046
Cash	1	Borrowings	2,487,046
Due from banks	59,725	<b>Bonds payable</b>	<b>259,981</b>
<b>Securities</b>	<b>3,217</b>	<b>Entrusted funds</b>	<b>27,032</b>
Stocks	2,030	<b>Other liabilities</b>	<b>5,524</b>
Other securities	1,187	Accrued expenses	3,976
<b>Loans and bills discounted</b>	<b>3,102,871</b>	Unearned revenue	9
Loans on deeds	3,102,871	Lease obligations	270
<b>Other assets</b>	<b>9,361</b>	Other	1,267
Prepaid expenses	0	<b>Provision for bonuses</b>	<b>662</b>
Accrued income	7,678	<b>Provision for directors' bonuses</b>	<b>8</b>
Agency accounts receivable	1,397	<b>Provision for retirement benefits</b>	<b>11,128</b>
Other	284	<b>Provision for directors' retirement benefits</b>	<b>26</b>
<b>Property, plant and equipment</b>	<b>32,847</b>	<b>Acceptances and guarantees</b>	<b>2,887</b>
Buildings	7,425	<b>Total liabilities</b>	<b>2,794,298</b>
Land	24,934	<b>Net assets</b>	
Lease assets	240	<b>Capital stock</b>	<b>402,363</b>
Construction in progress	169	<b>Retained earnings</b>	<b>2,642</b>
Other	77	Legal retained earnings	2,642
<b>Intangible assets</b>	<b>3,177</b>	Other retained earnings	(0)
Software	1,937	Retained earnings brought forward	(0)
Lease assets	1	<b>Total shareholders' equity</b>	<b>405,005</b>
Other	1,238		
Customers' liabilities for acceptances and guarantees	2,887		
Allowance for loan losses	(14,785)	<b>Total net assets</b>	<b>405,005</b>
<b>Total assets</b>	<b>3,199,304</b>	<b>Total liabilities and net assets</b>	<b>3,199,304</b>

**Statement of Operations (Year ended March 31, 2020)**

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>43,287</b>
Interest income	25,899
Interest on loans and discounts	25,898
Interest on deposits with banks	0
Other interest income	0
Fees and commissions	40
Other fees and commissions	40
Receipts from the national budget	16,002
Receipts from general account of the national budget	15,986
Receipts from special account of the national budget	16
Other income	1,344
Recoveries of written-off claims	427
Other	917
<b>Ordinary expenses</b>	<b>43,239</b>
Interest expenses	20,234
Interest on borrowings and rediscounts	17,445
Interest on bonds	2,789
Fees and commissions payments	2,488
Other fees and commissions	2,488
Other ordinary expenses	73
Amortization of bond issuance cost	73
General and administrative expenses	15,498
Other expenses	4,944
Provision of allowance for loan losses	4,640
Written-off of loans	98
Other	205
<b>Ordinary profit</b>	<b>48</b>
<b>Extraordinary income</b>	<b>0</b>
Gain on disposal of noncurrent assets	0
<b>Extraordinary losses</b>	<b>48</b>
Loss on disposal of noncurrent assets	48
<b>Net loss</b>	<b>0</b>

**Statement of Changes in Net Assets (Year ended March 31, 2020)**

(Millions of yen)

	Shareholders' equity					Total net assets
	Capital stock	Retained earnings			Total shareholders' equity	
		Legal retained earnings	Other retained earnings	Total retained earnings		
			Retained earnings brought forward			
Balance at the beginning of current period	399,471	2,655	(13)	2,642	402,114	402,114
Changes of items during the period						
Issuance of new shares	2,892				2,892	2,892
Reversal of legal retained earnings		(13)	13	—	—	—
Net income (loss)			(0)	(0)	(0)	(0)
Total changes of items during the period	2,892	(13)	12	(0)	2,891	2,891
Balance at the end of current period	402,363	2,642	(0)	2,642	405,005	405,005

Data

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Securities

Investments in affiliates are carried at cost based on the moving average method. As a rule, available-for-securities are stated at fair value based on market prices on the closing date.

### (b) Valuation method for derivative financial instruments

Certain credit default swap transactions, for which neither quoted market price nor reliably estimated value is available and the fair value is undeterminable, are accounted for as guarantee of obligation.

### (c) Depreciation basis for fixed assets

#### (i) Property, plant and equipment (except for lease assets)

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) and facilities attached to buildings and structures acquired on or after April 1, 2016, which are depreciated under the straight-line method.

Amortization is based on the following range of estimated useful lives:

Buildings: 2 years to 50 years

Other: 2 years to 20 years

#### (ii) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JFC is amortized over its useful life (5 years).

#### (iii) Lease assets

Lease assets in "property, plant and equipment" or "intangible assets," under finance leases that do not involve transfer of ownership to the lessee are amortized under the straight-line method over the lease term. Depreciation for lease assets is calculated with zero residual value being assigned to the asset.

### (d) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

### (e) Accounting policy for reserves

#### (i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

The allowance for claims on debtors who are legally bankrupt ("Bankrupt borrowers") or substantially bankrupt ("Substantially bankrupt borrowers") is provided based on the outstanding balance after the write-offs described in the followings and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt but are likely to become bankrupt ("Potentially bankrupt borrowers") is provided based on an assessment of the overall solvency of the debtors after deducting the amount expected to be collected through the disposal of collateral and the execution of guarantees.

The allowance for claims on debtors other than Bankrupt borrowers is provided based on primarily the anticipated loss amount within the next one year or the anticipated loss amount within the next three years. The anticipated loss amount is calculated by seeking the loss rate on the basis of the average default rate over a certain period in the past based on the default rates for one or three years and making necessary adjustments such as future expectations.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments, which are independent from the operational departments, review these self-assessments.

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), the residual booked amount of the claims after deduction of the amount which is deemed collectible through the disposal of collateral or the execution of guarantees is written-off. The amount of accumulated write-off is ¥6,880 million.

Write-offs of this operation account are recognized by offsetting the current allowance for loan losses for the amount of the claim deemed uncollectable against the year-end claim amount balance; the previous allowance for loan losses and claim balances are reversed at the start of the fiscal year, upon approval received from the competent minister pursuant to Article 4 of the Ministerial Ordinance Concerning Accounting for the JFC (Ordinance of the Ministry of Finance, the Ministry of Health, Labour and Welfare, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Economy, Trade and Industry; Ordinance No. 3 of 2008).

#### (ii) Provision for bonuses

The "provision for bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

**(iii) Provision for directors' bonuses**

The "provision for directors' bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

**(iv) Provision for retirement benefits**

The "provision for retirement benefits" represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end. In addition, in calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition are calculated as follows:

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the time of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year at the time of occurrence.

**(v) Provision for directors' retirement benefits**

The "provision for directors' retirement benefits," which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

**(f) Consumption and other taxes**

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts. Amounts of non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

**Issued but not yet adopted accounting standards and others**

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

**(1) Overview**

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

**(2) Scheduled date of application**

The accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

**(3) Effects of application of these accounting standards**

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

**(1) Overview**

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

**(2) Scheduled date of application**

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

**(3) Effects of application of these accounting standards**

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

**(1) Overview**

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

**(2) Scheduled date of application**

The standard will be applied from the end of the fiscal year ending March 2021.

**4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)****(1) Overview**

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

**(2) Scheduled date of application**

The standard will be applied from the end of the fiscal year ending March 2021.

**2. Equity securities of affiliates**

Equity securities of affiliates is ¥2,030 million.

**3. Loans**

All loans entered into are loans on deeds. The amounts reported in the balance sheet include the followings:

(Millions of yen)

	As of March 31, 2020 Account for Agriculture, Forestry, Fisheries and Food Business Operations
Bankrupt loans	1,273
Non-accrual loans	53,539
Loans with interest or principal repayments more than three months in arrears	720
Restructured loans	19,183
Total	74,717

(a) "Bankrupt loans" are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the Corporate Tax Law Enforcement Ordinance (Government Ordinance No. 97, 1965), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.

(b) "Non-accrual loans" are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

(c) "Loans with interest or principal repayments more than three months in arrears" are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of "Bankrupt loans" and "Non-accrual loans".

(d) "Restructured loans" are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers' recovery from financial difficulties, and which do not fall under the category of "Bankrupt loans", "Non-accrual loans", and "Loans with interest or principal repayments more than three months in arrears".

(e) The amounts of loans indicated in the table above are the gross amounts prior to the deduction of allowance for possible loan losses.

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheet. The balance of unpaid amounts as of March 31, 2020 is ¥86,406 million.

**4. Assets pledged as collateral**

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes this operation account bonds issued to a total amount of ¥259,981 million).

**5. Accumulated depreciation of fixed assets**

Accumulated depreciation of fixed assets amounted to ¥5,049 million.

**6. Restriction in dividend distribution**

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

\*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

## 7. The account title and the amount related to transactions with affiliates

1. Ordinary income–Other income–Other: ¥0 million
2. Ordinary expenses–General and administrative expenses: ¥0 million

## 8. Issued shares

For the fiscal year ended March 31, 2020 types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	399,471,700,000	2,892,000,000	—	402,363,700,000

(Note) Increase is due to the issuance of 2,892,000,000 shares.

## 9. Financial instruments and related disclosure

### 1. Status of financial instruments

#### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification (“operation account”) for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

In this operation account, the main operations consist of supplementing the financing provided by general financial institutions and supplying long-term funds at a low interest rate aimed at businesses engaged in agriculture, forestry, fisheries and food manufacturing, etc., in order to contribute to the sustainable and robust development of the agriculture, forestry, fisheries business and ensure the stable supply of food. To conduct these operations funds are raised through borrowing from fiscal investment funds and loans and the issuing of bonds.

#### (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this operation account mainly include loans to agriculture, forestry, fisheries and food businesses, and financial liabilities mainly include borrowings and bond. The associated risks are described below.

##### (a) Credit risk

The associated credit risk consists of risk of losses arising from uncollectable claims on credit to agriculture, forestry, fisheries and food businesses from deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the entity to which credit is granted. For this reason, efforts are made to maintain and improve the soundness of assets through proper financial screening and account management throughout the year.

However, among the majority of borrowers that make up this operation account, there are many small businesses in the agriculture, forestry, fisheries sector. These businesses are especially susceptible to natural conditions such as weather, etc., so depending on future conditions, uncollectable debt and credits costs for this operation account could increase.

##### (b) Market risk

The main type of market risk associated with this operation account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, due to characteristics such as long redemption periods and fixed interest rates that are required by agriculture, forestry, and fisheries policy, not all cash flows can be matched, so some gaps arise between assets and liabilities. This operation account could incur losses from the interest rate risk caused by this gap.

## (c) Liquidity risk

Long-term and stable funds such as fiscal loan funds and the FILP agency bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

## (3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

## (a) Credit risk management

For these operations, credit risk is properly managed through (i) individual credit management, (ii) credit rating, (iii) asset self assessment, and (iv) quantification of credit risk.

## (i) Individual credit management

The screening process for these operations includes screening of the probability of repayment based on eligibility for financing, validity of the financing conditions, and the future potential of the business. Particularly, screening for the certainty of repayment is conducted with a screening standard that gives sufficient consideration to the specific industry (agriculture, forestry, and fisheries) risks. This consists of close examination of the creditworthiness of the borrower, investment-risk, investment-effect, and comprehensive verification and confirmation of repayment ability that takes into account feasibility of the payment and repayment plan, and suitability of financing conditions.

Efforts are also made to continuously assess the customer's economic condition, and maintain and improve the soundness of loan assets through active and detailed support activities.

## (ii) Credit rating

These operations strive to maintain and improve the quality of loan assets by using ratings for early discovery of customers with business conditions that could be cause for concern in order to enact business support. Ratings are assigned based on a model built using internal data. The reliability of this scoring model is ensured through continual recalibration based on annual inspection of the model's evaluation accuracy.

The credit ratings are also used for individual credit management, asset self assessment, and quantification of credit risk as the basis for credit risk management. For this reason reassessment of the credit ratings system is conducted as required.

## (iii) Asset self assessment

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In this process, first stage assessments are conducted by the branch offices, second stage assessments by the Credit Analysis Department and the Revitalization Support Department, and internal inspections by the auditing department.

The results of this self assessment are used to appropriately estimate write-off and allowance, and are used internally for the constant assessment of the credit conditions of the operations. They are also actively used for the disclosure of the quality of assets to enhance the transparency of the financial position of the operations.

## (iv) Quantification of credit risk

To assess the overall risk of the portfolio, credit risks are quantified for internal management in these operations.

## (b) Market risk management

These operations are subject to the interest rate risk caused by the cash flow gap between assets and liabilities, and the operations could incur losses caused by this risk. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder approach and duration analysis, and appropriate risk management is carried out to reduce interest rate risk by adjustments of financing periods.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations include loans, borrowings, and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2020 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥12,625 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair

value to decrease by ¥11,251 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related with fund procurement

Long-term and stable funds such as fiscal loan funds, FILP agency bonds, and funding provided by government are secured to finance this account and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions have been taken to maintain daily cash flows for proper risk management.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2020, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine are not include in the following chart (refer to Note 2).

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	59,726	59,726	—
(2) Securities			
Other securities	0	0	—
(3) Loans and bills discounted	3,100,966		
Allowance for loan losses <sup>(*)</sup>	(13,967)		
	3,086,998	3,260,793	173,795
Total assets	3,146,724	3,320,520	173,795
(1) Borrowings	2,487,046	2,574,463	87,417
(2) Bonds payable	259,981	279,081	19,100
Total liabilities	2,747,027	2,853,544	106,517

(\*) General allowance for loan losses and specific allowance for loan losses have been deducted from loans.

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount.

(2) Securities

Partnership assets that could be assessed at fair value were measured at fair value, and the amount corresponding to equity holding was recorded as the fair value of the partnership investments.

Notes for securities by purpose of holding are found in "10. Fair Value of Securities."

(3) Loans and bills discounted

All loans except some capital-related subordinated loans have a fixed interest rate and fair value is calculated for each borrower's status by discounting the risk-reflected principal and interest that incorporates risk by the risk free rate (the standard Japanese government bond rate) based on the type of borrower and period of loan.

Liabilities

(1) Borrowings

Borrowings are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

(2) Bonds payable

Market value is used for fair value of bonds.

(Note 2) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

They are not included in "Assets, (2) Securities" or "Assets, (3) Loans and bills discounted".

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Unlisted stocks <sup>(*)1</sup>	2,030
2) Partnership investments <sup>(*)2</sup>	1,187
3) Loans on deeds (subordinated capital loans) <sup>(*)3</sup>	1,905
Total	5,122

(\*)1 Since unlisted stocks do not have quoted market prices available and fair value is extremely difficult to be determined, fair values are not stated.

(\*)2 For partnership assets composed of unlisted stocks that do not have quoted market prices available and for which fair value is extremely difficult to be determined fair values are not stated.

(\*)3 For loans on deeds (subordinated capital loans) to which the challenge-oriented capital lending scheme for new sectors, etc. has been applied, fair values are not stated because it is recognized that fair value is extremely difficult to be determined. This is because future cash flow cannot be reasonably estimated due to its particular scheme in which applicable interest rates are determined by every year's business performance of the debtor, instead of being determined at the time of loan execution.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks <sup>(*)1</sup>	59,725	—	—	—	—	—
Loans and bills discounted <sup>(*)2</sup>	365,917	624,638	468,676	385,212	443,779	775,480
Total	425,642	624,638	468,676	385,212	443,779	775,480

(\*)1 Demand deposits contained within due from banks are stated as "Maturities within one year".

(\*)2 Within loans, claims against bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers contains an amount of ¥39,167 million that is not expected to be redeemed and not included in the table above.

(Note 4) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	255,144	517,580	496,231	375,208	376,765	466,116
Bonds payable	45,000	50,000	30,000	20,000	80,000	35,000
Total	300,144	567,580	526,231	395,208	456,765	501,116

## 10. Fair value of securities

In addition to "Stocks" and "Other securities" on the balance sheet, transferable deposits in "Due from banks" are also included. The fair value of securities at March 31, 2020 is as follows:

### (a) Equity securities of or investment in subsidiaries and affiliates

(Note) These are equity securities of, or investment in, subsidiaries and affiliates whose fair value is extremely difficult to be determined.

	Carrying amount on the balance sheet (Millions of yen)
Equity securities of or investment in affiliates	2,030

They have no quoted market price and their fair value is extremely difficult to be determined.

### (b) Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount does not exceed their acquisition cost	Others	26,500	26,501	(1)

(Note) Available-for-sale securities whose fair value is extremely difficult to be determined

	Carrying amount on the balance sheet (Millions of yen)
Others	1,187

These are not included in the above table of "Available-for-sale securities" because they have no quoted market price and their fair value is extremely difficult to be determined.

## 11. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 12. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

Defined benefits plan

#### (1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	20,414 million yen
Service cost	742
Interest cost	20
Actuarial difference	476
Payment of retirement benefits	(846)
Prior service cost	—
Other	(1)
Closing balance of projected benefit obligations	<u>20,806</u>

#### (2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	7,259 million yen
Expected return on plan assets	145
Actuarial difference	(302)
Financing from employer	352
Payment of retirement benefits	(393)
Other	(1)
Closing balance of fair value of plan assets	<u>7,059</u>

## (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	9,914 million yen
Fair value of plan assets	<u>(7,059)</u>
	2,855
Projected benefit obligations of unfunded plan	<u>10,891</u>
Unfunded pension obligations	13,746
Actuarial unrecognized difference	(3,241)
Unrecognized prior service cost	<u>622</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>11,128</u>
Provision for retirement benefits	11,128
Prepaid pension cost	<u>—</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>11,128</u>

## (4) Net pensions cost and breakdown of included items

Service cost	742 million yen
Interest cost	20
Expected return on plan assets	(145)
Amount of actuarial difference accounted for as expense	456
Amortization of prior service cost accounted for as expense	(143)
Other	<u>—</u>
Net pensions cost related to defined benefits plan	<u>930</u>

## (5) Items concerning fair value of plan assets

## 1) The percentage of each category of total fair value of plan assets is as follows.

Shares	22%
Debentures	65%
General account	13%
Cash and deposits	<u>1%</u>
Total	<u>100%</u>

## 2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

## (6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	2.0% to 6.2%

## Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥45 million.

**13. Profit and loss on equity method**

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥2,016 million
Profit on Investment in affiliates (equity method)	¥27 million

## 14. Related party transactions

Related party transactions in the fiscal year ended March 31, 2020 are as follows:

### (a) Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2020
Principal shareholder	Ministry of Finance (Minister of Finance) <sup>(Notes i and ii)</sup>	90.30 (Direct)	Administration for policy based financing	Underwriting of capital increase <sup>(Note iii)</sup>	2,892	—	—
				Receipt of funds <sup>(Note iv)</sup>	355,500	Borrowings	2,471,827
				Repayment of borrowing	249,569		
				Payment of interest on borrowings	17,445	Accrued expenses	3,079

(Notes)

(i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:

-Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries) 9.70%

(ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:

-Ministry of Agriculture, Forestry and Fisheries

Receipts from the national budget ¥16,002 million

Repayment of borrowed money ¥4,557 million

(iii) The underwriting of capital increase represents the increase in capital by JFC at an allocation amount of ¥1 per share.

(iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.

(v) Figures in the table above do not include consumption taxes.

### (b) Transactions with fellow subsidiaries and affiliates' subsidiaries

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2020
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	60,000 <sup>(Notes i and ii)</sup>	—	—

(Notes)

(i) Pursuant to paragraph 1, Article 46-2 of the Supplementary Provisions to the JFC Act, JBIC has joint and several liability for bonds issued by JFC that this operation account will redeem. Pursuant to paragraph 2, Article 46-2 of the Supplementary Provisions, JBIC's assets have been pledged as general collateral for the joint and several liabilities.

(ii) There are no transactions recorded under income or expenses related to the joint and several liabilities.

(iii) Figures in the table above do not include consumption taxes.

## 15. Per share information

Net assets per share ¥1.00

Net loss per share ¥0.00

## 16. Subsequent events

Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as the underwriter on June 9, 2020 as set forth below pursuant to a resolution of the Board of Directors adopted on May 19, 2020.

Overview of the new shares issue

Type and number of shares to be issued	16,359,000,000 common shares
Issue price	1 yen per share
Total issue price	16,359,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	16,359,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Funding for substantively unsecured and unguaranteed Young Farmer Business Start-up Loan, etc. and special provision of loans to agriculture, forestry, and fishery businesses affected by the COVID-19

## Balance Sheet (as of March 31, 2020)

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
Cash and due from banks	162,934	Borrowed money	3,109,411
Cash	4	Borrowings	3,109,411
Due from banks	162,929	Bonds payable	470,077
Securities	36	Other liabilities	3,178
Corporate bonds	28	Accrued expenses	1,027
Stocks	7	Unearned revenue	88
Loans and bills discounted	5,083,789	Derivatives other than for trading-liabilities	57
Loans on deeds	5,083,789	Lease obligations	529
Other assets	3,755	Other	1,476
Prepaid expenses	3	Provision for bonuses	1,202
Accrued income	2,955	Provision for directors' bonuses	6
Other	796	Provision for retirement benefits	20,268
Property, plant and equipment	47,378	Provision for directors' retirement benefits	13
Buildings	11,003	Acceptances and guarantees	19,619
Land	35,701	<b>Total liabilities</b>	<b>3,623,778</b>
Lease assets	432	<b>Net assets</b>	
Construction in progress	32	Capital stock	1,703,937
Other	207	Retained earnings	(309,618)
Intangible assets	2,879	Other retained earnings	(309,618)
Software	2,665	Retained earnings brought forward	(309,618)
Lease assets	41	<b>Total shareholders' equity</b>	<b>1,394,318</b>
Other	172		
Customers' liabilities for acceptances and guarantees	19,619		
Allowance for loan losses	(302,295)	<b>Total net assets</b>	<b>1,394,318</b>
<b>Total assets</b>	<b>5,018,097</b>	<b>Total liabilities and net assets</b>	<b>5,018,097</b>

**Statement of Operations (Year ended March 31, 2020)**

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>80,812</b>
Interest income	64,923
Interest on loans and discounts	64,921
Interest and dividends on securities	0
Interest on deposits with banks	1
Other interest income	0
Fees and commissions	131
Other fees and commissions	131
Receipts from the national budget	14,391
Receipts from general account of the national budget	14,390
Receipts from special account of the national budget	0
Other income	1,365
Recoveries of written-off claims	79
Gain on sales of stocks and other securities	81
Other	1,204
<b>Ordinary expenses</b>	<b>84,799</b>
Interest expenses	5,666
Interest on call money	(3)
Interest on borrowings and rediscounts	4,096
Interest on bonds	1,572
Fees and commissions payments	58
Other fees and commissions	58
Other ordinary expenses	432
Loss on foreign exchange transactions	340
Amortization of bond issuance cost	91
General and administrative expenses	27,303
Other expenses	51,339
Provision of allowance for loan losses	48,762
Written-off of loans	1,529
Other	1,048
<b>Ordinary loss</b>	<b>3,986</b>
<b>Extraordinary income</b>	<b>6</b>
Gain on disposal of noncurrent assets	6
<b>Extraordinary losses</b>	<b>64</b>
Loss on disposal of noncurrent assets	64
<b>Net loss</b>	<b>4,045</b>

Data

**Statement of Changes in Net Assets (Year ended March 31, 2020)**

(Millions of yen)

	Shareholders' equity				Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	
		Other retained earnings	Total retained earnings		
	Retained earnings brought forward				
Balance at the beginning of current period	1,635,785	(305,572)	(305,572)	1,330,212	1,330,212
Changes of items during the period					
Issuance of new shares	68,152			68,152	68,152
Net income (loss)		(4,045)	(4,045)	(4,045)	(4,045)
Total changes of items during the period	68,152	(4,045)	(4,045)	64,106	64,106
Balance at the end of current period	1,703,937	(309,618)	(309,618)	1,394,318	1,394,318

Data

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method) based on the moving average method. As a rule, available-for-sale securities are stated at fair value based on market prices on the closing date. However, available-for-sale securities whose fair value is extremely difficult to be determined are carried at cost based on the moving average method.

### (b) Valuation method for derivative financial instruments

Derivative financial instruments are carried at fair value.

### (c) Depreciation basis for fixed assets

#### (i) Property, plant and equipment (except for lease assets)

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) and facilities attached to buildings and structures acquired on or after April 1, 2016, which are depreciated under the straight-line method.

Amortization is based on the following range of estimated useful lives:

Buildings: 2 years to 50 years

Other: 2 years to 20 years

#### (ii) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JFC is amortized over its useful life (5 years).

#### (iii) Lease assets

Lease assets in "property, plant and equipment" or "intangible assets," under finance leases that do not involve transfer of ownership to the lessee are amortized under the straight-line method over the lease term. Depreciation for lease assets is calculated with zero residual value being assigned to the asset.

### (d) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

### (e) Foreign currency translation and revaluation method

JFC maintains its accounting records in Japanese yen. Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the market exchange rate prevailing at the fiscal year end.

### (f) Accounting policy for reserves

#### (i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

The allowance for claims on debtors who are legally bankrupt ("Bankrupt borrowers") or substantially bankrupt ("Substantially bankrupt borrowers") is provided based on the outstanding balance after the write-offs described in the followings and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt but are likely to become bankrupt ("Potentially bankrupt borrowers") is provided based on an assessment of the overall solvency of the debtors after deducting the amount expected to be collected through the disposal of collateral and the execution of guarantees.

The allowance for claims on debtors other than Bankrupt borrowers is provided based on primarily the anticipated loss amount within the next one year or the anticipated loss amount within the next three years. The anticipated loss amount is calculated by seeking the loss rate on the basis of the average default rate over a certain period in the past based on the default rates for one or three years and making necessary adjustments such as future expectations.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments, which are independent from the operational departments, review these self-assessments.

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), the residual booked amount of the claims after deduction of the amount which is deemed collectible through the disposal of collateral or the execution of guarantees is written-off. The amount of accumulated write-off is ¥71,400 million.

Write-offs of this operation account are recognized by offsetting the current allowance for loan losses for the amount of the claim deemed uncollectable against the year-end claim amount balance; the previous allowance for loan losses and claim balances are reversed at the start of the fiscal year, upon approval received from the competent minister pursuant to Article 4 of the Ministerial Ordinance Concerning Accounting for the JFC (Ordinance of the Ministry of Finance, the Ministry of Health, Labour and Welfare, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Economy, Trade and Industry; Ordinance No. 3 of 2008).

**(ii) Provision for bonuses**

The “provision for bonuses” is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

**(iii) Provision for directors’ bonuses**

The “provision for directors’ bonuses” is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

**(iv) Provision for retirement benefits**

The “provision for retirement benefits” represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end. In addition, in calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition are calculated as follows:

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the time of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year at the time of occurrence.

**(v) Provision for directors’ retirement benefits**

The “provision for directors’ retirement benefits,” which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

**(g) Consumption and other taxes**

Consumption taxes and local consumption taxes (“consumption taxes”) are excluded from transaction amounts. Amounts of non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

**Issued but not yet adopted accounting standards and others**

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

**(1) Overview**

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

**(2) Scheduled date of application**

The accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

**(3) Effects of application of these accounting standards**

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

**(1) Overview**

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the “Fair Value Measurement Standard”) were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

**(2) Scheduled date of application**

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

**(3) Effects of application of these accounting standards**

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

**(1) Overview**

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

**(2) Scheduled date of application**

The standard will be applied from the end of the fiscal year ending March 2021.

**4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)****(1) Overview**

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

**(2) Scheduled date of application**

The standard will be applied from the end of the fiscal year ending March 2021.

**2. Loans**

All loans entered into are loans on deeds. The amounts reported in the balance sheet include the followings:

(Millions of yen)

	As of March 31, 2020 Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)
Bankrupt loans	2,943
Non-accrual loans	451,356
Loans with interest or principal repayments more than three months in arrears	—
Restructured loans	71,802
Total	526,102

(a) "Bankrupt loans" are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the Corporate Tax Law Enforcement Ordinance (Government Ordinance No. 97, 1965), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.

(b) "Non-accrual loans" are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

(c) "Loans with interest or principal repayments more than three months in arrears" are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of "Bankrupt loans" and "Non-accrual loans".

(d) "Restructured loans" are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers' recovery from financial difficulties, and which do not fall under the category of "Bankrupt loans", "Non-accrual loans", and "Loans with interest or principal repayments more than three months in arrears".

(e) The amounts of loans indicated in the table above are the gross amounts prior to the deduction of allowance for possible loan losses.

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheet. The balance of unpaid amounts as of March 31, 2020 is ¥53,193 million.

**3. Assets pledged as collateral**

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes this operation account bonds issued to a total amount of ¥470,077 million).

**4. Accumulated depreciation of fixed assets**

Accumulated depreciation of fixed assets amounted to ¥7,901 million.

**5. Restriction in dividend distribution**

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

\*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

## 6. Issued shares

For the fiscal year ended March 31, 2020 types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	1,635,785,000,000	68,152,000,000	—	1,703,937,000,000

(Note) Increases is due to the issuance of 68,152,000,000 shares.

## 7. Financial instruments and related disclosure

### 1. Status of financial instruments

#### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

In this operation account, a stable supply of long-term funds is provided to supplement private sector financial institutions in order to support the growth and development of SMEs. To conduct these operations, funds are raised by borrowing from the government and through the issuing of bonds. Forward exchange contracts are conducted for avoiding foreign exchange risk related to foreign currency loans.

#### (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this operation account mainly include loans and securities for SMEs, and financial liabilities mainly include borrowings and bonds. The associated risks are described below.

##### (a) Credit risk

The following operations are conducted in this operation account: (1) Loans to SMEs, (2) Acquisition of bonds issued by SMEs, (3) Securitization of loan claims and bonds of SMEs, (4) Partial guarantee of loan claims for private sector financial institutions and guarantee of securitized financial products, (5) Guarantee related to the liabilities of SMEs and micro businesses' overseas subsidiaries and branches, and (6) Acquisition of shares or equity of SMEs that have debt in the form of loans from JFC for the purpose of reducing qualifying debt. For this operation account, JFC identifies and evaluates credit risk by taking steps for appropriate screening and monitoring of loans and implements the necessary management to steadily put in place measures aimed at reducing credit costs. However, future economic trends in Japan and overseas, which may lead to a deterioration in creditworthiness of borrowers, and a fluctuation in the value of the real estate-collateral and other unexpected events could cause losses for this operation account as a result of bad debts and uncollectable claims.

##### (b) Market risk

The main type of market risks associated with this operation account are interest rate risk and foreign exchange risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps arise between assets and liabilities. This operation account could suffer losses from the interest rate risk caused by this gap.

It is JFC policy to minimize foreign exchange risk arising from foreign currency loans in this operation account by conducting forward exchange contracts.

##### (c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, government-backed bonds, the FILP agency bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, and JFC considers liquidity risk to be limited. However, financing costs could

increase due to unexpected events..

### (3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

#### (a) Credit risk management

##### (i) Individual credit management

For financing operations, the decision on financing and other related matters is conducted upon assessment of the situation of companies applying for funds from a fair and neutral position and verification of the certainty of repayment and validity of use of funds.

Since these financing operations specialize in long-term funding for businesses, in the screening process, verification assessment is made of the likelihood of long-term repayment focusing on business profits as well as on overall judgment being made on the certainty of repayment.

An overall judgment of the company's enterprise power is made, not limited to a quantitative analysis focusing on the financial statements, but taking into consideration various management activities including the combination of people, money, and conducting fact finding surveys from a variety of view points, including the business environment in which the company is placed, in addition to determining the future prospects of the company that has applied for funds.

We strive to continuously assess the situation after financing has been granted through review of financial reports and regular company visits. Based on the classification of the borrower or otherwise as required, and after consideration of the results of management improvement plans, follow-ups will be conducted as required to define transaction policy.

In addition, in order to support the growth and development of the borrower, we will strive to give as much feedback as possible on the screening results and provide consultation support to help resolve management issues. In particular, we will support companies struggling to respond to changes in the business environment by formulating management improvement plans.

##### (ii) Credit rating

A proprietary credit scoring model based on analysis of transaction data collected over the years for borrowers and a credit rating system that assesses the creditworthiness of borrowers based on qualitative analysis through fact finding surveys and other methods have been developed for these financing operations and have been used in the formulation of lending policy and in the screening process.

##### (iii) Asset self assessment

For these financing operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In this process, first stage assessments of borrower classification are conducted by the front offices and second stage assessments by a separate credit department. An auditing department independent from the other sections then conducts an internal inspection to verify the accuracy of self assessments.

The results of the self assessments are used in providing the allowance for loan losses, taking into account the amount expected to be recovered through the disposal of collateral and the execution of guarantees, the actual rate of loan losses and other factors.

##### (iv) Quantification of credit risk

In the quantification of credit risk in financing operations, we conduct statistical analysis based on credit ratings and other factors to quantify and monitor the overall risk of the portfolio, and we advance our studies by using this monitoring in controlling credit risk.

##### (v) Credit risk management for securitization support operations

In the securitization support operations, we use our proprietary scoring model which was developed based on the analysis of transaction data collected over the years for SMEs, and external models such as the Credit Risk Database (CRD) to conduct screening. In addition, statistical methods such as Monte Carlo simulations are used to accurately assess the overall credit risk for pools of claims to establish a proper guarantee rate based on credit risk.

After formation of a securitization project, the redemption status of the underlying claims is verified and monitoring is performed. With respect to loan receivable-backed securities guaranteed in this operation account, credit risks are accurately determined by using external ratings or statistical methods such as Monte Carlo simulations.

## (b) Market risk management

## (i) Interest rate risk

It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps do arise between assets and liabilities. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder approach and duration analysis, and conduct proper risk management by attempting to reduce interest rate risk through adjustment of procurement period limits and other means.

## (ii) Foreign exchange risk

It is JFC policy to minimize foreign exchange risk by conducting forward exchange contracts.

With regards to forward exchange contracts transactions, we have established internal control system which is separating the departments executing and managing.

Forward exchange contracts are conducted by actual needs, and are not maintained in speculative positions.

## (iii) Quantitative information relating to market risk

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans, borrowings, and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2020 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥34,338 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥32,245 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

## (c) Liquidity risk management related to fund procurement

Long-term and stable funds such as fiscal loan funds, government-backed bonds, FILP agency bonds, and funding provided by government are secured to finance this account and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions have been taken to maintain daily cash flows for proper risk management.

## (4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

## 2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2020, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine are not included in the following chart (refer to Note 2).

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	162,934	162,934	—
(2) Securities			
Held-to-maturity debt securities	28	28	—
(3) Loans and bills discounted	4,599,808		
Allowance for loan losses <sup>(*)</sup>	(125,204)		
	4,474,603	4,705,874	231,270
Total assets	4,637,566	4,868,836	231,270
(1) Borrowings	3,087,119	3,104,190	17,071
(2) Bonds payable	470,077	473,696	3,618
Total liabilities	3,557,196	3,577,886	20,690
Derivative transactions <sup>(**)</sup>			
Derivative transactions not qualifying for hedge accounting	(57)	(57)	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	(57)	(57)	—

(\*1) General allowance for loan losses and specific allowance for loan losses have been deducted from loans.

(\*2) Derivative recorded in "other assets and other liabilities" are collectively displayed. The net values of assets and liabilities arising from derivative transactions are displayed. The figures in parentheses indicate net liabilities.

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature, the carrying amount is used as fair value because fair value resembles the carrying amount.

(2) Securities

For corporate bonds in this operation account, the carrying amount is used as fair value because fair value approximates the carrying amount.

Notes for securities by purpose of holding are found in "8. Fair value of securities".

(3) Loans and bills discounted

For loans with fixed interest rates, the fair value is calculated by discounting the risk-adjusted principal and interest by the risk free rate (the standard Japanese government bond rate) based on the type of borrower and period of loan. For loans with variable interest rates, since short-term market rates are reflected, the fair value resembles the carrying amount as long as there is no significant difference in the credit status of the borrower, the carrying amount is used as the fair value. For obligations on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers subject to variable interest rates, allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value resembles the amount of loans on the balance sheet on the closing date after a deduction has been made for allowance for loan losses, so this amount is used for fair value.

Liabilities

(1) Borrowings

Borrowings through the fiscal investment funds and loans are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

(2) Bonds payable

Market value is used for fair value of bonds.

Derivative transactions

Derivative transactions are forward exchange contracts. The fair value of derivative transactions is determined based on the price provided by financial institutions.

(Note 2) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

They are not included in "Assets, (2) Securities," "Assets, (3) Loans and bills discounted" and "Liabilities, (1) Borrowings".

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Unlisted stocks <sup>(*)1</sup>	7
2) Loans on deeds (subordinated capital loans) <sup>(*)2</sup>	483,981
3) Borrowings from the FILP special account (investment account) of the national budget <sup>(*)3</sup>	22,292
Total	506,281

(\*1) Since unlisted stocks do not have quoted market prices available and fair value is extremely difficult to be determined, fair values are not stated.

(\*2) For loans on deed (subordinated capital loans) under the Provision Scheme for Challenge Support and Capital Enhancement or other schemes, fair values are not stated because it is recognized that fair value is extremely difficult to be determined. This is because future cash flow can not be reasonably estimated due to its particular scheme in which applicable interest rates are determined by every year's business performance of the debtor, instead of being determined at the time of loan execution.

(\*3) For borrowings from the FILP special account (investment account) of the national budget, fair values are not stated because it is recognized that fair value is extremely difficult to be determined for the following reason: an interest rate is not set at the time of borrowing, as this type of borrowing consists of a scheme in which a lump interest payment is made after the final installment payment redemption and it is not possible to reasonably estimate future cash flows.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks <sup>(*)</sup>	162,929	—	—	—	—	—
Securities Held-to-maturity debt securities	18	—	—	—	—	10
Loans and bills discounted <sup>(*)</sup>	1,107,678	1,572,523	985,122	564,062	454,197	376,861
Total	1,270,625	1,572,523	985,122	564,062	454,197	376,871

(\*) Demand deposits contained within due from banks are stated as "Maturities within one year".

(\*) Within loans, claims against bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers contains an amount of ¥23,344 million that is not expected to be redeemed and not included in the table above.

(Note 4) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	783,544	1,097,658	607,852	347,270	220,002	53,085
Bonds payable	51,000	169,800	114,200	65,000	70,000	—
Total	834,544	1,267,458	722,052	412,270	290,002	53,085

## 8. Fair value of securities

The fair value of securities at March 31, 2020 is as follows:

### (a) Held-to-maturity debt securities with fair value

	Type	Carrying amount on the balance sheet (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Securities whose fair value does not exceed their carrying amount	Corporate bonds	28	28	—

### (b) Available-for-sale securities

(Note) Available-for-sale securities whose fair value is extremely difficult to be determined

	Carrying amount on the balance sheet (Millions of yen)
Stocks	7

They have no quoted market price and their fair value is extremely difficult to be determined.

### (c) Available-for-sale securities sold in the fiscal year in review (from April 1, 2019 to March 31, 2020)

	Sales amount (Millions of yen)	Total gain on sales (Millions of yen)	Total loss on sales (Millions of yen)
Stocks	2	2	—

## 9. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 10. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

#### Defined benefits plan

##### (1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	38,603 million yen
Service cost	1,449
Interest cost	38
Actuarial difference	(367)
Payment of retirement benefits	(1,924)
Prior service cost	—
Other	(46)
Closing balance of projected benefit obligations	<u>37,754</u>

##### (2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	13,460 million yen
Expected return on plan assets	269
Actuarial difference	(573)
Financing from employer	660
Payment of retirement benefits	(743)
Other	(7)
Closing balance of fair value of plan assets	<u>13,066</u>

##### (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	18,350 million yen
Fair value of plan assets	<u>(13,066)</u>
	5,284
Projected benefit obligations of unfunded plan	<u>19,403</u>
Unfunded pension obligations	24,687
Actuarial unrecognized difference	(4,890)
Unrecognized prior service cost	470
Net amount of liabilities and assets recorded on the balance sheet	<u>20,268</u>
Provision for retirement benefits	20,268
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>20,268</u>

##### (4) Net pensions cost and breakdown of included items

Service cost	1,449 million yen
Interest cost	38
Expected return on plan assets	(269)
Amount of actuarial difference accounted for as expense	1,007
Amortization of prior service cost accounted for as expense	(239)
Other	—
Net pensions cost related to defined benefits plan	<u>1,987</u>

##### (5) Items concerning fair value of plan assets

###### 1) The percentage of each category of total fair value of plan assets is as follows.

Shares	22%
Debentures	65%
General account	13%
Cash and deposits	1%
Total	<u>100%</u>

###### 2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

##### (6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.5% to 5.9%

#### Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥84 million.

## 11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2020 are as follows:

### Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2020
Principal shareholder	Ministry of Finance (Minister of Finance) <sup>(Notes i and ii)</sup>	91.01 (Direct)	Administration for policy based financing	Underwriting of capital increase <sup>(Note iii)</sup>	67,152	—	—
				Receipt of funds <sup>(Note iv)</sup>	844,000	Borrowings	3,109,411
				Repayment of borrowing	875,298		
				Payment of interest on borrowings	4,096	Accrued expenses	683
				Guarantee for bonds payable <sup>(Note v)</sup>	345,077	—	—

(Notes)

(i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:

-Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry) 8.99%

(ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:

-Ministry of Economy, Trade and Industry  
Underwriting of capital increase ¥1,000 million

-Agency for Natural Resources and Energy  
Receipts from the national budget ¥0 million

-Small and Medium Enterprise Agency  
Receipts from the national budget ¥14,390 million

(iii) The underwriting of capital increase represents the increase in capital by JFC at an allocation amount of ¥1 per share.

(iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.

(v) No guarantee fee has been paid for the guarantee of bonds.

(vi) Figures in the table above do not include consumption taxes.

## 12. Per share information

Net assets per share ¥0.81

Net loss per share ¥0.00

## 13. Subsequent events

Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as the underwriter on June 9, 2020 as set forth below pursuant to a resolution of the Board of Directors adopted on May 19, 2020.

Overview of the new shares issue

Type and number of shares to be issued	398,000,000,000 common shares
Issue price	1 yen per share
Total issue price	398,000,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	398,000,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Funding to expand special loans relating to the spread of the COVID-19

## Balance Sheet (as of March 31, 2020)

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
Cash and due from banks	16,381	Bonds payable	30,000
Due from banks	16,381	Other liabilities	118
<b>Securities</b>	<b>38,677</b>	Accrued expenses	0
Government bonds	21,180	Unearned revenue	117
Corporate bonds	17,497	Other	0
<b>Other assets</b>	<b>115</b>	Provision for bonuses	2
Prepaid expenses	90	Provision for directors' bonuses	0
Accrued income	8	Provision for retirement benefits	46
Other	16	Provision for directors' retirement benefits	0
Prepaid pension cost	2	Acceptances and guarantees	78,460
Customers' liabilities for acceptances and guarantees	78,460	<b>Total liabilities</b>	<b>108,629</b>
Allowance for loan losses	(30)	<b>Net assets</b>	
		Capital stock	24,476
		Retained earnings	501
		Legal retained earnings	348
		Other retained earnings	153
		Retained earnings brought forward	153
		<b>Total shareholders' equity</b>	<b>24,977</b>
		<b>Total net assets</b>	<b>24,977</b>
<b>Total assets</b>	<b>133,606</b>	<b>Total liabilities and net assets</b>	<b>133,606</b>

**Statement of Operations** (Year ended March 31, 2020)

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>682</b>
Interest income	225
Interest and dividends on securities	225
Interest on deposits with banks	0
Fees and commissions	385
Other fees and commissions	385
Other income	71
Reversal of allowance for loan losses	42
Other	29
<b>Ordinary expenses</b>	<b>529</b>
Interest expenses	3
Interest on bonds	3
Fees and commissions payments	404
Other fees and commissions	404
Other ordinary expenses	13
Amortization of bond issuance cost	13
General and administrative expenses	82
Other expenses	25
Other	25
<b>Ordinary profit</b>	<b>153</b>
<b>Net income</b>	<b>153</b>

**Statement of Changes in Net Assets (Year ended March 31, 2020)**

(Millions of yen)

	Shareholders' equity					Total net assets
	Capital stock	Retained earnings			Total shareholders' equity	
		Legal retained earnings	Other retained earnings	Total retained earnings		
			Retained earnings brought forward			
Balance at the beginning of current period	24,476	310	76	386	24,862	24,862
Changes of items during the period						
Provision of legal retained earnings		38	(38)	—	—	—
Payment to the national treasury			(38)	(38)	(38)	(38)
Net income (loss)			153	153	153	153
Total changes of items during the period	—	38	76	114	114	114
Balance at the end of current period	24,476	348	153	501	24,977	24,977

Data

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method) based on the moving average method. As a rule, available-for-sale securities are stated at cost based on the moving average method.

### (b) Valuation method for derivative financial instruments

Certain credit default swap transactions, for which neither quoted market price nor reliably estimated value is available and the fair value is undeterminable, are accounted for as guarantee of obligation.

### (c) Method of amortization for deferred assets

Bond issuance costs are expensed as incurred.

### (d) Accounting policy for reserves

#### (i) Allowance for loan losses

The allowance for loan losses is calculated and recorded based on an anticipated loan loss ratio in accordance with internally established standards for write-offs and allowances.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments, which are independent from the operational departments, review these self-assessments.

#### (ii) Provision for bonuses

The "provision for bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

#### (iii) Provision for directors' bonuses

The "provision for directors' bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

#### (iv) Provision for retirement benefits

The "provision for retirement benefits" (including prepaid pension cost) represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end. In addition, in calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition are calculated as follows:

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the time of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year at the time of occurrence.

#### (v) Provision for directors' retirement benefits

The "provision for directors' retirement benefits," which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

### (e) Consumption and other taxes

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts.

### Issued but not yet adopted accounting standards and others

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

#### (1) Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

#### (2) Scheduled date of application

The accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

(2) Scheduled date of application

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

## 2. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes this operation account bonds issued to a total amount of ¥30,000 million).

## 3. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

\*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

## 4. Issued shares

For the fiscal year ended March 31, 2020, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	24,476,000,000	—	—	24,476,000,000

## 5. Financial instruments and related disclosure

### 1. Status of financial instruments

#### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

This operation account is conducted for the purpose of promoting the supply of unsecured funds to SMEs from private sector financial institutions, etc., utilizing securitization and fostering the securitization market for SME loan claims. To conduct these operations, funds are raised through the issuing of bonds.

#### (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this operation account mainly include securities, and the financial liabilities are bonds payable. The associated risks are described below.

##### (a) Credit risk

The following operations are conducted in this operation account: (1) Receipt and securitization of loan claims for private sector financial institutions and (2) Partial purchase of securitized instruments. Since credit is provided to SMEs in this operation account, the account risks losses arising from uncollectable claims caused by deterioration in creditworthiness of the SMEs to which credit is granted and the resulting drop in value of securitized instruments owned.

##### (b) Market risk

The main type of market risk associated with this operation account is interest-rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities.

##### (c) Liquidity risk

Long-term and stable funds such as FILP agency bonds are secured to finance this operation account and deposits are not accepted. Proper measures, including establishing overdraft facility accounts with multiple private sector financial institutions, are taken to maintain daily cash flows, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

#### (3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

##### (a) Credit risk management

In these operations, we use our proprietary scoring model developed based on analysis of transaction data collected over a number of years for SMEs, and external models such as CRD (Credit Risk Database) to conduct screening. In addition, statistical methods such as Monte Carlo simulations are used to accurately assess the overall credit risk for pools of claims to establish a proper return based on credit risk.

After formation of a securitization project, the redemption status of the underlying claims is verified and monitoring is performed. With respect to loan receivable-backed securities in this operation account, credit risks are accurately determined by using external ratings or statistical methods such as Monte Carlo simulations.

## (b) Market risk management

The main type of market risk associated with these operations is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities, and we consider that interest rate risk is limited.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations are securities and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2020 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥1,567 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥1,413 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

## (c) Liquidity risk management related with fund procurement

It is considered that liquidity risk is limited because a system has been adopted to minimize liquidity risk and sufficient funding support can be expected from the government.

## (4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

## 2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2020, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine are not included in the following chart (refer to Note 2).

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	16,381	16,381	—
(2) Securities			
Held-to-maturity debt securities	21,180	22,456	1,276
Total assets	37,561	38,837	1,276
Bonds payable	30,000	29,981	(18)
Total debt	30,000	29,981	(18)

## (Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

## (1) Cash and due from banks

For due from banks that do not mature, the carrying amount is used as fair value because fair value resembles the carrying amount.

## (2) Securities

Market value is used for securities.

Notes for securities by purpose of holding are found in "6. Fair value of securities".

Liabilities

## Bonds payable

Market value is used for fair value of bonds.

## (Note 2) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

They are not included in "Assets, (2)Securities".

(Millions of yen)

Classification	Carrying amount on the balance sheet
(1) Corporate bonds (specific asset-backed securities) <sup>(*)1</sup>	17,497
(2) Credit default swap <sup>(*)2</sup>	—
Total	17,497

(\*)1 Corporate bonds (specified asset-backed securities) do not have a market value.

These are securities issues backed by loan claims on SMEs originating from multiple financial institutions. The following steps are followed when constructing the subordination structure for the securities:

(1) First, groups of loan claims from the financial institutions are put into sub-pools, and the most subordinated section is removed;

(2) The remainder of the sub-pool besides the most subordinated section is treated as an amalgamate and divided into levels of senior and subordinate.

For this reason, to evaluate the fair value of corporate bonds (specified asset-backed securities) owned by JFC that have been amalgamated, the individual financial data for the borrowers that back the securities issue is required. Because JFC is not structured to continuously acquire this data, fair value is extremely difficult to be determined and is not stated.

(\*2) Credit default swaps (CDS) reference loan claims on SMEs, and do not have market value. JFC is not structured to continuously acquire the individual financial data for the borrowers referenced by these CDS, and is hence unable to reasonably estimate the likelihood of defaults occurring. For this reason, fair value is extremely difficult to be determined and fair value is not stated for these instruments.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*)	16,381	—	—	—	—	—
Securities	—	—	—	—	—	21,068
Held-to-maturity debt securities	—	—	—	—	—	—
Total	16,381	—	—	—	—	21,068

(\*) Demand deposits contained within due from banks are stated as "Maturities within one year".

(Note 4) Redemption schedule for bonds with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Bonds payable	9,000	15,200	5,800	—	—	—

## 6. Fair value of securities

The fair value of securities at March 31, 2020 is as follows:

### (a) Held-to-maturity debt securities with fair value

	Type	Carrying amount on the balance sheet (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Securities whose fair value exceeds their carrying amount	Japanese government bonds	21,180	22,456	1,276

### (b) Available-for-sale securities

(Note) Available-for-sale securities whose fair value is extremely difficult to be determined

	Carrying amount on the balance sheet (Millions of yen)
Bonds	
Corporate Bonds	17,497

They have no quoted market price and their fair value is extremely difficult to be determined.

## 7. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 8. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

Defined benefits plan

(1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	48 million yen
Service cost	3
Interest cost	0
Actuarial difference	0
Payment of retirement benefits	(1)
Prior service cost	—
Other	22
Closing balance of projected benefit obligations	73

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets	
Opening balance of fair value of plan assets	9 million yen
Expected return on plan assets	0
Actuarial difference	(1)
Financing from employer	1
Payment of retirement benefits	(0)
Other	6
Closing balance of fair value of plan assets	<u>15</u>
(3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet	
Projected benefit obligations of funded plan	22 million yen
Fair value of plan assets	<u>(15)</u>
	6
Projected benefit obligations of unfunded plan	<u>50</u>
Unfunded pension obligations	57
Actuarial unrecognized difference	(12)
Unrecognized prior service cost	<u>(0)</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>44</u>
Provision for retirement benefits	46
Prepaid pension cost	<u>(2)</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>44</u>
(4) Net pensions cost and breakdown of included items	
Service cost	3 million yen
Interest cost	0
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	2
Amortization of prior service cost accounted for as expense	(0)
Other	<u>—</u>
Net pensions cost related to defined benefits plan	<u>5</u>
(5) Items concerning fair value of plan assets	
1) The percentage of each category of total fair value of plan assets is as follows.	
Shares	22%
Debentures	65%
General account	13%
Cash and deposits	<u>1%</u>
Total	<u>100%</u>
2) Method for setting the long-term expected rate of return on plan assets	
To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.	
(6) Items related to actuarial calculation bases	
Major actuarial calculation bases at the end of the fiscal year in review	
1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.5% to 5.9%

#### Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥0 million.

## 9. Per share information

Net assets per share	¥1.02
Net income per share	¥0.00

## 10. Subsequent events

Not applicable.

## Balance Sheet (as of March 31, 2020)

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
Cash and due from banks	3,084,299	Reserve for insurance policy liabilities	773,166
Due from banks	3,084,299	<b>Other liabilities</b>	1,017
<b>Other assets</b>	14,269	Accrued expenses	31
Accrued income	69	Lease obligations	74
Other	14,200	Other	912
<b>Property, plant and equipment</b>	17,819	Provision for bonuses	223
Buildings	3,771	Provision for directors' bonuses	1
Land	13,968	Provision for retirement benefits	4,583
Lease assets	65	Provision for directors' retirement benefits	1
Other	14	<b>Total liabilities</b>	778,993
<b>Intangible assets</b>	1,145	<b>Net assets</b>	
Software	1,085	<b>Capital surplus</b>	2,052,284
Lease assets	0	Legal capital surplus	2,052,284
Other	59	<b>Retained earnings</b>	286,257
		Legal retained earnings	288,646
		Other retained earnings	(2,389)
		Retained earnings brought forward	(2,389)
		<b>Total shareholders' equity</b>	2,338,541
		<b>Total net assets</b>	2,338,541
<b>Total assets</b>	3,117,534	<b>Total liabilities and net assets</b>	3,117,534

**Statement of Operations (Year ended March 31, 2020)**

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>195,366</b>
Interest income	340
Interest on deposits with banks	340
Insurance premiums and other	194,860
Insurance premiums	122,704
Receipts of burden charges under the Responsibility-sharing System	6,888
Reversal of reserve for insurance policy liabilities	65,267
Other income	165
Other	165
<b>Ordinary expenses</b>	<b>197,756</b>
Expenses on insurance claims and other	189,340
Expenses on insurance claims	261,285
Recoveries of insurance claims	(71,944)
General and administrative expenses	5,019
Other expenses	3,396
Other	3,396
<b>Ordinary loss</b>	<b>2,389</b>
<b>Extraordinary losses</b>	<b>0</b>
Loss on disposal of noncurrent assets	0
<b>Net loss</b>	<b>2,389</b>

**Statement of Changes in Net Assets (Year ended March 31, 2020)**

(Millions of yen)

	Shareholders' equity						Total net assets
	Capital surplus		Retained earnings			Total shareholders' equity	
	Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings		
			Retained earnings brought forward				
Balance at the beginning of current period	1,988,384	1,988,384	196,571	92,075	288,646	2,277,030	2,277,030
Changes of items during the period							
Issuance of new shares	63,900	63,900				63,900	63,900
Provision of legal retained earnings			92,075	(92,075)	—	—	—
Net income (loss)				(2,389)	(2,389)	(2,389)	(2,389)
Total changes of items during the period	63,900	63,900	92,075	(94,464)	(2,389)	61,510	61,510
Balance at the end of current period	2,052,284	2,052,284	288,646	(2,389)	286,257	2,338,541	2,338,541

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Securities

As a rule, available-for-sale securities are stated at fair value based on market prices on the closing date.

### (b) Depreciation basis for fixed assets

#### (i) Property, plant and equipment (except for lease assets)

Tangible fixed assets are depreciated under the declining-balance method over their useful economic lives except for buildings (excluding installed facilities) and facilities attached to buildings and structures acquired on or after April 1, 2016, which are depreciated under the straight-line method.

Amortization is based on the following range of estimated useful lives:

Buildings: 5 years to 50 years

Other: 2 years to 15 years

#### (ii) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JFC is amortized over its useful life (5 years).

#### (iii) Lease assets

Lease assets in "property, plant and equipment" or "intangible assets," under finance leases that do not involve transfer of ownership to the lessee are amortized under the straight-line method over the lease term. Depreciation for lease assets is calculated with zero residual value being assigned to the asset.

### (c) Accounting policy for reserves

#### (i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards, and provided primarily based on the default rate, which is calculated based on the actual defaults during a certain period in the past.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments, which are independent from the operational departments, review these self-assessments.

#### (ii) Provision for bonuses

The "provision for bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

#### (iii) Provision for directors' bonuses

The "provision for directors' bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

#### (iv) Provision for retirement benefits

The "provision for retirement benefits" represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end. In addition, in calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition are calculated as follows:

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the time of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year at the time of occurrence.

#### (v) Provision for directors' retirement benefits

The "provision for directors' retirement benefits," which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

### (d) Accounting policies for reserve for insurance policy liabilities

The "reserve for insurance policy liabilities" consists of the following two items, pursuant to Article 9, Paragraph 1 of the Ministerial Ordinance Concerning Accounting for JFC (Ordinance of the Ministry of Finance, the Ministry of Health, Labour and Welfare, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Economy, Trade and Industry; Ordinance No. 3 of 2008). Furthermore, in accordance with Article 9, Paragraph 2 of the Ministerial Ordinance Concerning Accounting for JFC, an additional amount shall be provided for insurance policy liabilities in the event that an impediment to the fulfillment of future obligations has been confirmed.

#### (i) Policy reserve

The policy reserve which provides for future obligations under insurance policies has been calculated based on actuarial and statistical method.

**(ii) Outstanding claims reserve**

The outstanding claims reserve represents the accumulation of the estimates for reported losses and includes provision for losses incurred but not reported, after the deduction of collectable amounts based on insurance policies.

**(e) Consumption and other taxes**

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts. Amounts of non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

**Issued but not yet adopted accounting standards and others**

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

**(1) Overview**

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

**(2) Scheduled date of application**

The accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

**(3) Effects of application of these accounting standards**

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

**(1) Overview**

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

**(2) Scheduled date of application**

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

**(3) Effects of application of these accounting standards**

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

**(1) Overview**

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

**(2) Scheduled date of application**

The standard will be applied from the end of the fiscal year ending March 2021.

4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

**(1) Overview**

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

**(2) Scheduled date of application**

The standard will be applied from the end of the fiscal year ending March 2021.

**2. Assets pledged as collateral**

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC. No Operations to this operation account bonds have been issued.

### 3. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥2,558 million.

### 4. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*<sup>1</sup>. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*<sup>2</sup> listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*<sup>1</sup> Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

\*<sup>2</sup> Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

### 5. Other expenses

Other expenses include refund of insurance premiums ¥3,388 million.

### 6. Issued shares

For the fiscal year ended March 31, 2020, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	5,959,827,407,741	63,900,000,000	—	6,023,727,407,741

(Note) Increase is due to the issuance of 63,900,000,000 shares.

## 7. Financial instruments and related disclosure

### 1. Status of financial instruments

#### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

In this operation account, insurance is provided for the guarantees related to the liabilities on SME loans. To conduct these operations funds are raised through capital investment from the government.

#### (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this operation account mainly include deposits. The associated risks are described below.

##### (a) Market risk

The main type of market risk associated with this operation account is interest rate risk.

However, this operation account is exposed to limited interest rate risk because funds procured through government investments are managed using highly stable instruments including the deposit for the FILP.

## (b) Liquidity risk

This operation account does not accept deposits and since long-term stable funds such as investments from the Japanese government are secured to finance this operation account, liquidity risk is considered to be limited.

## (3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

The risk management structure for these operations is described below.

## (a) Market risk management

The main type of market risk associated with these operations is interest rate risk.

These operations strive to undertake appropriate risk management practices by managing funds procured from government investments through using highly stable instruments such as the deposit for the FILP.

## (b) Liquidity risk management related to fund procurement

Long-term and stable financing is provided from government funds. Efforts are made for proper risk management through the assessment of cash flows.

## (4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

## 2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2020, and the related fair value, and difference is as follows.

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
Cash and due from banks	3,084,299	3,090,568	6,269

## (Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

## Cash and due from banks

For due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount. For due from banks that have a maturity over 3 months, fair value is based on the current price calculated by discounting future cash flow by the risk free rate (the standard Japanese government bond rate) based on the appropriate deposit term.

## (Note 2) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*)	2,169,199	140,000	775,100	—	—	—

(\*) Demand deposits contained within due from banks are stated as "Maturities within one year".

## 8. Fair value of securities

Transferable deposits in "Due from banks" on the balance sheet is included.

The fair value of securities at March 31, 2020 is as follows:

## Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount does not exceed their acquisition cost	Others	35,000	35,000	—

## 9. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 10. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

### Defined benefits plan

#### (1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	8,371 million yen
Service cost	277
Interest cost	8
Actuarial difference	(98)
Payment of retirement benefits	(383)
Prior service cost	—
Other	21
Closing balance of projected benefit obligations	<u>8,197</u>

#### (2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	3,000 million yen
Expected return on plan assets	60
Actuarial difference	(99)
Financing from employer	120
Payment of retirement benefits	(145)
Other	(0)
Closing balance of fair value of plan assets	<u>2,935</u>

#### (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	4,122 million yen
Fair value of plan assets	<u>(2,935)</u>
	1,187
Projected benefit obligations of unfunded plan	<u>4,075</u>
Unfunded pension obligations	5,262
Actuarial unrecognized difference	(768)
Unrecognized prior service cost	89
Net amount of liabilities and assets recorded on the balance sheet	<u>4,583</u>
Provision for retirement benefits	4,583
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>4,583</u>

#### (4) Net pensions cost and breakdown of included items

Service cost	277 million yen
Interest cost	8
Expected return on plan assets	(60)
Amount of actuarial difference accounted for as expense	156
Amortization of prior service cost accounted for as expense	(38)
Other	—
Net pensions cost related to defined benefits plan	<u>344</u>

#### (5) Items concerning fair value of plan assets

##### 1) The percentage of each category of total fair value of plan assets is as follows.

Shares	22%
Debentures	65%
General account	13%
Cash and deposits	1%
Total	<u>100%</u>

##### 2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

(6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.5% to 5.9%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥15 million.

## 11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2020 are as follows:

### Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2020
Principal shareholder	Ministry of Finance (Minister of Finance)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase <sup>(Note i)</sup>	63,900	—	—
				Deposit of funds <sup>(Note ii)</sup>	5,335,400	Due from banks	2,978,800
				Refund of funds	5,402,400		

(Notes)

(i) The underwriting of capital increase represents the increase in capital by JFC at an allocation amount of ¥1 per share.

(ii) Deposit of funds is the deposit for the FILP and the interest rates applicable under the FILP are applied.

(iii) Figures in the table above do not include consumption taxes.

## 12. Per share information

Net assets per share	¥0.38
Net loss per share	¥0.00

## 13. Subsequent events

### Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as the underwriter on June 9, 2020 as set forth below pursuant to a resolution of the Board of Directors adopted on May 19, 2020.

#### Overview of the new shares issue

Type and number of shares to be issued	43,500,000,000 common shares
Issue price	1 yen per share
Total issue price	43,500,000,000 yen
Paid-in capital	0 yen per share
Paid-in capital reserves	1 yen per share
Total paid-in capital	0 yen
Total paid-in capital reserves	43,500,000,000 yen
Payment date	June 9, 2020
Use of capital	Reinforcement of insurance foundations and stable operation of systems

## Balance Sheet (as of March 31, 2020)

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
Cash and due from banks	742,410	Borrowed money	1,327,740
Due from banks	742,410	Borrowings	1,327,740
Loans and bills discounted	1,327,740	Other liabilities	926
Loans on deeds	1,327,740	Accrued expenses	171
Other assets	192	Unearned revenue	735
Accrued income	182	Lease obligations	2
Other	10	Other	17
Property, plant and equipment	1	Provision for bonuses	7
Lease assets	1	Provision for directors' bonuses	0
Intangible assets	24	Provision for retirement benefits	90
Software	5	Provision for directors' retirement benefits	0
Lease assets	0	Reserve for compensation losses	25,652
Other	19	<b>Total liabilities</b>	<b>1,354,417</b>
Prepaid pension cost	19	<b>Net assets</b>	
		Capital stock	969,534
		Retained earnings	(253,562)
		Other retained earnings	(253,562)
		Retained earnings brought forward	(253,562)
		<b>Total shareholders' equity</b>	<b>715,971</b>
		<b>Total net assets</b>	<b>715,971</b>
<b>Total assets</b>	<b>2,070,388</b>	<b>Total liabilities and net assets</b>	<b>2,070,388</b>

**Statement of Operations (Year ended March 31, 2020)**

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>11,251</b>
Interest income	8,147
Interest on loans and discounts	8,078
Interest on deposits with banks	41
Other interest income	27
Fees and commissions	834
Fees and commissions on compensation security contract	834
Receipts from the national budget	146
Receipts from general account of the national budget	146
Other income	2,123
Other	2,123
<b>Ordinary expenses</b>	<b>20,627</b>
Interest expenses	8,105
Interest on borrowings and rediscounts	8,078
Other interest expenses	27
Other ordinary expenses	2,750
Interest subsidies	2,750
General and administrative expenses	169
Other expenses	9,602
Provision of reserve for compensation losses	9,507
Other	95
<b>Ordinary loss</b>	<b>9,376</b>
<b>Net loss</b>	<b>9,376</b>

**Statement of Changes in Net Assets (Year ended March 31, 2020)**

(Millions of yen)

	Shareholders' equity				Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	
		Other retained earnings	Total retained earnings		
	Retained earnings brought forward				
Balance at the beginning of current period	969,466	(244,186)	(244,186)	725,279	725,279
Changes of items during the period					
Issuance of new shares	68			68	68
Net income (loss)		(9,376)	(9,376)	(9,376)	(9,376)
Total changes of items during the period	68	(9,376)	(9,376)	(9,308)	(9,308)
Balance at the end of current period	969,534	(253,562)	(253,562)	715,971	715,971

Data

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Securities

As a rule, available-for-sale securities are stated at fair value based on market prices on the closing date.

### (b) Depreciation basis for fixed assets

#### (i) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JFC is amortized over its useful life (5 years).

#### (ii) Lease assets

Lease assets in “property, plant and equipment” or “intangible assets,” under finance leases that do not involve transfer of ownership to the lessee are amortized under the straight-line method over the lease term. Depreciation for lease assets is calculated with zero residual value being assigned to the asset.

### (c) Accounting policy for reserves

#### (i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

The allowance for claims on debtors who are legally bankrupt (“Bankrupt borrowers”) or substantially bankrupt (“Substantially bankrupt borrowers”) is provided based on the outstanding balance after the write-offs described in the followings and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt but are likely to become bankrupt (“Potentially bankrupt borrowers”) is provided based on an assessment of the overall solvency of the debtors after deducting the amount expected to be collected through the disposal of collateral and the execution of guarantees.

The allowance for claims on debtors other than Bankrupt borrowers is provided based on primarily the anticipated loss amount within the next one year or the anticipated loss amount within the next three years. The anticipated loss amount is calculated by seeking the loss rate on the basis of the average default rate over a certain period in the past based on the default rates for one or three years and making necessary adjustments such as future expectations.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments, which are independent from the operational departments, review these self-assessments.

#### (ii) Reserve for compensation losses

The “reserve for compensation losses” provides for losses based on the estimated amounts of future losses attributed to compensation security contracts.

#### (iii) Provision for bonuses

The “provision for bonuses” is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

#### (iv) Provision for directors’ bonuses

The “provision for directors’ bonuses” is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

#### (v) Provision for retirement benefits

The “provision for retirement benefits” (including prepaid pension cost) represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end. In addition, in calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition are calculated as follows:

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the time of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year at the time of occurrence.

#### (vi) Provision for directors’ retirement benefits

The “provision for directors’ retirement benefits”, which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

### (d) Consumption and other taxes

Consumption taxes and local consumption taxes (“consumption taxes”) are excluded from transaction amounts. Amounts of non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

## Issued but not yet adopted accounting standards and others

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

### (1) Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

### (2) Scheduled date of application

The accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

### (3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

### (1) Overview

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

### (2) Scheduled date of application

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

### (3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

### (1) Overview

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

### (2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

### (1) Overview

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

### (2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

## 2. Loans

There were no Bankrupt loans, Non-accrual loans, Loans with interest or principal repayments more than three months in arrears and Restructured loans as of March 31, 2020.

"Bankrupt loans" are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the Corporate Tax Law Enforcement Ordinance (Government Ordinance No.97, 1965), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.

"Non-accrual loans" are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

"Loans with interest or principal repayments more than three months in arrears" are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of "Bankrupt loans" and "Non-accrual loans".

“Restructured loans” are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers’ recovery from financial difficulties, and which do not fall under the category of “Bankrupt loans”, “Non-accrual loans”, and “Loans with interest or principal repayments more than three months in arrears”.

### 3. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC. No Operations to this operation account bonds have been issued.

### 4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥1 million.

### 5. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (35,882 contracts)	472,557
Reserve for compensation	25,652
Net amount	446,905

### 6. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*<sup>1</sup>. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*<sup>2</sup> listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

\*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

### 7. Issued shares

For the fiscal year ended March 31, 2020, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	969,466,000,000	68,000,000	—	969,534,000,000

(Note) Increase is due to the issuance of 68,000,000 shares.

### 8. Financial instruments and related disclosure

#### 1. Status of financial instruments

##### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification (“operation account”) for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

In this operation account including 1) loans, 2) credit insurance underwriting (a certain portion of compensation paid by JFC

to cover losses incurred by specified financial institutions on loans), and 3) interest subsidies (interest subsidies provided by JFC to a specified financial institutions for loans, etc., conducted by specified financial institutions that received a credit facility from JFC) are conducted for financial institutions specified by the competent minister for domestic and global financial disturbance that is recognized by the competent minister when a crisis such as a large-scale disaster occurs. To conduct these operations, the financing required for 1) loans is procured funds through the borrowing from Fiscal Investment and Loan Program ("FILP"), and the issuing of government guaranteed bonds. The loan period and borrowing period are equal, and the financing cost is covered by the interest on the loans. The financing required for 2) credit insurance underwriting, and 3) interest subsidies is procured funds through equity participation from the government, etc.

## (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this operation account mainly include loans and financial liabilities against designated financial institutions, and the financial liabilities include borrowings. The associated risks are described below.

### (a) Credit risk

The main financial assets in this operation account are loans of funds to designated financial institutions that are required to conduct crisis response operations. The associated credit risk consists of risk of losses arising from uncollectable claims due to deterioration in creditworthiness of the designated financial institution.

JFC is liable for compensation to cover losses incurred by designated financial institution on loans to third parties. This operation account could incur losses if the payment of compensation fluctuates from the projected compensation payments caused by significant changes in the creditworthiness or economic condition of the third party business.

### (b) Market risk

The operations of this operation account consist of loans to designated financial institutions, and fiscal investment and loans are used for financing. Interest rate risk is not present as a type of market risk because the terms and conditions of the loans and borrowings are equal, and the financing cost is covered by the interest on the loans.

### (c) Liquidity risk

Long-term and stable funds such as fiscal investment and loans, and funding provided by government are secured to finance this operation account and deposits are not accepted. Sufficient short-term liquidity is secured for compensation payment funds towards designated financial institutions, and liquidity risk is considered to be limited. However, borrowings are exposed to liquidity risk that payment cannot be made on the payment date due to unexpected events.

## (3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

### (a) Credit risk management

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In the asset self assessment, an inspection is conducted by the auditing department.

### (b) Market risk management

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans and borrowings.

These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans. Since the terms and conditions of lendings and borrowings are equal, cash inflows resulting from lendings and cash outflows resulting from borrowings are matched. Therefore, as a whole operations, interest rate risk does not exist as a market risk.

### (c) Liquidity risk management related to fund procurement

Long-term and stable funds, such as fiscal investment and loans, and funding provided by government are secured to finance this account and deposits are not accepted. In addition, the loan period and borrowing period are equal. Sufficient short-term liquidity is secured for compensation payment funds towards designated financial institutions, and liquidity risk is considered to be limited. In addition, continual efforts are being made to make financing plans more sophisticated and minimize liquidity risk.

## (4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

## 2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2020, and the related fair value, and difference is as follows.

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	742,410	742,586	176
(2) Loans and bills discounted	1,327,740	1,339,250	11,510
Total assets	2,070,150	2,081,836	11,686
Borrowings	1,327,740	1,346,725	18,985
Total liabilities	1,327,740	1,346,725	18,985

## (Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

## (1) Cash and due from banks

For due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount. For due from banks that have a maturity over 3 months, fair value is based on the current price calculated by discounting future cash flow by the risk free rate (the standard Japanese government bond rate) based on the appropriate deposit term.

## (2) Loans and bills discounted

All loans have a fixed interest rate and fair value is calculated by discounting the principal and interest by the interest rate estimated from the market yield of bonds issued by the borrower based on the type of borrower and period of loan.

LiabilitiesBorrowings

Borrowings are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

(Note 2) For credit insurance underwriting, the credit decision is conducted by a specified financial institution, and JFC does not participate in the credit decision for the individual subject to compensation at the time of loan, and therefore JFC does not retain the financial data of the individuals subject to compensation. Accordingly, it is recognized that fair value is extremely difficult to be determined.

The amount of compensation underwritten for compensation security contract is as follows.

Balance of compensation underwritten: ¥472,557 million

Compensation loss reserve: ¥25,652 million

## (Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*)	742,410	—	—	—	—	—
Loans and bills discounted	317,063	613,933	202,828	110,943	73,330	9,643
Total	1,059,473	613,933	202,828	110,943	73,330	9,643

(\*) Demand deposits contained within due from banks are stated as "Maturities within one year".

## (Note 4) Redemption schedule for borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	317,063	613,933	202,828	110,943	73,330	9,643

## 9. Fair value of securities

Transferable deposits in "Due from banks" on the balance sheet is included.

The fair value of securities at March 31, 2020 is as follows:

### Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount does not exceed their acquisition cost	Others	130,000	130,000	—

## 10. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 11. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

### Defined benefits plan

#### (1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	138 million yen
Service cost	7
Interest cost	0
Actuarial difference	8
Payment of retirement benefits	—
Prior service cost	—
Other	0
Closing balance of projected benefit obligations	<u>154</u>

#### (2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	31 million yen
Expected return on plan assets	0
Actuarial difference	(3)
Financing from employer	4
Payment of retirement benefits	—
Other	0
Closing balance of fair value of plan assets	<u>32</u>

#### (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	45 million yen
Fair value of plan assets	<u>(32)</u>
	13
Projected benefit obligations of unfunded plan	<u>108</u>
Unfunded pension obligations	121
Actuarial unrecognized difference	(55)
Unrecognized prior service cost	5
Net amount of liabilities and assets recorded on the balance sheet	<u>71</u>
Provision for retirement benefits	90
Prepaid pension cost	<u>(19)</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>71</u>

#### (4) Net pensions cost and breakdown of included items

Service cost	7 million yen
Interest cost	0
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	8
Amortization of prior service cost accounted for as expense	(1)
Other	—
Net pensions cost related to defined benefits plan	<u>14</u>

## (5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.

Shares	22%
Debentures	65%
General account	13%
Cash and deposits	1%
Total	100%

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

## (6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.5% to 6.0%

## Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥0 million.

## 12. Related party transactions

Related party transactions in the fiscal year ended March 31, 2020 are as follows:

### Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2020
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	85.27 (Direct)	Administration for policy based financing	Underwriting of capital increase <sup>(Note iii)</sup>	68	—	—
				Receipts from general account of the national budget	54	—	—
				Receipt of funds <sup>(Note iv)</sup>	35,000	Borrowings	1,327,740
				Repayment of borrowings	522,572	Accrued expenses	170
				Payment of interest on borrowings	8,105		
				Deposit of funds <sup>(Note iv)</sup>	900,000	Due from banks	390,000
				Refund of funds	900,000		

(Notes)

(i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:

- Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries)	0.13%
- Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry)	14.60%

(ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:

- Ministry of Agriculture, Forestry and Fisheries	
Receipts from the national budget	¥36 million
- Small and Medium Enterprise Agency	
Receipts from the national budget	¥54 million

(iii) The underwriting of capital increase represents the increase in capital by JFC at an allocation amount of ¥1 per share.

(iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.

(v) Deposit of funds is the deposit for the FILP and the interest rates applicable under the FILP are applied.

(vi) Figures in the table above do not include consumption taxes.

## 13. Per share information

Net assets per share	¥0.73
Net loss per share	¥0.00

## 14. Subsequent events

### Issuance of New Shares

JFC plans to issue new shares with the Ministry of Finance (Minister of Finance) as the underwriter on June 9, 2020 as set forth below pursuant to a resolution of the Board of Directors adopted on May 19, 2020.

#### Overview of the new shares issue

Type and number of shares to be issued	10,576,000,000 common shares
Issue price	1 yen per share
Total issue price	10,576,000,000 yen
Paid-in capital	1 yen per share
Paid-in capital reserves	0 yen per share
Total paid-in capital	10,576,000,000 yen
Total paid-in capital reserves	0 yen
Payment date	June 9, 2020
Use of capital	Source of funds for compensation security and implantation of operations relating to crisis certification pertaining to matters involving COVID-19

Balance Sheet (as of March 31, 2020)

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
Cash and due from banks	225	Borrowed money	132,977
Due from banks	225	Borrowings	132,977
Loans and bills discounted	132,977	Other liabilities	76
Loans on deeds	132,977	Accrued expenses	64
Other assets	73	Lease obligations	1
Accrued income	63	Other	11
Other	9	Provision for bonuses	3
Property, plant and equipment	1	Provision for directors' bonuses	0
Lease assets	1	Provision for retirement benefits	49
Intangible assets	9	Provision for directors' retirement benefits	0
Software	3	<b>Total liabilities</b>	<b>133,107</b>
Lease assets	0	<b>Net assets</b>	
Other	6	Capital stock	267
Prepaid pension cost	9	Retained earnings	(77)
		Other retained earnings	(77)
		Retained earnings brought forward	(77)
		<b>Total shareholders' equity</b>	<b>189</b>
		<b>Total net assets</b>	<b>189</b>
<b>Total assets</b>	<b>133,296</b>	<b>Total liabilities and net assets</b>	<b>133,296</b>

**Statement of Operations** (Year ended March 31, 2020)

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>273</b>
Interest income	198
Interest on loans and discounts	198
Interest on deposits with banks	0
Receipts from the national budget	75
Receipts from general account of the national budget	75
Other income	0
Other	0
<b>Ordinary expenses</b>	<b>286</b>
Interest expenses	198
Interest on borrowings and rediscounts	198
General and administrative expenses	87
Other expenses	0
Other	0
<b>Ordinary loss</b>	<b>12</b>
<b>Net loss</b>	<b>12</b>

**Statement of Changes in Net Assets (Year ended March 31, 2020)**

(Millions of yen)

	Shareholders' equity				Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	
		Other retained earnings	Total retained earnings		
		Retained earnings brought forward			
Balance at the beginning of current period	267	(65)	(65)	201	201
Changes of items during the period					
Net income (loss)		(12)	(12)	(12)	(12)
Total changes of items during the period	—	(12)	(12)	(12)	(12)
Balance at the end of current period	267	(77)	(77)	189	189

Data

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Depreciation basis for fixed assets

#### (i) Intangible assets (except for lease assets)

Amortization of intangible fixed assets is computed by the straight-line method. Software used by JFC is amortized over its useful life (5 years).

#### (ii) Lease assets

Lease assets in "property, plant and equipment" or "intangible assets," under finance leases that do not involve transfer of ownership to the lessee are amortized under the straight-line method over the lease term. Depreciation for lease assets is calculated with zero residual value being assigned to the asset.

### (b) Accounting policy for reserves

#### (i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards.

The allowance for claims on debtors who are legally bankrupt ("Bankrupt borrowers") or substantially bankrupt ("Substantially bankrupt borrowers") is provided based on the outstanding balance after the write-offs described in the followings and the deductions of the amount expected to be collected through the disposal of collateral and execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt but are likely to become bankrupt ("Potentially bankrupt borrowers") is provided based on an assessment of the overall solvency of the debtors after deducting the amount expected to be collected through the disposal of collateral and the execution of guarantees.

The allowance for claims on debtors other than Bankrupt borrowers is provided based on primarily the anticipated loss amount within the next one year or the anticipated loss amount within the next three years. The anticipated loss amount is calculated by seeking the loss rate on the basis of the average default rate over a certain period in the past based on the default rates for one or three years and making necessary adjustments such as future expectations.

All claims are assessed initially by the operational departments and subsequently by risk evaluation departments based on internal rules for self-assessment of asset quality. The risk evaluation departments, which are independent from the operational departments, review these self-assessments.

#### (ii) Provision for bonuses

The "provision for bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees to the date of the balance sheet.

#### (iii) Provision for directors' bonuses

The "provision for directors' bonuses" is calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by directors to the date of the balance sheet.

#### (iv) Provision for retirement benefits

The "provision for retirement benefits" (including prepaid pension cost) represents the future payment for pension and retirement benefits to employees, and is accrued based on the projected benefit obligations and the estimated pension plan assets at the fiscal period end. In addition, in calculating projected benefit obligations, JFC follows straight-line basis with regard to methods for attributing projected benefit payments to the period through the end of the fiscal year in review. Moreover, unrecognized prior service costs and unrecognized actuarial differences in profit and loss disposition are calculated as follows:

Unrecognized prior service costs are recognized as income or expense by the straight-line method over a certain number of years; 10 years within the average remaining work period of employees at the time of occurrence.

Unrecognized actuarial differences are recognized as income or expense from the following fiscal year by the straight-line method over a period up to a maximum of 10 years within the average remaining service period of employees of the respective fiscal year at the time of occurrence.

#### (v) Provision for directors' retirement benefits

The "provision for directors' retirement benefits," which provides for future retirement pension payments to directors, corporate auditors and executive officers, is recognized at the amount accrued at the end of the fiscal year.

### (c) Consumption and other taxes

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts. Amounts of non-deductible consumption taxes related to property, plant and equipment are expensed as incurred.

### Issued but not yet adopted accounting standards and others

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

#### (1) Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly developed

a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

(2) Scheduled date of application

The accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.

2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.

- Financial instruments specified in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.

(2) Scheduled date of application

The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these accounting standards

The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

3. Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

This standard is intended to provide an overview of principles and procedures for adopted accounting procedures when the provisions of related accounting procedures and so on are unclear.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

4. Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

This standard is intended to disclose information to help users of financial statements to understand accounting estimates for items with risks that could have a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

(2) Scheduled date of application

The standard will be applied from the end of the fiscal year ending March 2021.

## 2. Loans

There were no Bankrupt loans, Non-accrual loans, Loans with interest or principal repayments more than three months in arrears and Restructured loans as of March 31, 2020.

"Bankrupt loans" are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the Corporate Tax Law Enforcement Ordinance (Government Ordinance No.97, 1965), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.

"Non-accrual loans" are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

"Loans with interest or principal repayments more than three months in arrears" are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of "Bankrupt loans" and "Non-accrual loans".

"Restructured loans" are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers' recovery from financial difficulties, and which do not fall under the category of "Bankrupt loans," "Non-accrual loans," and "Loans with interest or principal repayments more than three months in arrears".

### 3. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC. No Operations to this operation account bonds have been issued.

### 4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥0 million.

### 5. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

\*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

### 6. Issued shares

For the fiscal year ended March 31, 2020, types and number of issued shares are as follows:

(Unit: shares)				
Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	267,000,000	—	—	267,000,000

### 7. Financial instruments and related disclosure

#### 1. Status of financial instruments

##### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

In this operation account, this account provides loans to designated financial institutions appointed by the competent minister in order to assist in the smooth financing of required funds for both the execution of business by companies that develop or manufacture energy and environmentally friendly products and the execution of business restructuring in order to strengthen their industrial competitiveness. The funds for these lending operations are financed using fiscal investment and loans. The loan period and borrowing period are equal, and the financing cost is covered by the interest on loans.

##### (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this operation account mainly include loans and financial liabilities against designated financial institutions, and the financial liabilities include borrowings. The associated risks are described below.

## (a) Credit risk

The main financial assets in this operation account are loans to designated financial institutions that are required to conduct specific business promotion operations, business restructuring promotion, etc. operations, and business restructuring promotion operations. The associated credit risk consists of risk of losses arising from uncollectable claims due to deterioration in creditworthiness of the designated financial institution.

## (b) Market risk

The operations of this operation account consist of loans to designated financial institutions, and fiscal investment and loans are used for financing. Interest rate risk is not present as a market risk because the terms and conditions of the loans and borrowings are equal, and the financing cost is covered by the interest on the loans.

## (c) Liquidity risk

Long-term and stable fiscal investment and loans are secured to finance this operation account and deposits are not accepted. As a result, liquidity risk is considered to be limited. However, borrowings are exposed to liquidity risk that payment cannot be made on the payment date due to unexpected events.

## (3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

## (a) Credit risk management

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In the asset self assessment, an inspection is conducted by the auditing department.

## (b) Market risk management

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans and borrowings.

These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans. Since the terms and conditions of lendings and borrowings are equal, cash inflows resulting from lendings and cash outflows resulting from borrowings are matched. Therefore, as a whole operations, interest rate risk does not exist as a market risk.

## (c) Liquidity risk management related to fund procurement

Long-term stable funds, such as fiscal investment and loans are secured to finance this account and deposits are not accepted. Liquidity risk is believed to be limited because the loan period and borrowing period are equal.

## (4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

## 2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2020, and the related fair value, and difference is as follows.

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	225	225	—
(2) Loans and bills discounted	132,977	133,085	108
Total assets	133,202	133,310	108
Borrowings	132,977	134,197	1,220
Total liabilities	132,977	134,197	1,220

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature, the carrying amount is used as fair value because fair value resembles the carrying amount.

(2) Loans and bills discounted

All loans have a fixed interest rate and fair value is calculated by discounting the principal and interest by the interest rate estimated from the market yield of bonds issued by the borrower based on the type of borrower and period of loan.

Liabilities

Borrowings

Borrowings are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

(Note 2) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*)	225	—	—	—	—	—
Loans and bills discounted	11,330	36,237	28,766	28,084	28,199	361
Total	11,555	36,237	28,766	28,084	28,199	361

(\*) Demand deposits contained within due from banks are stated as "Maturities within one year".

(Note 3) Redemption schedule for borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	11,330	36,237	28,766	28,084	28,199	361

## 8. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 9. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

### Defined benefits plan

(1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	78 million yen
Service cost	4
Interest cost	0
Actuarial difference	0
Payment of retirement benefits	—
Prior service cost	—
Other	(0)
Closing balance of projected benefit obligations	83

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets	
Opening balance of fair value of plan assets	15 million yen
Expected return on plan assets	0
Actuarial difference	(1)
Financing from employer	2
Payment of retirement benefits	—
Other	(0)
Closing balance of fair value of plan assets	<u>16</u>
(3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet	
Projected benefit obligations of funded plan	22 million yen
Fair value of plan assets	<u>(16)</u>
	6
Projected benefit obligations of unfunded plan	<u>60</u>
Unfunded pension obligations	66
Actuarial unrecognized difference	(29)
Unrecognized prior service cost	2
Net amount of liabilities and assets recorded on the balance sheet	<u>39</u>
Provision for retirement benefits	49
Prepaid pension cost	(9)
Net amount of liabilities and assets recorded on the balance sheet	<u>39</u>
(4) Net pensions cost and breakdown of included items	
Service cost	4 million yen
Interest cost	0
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	5
Amortization of prior service cost accounted for as expense	(0)
Other	—
Net pensions cost related to defined benefits plan	<u>8</u>
(5) Items concerning fair value of plan assets	
1) The percentage of each category of total fair value of plan assets is as follows.	
Shares	22%
Debentures	65%
General account	13%
Cash and deposits	1%
Total	<u>100%</u>
2) Method for setting the long-term expected rate of return on plan assets	
To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.	
(6) Items related to actuarial calculation bases	
Major actuarial calculation bases at the end of the fiscal year in review	
1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	3.0% to 5.9%

#### Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥0 million.

## 10. Related party transactions

Related party transactions in the fiscal year ended March 31, 2020 are as follows:

### Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2020
Principal shareholder	Ministry of Finance (Minister of Finance) <sup>(Note i)</sup>	100 (Direct)	Administration for policy based financing	Receipt of funds <sup>(Note ii)</sup>	100,000	Borrowings	132,977
				Repayment of borrowings	11,726		
				Payment of interest on borrowings	198	Accrued expenses	63

(Notes)

(i) Transactions with the ministries and agencies other than Ministry of Finance are as follows:

-Ministry of Economy, Trade and Industry  
Receipts from the national budget ¥75 million

(ii) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.

(iii) Figures in the table above do not include consumption taxes.

## 11. Per share information

Net assets per share ¥0.70

Net loss per share ¥0.04

## 12. Subsequent events

Not applicable.

# Reference Information

## Risk-monitored Loans

JFC reports risk-monitored loan amounts calculated based on the "Ministerial Ordinance Concerning Accounting of Japan Finance Corporation" (Ordinance of the Ministry of Finance, the Ministry of Health, Labour and Welfare, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Economy, Trade and Industry; Ordinance No. 3 of 2008).

### ▼ Risk-monitored Loans

(Millions of yen)

	Micro Business and Individual Unit (Account for Micro Business and Individual Operations)	Agriculture, Forestry, Fisheries and Food Business Unit (Account for Agriculture, Forestry, Fisheries and Food Business Operations)	Small and Medium Enterprise (SME) Unit (Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation))	Total
Bankrupt loans	4,944	1,273	2,943	9,161
Non-accrual loans	104,517	53,539	451,356	609,413
Loans with interest or principal repayments more than three months in arrears	30	720	0	751
Restructured loans	414,525	19,183	71,802	505,511
Total	524,017	74,717	526,102	1,124,837
Total of risk-monitored loans/outstanding loans (%)	7.45	2.41	10.35	7.39

(Definitions)

- "Bankrupt loans" are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the corporate Tax Law Enforcement Ordinance (Government Ordinance No. 97), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.
- "Non-accrual loans" are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.
- "Loans with interest or principal repayments more than three months in arrears" are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of "Bankrupt loans" and "Non-accrual loans."
- "Restructured loans" are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers' recovery from financial difficulties, and which do not fall under the category of "Bankrupt loans," "Non-accrual loans," and "Loans with interest or principal repayments more than three months in arrears."

### ▼ Claims Disclosed under the Financial Reconstruction Law

(Millions of yen)

	Micro Business and Individual Unit (Account for Micro Business and Individual Operations)	Agriculture, Forestry, Fisheries and Food Business Unit (Account for Agriculture, Forestry, Fisheries and Food Business Operations)	Small and Medium Enterprise (SME) Unit (Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation))	Total
Bankrupt or de facto bankrupt	27,103	3,832	9,920	40,855
Doubtful	82,763	51,116	444,484	578,364
Special attention	414,556	19,904	71,802	506,262
Subtotal (1)	524,423	74,852	526,206	1,125,482
Normal	6,515,985	3,038,619	4,580,230	14,134,834
Total (2)	7,040,408	3,113,471	5,106,516	15,260,397
(1/2) (%)	7.45	2.40	10.30	7.38

Notes:1. Although JFC is not subject to the provisions of the law concerning Emergency Measures for the Revitalization of the Financial Functions (Law No.132 of 1998; hereinafter the "Financial Reconstruction Law"), all calculations above are based on the same criteria used for private financial institutions.

2. SME Unit and three Units' figures for "Total (2)" include loans for which reimbursement agreements have been concluded by means of the indemnity rights of borrowers requiring special attention, and as such vary from the total of "Subtotal (1)" and "Normal."

(Definitions)

- Bankrupt or de facto bankrupt:  
Loans or loan equivalents to borrowers who have gone bankrupt for reasons such as a declaration of bankruptcy, reorganization, or revitalization proceedings.
- Doubtful:  
Loans to borrowers who have not yet reached a state of legal bankruptcy but whose financial position and business performance have deteriorated; therefore, the prospect of complete repayment of principal and interest is remote in accordance with the contract obligations.
- Special attention:  
Loans that are "past due loans (3 months or more)" or "restructured loans" and are not in the categories of "bankrupt or de facto bankrupt" or "doubtful."
- Normal:  
Loans to borrowers whose financial position or business performance are not a point of concern; therefore, those are excluded from the above three categories of "bankrupt or de facto bankrupt," "doubtful," and "special attention."

January 2021

Publisher: Public Relations Department, Japan Finance Corporation  
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1-9-4, Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan  
URL: <https://www.jfc.go.jp/n/english/index.html>

