

## ■ Overview of Operations ■

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# Micro Business and Individual Unit

The Micro Business and Individual Unit (Micro Unit) acts as a community-based financial institution. It provides business loans to micro/small businesses and business 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.

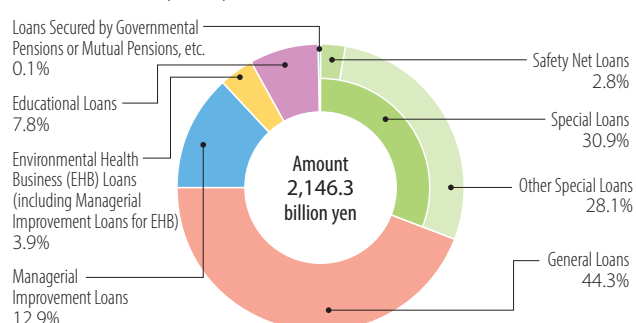
### Collaboration with Chambers of Commerce and Industry, Societies of Commerce and Industry, Environmental Health Trade Associations, and Regional Financial Institutions, etc.

- 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.

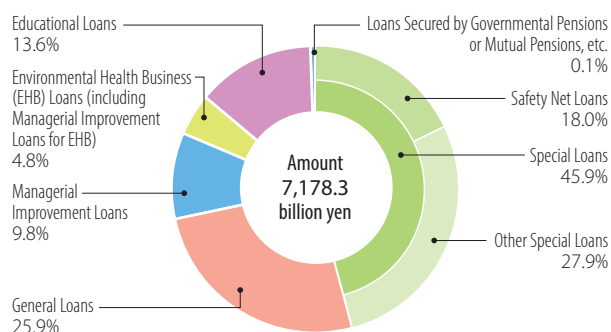
### Support through Educational Loans, etc.

- 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.

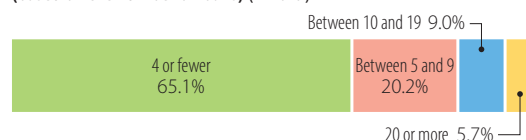
Number of business borrowers and average loan balance per business (as of March 31, 2020)

	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

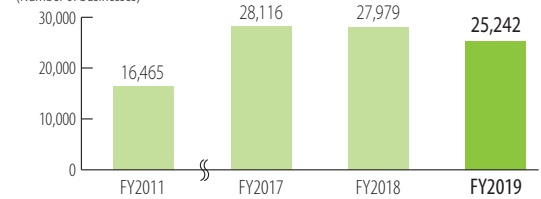
## Supporting Business Start-ups Proactively

### ● 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)  
(Number of businesses)



### [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)

Women FY2019 5,513 businesses	Youth (aged under 35) FY2019 6,954 businesses	Seniors (aged 55 and older) FY2019 2,603 businesses
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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

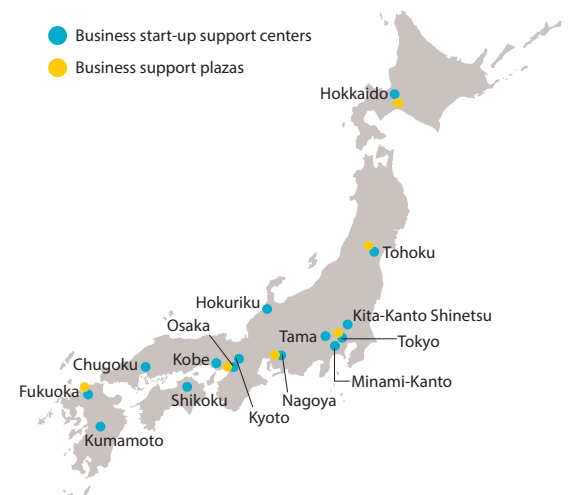
Business start-up support desks are set up in 152 branches nationwide where specialist staff provide a range of information for business start-ups, such as advice on the creation of business start-up plans.

## 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.

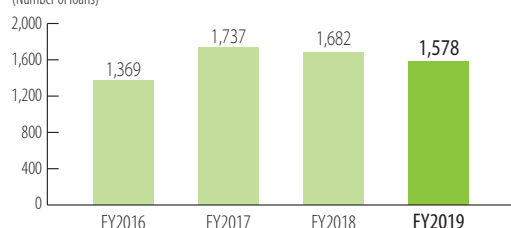
The “S” in social business is used to indicate various actors including businesses, NPOs, residents, government, public institutions, etc. coming together to solve the problems faced in the region.

## 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

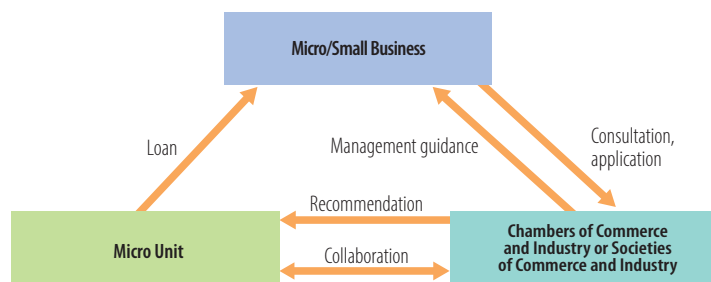
### ● Collaboration with Chambers of Commerce and Industry, and with Societies of Commerce and Industry

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.

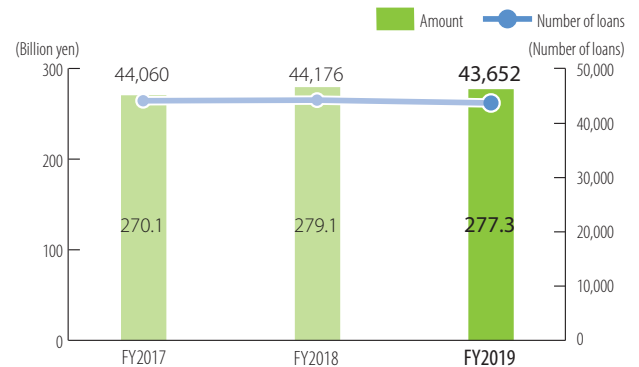
Managerial Improvement Loans (MARUKEI Loans) are a program whereby micro/small businesses receiving management guidance, such as from Chambers of Commerce and Industry or Societies of Commerce and Industry, can utilize funds needed for managerial improvement without collateral and guarantors. Since the 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)



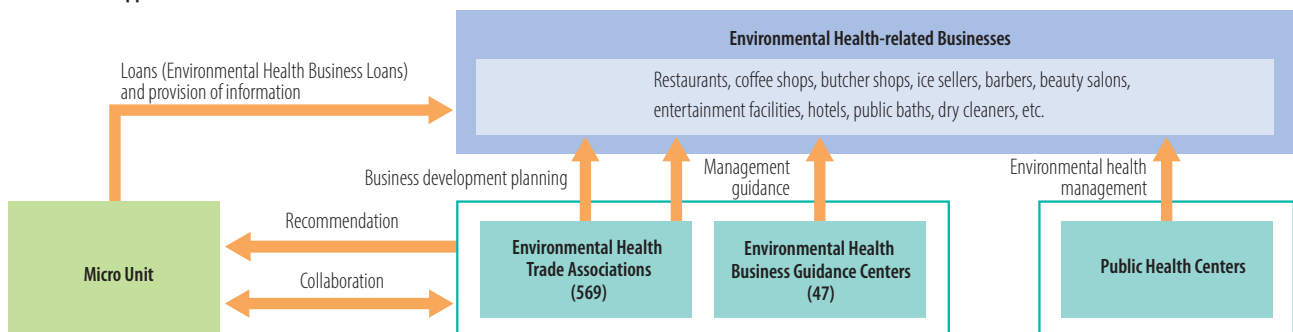
### ● Holding of "One-Day JFC" consultation sessions at Chambers of Commerce and Industry or at Societies of Commerce and Industry

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.



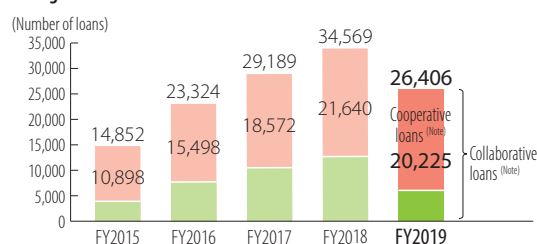
## ● Collaboration with regional financial institutions

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

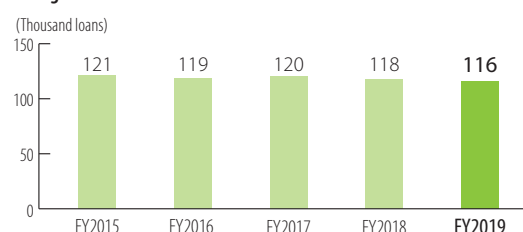


Notes: 1. Cooperative loans are loans (guarantees) that are executed or decided by both parties after consultation by JFC and regional financial institutions for loan plans with identical objectives (calculated by JFC, including loans made on different dates).  
2. Collaborative loans are the total of 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.

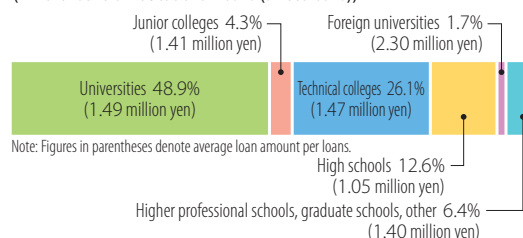
Changes in Educational Loans



## ● Loans to families with large educational expenses

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

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.

#### ii. Myanmar

We have been conducting technical cooperation project for Myanmar 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.



Lectures given at local seminars in Laos (Vientiane)



Seminar in Myanmar (Yangon)

# Agriculture, Forestry, Fisheries and Food Business Unit

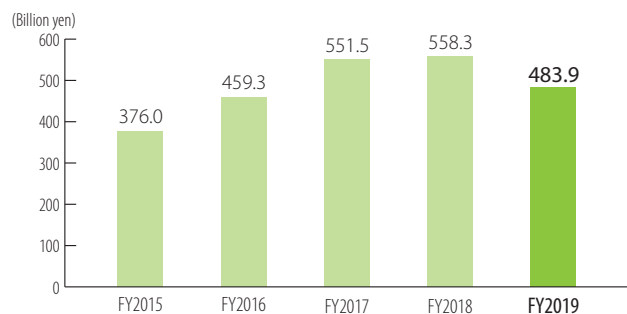
Through providing loans, etc. to businesses in agriculture, forestry and fishery industries as well as the food industry in Japan, the Agriculture, Forestry, Fisheries and Food Business Unit (AFFF Unit) contributes towards strengthening of these industries while ensuring the stable supply of safe and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

## Overview of Operations

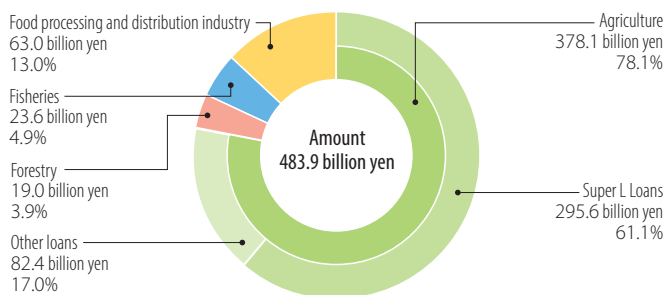
### Status of Loan and Feature of Operations

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.



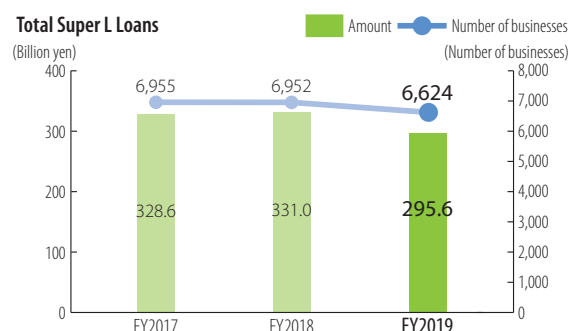
## Feature of Operations

### Agriculture

By providing loans in line with the policies of the Basic Law on Food, Agriculture and Rural Areas, and those of the Basic Plan for Food, Agriculture and Rural Areas, 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.

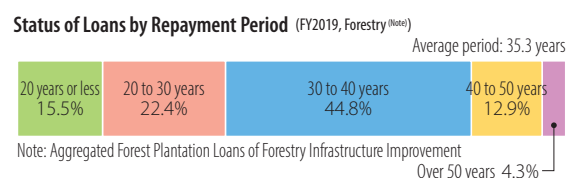


### Forestry

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.

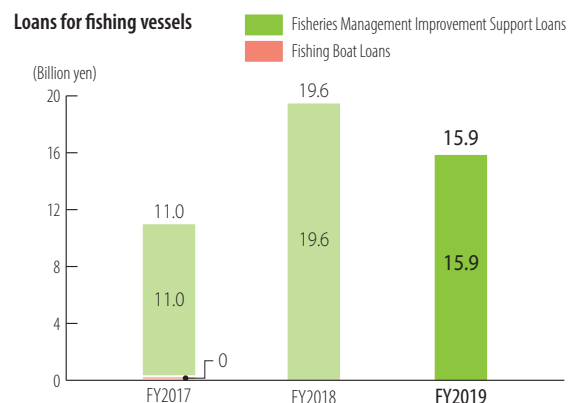
#### ● Supporting principal fishery operators

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.



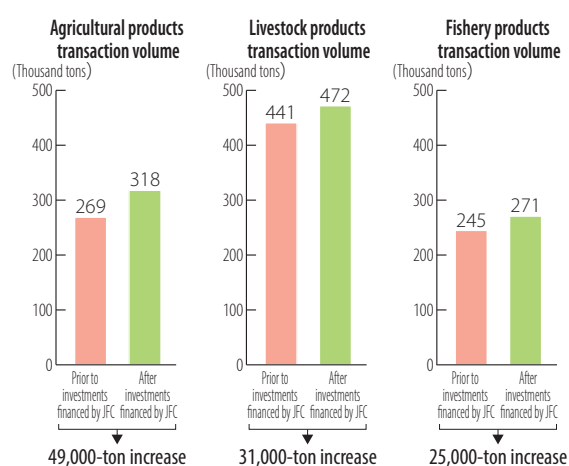
### Food Processing and Distribution Industry

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.



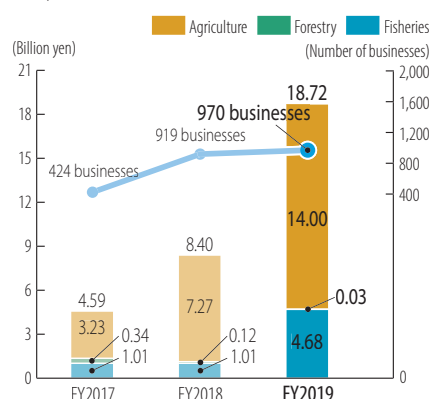
Note: The transaction volumes are rounded off by the unit.

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

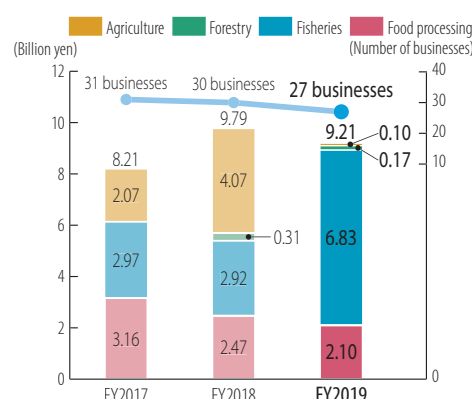
The AFFF Unit offers dynamic support in the form of long-term working capital loans to provide agricultural, forestry, and fisheries operators as a safety net function against short-term crises such as natural disasters including earthquake, typhoon, tsunami, etc., contagious livestock diseases, and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

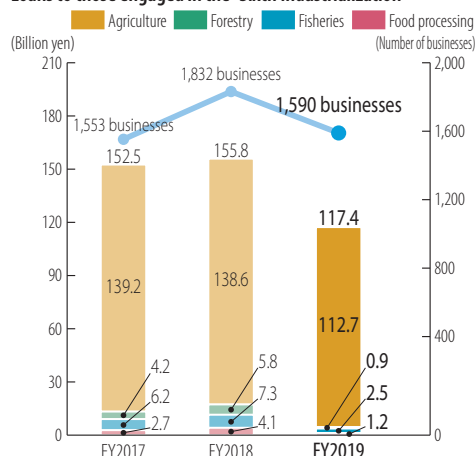


## "Sixth Industrialization" Development and Export Measures

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.

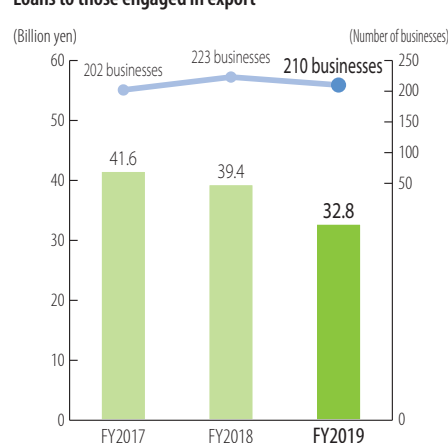
In addition to the agricultural, forestry, and fisheries products and processed foods export promotion loan program created in 2019, the AFFF Unit also provides support through various financing programs and the provision of information in cases where agricultural, forestry, and fisheries business operators 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.

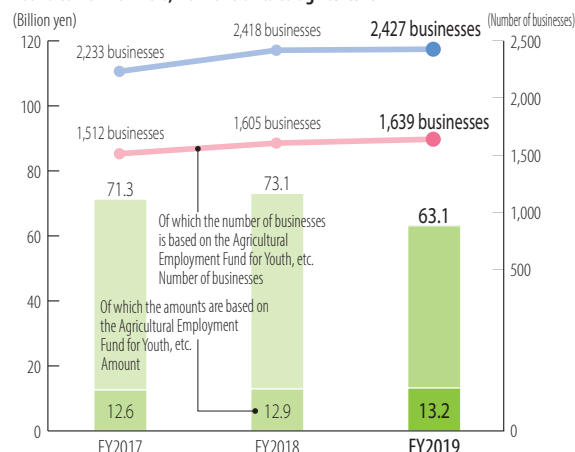
### Loans to new farmers, new entrants to agriculture

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. 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

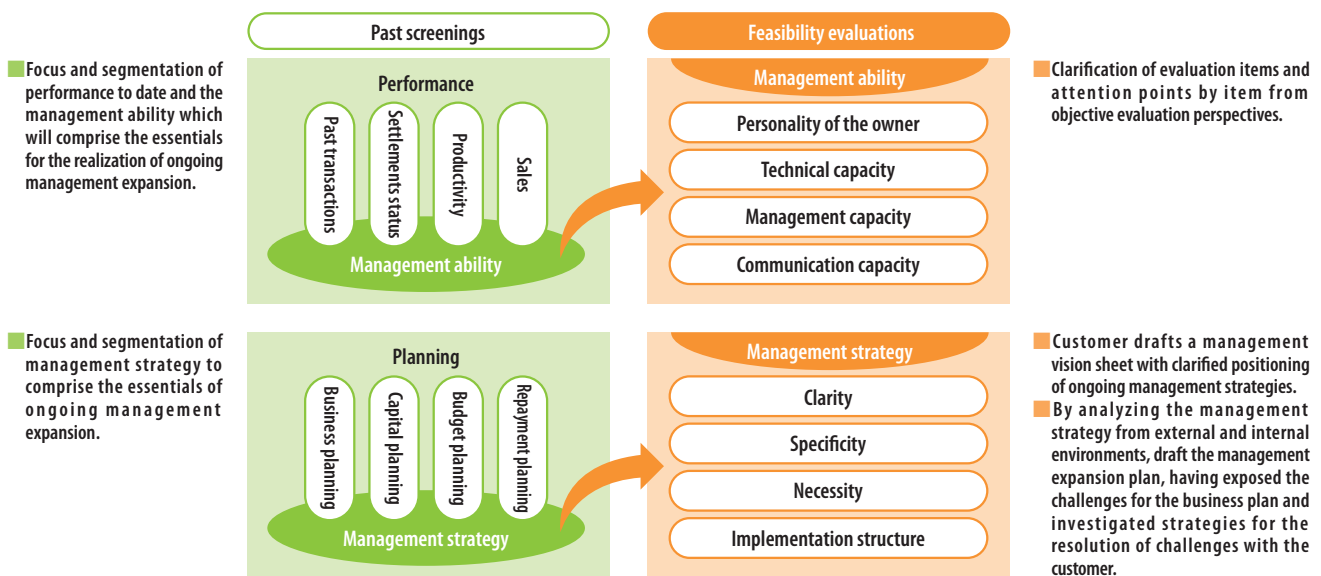
The AFFF Unit organizes managerial strengths and deficiencies with customers, investigates means of leveraging managerial strengths that the customer may have difficulty recognising and measures to overcome weaknesses, and performs project assessment to promise solutions to problems in order to provide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

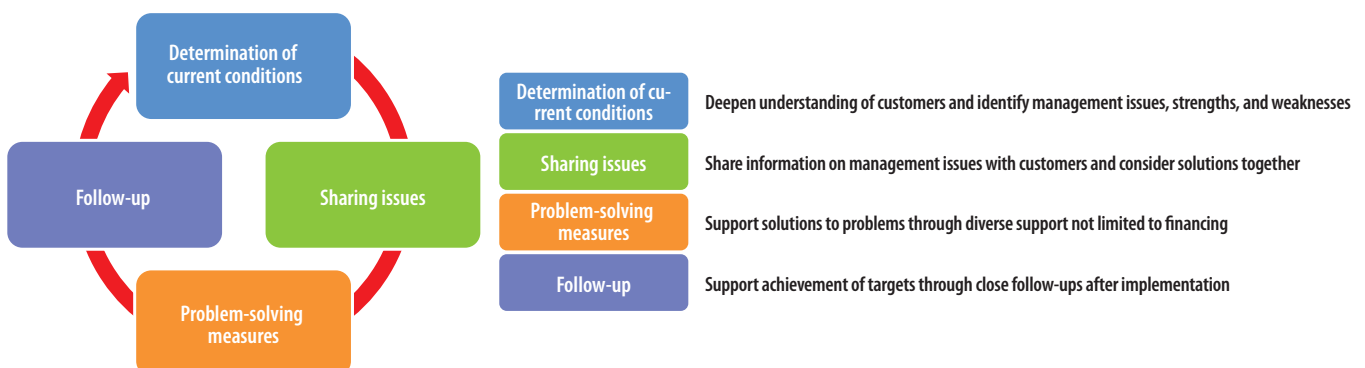
The AFFF Unit segments and actively evaluates management capacities (including past management performance and the basis for realizing management development) and management strategies (the basis for future management development) in order to accurately discern management strengths and growth potentials.

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
Total	4,443	77	119	70

### 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.

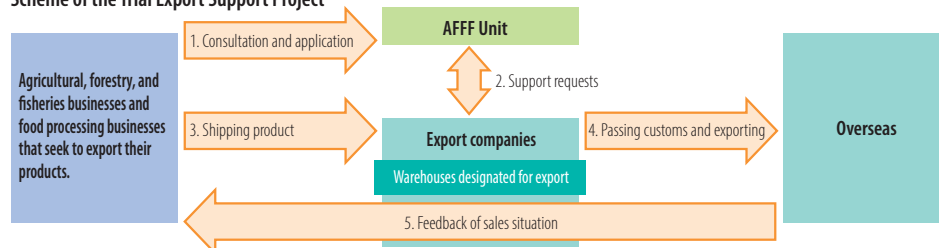
For example, J-PAO gets assistance from its members from a wide variety of types of businesses and uses its agriculture-support know-how to provide sales and commercialization support to customers. JETRO hosts an export business conference in conjunction with the Agri-Food EXPO, where it provides assistance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

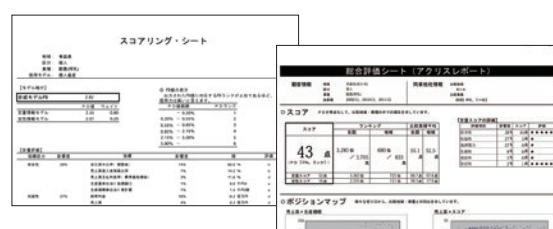
### Agricultural Credit Risk Information Service (ACRIS)

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)

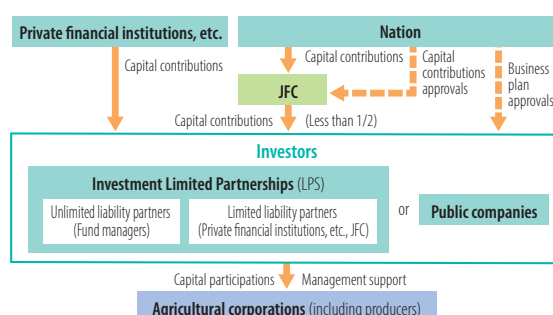
	Banks	Shinkin banks	Credit cooperatives	Total
Hokkaido	1	12	2	15
Tohoku	7	5	1	13
Kanto	3	8	2	13
Chubu	7	23	4	34
Kinki	5	10	—	15
Chugoku	2	11	1	14
Shikoku	5	2	—	7
Kyushu	10	12	1	23
<b>Total</b>	<b>40</b>	<b>83</b>	<b>11</b>	<b>134</b>
(Of these, institutions that developed new programs)	(32)	(55)	(6)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

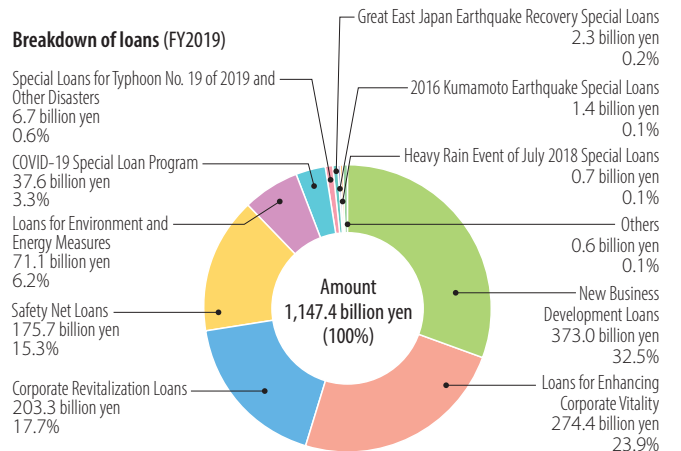
Policy-based financing in Japan provides financial support under the nation's key policies towards certain fields, such as new business development, business revitalization, business succession, and overseas expansion, that involve high risks.

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.



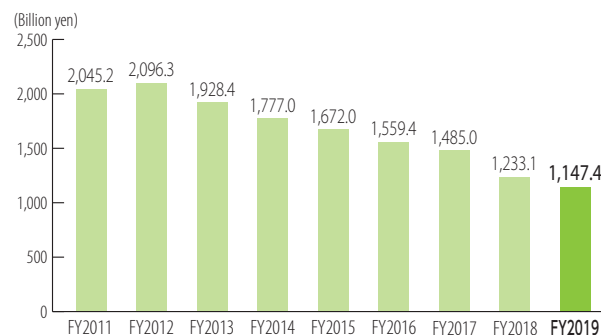
### Loan Programs

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."



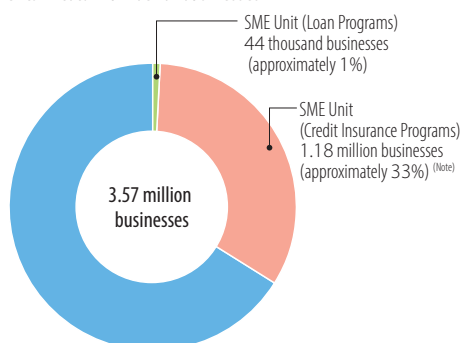
### SME Unit's Clients

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.

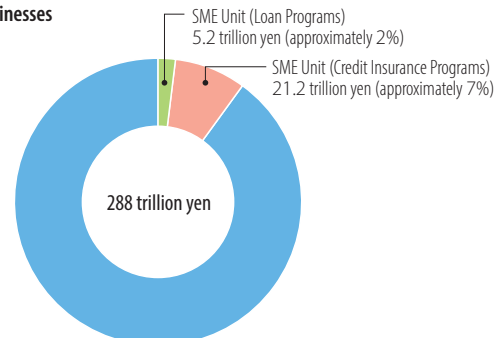
The SME Unit provides a wide range of support to meet the individual needs of each SME and micro/small business through its financial tools, Loan Programs, Credit Insurance Programs and Securitization Support Programs.

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 (Note)
- 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

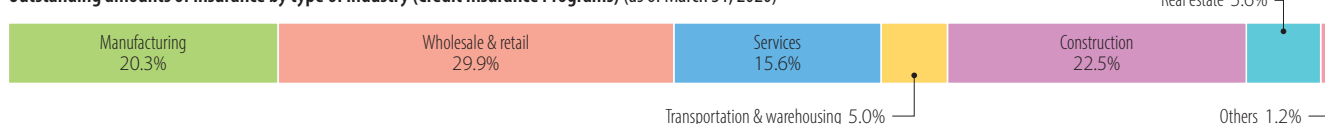
Note: Results are current as of March 31, 2020.

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

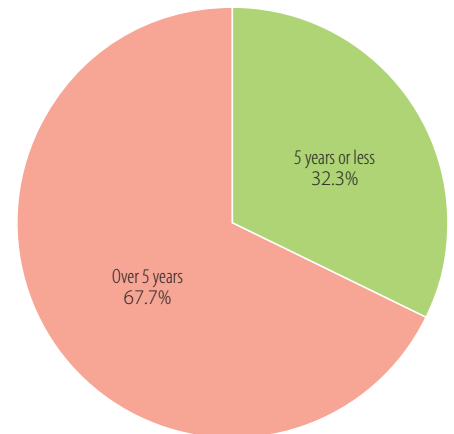
If SMEs are to grow and prosper, they must continually invest capital appropriately and consolidate their financial strength. To do this, they need to be able to raise long-term funds in a stable manner.

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)



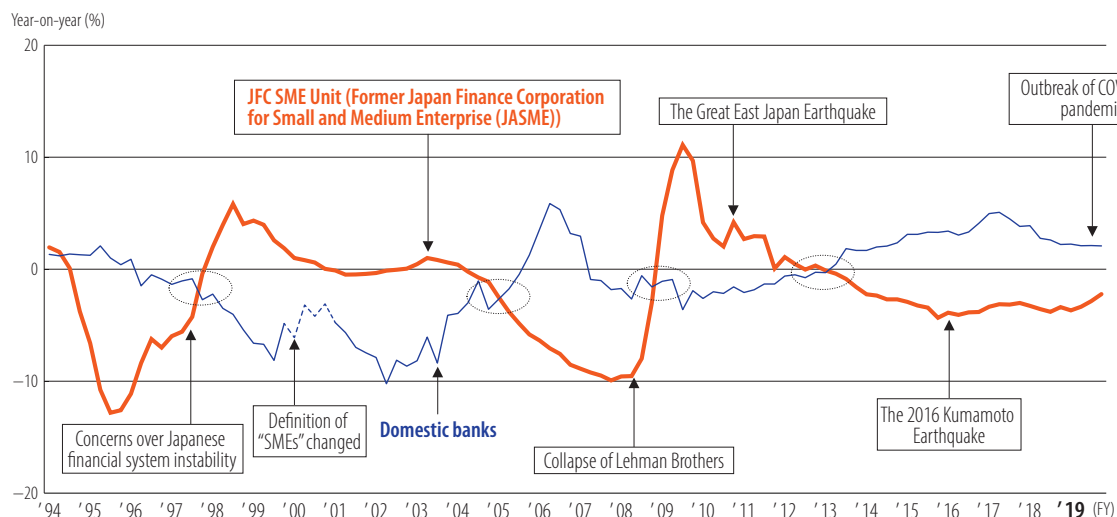
Note: Data are for fixed interest rate loans only.

#### ● 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"

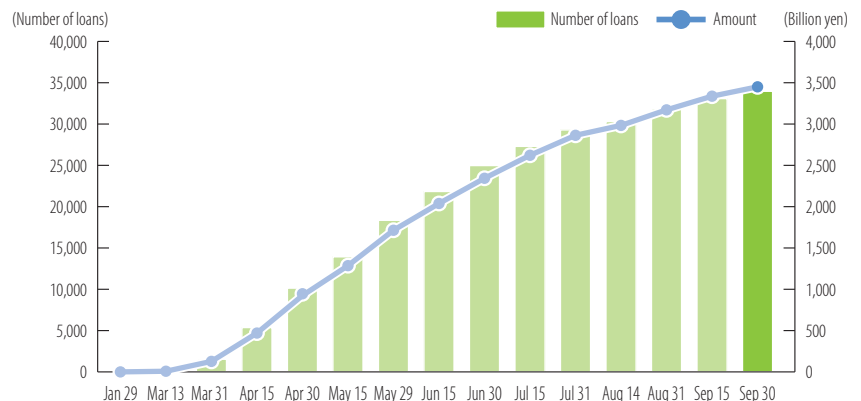
### Promoting special-purpose loans based on government policies to meet the needs of the times

#### ● 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	1,319
Amount of loans (billion yen)	62.0	62.8	63.4

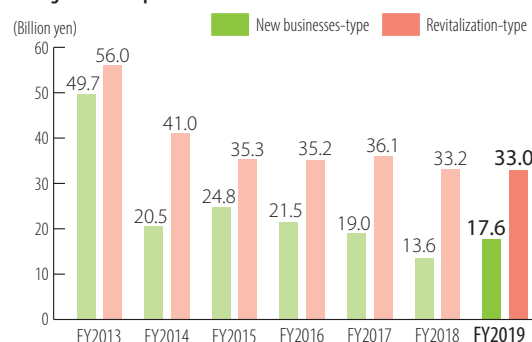
Stock Subscription Rights Loans

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

## ● 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.

Changes in loan operations



## ● 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.

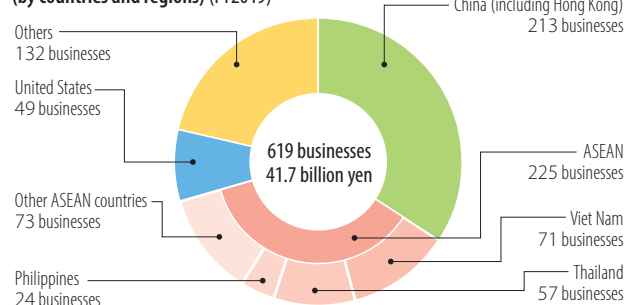
The SME Unit commenced its operation of the Standby Letter of Credit Program from FY2012 and supports efficient capital procurement overseas.

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.

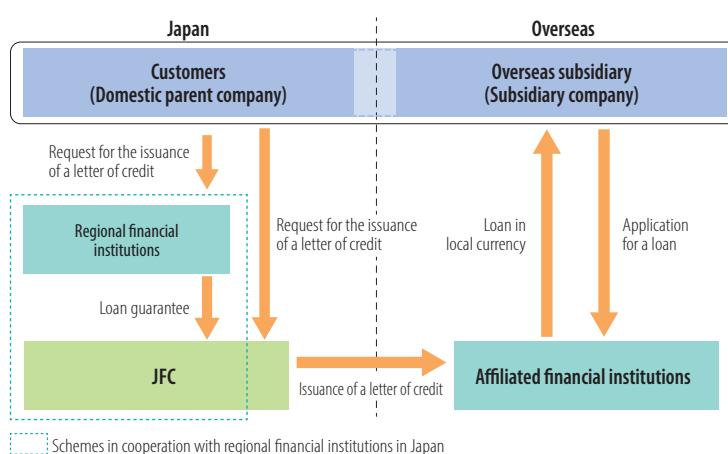
In order to allow more SMEs to make use of this program, JFC established a scheme to partner regional financial institutions throughout Japan in FY2013, and through the end of March 2020, JFC established collaborative relationships with 61 regional financial institutions.

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.

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



Standby Letter of Credit Program Schematic Chart

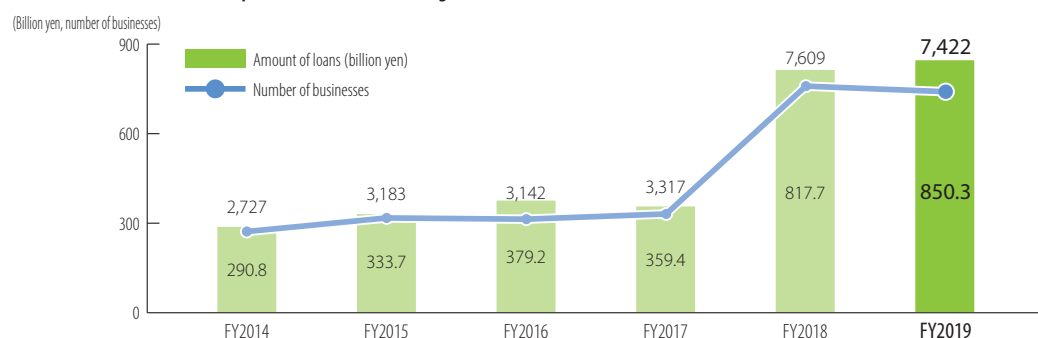


## ● Cooperative loans and securitization support in collaboration with private financial institutions

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)



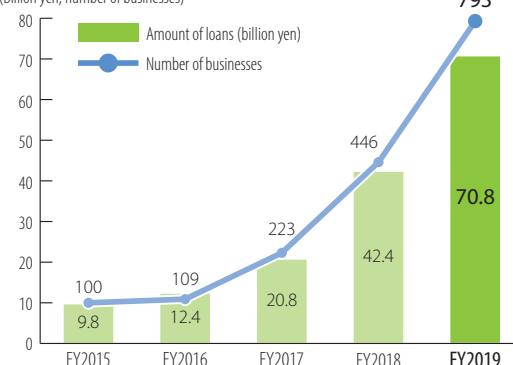
Note: Loans (guarantees) that are disbursed or decided by both JFC and private financial institutions after consultation by both parties for loan plans with identical objectives (Calculated by JFC. Including loans made on different dates between both parties).

## ● 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 (Billion yen, number of businesses)



## Supporting the growth of businesses

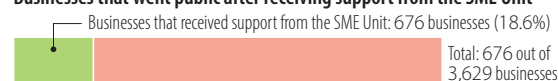
### ● Businesses that have utilized JFC funds are flourishing in many fields

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.

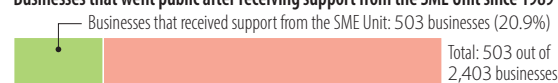
The number of businesses going public after receiving support from the SME Unit since 1989 is 503<sup>(Note)</sup>, accounting for roughly 20% of the total number of businesses that went.

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).

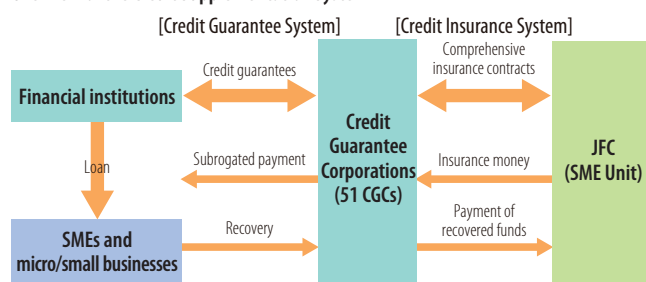
## Credit Insurance Programs

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

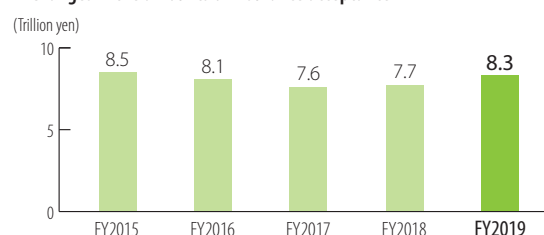
#### ● Role of the Credit Insurance System

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



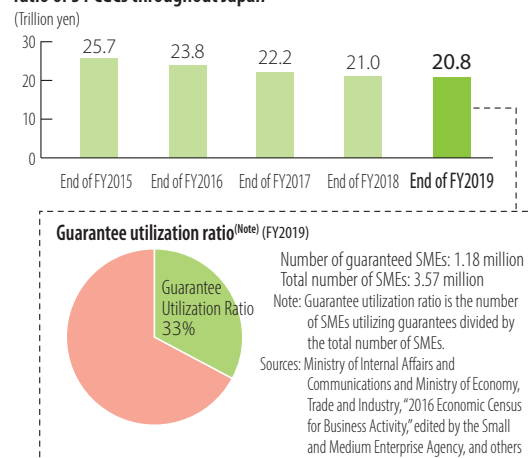
#### ● 33% of SMEs utilize the Credit Supplementation System

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

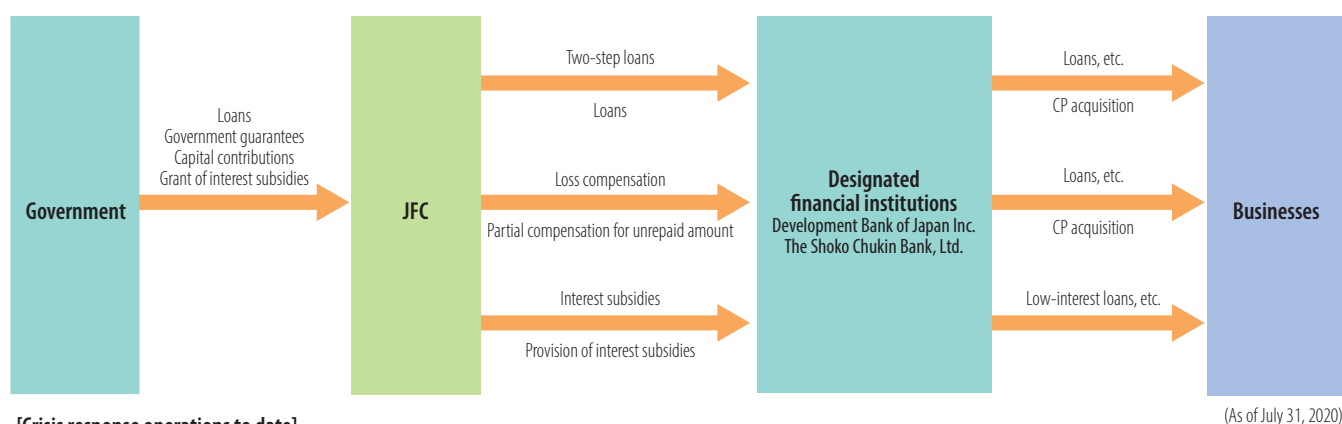
##### Guarantee-type

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

### 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

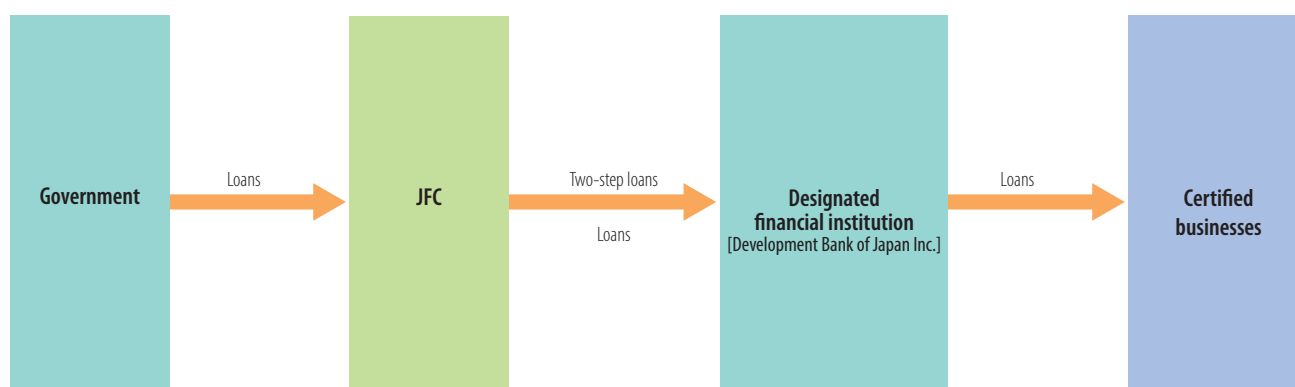
(Billion yen)

	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

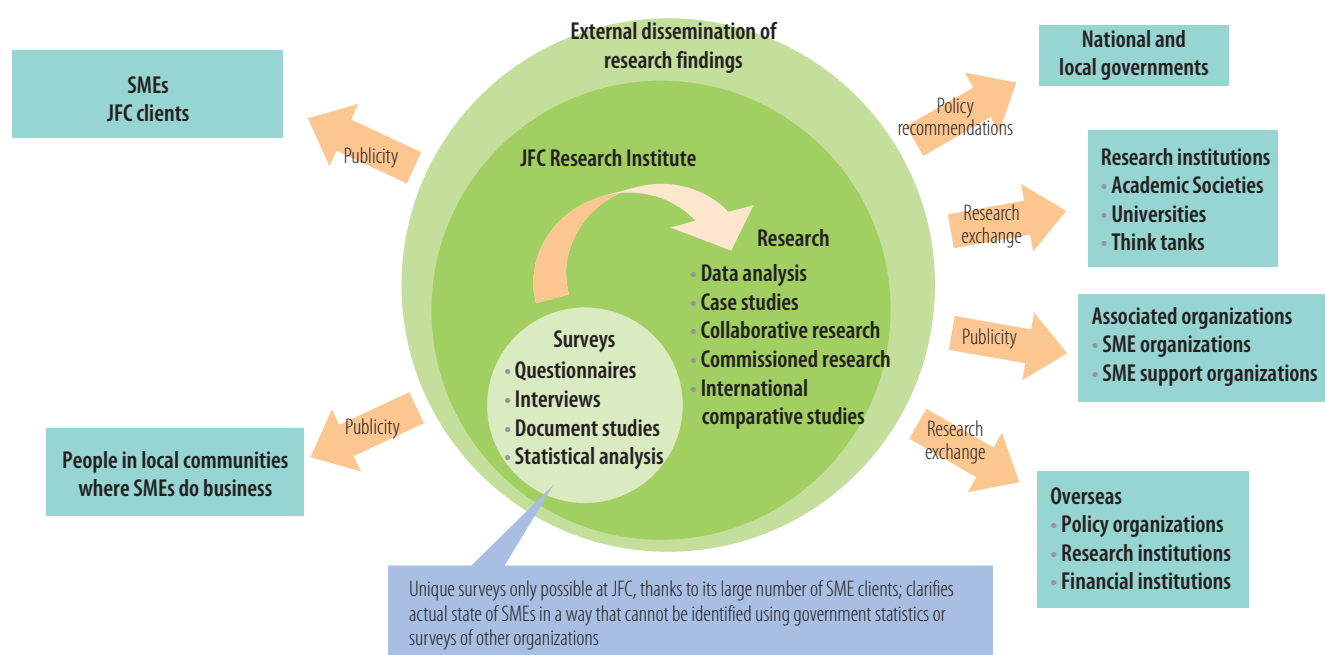


# Research Institute

**Striving for High Research Quality,  
Based on Field Work Only Possible at JFC with its Large Number of SME Clients**

## Functions and Features of the Research Institute

Research Institute is a comprehensive research institution whose research targets are a diverse range of SMEs, from micro businesses operated only by entrepreneurs and their families to high-tech ventures on the verge of going public. Relying on questionnaire- and interview-based surveys, as well as other types of field work only possible at JFC with its large number of SME clients, the Research Institute engages in highly specialized, original, and leading-edge research activities.



## Surveys on SME Business Sentiment

### ● Quarterly Survey on SME Trends

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

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

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

### ● Monthly Survey on SME Trends

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

### ● Survey on Capital Investments by Manufacturing SMEs

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

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

Surveys are conducted by selecting timely themes, such as the issues faced by SMEs, industries centered around SMEs, and trends in regional economies. Further research is conducted based on the survey results. Research findings are compiled into papers and reports, and are disseminated by means of journals, books, and other publications, as well as by way of academic societies, various types of research projects, and symposia.

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

### ● Research on the Structural Problems of SMEs

Surveys and research are conducted on structural problems faced by SMEs, including business start-ups, business succession, employment, 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

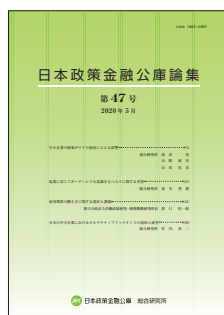
Research Institute hosts a symposium every year.

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

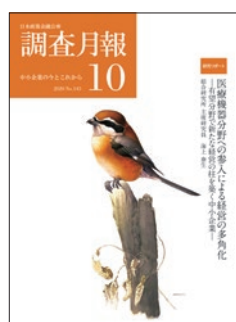
Actual State and Issues Relating to Employment-Like Work Styles

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

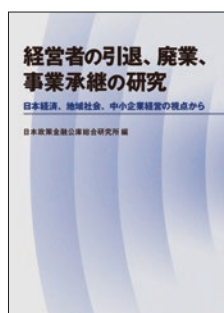
Summary of Results: Survey on Business Start-ups (FY2019)

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.