

# Japan Finance Corporation

## Annual Report

# 2021



JAPAN FINANCE CORPORATION

# Contents

1	<b>Overview of Japan Finance Corporation</b>
2	Message from the Governor & CEO
4	Profile
5	Main Business Activities
6	Basic Philosophy and Management Policy
7	Business and Management Plan (FY2021–2023)
15	<b>JFC Activities</b>
16	Financing Structure of JFC
17	Responses to the Spread of COVID-19
20	Cooperation with Private Financial Institutions
22	Provision of Policy-based Financing (Exercise of Safety Net Functions)
22	Provision of Policy-based Financing (Supporting Strategic Fields of Growth, etc.)
28	Contribution to Local and Regional Revitalization through Collaboration with Local Communities
30	Provision of Information through the PR Magazine “Connect JFC”
31	Overview of Operations in FY2020 and Outline of Financial Statements
33	Funding
35	<b>Overview of Operations</b>
36	Micro Business and Individual Unit
42	Agriculture, Forestry, Fisheries and Food Business Unit
48	Small and Medium Enterprise (SME) Unit
54	Operations to Facilitate Crisis Responses and Specific Businesses Promotion, etc.
56	Research Institute
59	<b>Systems for Organizational Management</b>
60	Governance
75	<b>Organization and History</b>
76	Organization
77	Office Locations
82	History of JFC
83	<b>Data</b>
84	Operational Performances
97	Financial Statements and Notes
196	Reference Information

## Presentation of quantities and amounts in this Report:

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

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

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

### 2. Method of presentation

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

# Overview of Japan Finance Corporation

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Message from the Governor & CEO	2
Profile	4
Main Business Activities	5
Basic Philosophy and Management Policy	6
Business and Management Plan (FY2021–2023)	7

# Message from the Governor & CEO

## Roles and Mission of Japan Finance Corporation

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

JFC's primary mission is to meet the capital needs, including small sums, of those starting new businesses, those dealing with natural disasters or a change in business environment, and to serve the capital procurement needs of Japan's SMEs and micro/small businesses and those engaged in business in the fields of agriculture, forestry, or fisheries.

## COVID-19 Responses

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

Due to the unprecedented threat from the protracted impact of COVID-19, Japan is currently confronting previously unseen economic and social crises. Many businesses continue to face extremely challenging circumstances.

Since we established special consultation desks in January 2020, we have made decisions for approximately 880,000 COVID-19 related loans with a value of 15 trillion yen through the end of June of this year. This is the largest operation in the history of Japan's policy-based finance. In addition, in August 2020 we began handling COVID-19 Hybrid Subordinated Loan Program in order to bolster the financial foundations of SMEs and micro/small businesses that have been impacted by the COVID-19 pandemic. As of June 30, 2021, a total of 3,000 loan decisions were made worth a total of 500 billion yen.

In light of the protracted status of the COVID-19 pandemic, the government has extended the application deadline for the COVID-19 Special Loan Program to the end of the year. We will continue to do everything we possibly can to support businesses. In addition, we will provide information and support to help businesses that are working hard, such as by presenting on our website the efforts of businesses that are employing various ideas and innovations to address the COVID-19 pandemic.

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

## Future Measures

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

To provide support for business succession, the importance of which has been increasing recently, we will enhance our information collecting abilities and identify needs and will collaborate with relevant organizations to offer effective consulting including business matching. In addition, with regard to overseas expansion support, we will work



to reinforce our support for overseas development and increasing exports with an eye toward the post-COVID-19 era.

To contribute to regional revitalization, we will carefully ascertain the circumstances surrounding regions and businesses and adopt a bird's-eye perspective of regions to work toward solving their problems, taking into consideration the changes in business environment caused by COVID-19. While doing so, we will perform our function of connecting the various relevant organizations such as private financial institutions while utilizing our nationwide network of 152 branches to deepen collaboration with local communities.

### Closing

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

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

July 14, 2021

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TANAKA Kazuho  
Governor & CEO

# Profile (as of March 31, 2021)

<b>Name</b>	Japan Finance Corporation (JFC)	
<b>Establishment</b>	October 1, 2008	
<b>Statutory Law</b>	The Japan Finance Corporation Act	
<b>Head Office</b>	Otemachi Financial City North Tower, 1-9-4, Otemachi, Chiyoda-ku, Tokyo, Japan	
<b>Governor &amp; CEO</b>	TANAKA Kazuho	
<b>Capital, etc.</b>	Capital: 6,990.2 billion yen Reserve fund: 3,503.9 billion yen	
<b>Branch Offices</b>	Branch offices in Japan: 152 Overseas representative offices: 2	
<b>Employees</b>	7,436 (budgetary fixed number for FY2021)	
<b>Total of Outstanding Loans</b>	Total of Outstanding Loans:	29,238.7 billion yen
	Micro Business and Individual Unit:	12,842.8 billion yen
	Agriculture, Forestry, Fisheries and Food Business Unit:	3,485.4 billion yen
	Small and Medium Enterprise (SME) Unit:	8,218.1 billion yen (Finance Operations)
	Operations to Facilitate Crisis Responses:	4,570.6 billion yen
	Operations to Facilitate Specific Businesses Promotion, etc.:	121.6 billion yen

## Key Points in JFC's Establishment

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

### ● Creating a highly public corporation

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

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

### ● Inheriting rights and obligations

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

### ● Offering a broad range of services

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



# Main Business Activities

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

## Major Business Operations of JFC



# Basic Philosophy and Management Policy

## Basic Philosophy

### 1. Focused policy-based financing

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

### 2. Mainstreaming governance

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

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

## Management Policy

In order to carry out its Basic Philosophy, JFC promotes digitalization even during major crises such as the COVID-19 pandemic to build systems that can respond flexibly and agilely and strives to perform the functions required of it as a policy-based financial institution in collaboration with relevant organizations including private financial institutions, Chambers of Commerce and Industry, Societies of Commerce and Industry, and tax accountants.

### 1. Exercise of safety net functions

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

B. Establish systems that can respond flexibly and agilely to future crises including the creation of systems for operations during emergencies and further cooperation with private financial institutions.

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

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

### 3. Contribution to regional revitalization

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

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

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

### 4. Improving customer service

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

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

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

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

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

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

### 6. Creation of a rewarding workplace

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

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

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

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

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

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



JFC has formulated the following Business and Management Plan for the period from FY2021 on.

## Business and Management Plan (FY2021-2023)

JFC will continue to take all possible measures to support clients affected by the COVID-19 pandemic and will focus its efforts on following up with the many clients that have increased due to the COVID-19 pandemic. Based on the assumption that this type of large-scale crisis can occur in the future, JFC will undertake further digitalization, secure personnel in preparation for emergencies, actively manage personnel transfers between business units, and reinforce safety net functions.

In addition, JFC will deepen cooperation with relevant organizations that have played roles during the COVID-19 pandemic including private financial institutions, Chambers of Commerce and Industry, Societies of Commerce and Industry, and tax accountants, provide support in Strategic Fields of Growth by responding to increasing needs for business succession and rebuilding businesses with an eye toward the post-COVID era, and take measures to contribute to regional revitalization.

In accordance with this approach, each employee, as a policy-based finance operator, will undertake the following with a sense of mission to demonstrate their roles to connect this policy to its various business endeavors.

First, when performing its safety net functions, JFC will support clients that were affected by the COVID-19 pandemic and steadily and agilely provide support for recovery from and restoration following other natural disaster including earthquakes and typhoons.

Next, JFC will focus its efforts on Strategic Fields of Growth, etc. including start-ups, new business, business revitalization, business succession, social business, overseas expansion, new development of agriculture, forestry, and fisheries business operators, environmental and energy measures, and support for customers undertaking business restructuring in the face of the COVID-19 crisis for the future development of the Japanese economy. Of these, we are responding to the increasing need for business succession by placing particular emphasis on enhancing information collection capabilities and collaborating with relevant organizations to provide effective consulting including matching. With regard to overseas development, we will bolster support for overseas expansion and export growth.

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

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

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

### Business Operation Plans

#### 1. Support clients affected by the COVID-19 Crisis

- A. Respond in a supportive manner to loan, repayment and other inquiries from clients affected by the COVID-19 crisis.
  - (a) Effectively and promptly provide detailed responses by the COVID-19 Special Consultation Desk.
  - (b) Provide loans in a timely and appropriate manner through COVID-19 Special Loan Program, COVID-19 Hybrid Subordinated Loan Program, Special Loans for Agricultural, Forestry, and Fisheries Business Operators, and other programs.
  - (c) Respond attentively and swiftly to repayment inquiries.
  - (d) Respond in detail and at a timely manner through insurance for Safety-net Guarantees No. 4 and 5 and Crisis-related Guarantees.

- B. Appropriately implement Operations to Facilitate Crisis Responses to cope with any crises recognized as COVID-19 Related Matters.
- C. Collect and disseminate case studies of business maintenance and development for overcoming the COVID-19 crisis and demonstrate consulting functions through follow-ups after the provision of loans.  
Number of post-financing follow-ups: More than 200,000

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

- (1) Support for reconstruction from the Great East Japan Earthquake.
  - A. Respond sincerely to earthquake-affected customers seeking advice on financing and repayments, etc.
    - (a) Respond smoothly, promptly, and carefully through special consultation desks for the Great East Japan Earthquake.
    - (b) Provide loans in an appropriate and timely manner through the Great East Japan Earthquake Recovery Special Loan and the Special Earthquake Loan for Agricultural, Forestry and Fishery Business Owners and for Food Business Operators.
    - (c) Respond attentively and swiftly to repayment inquiries and issues with overlapping debt.
    - (d) Endeavor to make prompt and precisely tailored responses through credit insurance such as the Great East Japan Earthquake Recovery Emergency Guarantee Program.
  - B. Make precisely tailored responses to reconstruction projects implemented in affected areas.
- (2) Make precisely tailored responses to the needs of customers for safety net services.  
Safety net financing such as funding support.
  - (a) Provide precisely tailored support to SMEs and micro/small businesses confronted with changes in the management environment as a result of natural disaster, pandemic, economic circumstances, or other factors and working towards business improvement.
  - (b) Provide safety net functions to agricultural, forestry, and fishery business owners who have suffered the effects of natural disasters, infectious livestock diseases, pandemic, falling prices of farm produce, or some other adversity, and those working towards business improvement.
- (3) Provide funds to customers in a timely and efficient manner.
  - A. Support the funding needs, etc., of customers.  
Swiftly handle the funding needs of customers such as various loans, funding programs, and securitization.
  - B. Respond quickly to emergencies and conduct operations in a prompt and smooth manner.  
Facilitate precise operations to facilitate crisis responses.
- (4) Steadily implement the Credit Supplementation System.
  - A. Support for SMEs and micro/small businesses through the Credit Supplementation System.
    - (a) Respond appropriately to demands for safety net services related to credit guarantees.
    - (b) Respond appropriately to various systemic and operational revisions by collaborating with relevant institutions.
  - B. Strengthen collaboration with Credit Guarantee Corporations, etc.
- (5) Enhancing initiatives for collaborative measures with private financial institutions.
  - A. Continue efforts to promote cooperative loans with private financial institutions, etc. and reinforce collaboration relating to responses to clients affected by the COVID-19 crisis.
  - B. Encourage organizational dialogue including on the officer level and spread collaborative situations to management.
  - C. Hold practical level meetings, refer customers from JFC to private financial institutions, and reinforce measures for effective news releases.
  - D. Create and promote cooperative loan products.

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

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

- A. Support for business start-ups and new businesses.
  - (a) Contribute to regional innovation and job creation through increased support to business start-ups.  
New development loans (number of companies) (before establishment and within one year after establishment): 24,000
  - (b) Proactively supply funds and support growth of SMEs engaged in new business activities.  
Number of companies contracted with for provision of loans to companies engaged in new business and entrepreneurs: 1,100
  - (c) Cooperation with institutions that support start-ups and new business.
  - (d) Hosting of High School Student Business Plan Grand Prix.
- B. Support for business revitalization.

- (a) Strengthen support functions for business revitalization.
- (b) Enhanced collaboration with Revitalization Support Council, etc.
- (c) Promotion and reinforcement of fundamental revitalization financing support such as DDS and DES.
- (d) Create systems and appropriately implement operations for commencement of administration of two-step loans for business restructuring and business adaptation (excluding decarbonization) pursuant to the Industrial Competitiveness Enhancement Act.
- C. Support for business succession.
  - (a) Promote consulting including matching through collaboration with relevant organizations such as business succession support organizations, private financial institutions, tax accountants, and other outside professionals.
  - (b) Proactively participate in regional business succession networks and contribute to the revitalization of networks.
  - (c) Support funding needs for diverse business succession.
- D. Social business support.
  - (a) Response to requests for funds.  
Number of loans to businesses engaged in social business: 8,000
  - (b) Expansion of support services for the resolution of business challenges.
  - (c) Strengthen coordination with organizations supporting social business.
- E. Support for overseas expansion.
  - (a) Facilitate support for fundraising by SMEs engaged in overseas development and steadily provide direct financing support for overseas subsidiaries (Standby Letter of Credit Program, cross-border loans).  
Number of companies provided with support for overseas subsidiaries (Standby Letter of Credit Program, cross-border loans): 150
  - (b) Support the overseas development of micro/small businesses planning to expand sales channels through use of cross-border EC and other means.
  - (c) Support agricultural, forestry and fisheries business operators, food-related businesses, etc. that plan to develop overseas business in accordance with the Act on Facilitating the Export of Agricultural, Forestry, and Fishery Products and Food and other laws and regulations.
  - (d) Provide various forms of business support (funding programs such as HACCP support, the Trial Export Support Project, and agricultural corporation investment development programs, etc.) for measures under export business plans established by individual export regions in the future in accordance with the government's Action Strategy for Expanding the Export of Agricultural, Forestry, and Fishery Products and Foods.
  - (e) Provide information to customers seeking to expand overseas.
  - (f) Collaboration with institutions that support overseas expansion.
- F. Support for new expansion by agricultural, forestry, and fisheries businesses.
  - (a) Support business improvement initiatives for corporations and large family businesses while utilizing valuation techniques with an emphasis on profitability.  
Number of loans provided to agricultural management entities seeking to grow: 6,000
  - (b) Support efforts to secure new agricultural leaders.  
Number of borrowers of people entering agricultural management and agricultural management entities hiring new farmers: 1,800
  - (c) Support for agricultural, forestry, and fishery businesses initiatives to improve businesses in the "Sixth Industrialization" sector.  
Number of the "Sixth Industrialization" borrowers: 1,300
  - (d) Support efforts to promote the use of domestic timber by large-scale wood-related businesses.
  - (e) Support fishery production enhancement, construction of ships to replace fishing boats, and enhancement of cultivation foundations.
  - (f) Support for food businesses engaged in expansion of domestic and foreign demand through increased collaboration with agricultural, forestry, and fishery businesses.
  - (g) Provide information such as policy information and results of various surveys.
- G. Support environmental and energy measures.
  - (a) Promote initiatives supporting environmental and energy measures by SMEs and micro/small businesses.
  - (b) Support environmental and energy measures by agricultural, forestry and fisheries business operators.
  - (c) Gather and provide information to promote understanding inside and outside JFC regarding environmental and energy measures.
  - (d) Appropriate implementation of two-step loans for specific businesses based on the Low Carbon Investment Promotion Act.
  - (e) Creation of systems and appropriate implementation of operations for commencement of administration of two-step loans and interest subsidies for business adaptation (decarbonization) pursuant to the Industrial Competitiveness

Enhancement Act.

H. Contribute to equal educational opportunities.

- (a) Disseminate information on educational loans to reduce the burdens of educational expenses.
- (b) Effectively use media to conduct public relations activities.

I. Support development, provision, and introduction of advanced information and communications systems.

Appropriately implement two-step loans for development, supply, and so on based on the Act on Promotion of Developing/ Supplying and Introducing Systems Making Use of Specified Advanced Information Communication Technologies.

#### 4. Contribution to local and regional revitalization through collaboration with local communities

(1) Reinforce collaboration with local government through active participation in regional comprehensive strategies.

- A. Actively participate in measures to overcome COVID-19 that are under consideration by local governments.
- B. Contribute to implementation and promotion of various measures relating to local comprehensive strategies and the like.
- C. Provide information to local governments.

(2) Provision of useful service that meets customer and local needs.

- A. Promote efforts to utilize our nationwide network of 152 branches.
- B. Promote matching customers.
- C. Holding of consultancy meetings and seminars.

(3) Performance of the role of connecting relevant organizations.

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

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

(1) Promote various measures such as enhancing the consultation capability to improve services and appropriately perform a risk-taking function.

- A. Appropriately perform a risk-taking function.
- B. Provide useful information consistent with customer and local needs and enhance consultation capability.
  - (a) Provide to clients that have been affected by the COVID-19 useful information and conduct consulting that contributes to business continuity and supports growth in cooperation with private financial institutions with an eye toward the post-COVID era.
  - (b) Strengthen management support in combination with financing through financial assessments, income and expenditure simulations, etc.
  - (c) Promote appropriate proposals and advice for customers.  
Promote the provision of customer support tools tailored to the needs of customers.
  - (d) Cooperation with network of outside specialists.
- C. Promote branch management and various service improvements from the customer's point of view through implementation of customer satisfaction surveys, etc.

(2) Promote public relations activities such as through strengthening information dissemination.

- A. Promote public relations activities with mass media.
- B. Promote public relations activities by enhancing the content of the PR magazine.
- C. Promote public relations activities by utilizing the special characteristics of various media such as the Internet.

(3) Enhance surveys and research and reinforce policy proposals to further demonstrate think tank functions.

- A. Pursue high research levels through original methods that utilize field work unique to JFC thanks to its large number of SME clients.
  - (a) Regularly conduct economic conditions research.
  - (b) Conduct thematic surveys and publish research results based on these surveys.
- B. Improve evaluations of think tanks through the strengthening of external communication capabilities.
  - (a) Edit and publish periodical publications, books, etc.
  - (b) Hold JFC Symposiums.
  - (c) Disseminate research results through lectures, etc. at universities.
  - (d) General academic publication of survey data.
- C. Strengthen exchanges with other think tanks.

- (a) Hold and participate in domestic and international research presentations, information exchange sessions, etc.
- (b) Participate in external research groups and research projects.
- (c) Enhance personnel exchanges with outside organizations by individual researchers.

- D. Support measures for the provision of advice on SME policy in Japan.
  - (a) Conduct surveys and research with abundant policy implications.
  - (b) Collaborate with government agencies, relevant organizations, and business units engaged in policy advice.
- (4) Efforts to improve systems and measures through policy recommendations that conform to customer feedback and the needs on-site.
  - A. Collect the views expressed by customers, and reflect them in policy recommendations and measures.  
 Allow customer trends and the opinions of SMEs, micro/small businesses, and agricultural, forestry, and fisheries businesses to be reflected in our business management (new establishment and improvement of loan program).
  - B. Understand the challenges for the region, and promote policy recommendations aimed at resolving them.  
 Gain a detailed understanding the needs of the region regarding policy-based finance, and allow them to be reflected in policy recommendation and business management.

## 6. Appropriate management of credit risk

Appropriately manage credit risks taking into consideration outstanding loan balances and the substantial increase in clients in conjunction with COVID-19 Special Loan Program.

- A. Implementation of appropriate credit management.
- B. Appropriate management of credit cost.
- C. Reinforcement of insurance underwriting risk management system.
- D. Maintenance of a risk management system for loss compensation transactions.

<Monitoring items>

- Initial default rate (%)
- Upward-downward transition of debtor segment (number, etc.) [Agriculture and forestry/SMEs]
- Credit related expense ratio (%)

## Organizational Plans

### 1. Enhancing branch office functions

- A. The branch office manager will faithfully exhibit its role.  
 The branch office manager will carefully ascertain the circumstances surrounding regions and businesses and adopt a bird's-eye perspective of regions to work towards solving their problems.
- B. Strengthen our nationwide network of 152 branches.
- C. Constantly strengthen the branch management framework based on a bottom-up approach to management.

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

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

- A. Further promote digitalization, review administrative work, and take other measures to enable timely and detailed responses to the rapid increase in applications.
- B. Effectively secure needed personnel based on the established personnel systems during emergencies.
- C. Promote streamlining of administrative work and the efficiency of operations while effectively utilizing the latest digital technologies based on centrally collected proposals from branches.
- D. Broadly collect opinions and requests from worksites and implement measures to use them in operational improvements.
- E. Implement fair procurement procedures.
- F. Improve branches and other facilities based on the needs of customers and branches.
- G. Effectively procure supplies necessary to address COVID-19.
- H. Establish an expense management system (multifaceted expense analysis measures).
- I. Increase use of paper using thinned wood for printed materials.

### 3. Encourage system updates, shifting to the cloud, digitalization in close collaboration with IT departments with the active participation of individual business units

- A. Steadily carry out digitalization promotion plan based on close collaboration with individual business units.
  - (a) Reinforce cooperation with each business unit and steadily promote various measures related to digitalization in order to carry out the JFC's overall business strategies and adapt to changes in the JFC's environment.
  - (b) In light of issues that have become clear during the COVID-19 crisis, investigate systems to automate receipt of online applications and introduce electronic contracts.
  - (c) Begin work to shift systems created in data centers to cloud infrastructure.
  - (d) Encourage collaboration among business units and investigate optimal updates to systems in order to revise systems so

- that can flexibly and timely demonstrate policy-based finance functions according to the needs of each business unit.
- (e) Determine the trends of other financial institutions, research the latest IT technologies such as AI, investigate optimal IT use by JFC in light of responses during the COVID-19 crisis, and promote digitalization.
- B. Complete the next JFC system by rebuilding the operational systems of each business unit and taking other measures. Undertake the following measures relating to plans for the next JFC system such as rebuilding operational systems in each business and provide support according to conditions after the start of operation.
  - (a) Increase convenience by rebuilding operational systems.
  - (b) Improve system functions according to the operations of each business unit.
  - (c) Create "JFC Direct" so customers can perform administrative procedures and obtain information online.
  - (d) Build a portal site that consolidates the information of each customer.
- C. Promote efforts toward smooth and efficient system development and operation.
  - (a) Greater efficiency in systems development, taking stable operation into consideration.
  - (b) Promote smooth and efficient system operation.
  - (c) Reinforce effective security measures based on the status of cyber security and the latest developments in technology.
  - (d) Reinforce systems for fair and accurate IT procurement.
- D. Reinforce organizational systems to promote the development of digital human resources and digitalization.
  - (a) Develop digital human resources who can create strategies and business models that use digital technologies to contribute to improving customer service and improving operational efficiency.
  - (b) Improve employee IT literacy and strengthen the support organization.
  - (c) Cultivate personnel who can respond to cyber security threats.
  - (d) Reinforce the organizational systems of IT departments by increasing personnel and using highly-skilled outside personnel in order to promote digitalization.
- E. Appropriate enforcement of system audits.

#### 4. Foster and utilize human resources

- (1) Enhance staff training for the realization of high-quality customer service and to nurture high-level management capabilities and expertise.
  - A. Consensus and understanding of the basic philosophy, management policy, and business management plan. Build a consensus and raise understanding including background through conferences, training, study groups, and so on.
  - B. Establish a training system that is consistent for all employees from new personnel to senior management.
    - (a) Collaborate to implement a personal development system, and training at all levels in addition to those particular to each business unit.
    - (b) Promote self-initiated measures that contribute to regional coordination and client support.
    - (c) Promote the use of online tools and the like through training.
  - C. Strengthen management capabilities.
    - (a) Carry out smooth implementation and content enhancement for human resources academy courses.
    - (b) Quality content for level-specific training (newly appointed senior level position and above).
    - (c) Perform multifaceted observations and provide feedback on the results.
- (2) Achieve diverse and flexible work styles. Further promote flexible work style that are compatible with work style reforms.
  - (a) Further expand and spread systems that enable flexible work styles such as telecommuting (working from home).
  - (b) Encourage the effective use of vacation time.
- (3) Appropriately operate personnel payroll system.
  - A. Efforts to operate appropriately personnel payroll system.
    - (a) Conduct monitoring of the operational status of human resource and payroll systems (special transfer system, regional comprehensive employment system, re-employment system, etc.).
    - (b) Monitor the operational status of personnel changes (transfer cycles, transfers over wide areas, consecutive transfers unaccompanied by family, etc.).
  - B. Efficiently execute salary payment work, etc.
- (4) Promote effective utilization of human resources.
  - A. Make proactive use of personnel transfers between business units, etc.
  - B. Expand scope of activities for area employment through administrative employment training systems, etc.
  - C. Increase awareness of recruitment activities, etc.
- (5) Increase expertise.
  - A. Implement internal promotion and hiring of experienced personnel.
  - B. Promote training to improve expertise.
  - C. Promote programs to help individuals obtain SME Management Consultant and Agricultural, Forestry and Fishery



Management Advisor certifications, and effectively utilize those certified.

**D. Implement corporate dispatch training.**

- ① Employee awareness survey item "Awareness level of basic philosophy and management policy" 100%
- ② Employee awareness survey item "Awareness level of business management plan" 100%
- ③ Employee awareness survey item "Monitoring of business objectives (properly monitor with sufficient interviewing)" 80%
- ④ Employee awareness survey item "Feedback on personnel evaluations (sufficient)" 90%

(Supplement) Details of employee awareness survey items

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

<Monitoring items>

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

**5. Promote diversity and improve the workplace environment**

- (1) Create a workplace where diverse human resources can fulfill their potential.
  - A. Implement measures to promote diversity at the Head Office and branch offices.
    - (a) Take measures including reform of awareness to establish workplaces where each employee is free to fulfill their potential.
    - (b) Encourage men to participate in housework, childcare, and family care.
  - B. Practice work-life management (WLM).
    - (a) In light of the environmental changes during the COVID-19 crisis, encourage diverse and flexible working styles that enable employees to conduct telework and so on with reassurance.
    - (b) Promote a varied working style and increase working time productivity.
  - C. Create a workplace that makes an effort to encourage every employee to maintain his or her health.
    - (a) Conduct training on health and encourage medical examinations pursuant to specified health guidance.
    - (b) Enforce 2 no-overtime days per week.
  - D. Understand management issues through employee awareness surveys.
- (2). Promote women's empowerment including actively appointing women to management positions.
  - A. Implement measures for career development of women.
  - B. Conduct training and implement other measures to support the development of management candidates in order to actively appoint women to management position.
- (3). Strengthen harassment prevention.
 

Strengthen measures to prevent harassment (same initiative as "6. Establishment and strengthening risk management and compliance structures").

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

<Monitoring items>

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

  - ② Employee awareness survey item "Management support to develop capabilities of female employees (females)" 80%
  - ③ Rate of enforcement of 2 no-overtime days per week. 80%
  - ④ Encourage male employees to take vacation time or leave for at least one month for childcare (including responses to surveys of issues).

(Supplement) Details of employee awareness survey items.

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

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

- (1). Carry out appropriate risk management in response to policy requests.
  - A. Formulate and ensure implementation of risk management programs.
  - B. Continuously monitoring of the status of risk management including the effects of the COVID-19 crisis on credit risks by the Corporate Governance Committee and so on.
- (2). Carry out appropriate monitoring together with establishing and strengthening compliance awareness.
  - A. Formulate and ensure implementation of compliance programs.
  - B. Continuously monitoring of the status of implementation of compliance programs by the Corporate Governance Committee and so on.
  - C. Reinforce the attitude of exclusion of antisocial forces (members of organized crime groups and their supports) and other comparable persons (persons participating in fraud and persons subject to economic sanctions).
  - D. Reinforce compliance awareness to ensure that officers and employees maintain high ethical standards as members of a policy-based financial institution and act responsibly to uphold the reputation of the JFC.
  - E. Thorough reporting and consultation concerning compliance.
  - F. Branch managers should properly fulfill their roles in handling compliance concerns.
- (3). Further strengthen risk management framework.
  - A. Promote understanding of response procedures regarding COVID-19 at all workplaces and implement rapid responses.
  - B. Based on responses to COVID-19, reinforce BCP with the spread of infectious disease as a possible disaster.
  - C. Continue conducting disaster response headquarters training and safety confirmation training based on the assumption of earthquakes occurring in the Tokyo Metropolitan area.
  - D. Reinforce risk management framework in preparation for earthquakes occurring in the Tokyo Metropolitan area.
  - E. Conduct risk management trainings at branches in anticipation of extreme rainfall, flooding and the like.
  - F. Branch managers should properly fulfill their roles in handling risk management.

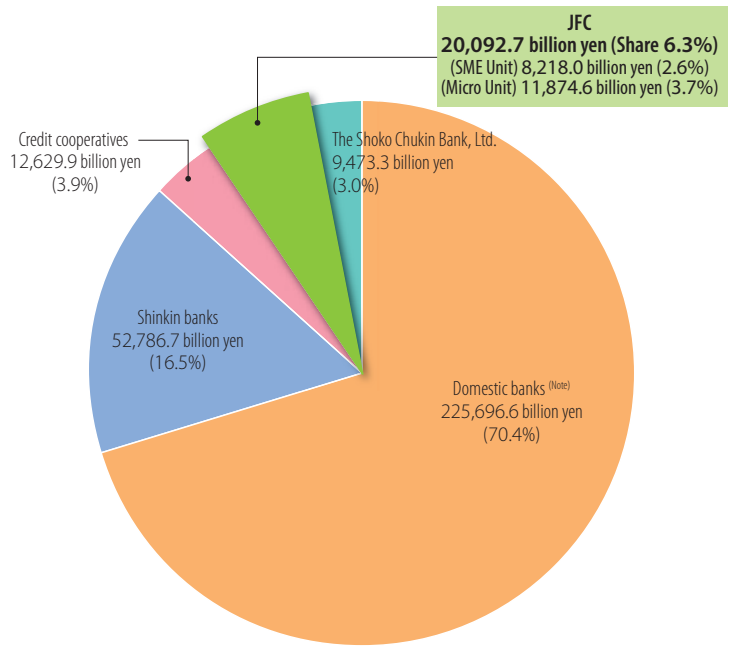
## JFC Activities

Financing Structure of JFC .....	16
Responses to the Spread of COVID-19 .....	17
Cooperation with Private Financial Institutions .....	20
Provision of Policy-based Financing (Exercise of Safety Net Functions) .....	22
Provision of Policy-based Financing (Supporting Strategic Fields of Growth, etc.) .....	22
Contribution to Local and Regional Revitalization through Collaboration with Local Communities .....	28
Provision of Information through the PR Magazine "Connect JFC" .....	30
Overview of Operations in FY2020 and Outline of Financial Statements .....	31
Funding .....	33

# Financing Structure of JFC

JFC's share of the balance of financing to SMEs (Micro Unit and SME Unit) is **6.3%**.

Share of balance of financing to SMEs (as of March 31, 2021)

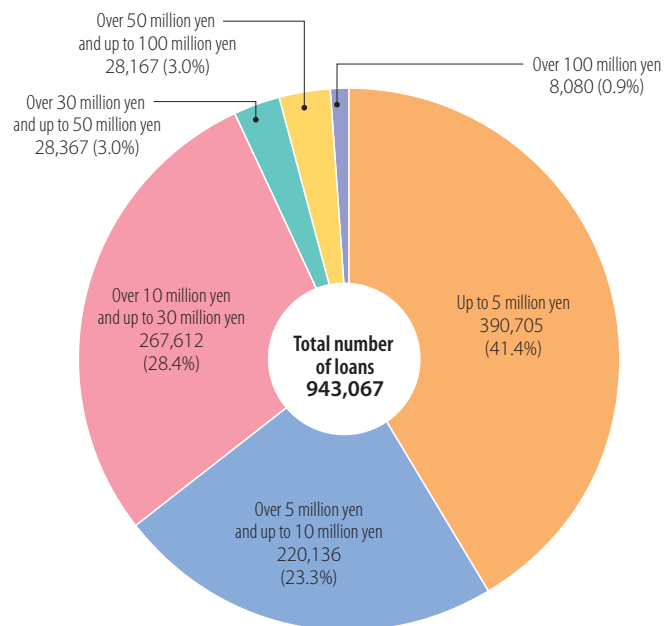


Note: Total of city banks, regional banks, regional banks II, and trust banks  
 Sources: Bank of Japan, "Loans by Borrower," "Cash, Deposits, and Loans," Shinkumi Bank, "Main Accounts of Nationwide Credit Unions"; Japan Finance Corporation, "Business Statistics," Shoko Chukin Bank, "Business Statistics"

The composition of JFC's financing by loan amount in FY2020 was as follows. Of the total of approximately 940,000 business loans, **41% had loan amounts up to 5 million yen, and 93% were for 30 million yen or less.**

JFC also provides educational loans to the public (approximately 90,000 loans annually).

Financial results by loan amount in FY2020 <sup>(Note)</sup>



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

# Responses to the Spread of COVID-19

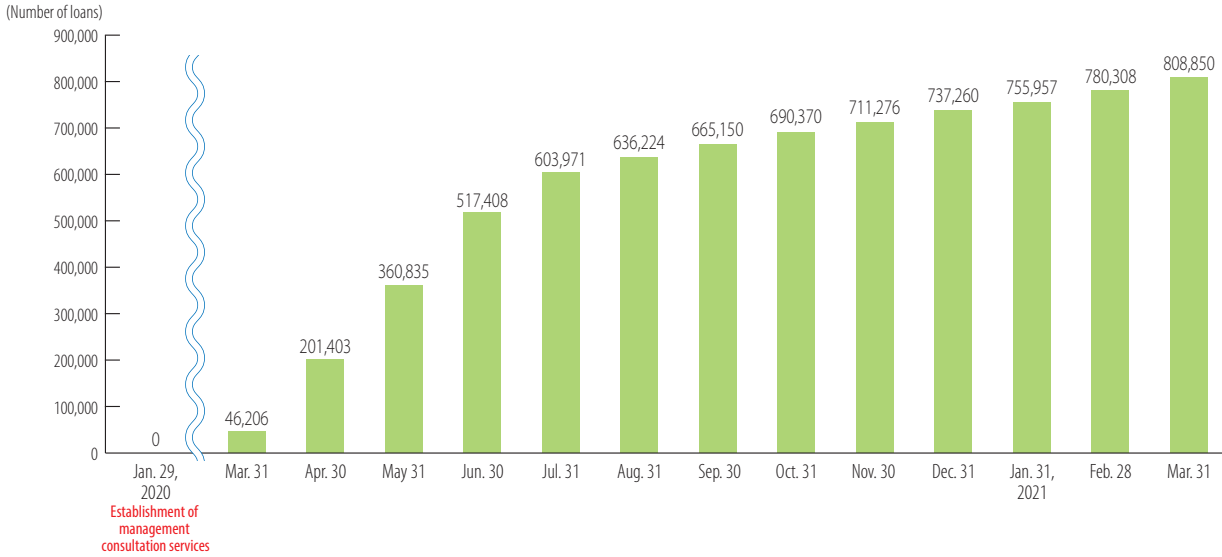
## COVID-19 Related Loan

As of March 31, 2021, a total of **808,850** COVID-19 related loan decisions were made worth a total of **13,870.2 billion yen**.

COVID-19 related loan decision results  
(as of March 31, 2021)

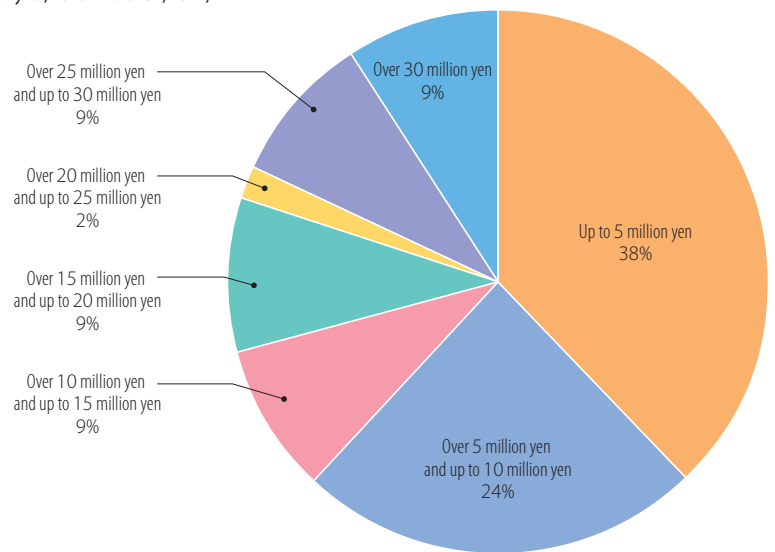
Number of loans	Amount
808,850	13,870.2 billion yen

Changes in number of COVID-19 related loan decisions (cumulative total)



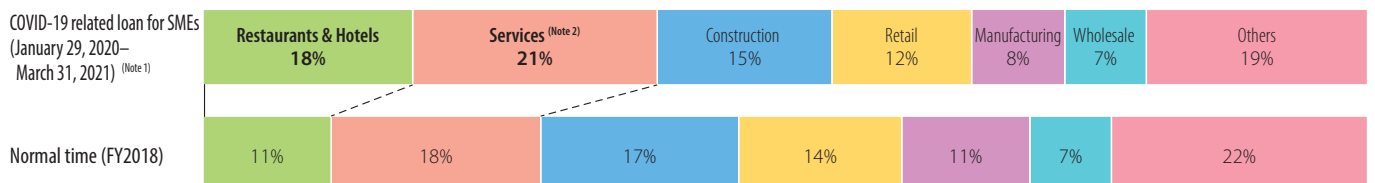
The composition of COVID-19 related loan by amount was **38% for loans up to 5 million yen** and **24% for loans of over 5 million yen and up to 10 million yen**, and thus, the majority of the loans were for small amounts.

Component ratios by amount of COVID-19 related loan  
(January 29, 2020–March 31, 2021)



With respect to the ratio by industry of COVID-19 related loans for SMEs (Micro Unit and SME Unit), the ratio of those in restaurants & hotels and service increased compared to normal time.

Component ratios by industry for SMEs



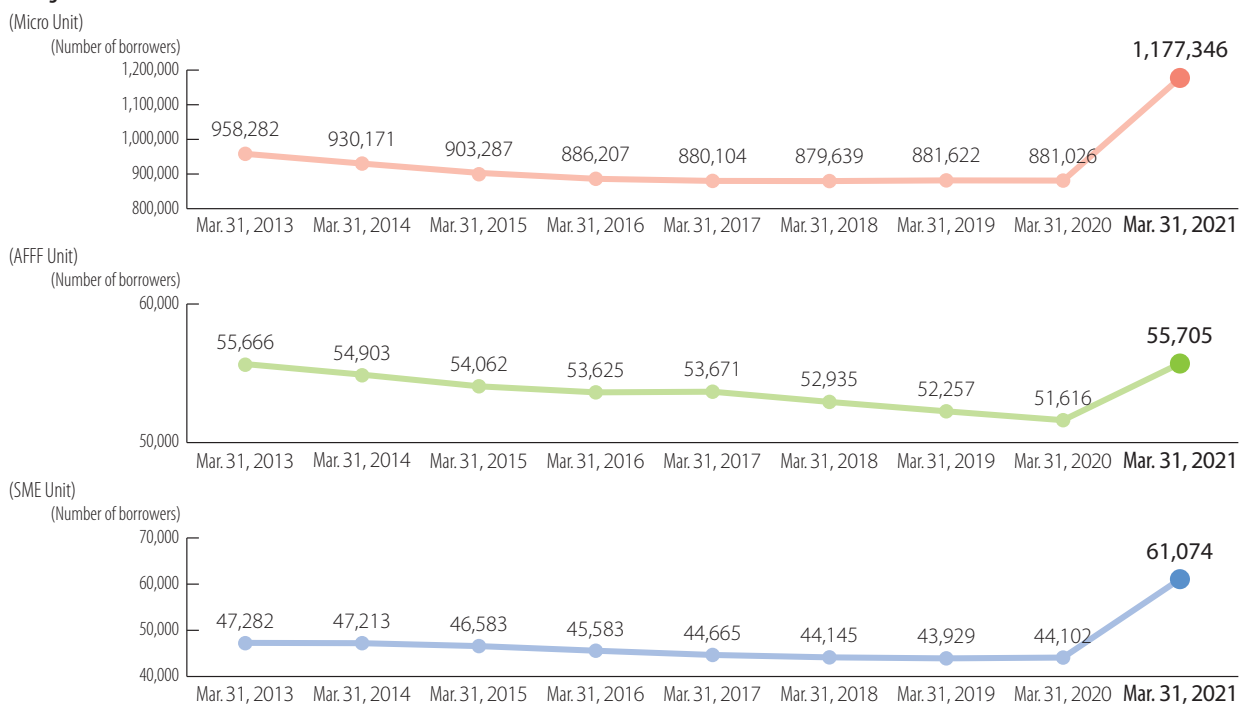
Notes: 1. COVID-19 related loan data is prepared on a loan decision basis.

2. Service industries include hairdressing and beauty salons, professional services, management consulting, automobile maintenance, advertising, and cosmetology as well as entertainment businesses such as theater groups and bands. Also, the share of the entertainment industry (including entertainment businesses such as theater groups and bands) within the service industry has increased compared to normal times (from 2.7% to 4.6%).

## Change in Number of Borrowers

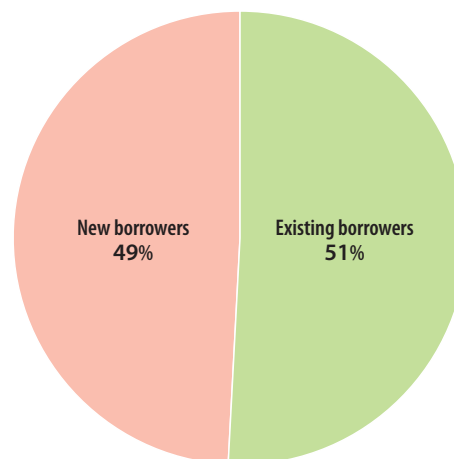
Until the outbreak of the COVID-19 pandemic, the number of JFC customers was trending downward, but as a result of responding to the unprecedented large number of inquiries concerning loans in response to COVID-19, the numbers of borrowers as of the end of FY2020 increased by **approximately 300,000** in the Micro Unit, **approximately 4,000** in the AFFF Unit, and **approximately 20,000** in the SME Unit compared to the end of FY2019.

### Change in number of borrowers



Of the loan applications relating to COVID-19 (cumulative total), **49%** were from new borrowers (customers that did not have a business relationship with JFC).

Component Ratio of new borrowers among financing applicants  
(January 29, 2020–March 31, 2021)



## Collaboration with Private Financial Institutions during the COVID-19 Pandemic

Within our responses to COVID-19, we have provided funding support to SMEs and micro/small businesses that have been affected by the pandemic based on our existing collaborative relationships with private financial institutions.

### Cooperative loan <sup>(Note)</sup> results

	FY2018	FY2019	FY2020	Compared to the previous fiscal year
<b>Number of loans</b>	30,768	28,736	24,467	85%
<b>Amount</b>	1,292.9 billion yen	1,255.6 billion yen	1,684.7 billion yen	134%
<b>Amount per loan</b>	42.02 million yen	43.69 million yen	68.85 million yen	158%

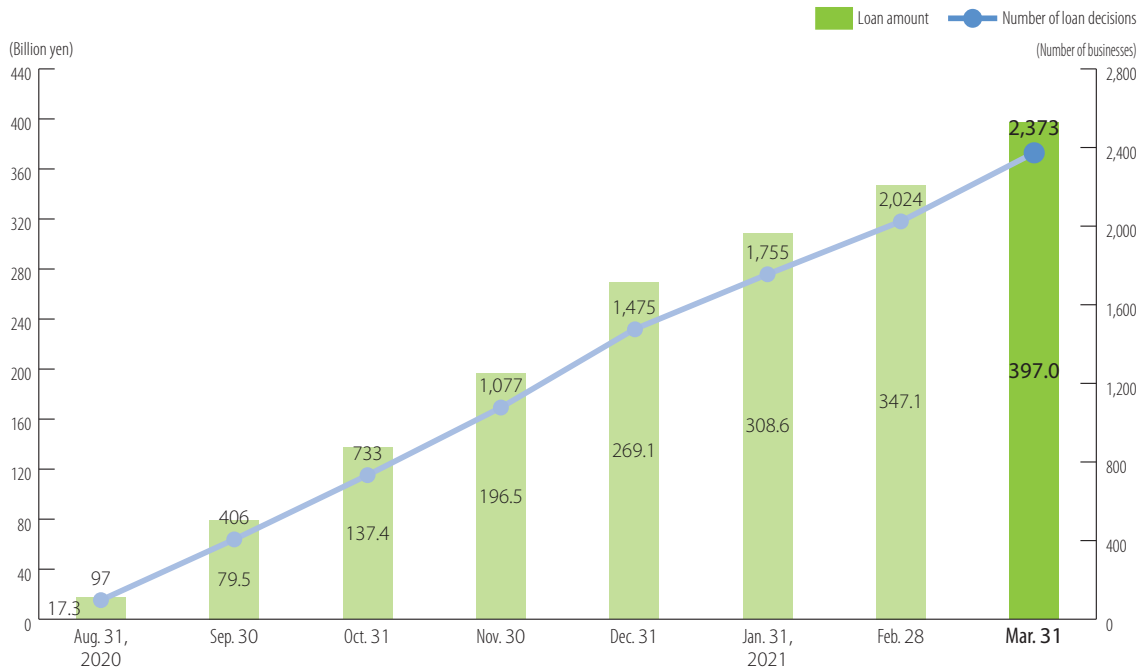
Note: Loans (guarantees) that are disbursed or decided by both JFC and private financial institutions after consultation by both parties for loan plans with identical objectives (Calculated by JFC. Including loans made on different dates between both parties).



## COVID-19 Hybrid Subordinated Loan Program

In August 2020, we began handling COVID-19 Hybrid Subordinated Loan Program, which provide funds for reinforcing financial foundations, for companies that plan to develop and maintain business with support from relevant organizations, under an economic environment that was greatly affected by the COVID-19 pandemic. As of March 31, 2021, we made loan decisions for **2,373 businesses worth 397.0 billion yen**.

Changes in number of COVID-19 Hybrid Subordinated Loan decisions and amounts (cumulative total)



## Dissemination of Examples of Measures by Businesses Addressing the COVID-19 Pandemic

In order to support businesses doing their best even during the COVID-19 pandemic, we put out a call for case studies of businesses that are using various ideas and innovations to overcome this crisis.

From among the submissions received, initiatives that will have a sustainable effect as a company are being presented on the website, in brochures, and in the "Connect JFC" PR magazine.



### コロナ禍に立ち向かう事業者の取組み

コロナ禍を乗り切ろうと様々なアイデアや工夫を重ね、企業として持続的な効果をおけることができるような取組み事例をご紹介します。広報紙「日本公庫つなぐ」22号でも取組み事例をご紹介しております。くわしくはこちらをご覧ください。

想い × 連携	北映Northern Films / 南部美人 / 孩子電気鉄道 / ツルミ印刷 / 今代町造 / ジャパン・フラワー・コーポレーション / やさみVCS / 京はやし / 京西澤業近宗博 / 吉良衛 / 兵庫ペンダ工業 / 中の島 / OKM
サービス × 非接触	三浦商店 / アーツアンドクラフツ / 茂田製作所 / 和空プロジェクト / 大阪教育研究所 / H3 / ふく徳門 / 琴平バス / マツシマメジャテック / EデザインNAGASAKI
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既存事業 × 新分野	小野写真館 / 和心伝道DA'dA / ROSE LABO / ミナデザイン / 花岡雄輔 / 船作 / サン・クレア / アラインテック
選択 × 積極投資	オーエイチ / 高尾ビル / 深葉子のブルミエール / ヤマダアルカンパニー / 宇和南真珠

Please visit the JFC website for more information.  
<https://www.jfc.go.jp/n/corona-jirei/index.html>  
 (Available only in Japanese)

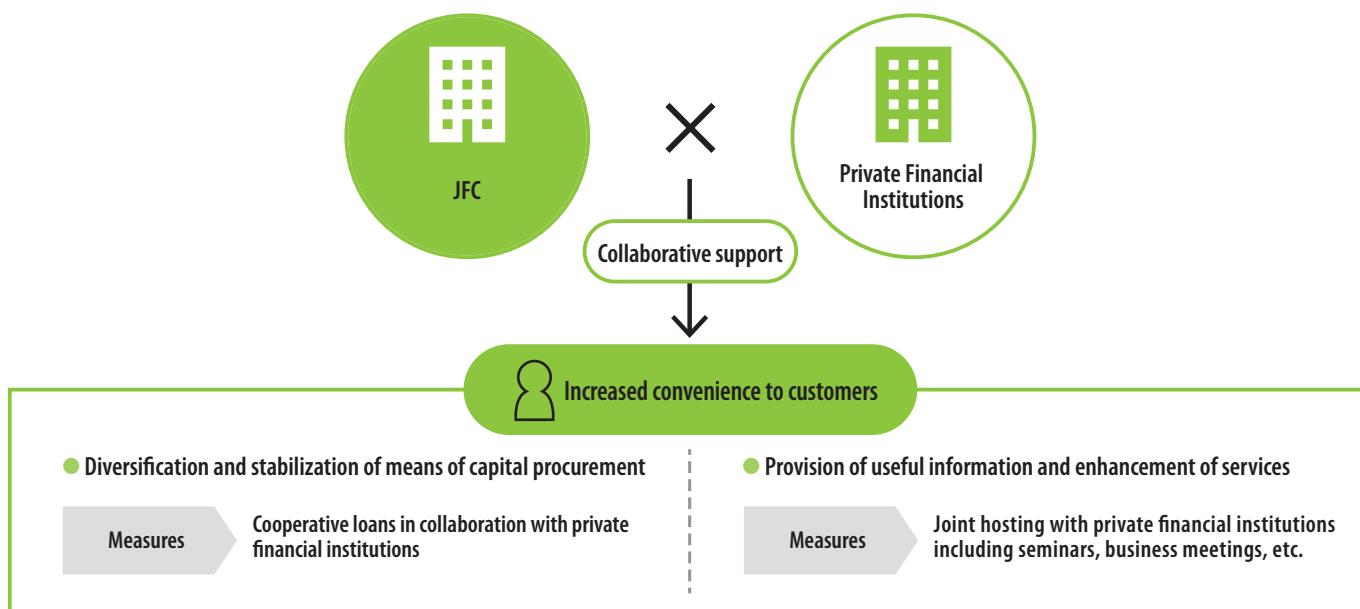


# Cooperation with Private Financial Institutions

## Working in Cooperation with Private Financial Institutions

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

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



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

JFC has been promoting business partnerships with many private financial institutions. **As of March 31, 2021**, MOUs on business cooperation and collaboration have been concluded with **484 financial institutions**.

### (3) Creation of cooperative loan programs

Since FY2014, JFC has been focusing on establishing loan schemes <sup>(Note)</sup> in cooperation with private financial institutions to enhance partnership effectiveness and the number of private financial institutions which established the cooperative loan schemes reached **438 financial institutions as of March 31, 2021**. For some of the cooperative loan scheme, private financial institutions and the JFC collaborate to establish cooperative loan programs to support businesses. **As of March 31, 2021, 425 programs** were created in collaboration with **288 financial institutions**.

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

#### Creation of cooperative loan programs (as of March 31, 2021)

	City banks	Regional banks	Regional banks II	Shinkin banks	Credit cooperatives	Others	Total <sup>(Note)</sup>
Number of financial institutions created cooperative loan programs	—	34	29	162	58	5	288
Number of cooperative loan programs <sup>(Note)</sup>	—	53	48	248	76	5	425

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

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

In FY2020, total cooperative loans from private financial institutions came to: **24,467 loans (85% compared to the previous fiscal year), 1,684.7 billion yen (134% compared to the previous fiscal year).**

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

#### Cooperative loans by business category (FY2020)

	City banks	Regional banks	Regional banks II	Shinkin banks	Credit cooperatives	Others	Total <sup>(Note)</sup>		Reference FY2019 results
								Compared to the previous fiscal year	
Number of loans	2,185	9,232	3,175	8,640	1,269	572	24,467	85%	28,736
Amount	359.5 billion yen	787.3 billion yen	201.6 billion yen	345.8 billion yen	41.1 billion yen	61.2 billion yen	1,684.7 billion yen	134%	1,255.6 billion yen

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

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

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

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

In FY2020, **JFC referred 5,266 customers to private financial institutions.**

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

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

In FY2020, **private financial institutions referred 29,091 customers to JFC.** Of these, in addition to cooperative loans, **JFC independently provided 17,687 loans** to start-ups and businesses in the agricultural, forestry, and fishery sectors, etc.

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

## Response to the Heavy Rain in July 2020

In response to the heavy rain that occurred in July 2020, JFC established special consultations desks at branches in the affected areas and provided timely and detailed responses to inquiries concerning financing and repayment from SMEs, micro/small businesses, and agricultural, forestry, and fishery businesses that sustained damage. We also provided support to SMEs and micro/small businesses that incurred damage through July 2020 Heavy Rain Special Loans and other programs.

July 2020 Heavy Rain-related Loans

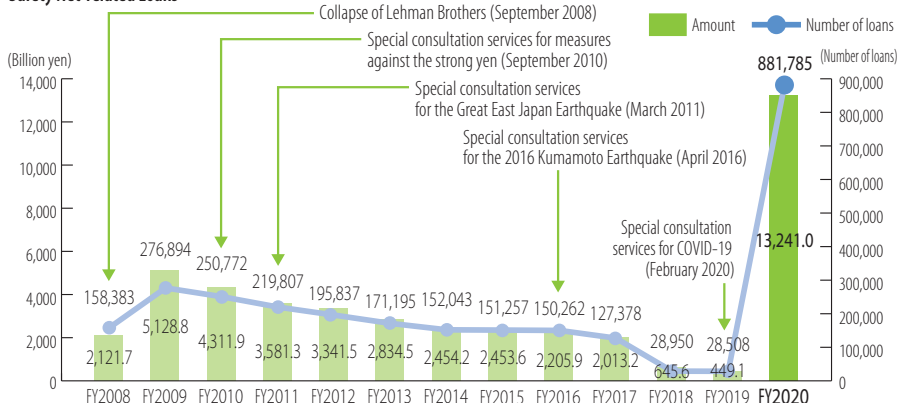
FY2020	
Number of loans	Amount
187	2.3 billion yen

## Safety Net-related Loans

In FY2020, financing related to Safety Net Loans <sup>(Note)</sup> to those facing obstacles due to international financial instability and economic contraction, and those impacted by the Great East Japan Earthquake, the 2016 Kumamoto Earthquake, typhoon and other disasters came to **881,785 loans (3,093% compared to the previous fiscal year) for 13,241.0 billion yen (2,948% compared to the previous fiscal year).**

Note: The loans related to Safety Net Loans include COVID-19 Special Loan Program, Disaster Recovery Loans, Great East Japan Earthquake Recovery Special Loan, funds for changes in operating environments, funds for changes in financial environment, and funds for Safety Net Loans to agricultural, forestry, and fisheries businesses, etc.

Safety Net-related Loans



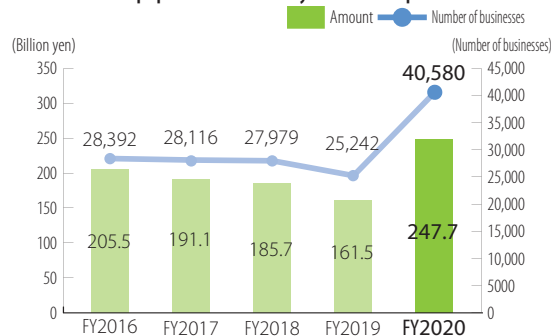
# Provision of Policy-based Financing (Supporting Strategic Fields of Growth, etc.)

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

### (i) Loans to start-ups

In FY2020, loans to start-ups (consisting of those that have yet to start and those that are within 1 year of start-up) came to: **40,580 businesses (161% compared to the previous fiscal year), 247.7 billion yen (153% compared to the previous fiscal year).**

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



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

	FY2018	FY2019	FY2020	Compared to the previous fiscal year
Women	6,116 businesses	5,513 businesses	<b>8,727 businesses</b>	<b>158%</b>
Seniors (aged 55 and older)	3,071 businesses	2,603 businesses	<b>4,701 businesses</b>	<b>181%</b>
Youth (aged under 35)	7,787 businesses	6,954 businesses	<b>10,986 businesses</b>	<b>158%</b>

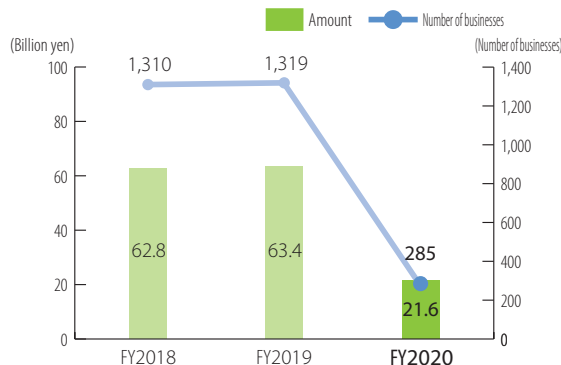
Note: Women who also qualify as youth or seniors included in the women category.

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

In FY2020, Loans to Foster Growth of New Businesses came to: **285 businesses (22% compared to the previous fiscal year), 21.6 billion yen (34% compared to the previous fiscal year).**

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

Loans to Foster Growth of New Businesses



### (iii) Stock subscription rights loans

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

In FY2020, loans came to: **15 businesses (48% compared to the previous fiscal year), 2.09 billion yen (69% compared to the previous fiscal year).**

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

	FY2018	FY2019	FY2020	Compared to the previous fiscal year
Number of businesses	32	31	15	48%
Amount	1.5 billion yen	3.04 billion yen	2.09 billion yen	69%

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

In FY2020, Capital Subordinated Loans came to: **49 businesses (24% compared to the previous fiscal year), 4.4 billion yen (23% compared to the previous fiscal year).**

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

#### Results of Capital Subordinated Loans

	FY2018	FY2019	FY2020	Compared to the previous fiscal year
Number of businesses	279	207	49	24%
Amount	16.4 billion yen	18.9 billion yen	4.4 billion yen	23%

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

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

## (2) Support for business revitalization

Results of financing relating to business revitalization in FY2020 came to **654 businesses (10% compared to the previous fiscal year) and 54.3 billion yen (22% compared to the previous fiscal year)** for Corporate Revitalization Loans, whereas Capital Subordinated Loans came to **66 businesses (14% compared to the previous fiscal year) and 5.2 billion yen (16% compared to the previous fiscal year)**. In addition, financing support relating to revitalization was provided to **93 businesses (58% compared to the previous fiscal year)**.

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

		FY2018	FY2019	FY2020	Compared to the previous fiscal year
Corporate Revitalization Loans	Number of businesses	7,669	6,466	654	10%
	Amount	221.5 billion yen	246.9 billion yen	54.3 billion yen	22%
Capital Subordinated Loans	Number of businesses	548	485	66	14%
	Amount	34.5 billion yen	33.5 billion yen	5.2 billion yen	16%

#### Results of financial support relating to revitalization

		FY2018	FY2019	FY2020	Compared to the previous fiscal year
Methods of financing for comprehensive revitalization such as DDS and DES <sup>(Note)</sup>	Number of businesses	165	160	93	58%

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

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

### (3) Support for business succession

The business succession-related loans in FY2020 came to **1,442 loans (16% compared to the previous fiscal year) and 47.8 billion yen (32% compared to the previous fiscal year)**.

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

#### Business succession-related loans

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
<b>Number of loans</b>	176	707	1,492	2,467	5,593	9,047	<b>1,442</b>
<b>Amount</b>	11.9 billion yen	18.6 billion yen	29.6 billion yen	42.4 billion yen	88.2 billion yen	150.3 billion yen	<b>47.8 billion yen</b>

- Notes: 1. JFC is expanding financing subjects in order to respond to broader demand for funds such as providing funds for business succession preparations from April 2017 and environmental health-related businesses from FY2020.  
 2. The figure above includes results from the New Business Activity Promotion Funds (business succession-related\*) established in February 2015. \*Integrated into Business Success, Consolidation, and Revitalization Funds in 2017, etc.  
 3. Loans used for funding necessary for business succession other than Business Success, Consolidation, and Revitalization Funds, etc. (certified loans) have been added to the total since FY2018.

### Examples of measures to raise manager awareness

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



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

#### Baton for the Future



A pamphlet that encourages self-diagnosis concerning business succession and provides information on sharing information with JFC officials concerning issues regarding business success and the direction the company should take (Revised in April 2021)



#### Business succession support video



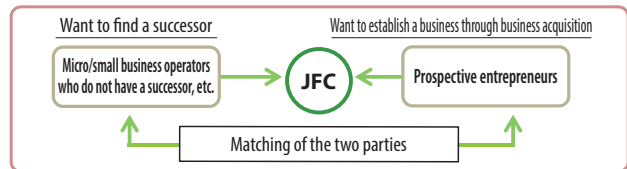
A video that provides information on the significance of business succession, the importance of preparation, and other topics (Currently available on the JFC website)

### Business succession matching support

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

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

In light of these circumstances and taking into consideration changes in the business environment due to the impact of the COVID-19 pandemic, JFC began matching support on a nationwide scale from FY2020.



#### Business succession matching support results

Results	Want to transfer business	Want to acquire business
Number of application registrations	163	544 (191)
Number of matchings	78	

- Notes: 1. Please refer to the JFC website for detailed information on business succession matching support.  
 2. The results of business succession matching support are cumulative results from FY2019 to FY2020. Figures in parentheses are the numbers of registered application registrations persons who wish to start a business.

### Example of Successful Business Succession Matching Support

The transferred business is a popular udon noodle restaurant (a sole proprietorship operated by Mr. A) that has been selected as a well-known restaurant on gourmet websites. The owner is aging and has no successor, so he registered for this service. He desired to transfer his business to a company that he could trust with the taste of his udon dishes and his goodwill. Meanwhile, Company B, the acquiring company, is a corporation that manages multiple restaurants and was considering acquiring a restaurant with a strong lunchtime clientele.

JFC carefully interviewed Mr. A about his wishes regarding the transfer of his business and supported his extensive search for a successor by using private matching sites. With support from JFC, Mr. A signed a transfer agreement with Company B in April 2021 after interviewing senior management and negotiating with several candidate transferees.



Mr. A and Company B signing the agreement

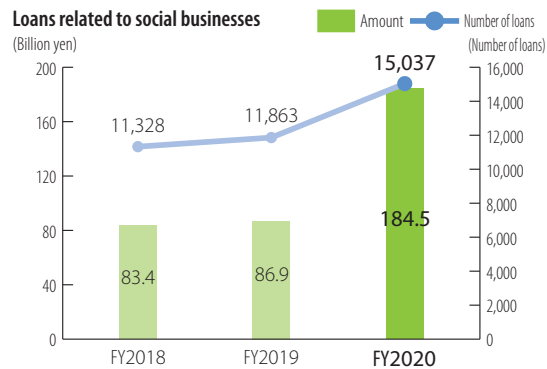


#### (4) Support for social business <sup>(Note)</sup>

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

In FY2020, loans related to social businesses came to: **15,037 loans (127% compared to the previous fiscal year)**, **184.5 billion yen (212% compared to the previous fiscal year)**, of which **1,803 loans (156% compared to the previous fiscal year)**, **19.6 billion yen (276% compared to the previous fiscal year)** were loans to NPOs.

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



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

		FY2018	FY2019	FY2020	Compared to the previous fiscal year
Number of loans related to social businesses <sup>(Note)</sup>	Number of loans	11,328	11,863	<b>15,037</b>	<b>127%</b>
	Amount	83.4 billion yen	86.9 billion yen	<b>184.5 billion yen</b>	<b>212%</b>
(i) For NPOs	Number of loans	1,381	1,155	<b>1,803</b>	<b>156%</b>
	Amount	8.7 billion yen	7.1 billion yen	<b>19.6 billion yen</b>	<b>276%</b>
(ii) For nursing care and welfare businesses	Number of loans	8,440	8,095	<b>13,741</b>	<b>170%</b>
	Amount	64.6 billion yen	59.2 billion yen	<b>172.3 billion yen</b>	<b>291%</b>
(iii) For businesses addressing social issues	Number of loans	2,527	3,447	<b>560</b>	<b>16%</b>
	Amount	17.0 billion yen	26.2 billion yen	<b>5.0 billion yen</b>	<b>19%</b>

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

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

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

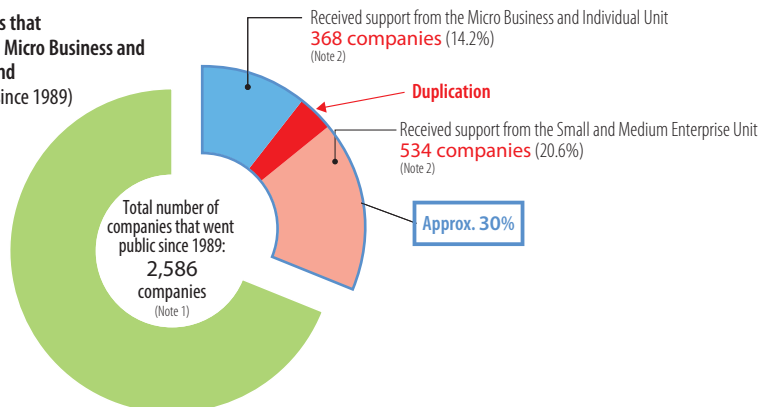
The Visualization Book is a workbook that helps businesses organize six elements relating to business planning (organizational mission, understanding of current conditions, implementation hypotheses, results targets, financial foundations, and organizational foundations). The Visualization Book can be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



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

Of those companies listed since 1989, the total numbers of companies that went public after receiving support from the Micro Business and Individual Unit or Small and Medium Enterprise Unit were 368 companies and 534 companies, respectively, with 798 companies receiving support from both (excluding duplication), accounting for approximately 30% of the total.

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



Notes: 1. Of those companies listed on each market since 1989, the total number of companies whose shares are publicly traded as of March 31, 2021 (according to JFC investigations)  
2. Of those companies indicated in Note 1, companies confirmed to have received support from Micro Business and Individual Unit or Small and Medium Enterprise Unit.

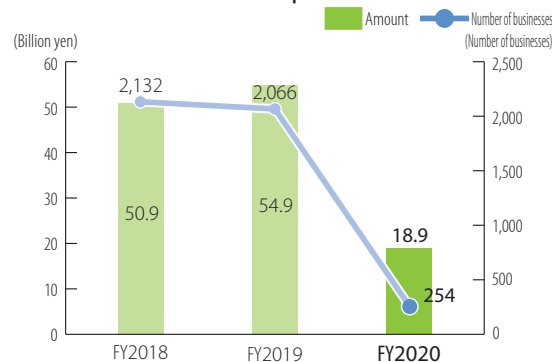
## (5) Support for overseas expansion

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

In FY2020, Loans for Overseas Investment and Expansion were provided to **254 businesses (12% compared to the previous fiscal year), totaling 18.9 billion yen (34% compared to the previous fiscal year).**

We began handling the cross-border loans in January 2021 and support effective capital procurement by overseas subsidiaries. The cross-border loans are a program under which JFC provides direct loans to overseas subsidiaries that work with their domestic parent companies (SMEs and others) to improve management capabilities, implement management innovations, and revitalize local economies in order to adapt to structural changes overseas. The countries and regions where this program can be used are Thailand, Viet Nam, and Hong Kong, and loans were provided to **11 businesses** in FY2020.

### Loans for Overseas Investment and Expansion



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

	FY2018		FY2019		FY2020		
	Number of businesses	Ratio	Number of businesses	Ratio	Number of businesses	Ratio	Compared to the previous fiscal year
China (including Hong Kong)	701	33%	667	32%	<b>56</b>	<b>22%</b>	<b>8%</b>
ASEAN	532	25%	547	26%	<b>107</b>	<b>42%</b>	<b>20%</b>
Viet Nam	154	7%	169	8%	<b>39</b>	<b>15%</b>	<b>23%</b>
Thailand	124	6%	126	6%	<b>26</b>	<b>10%</b>	<b>21%</b>
Philippines	88	4%	62	3%	<b>9</b>	<b>4%</b>	<b>15%</b>
Malaysia	44	2%	46	2%	<b>9</b>	<b>4%</b>	<b>20%</b>
Other ASEAN countries	122	6%	144	7%	<b>24</b>	<b>9%</b>	<b>17%</b>
Others	899	42%	852	41%	<b>91</b>	<b>36%</b>	<b>11%</b>
<b>Total</b>	<b>2,132</b>	<b>100%</b>	<b>2,066</b>	<b>100%</b>	<b>254</b>	<b>100%</b>	<b>12%</b>

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

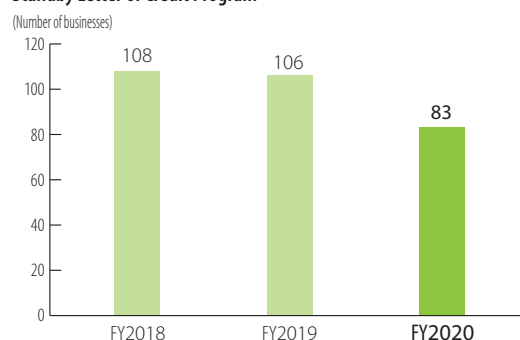
As for FY2020, letters of credit were issued to the affiliated financial institutions in Thailand, China, Republic of Korea, Indonesia, Viet Nam, Mexico, Singapore, and Taiwan, being utilized by **83 businesses**. The cumulative usage (until March 31, 2021) of this program since its start in FY2012 has reached **720 businesses**.

As of March 31, 2021, the number of affiliated financial institutions expanded to 15 institutions.

In order to allow more SMEs to make use of this program, JFC established a scheme to partner regional financial institutions throughout Japan in FY2013. As of March 31, 2021, we have business partnerships with 60 regional financial institutions in Japan, and since the start of the program, letters of credit have been issued to a total of **46 businesses** through this partnership scheme.

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

### Standby Letter of Credit Program



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

In partnership with trading companies, the Trial Export Support Project has coordinated to provide support to domestic agricultural, fisheries and food manufacturing businesses showing an eagerness to export their products. This has resulted in support for **35 cases** of trial exports in FY2020.

Countries to which products were exported include Hong Kong with 9 cases, Singapore with 7 cases, Macau with 6 cases, Germany with 4 cases, the United States with 4 cases, Taiwan with 3 cases, France with 1 case, and Thailand with 1 case.

Actual types of products exported included 15 agricultural products (strawberry, sweet potato, etc.) and 20 processed foods (tea, black garlic, peach puree, tofu, etc.).

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

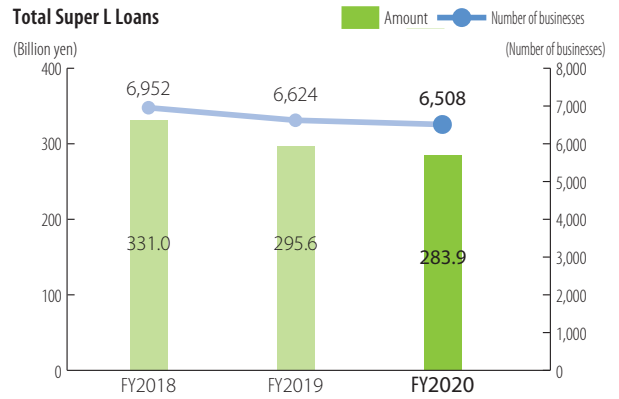
### Performance of Trial Main Export Support Project

Country or region of export	FY2018 Number of trials	FY2019 Number of trials	FY2020 Number of trials	Items (FY2020)
Hong Kong	—	5	<b>9</b>	Processed meat, mandarin orange juice, pearl barley, processed green onion, black garlic, etc.
Singapore	15	3	<b>7</b>	Strawberry, tomato, Shine Muscat, confectionery, etc.
Macau	6	5	<b>6</b>	Melon, tea, asparagus, peach puree, etc.
Germany	—	—	<b>4</b>	Tea, komatsuna, tofu
United States	—	—	<b>4</b>	Strawberry, raisin, tomato ketchup
Taiwan	12	22	<b>3</b>	Rice, tea
France	—	3	<b>1</b>	Mushroom
Thailand	5	—	<b>1</b>	Sweet potato
Others	5	2	—	
<b>Total</b>	<b>43</b>	<b>40</b>	<b>35</b>	

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

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

Agricultural Management Framework Reinforcement Loans (name: Super L Loan) in FY2020, came to: **6,508 businesses (98% compared to the previous fiscal year), 283.9 billion yen (96% compared to the previous fiscal year).**

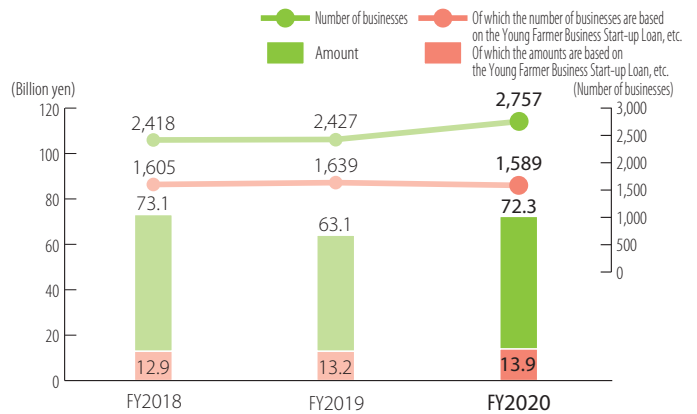


In FY2020, loans to new agricultural business and new entry farmers came to **2,757 businesses (114% compared to the previous fiscal year), and 72.3 billion yen (115% compared to the previous fiscal year).**

From FY2014, newly started loans to the Young Farmer Business Start-up Loan, etc. <sup>(Note)</sup> came to: **1,589 businesses (97% compared to the previous fiscal year), 13.9 billion yen (105% compared to the previous fiscal year).**

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

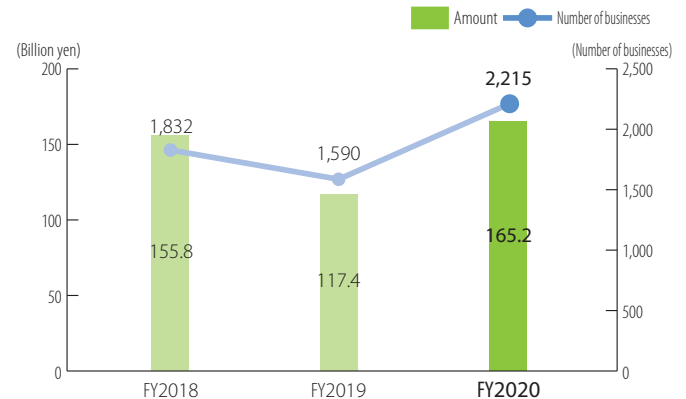
**Loans to new farmers, new entrants to agriculture**



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

FY2020 loans to activities due to improved management by the “Sixth Industrialization” (e.g., processing, sales, and other business undertaken integrally by agricultural, forestry, and fishery businesses to increase the added value of products) increased to: **2,215 businesses (139% compared to the previous fiscal year), 165.2 billion yen (141% compared to the previous fiscal year).**

**Loans to those engaged in the “Sixth Industrialization”**



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

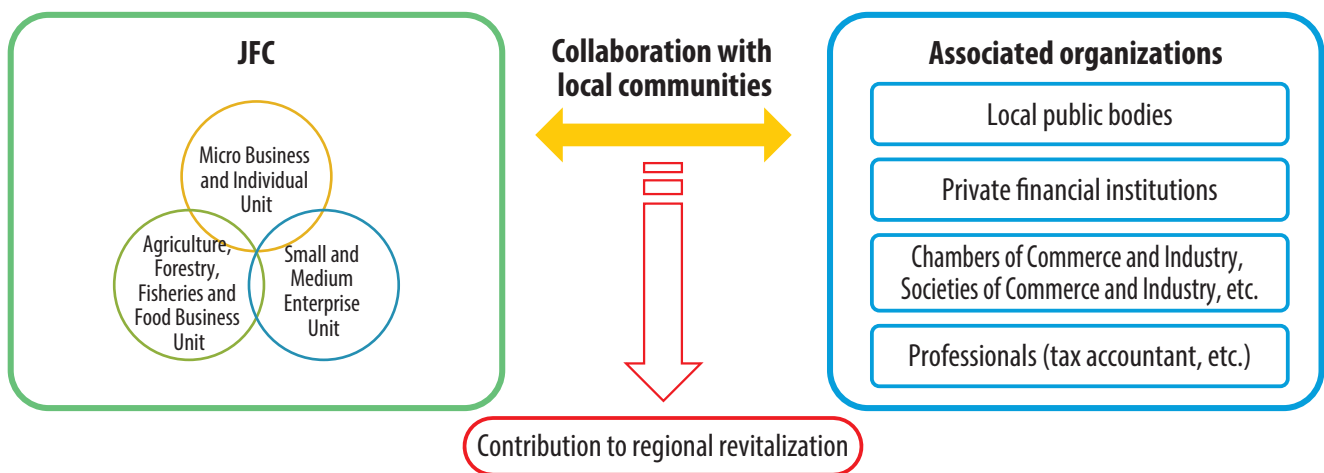
At the end of FY2020, investments came to **18 Limited Partnerships (LPS) (pledged investment amount by JFC: 3.56 billion yen), established by private financial institutions based on agricultural corporation investment development businesses <sup>(Note)</sup> and 1 stock company (investment amount by JFC: 2.03 billion yen).**

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

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

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

<p>(1) <b>Reinforcement of collaboration with local government through active participation in regional comprehensive strategies</b></p>	<p>In order to contribute to regional revitalization, JFC supports the implementation and promotion of regional comprehensive strategies formulated by regional local governments through collaboration with private financial institutions and others under the national strategy for overcoming population decline and revitalizing local economies and actively contributes to measures for overcoming the COVID-19 pandemic.</p>
<p>(2) <b>Provision of useful services tailored to customer and local needs</b></p>	<p>In order to deal with various needs of customers, JFC provide hands-on matching support for customers engaged in market and product development and conducts business discussion meetings and seminars by using its nationwide network of 152 branches.</p>
<p>(3) <b>Performance of the role of connecting relevant organizations</b></p>	<p>JFC adopts an overall perspective of a region, strengthens cooperation with relevant organizations and works to resolve issues that the region and customers affected by the COVID-19 pandemic are facing.</p>



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

- JFC is attentively responding to regional challenges, taking into consideration local circumstances and needs, at 152 branches nationwide.
- In FY2020, we contacted **420** local governments to explain our approach to the COVID-19 pandemic while taking into account the circumstances of the pandemic. In addition, we cooperated in the formulation and implementation of phase 2 regional comprehensive strategies and worked to strengthen cooperation with local governments by participating in individual measures in various fields such as support for start-ups and venture businesses and promotion of industry.

## Provision of Useful Services Tailored to Customer and Local Needs

- In FY2020, we held matching events and business meetings in regions throughout Japan according to the circumstances of each region while keeping in mind customer responses to the COVID-19 pandemic.
- The Agri-Food EXPO and National Business Discussion Meeting were held online in consideration of the status of the COVID-19 pandemic, and branches throughout Japan provided support to solve customer problems by holding business meetings and seminars tailored to local conditions and taking other actions.
- Through its Internet business matching site, JFC provides a forum offering business opportunities to customers, including new buyers and new suppliers of raw materials.

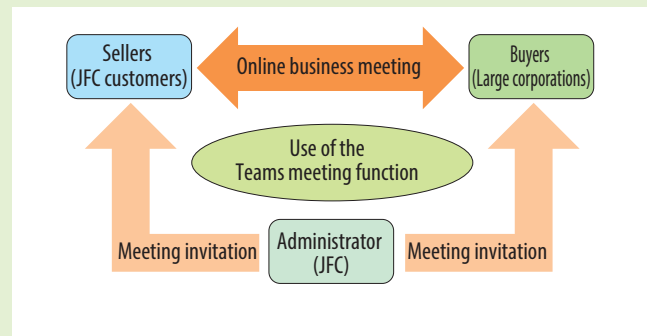
JFC Internet Business Matching

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



### Online Business Meetings Between JFC Customers and Large Corporations

- To respond to the needs of customers who want to expand their sales channels to large corporations even during the COVID-19 pandemic, we held online business meetings (March 8-12, 2021).
- 331 JFC customers participated in these meetings, and as many as 424 effective business meetings were held with major corporations, resulting in a high level of satisfaction among the participants.



## Performance of the Role of Connecting Relevant Organizations

- From the perspective of strengthening consulting functions for clients, we collaborate with relevant organizations and hold seminars for clients, study groups for the personnel of JFC and relevant organizations and other programs in various regions.
- As a policy-based finance institution, we play a role in “connecting” relevant organizations in regions and contribute to solving the problems that local customers are facing by holding regional Economic Revitalization Symposiums with local financial institutions, support groups, local companies and organizations in various locations around Japan. In FY2019, the symposiums were held in three locations nationwide (Nagoya, Niigata and Sendai), but in FY2020, the symposiums were canceled due to effects from the COVID-19 pandemic. In FY2021, we plan to hold the symposiums using a method that combines online distribution with supporting customers and communities affected by COVID-19 as the theme.



Regional Economic Revitalization Symposium in Nagoya



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

JFC has been conducting the High School Student Business Plan Grand Prix since FY2013 with the aim of nurturing the ability to independently develop one's future through the process of creating a business plan. Many high schools throughout Japan were closed due to the COVID-19 pandemic, and even after schools reopen, it was difficult for high school and technical college students to secure sufficient time to create a business plan, so the 8th High School Student Business Plan Grand Prix event was cancelled.

For the 7th High School Student Business Plan Grand Prix held in FY2019, a total of 3,808 entries were received from 409 schools. Business Start-up Support Centers nationwide visited 353 schools and gave lectures about how to create a business plan.

### The 9th High School Student Business Plan Grand Prix

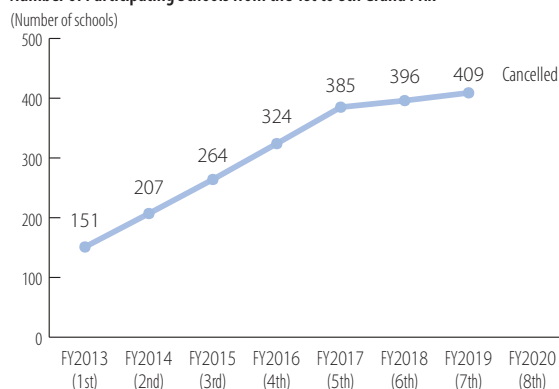
The 9th Grand Prix will be held after taking adequate measures to prevent the spread of infection, taking into account the status of COVID-19.

Application period: July 1 to September 29, 2021 (\* If sent by mail, applications must be received by September 22)

Announcement of ten finalist groups: Late November 2021

Final competition and award ceremony: January 9, 2022

Number of Participating Schools from the 1st to 8th Grand Prix



Students and teachers from Osaka Prefectural Mikunigaoka High School which received the 7th Grand Prix award.

Please visit the JFC website for more information.

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



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

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



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

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

Please visit the JFC website for more information.

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





# Overview of Operations in FY2020 and Outline of Financial Statements

## Overview of Operations in FY2020

In FY2020, the Japanese economy is still in a severe situation due to the COVID-19 pandemic. While it is showing the movements of picking up by the effects of various policies, the full recovery remains to be seen with the level of the economy below the pre-pandemic level.

JFC actively engaged in exercising of support customers affected by the COVID-19 pandemic, safety net functions, cooperation with private financial institutions, contributing to strategic fields of growth, improving customer services, and contributing to local and regional revitalization, etc.

Going forward, JFC will continue to take all possible measures to support customers affected by the COVID-19 pandemic and focus its efforts on following up with the many clients that have increased due to the COVID-19 pandemic. Based on the assumption that a large-scale crisis like the COVID-19 pandemic can occur in the future, JFC will undertake further digitalization, secure personnel in preparation for emergencies, and reinforces safety net functions to build systems that can respond to such crises.

In addition, JFC will deepen cooperation with relevant organizations that have played roles during the COVID-19 pandemic including private financial institutions, Chambers of Commerce and Industry, Societies of Commerce and Industry, and tax accountants, provide support in Strategic Fields of Growth by responding to increasing needs for business succession and rebuilding businesses with an eye toward the post-COVID era, and take measures to contribute to regional revitalization.

### Support Customers Affected by the COVID-19 Pandemic

The government has implemented economic measures on an unprecedented budgetary scale in order to support those impacted by the COVID-19 pandemic. In accordance with this, loan programs were established and expanded, and as of March 31, 2021, the number of loan decisions reached approximately 800,000, greatly exceeding the results of the previous fiscal year as well as the results of FY2009, when businesses were greatly affected by the collapse of Lehman Brothers and the subsequent financial crisis.

In order to respond to the circumstances, JFC has strengthened staffing and operational systems by postponing regular personnel transfer, hiring former employees, dispatching support staff from the head office to branches, providing consultation services on holidays, increasing the number of toll-free consultations line, simplifying documents to be submitted for examination, and simplifying examination procedures.

Additionally, measures to prevent the spread of infection among customers and staff include introduction of an appointment system, encouraging customers to apply by mail or online to reduce visits to branches, installation of transparent acrylic panels at counters, and improving environments to avoid the three Cs (closed spaces, crowded places, close-contact settings).

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

In addition, JFC will collect and disseminate case studies of business maintenance and development for overcoming the COVID-19 pandemic and demonstrate consulting functions through follow-ups after the provision of loans.

### Exercising of Safety Net Functions

As a policy-based financial institution, JFC responded to the needs of customers with a sense of mission to connect policy with the people engaged in business such as SMEs, micro/small businesses, and agricultural, forestry, and fishery businesses affected by the Great East

Japan Earthquake, natural disasters such as typhoons, changes in the management environment due to economic circumstances, or other factors.

In response to the heavy rains in July 2020, Typhoon No. 14 of 2020, the heavy snowfall starting on December 16, 2020, the heavy snowfall starting on January 7, 2021, the earthquake off the coast of Fukushima prefecture in 2021, the large-scale fire in Ashikaga City, Tochigi Prefecture in 2021, and the landslide in Itoigawa City, Niigata Prefecture in 2021, JFC established special consultation desks and provided timely and detailed responses to financing and repayment inquiries to affected SMEs, micro/small businesses, and agricultural, forestry, and fishery businesses.

In addition, JFC conducted credit guarantee underwriting to ensure the effective provision of guarantees by Credit Guarantee Corporations (CGCs) and carried out the Operations to the Facilitate Crisis Responses.

### Cooperation with Private Financial Institutions

Based on the premise of playing a complementary role with private financial institutions as specified in Article 1 of the Japan Finance Corporation Act, JFC promoted partnerships with many private financial institutions.

In FY2020, JFC maintained its existing actions in collaboration with private financial institutions and worked to strengthen collaboration in its responses to customers who have been affected by the COVID-19 pandemic.

Specifically, private financial institutions supported the preparation of documents needed for applications to JFC, and JFC took measures to present on its website information concerning interest-free and unsecured loan programs by private financial institutions as well as information concerning support relating to the COVID-19 pandemic by individual financial institutions.

In addition, JFC used the COVID-19 Hybrid Subordinated Loan Program and other programs to strengthen collaboration relating to management improvement and business revitalization support for businesses.

### Support for Strategic Fields of Growth, etc.

Based on the government's policies, JFC appropriately determined its risk-taking functions and engaged in supporting start-ups, new businesses, business revitalization and succession, social businesses and overseas expansion as well as new expansion of agriculture, forestry, and fisheries business operators in hopes of contributing to the development and growth of the Japanese economy, taking into consideration changes in the environment during the COVID-19 pandemic.

As a part of these efforts, JFC is working in collaboration with relevant organizations regarding business succession with priority on the provision of effective information including matching.

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

To proactively improve customer service, JFC strived to provide useful information consistent with customer and local needs and enhance consultation capability, fully understanding its role in policy-based financing and appropriately operating systems.

Specifically, even during the COVID-19 pandemic, JFC actively participated in local projects such as phase 2 regional comprehensive strategies and provided financing support based on the needs of customers and local communities. JFC held the Agri Food Expo Online and online business meetings between JFC customers and large corporations, actively responding to the issues faced by customers.

As a result, JFC's loan results for FY2020 were 17,984.1 billion yen.

JFC's financial results during FY2020 were as follows: ordinary income was 478.8 billion yen and net loss including extraordinary incomes and losses was 1,037.2 billion yen.

## Outline of Financial Statements for FY2020

### 1. Profit and loss

At the closing of FY2020 (ended March 31, 2021), JFC recorded a loss of 1,007.6 billion yen over the previous fiscal year, for a net loss of 1,037.2 billion yen.

The key factor was an increase of current net loss by 716.4 billion yen over the previous term in the Account for Credit Insurance Programs.

#### Profit and Loss Statement

(Unit: billion yen)

	Ordinary income		Ordinary expenses		Ordinary profit (loss)		Net income (loss)		
	2020	2021	2020	2021	2020	2021	2020	2021	
Japan Finance Corporation	469.4	478.8	498.7	1,515.8	(29.3)	(1,037.0)	(29.6)	(1,037.2)	
Micro Business and Individual Unit (Account for Micro Business and Individual Operations)	138.2	135.8	152.0	290.3	(13.7)	(154.5)	(13.9)	(154.6)	
Agriculture, Forestry, Fisheries and Food Business Unit (Account for Agriculture, Forestry, Fisheries and Food Business Operations)	43.2	49.9	43.2	49.9	0.0	0.0	(0.0)	0.0	
Small and Medium Enterprise (SME) Unit	Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)	80.8	80.6	84.7	232.9	(3.9)	(152.2)	(4.0)	(152.3)
	Account for Securitization Support Programs (Purchase-type Operation)	0.6	0.7	0.5	0.5	0.1	0.1	0.1	0.1
	Account for Credit Insurance Programs	195.3	201.6	197.7	920.4	(2.3)	(718.8)	(2.3)	(718.8)
Operations to Facilitate Crisis Responses (Account for Operations to Facilitate Crisis Responses)	11.2	10.1	20.6	21.7	(9.3)	(11.6)	(9.3)	(11.6)	
Operations to Facilitate Specific Businesses Promotion, etc. (Account for Operations to Facilitate Specific Businesses Promotion, etc.)	0.2	0.2	0.2	0.2	(0.0)	(0.0)	(0.0)	(0.0)	

### 2. Assets

Total assets were 35,959.7 billion yen, the majority of which were loans and bills discounted.

Loans and bills discounted increased 12,264.7 billion yen from March 31, 2020, to 28,945.7 billion yen.

Total net assets stood at 8,857.0 billion yen, taking into account an increase from having received capital contributions from the government of 4,117.6 billion yen, against a net loss of 1,037.2 billion yen, etc.

#### Balance Sheet

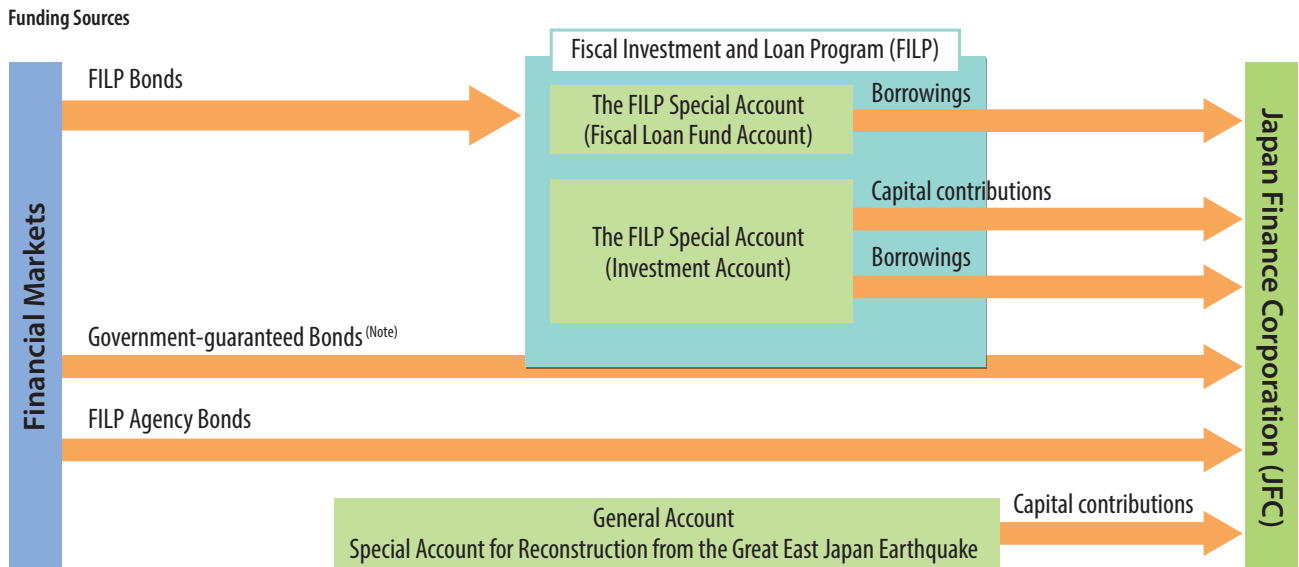
(Unit: billion yen)

Assets			Liabilities and net assets		
Items	Amount		Items	Amount	
	2020	2021		2020	2021
Cash and due from banks	4,401.1	7,403.5	Borrowed money	12,810.3	23,713.8
Securities	41.9	37.4	Bonds payable	1,410.4	1,575.6
Loans and bills discounted	16,680.9	28,945.7	Entrusted funds	27.0	26.0
Other assets	37.8	44.9	Reserve for insurance policy liabilities	773.1	1,536.8
Property, plant and equipment	194.6	195.1	Other liabilities	19.7	35.2
Intangible assets	15.7	18.3	Provision for bonuses	5.3	5.4
Customers' liabilities for acceptances and guarantees	100.9	93.8	Provision for directors' bonuses	0.0	0.0
Allowance for loan losses	(434.9)	(779.1)	Provision for retirement benefits	88.7	90.2
			Provision for directors' retirement benefits	0.0	0.0
			Reserve for compensation losses	25.6	25.4
			Acceptances and guarantees	100.9	93.8
			<b>Total liabilities</b>	<b>15,261.5</b>	<b>27,102.7</b>
			Capital stock	4,324.2	6,990.2
			Capital surplus	2,233.7	3,685.4
			Retained earnings	(781.2)	(1,818.5)
			<b>Total net assets</b>	<b>5,776.7</b>	<b>8,857.0</b>
<b>Total assets</b>	<b>21,038.3</b>	<b>35,959.7</b>	<b>Total liabilities and net assets</b>	<b>21,038.3</b>	<b>35,959.7</b>

# Funding

## Funding Sources

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



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

### Breakdown of funding sources

(Unit: billion yen)

	FY2021 budget	FY2020 budget	FY2020 results
Borrowings from Fiscal Loan Fund, etc.	24,727.6	44,098.7	14,315.4
Government-guaranteed Bonds	1,200.0	7,600.0	200.0
Capital contributions from the government	51.1	12,301.5	4,117.6
Funding from the government (percentage of overall funding)	25,978.7 (99%)	64,000.2 (100%)	18,633.1 (99%)
FILP Agency Bonds	290.0	300.0	260.0
Total funding	26,268.7	64,300.2	18,893.1

Notes: 1. The budget amounts for FY2020 year are the revised levels following the supplementary budget.  
The budget amounts for FY2020 include expenditures under the reserve funds.

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

## ● Government-guaranteed Bonds

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

(Unit: billion yen)

Maturity	Fiscal year	FY2021		FY2020		FY2019		FY2018	
		Budget	Results	Budget	Results	Budget	Results	Budget	Results
10-year bond		500.0	—	500.0	50.0	30.0	—	70.0	50.0
6-year bond		—	—	—	—	90.0	45.0	115.0	55.0
Over 5-year bond (excluding 10-year bond)		—	—	6,000.0	—	—	—	—	—
Less than 5-year bond		400.0	—	600.0	150.0	100.0	—	200.0	—
Short-term bond (Less than 1 year)		300.0	—	500.0	—	—	—	—	—
Total		1,200.0	—	7,600.0	200.0	220.0	45.0	385.0	105.0

Notes: 1. The FY2020 budget amounts are the revised levels following the supplementary budget.

In FY2021, JFC plans to issue government-guaranteed bonds depending on the progress of operations.

2. The budget amounts for each fiscal year are the issue-amount limits, that is, the maximum amount of the government guaranty in the relevant fiscal year (excluding short-term bond (less than 1 year)\*).

The budget amounts for short-term bond (less than 1 year) are the outstanding-amount limits in the relevant fiscal year.

3. In FY2021, JFC has not been issued government-guaranteed bonds as of May 31, 2021.

## ● FILP Agency Bonds

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

(Unit: billion yen)

Month of issue/Maturity	Fiscal year	FY2021		FY2020			FY2019				FY2018				
		Amount of issue (Budget 290.0)	Results 0.0	(Budget 300.0)			(Budget 320.0)				(Budget 320.0)				
				May	August	November	March	May	August	November	March	May	August	November	March
Month of issue		May	May	May	August	November	March	May	August	November	March	May	August	November	March
10-year bond		—	—	—	—	—	—	10.0	10.0	—	—	—	25.0	—	—
4-year bond		—	—	—	80.0	—	—	30.0	—	—	15.0	30.0	—	—	15.0
3-year bond		—	—	—	—	—	10.0	—	—	—	—	—	25.0	—	—
2-year bond		—	60.0	110.0	—	—	—	50.0	40.0	50.0	—	60.0	50.0	30.0	—

Notes: 1. The budget amounts for each fiscal year are the issue-amount limits in the relevant fiscal year.

2. In FY2021, JFC has not been issued FILP agency bonds as of May 31, 2021.

## Ratings of JFC (As of May 31, 2021)

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

## Overview of Operations

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Micro Business and Individual Unit .....	36
Agriculture, Forestry, Fisheries and Food Business Unit ...	42
Small and Medium Enterprise (SME) Unit .....	48
Operations to Facilitate Crisis Responses and Specific Businesses Promotion, etc. ....	54
Research Institute .....	56

# 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 1.17 million businesses.
- The average loan balance per business is 10.08 million yen, most of which were small loans.
- Approximately 80% 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, heavy rains and typhoons.

### 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 40,580 a year. It is estimated that about 130,000 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.

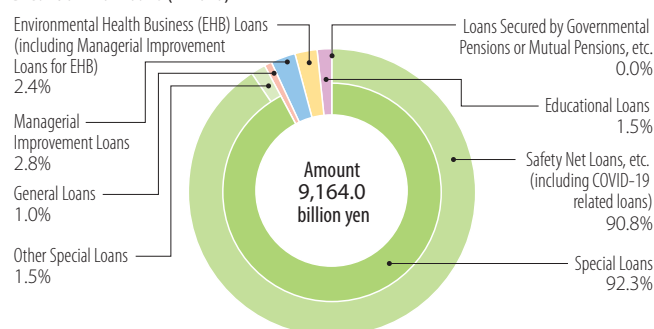
### Collaboration with Chambers of Commerce and Industry, Societies of Commerce and Industry, Environmental Health Trade Associations, and Regional Financial Institutions, etc.

- 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.

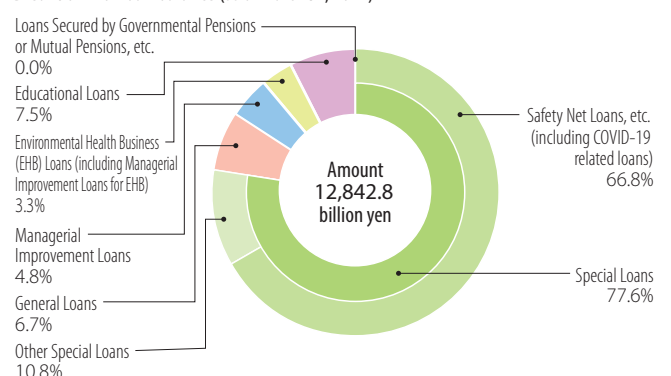
### Support through Educational Loans, etc.

- Approximately 90,000 Educational Loans are disbursed each year.

Breakdown of Loans (FY2020)



Breakdown of loan balance (as of March 31, 2021)





## Feature of Operations

### Supporting Micro/Small Businesses

Business Loans in FY2020 were provided to 1.17 million businesses. The average loan balance per business is 10.08 million yen, most of which were small loans. Approximately 80% of borrowers are micro/small businesses with nine or fewer employees, and many are sole proprietors. Over 90% of all loans are uncollateralized.

We worked to support businesses affected by COVID-19, and as a result, approximately 300,000 more businesses received business loans compared to March 31, 2020.

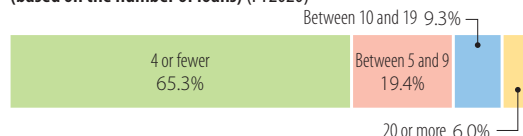
Number of business borrowers and average loan balance per business (as of March 31, 2021)

	Micro Business and Individual Unit	Total for shinkin banks (254 banks)	Total for domestic banks (132 banks)
Number of business borrowers (million)	<b>1.17</b>	1.22	2.21
Average loan balance per business (million yen)	<b>10.08</b>	43.00	100.80

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) (FY2020)



Note: The breakdown is the total of General Loans and Environmental Health Business Loan (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 when the consultation desks were created, to March 31, 2021, we decided a total of 755,301 COVID-19 related loans worth a total of 9,053.1 billion yen. This is about three times the number of loans provided in FY2018, before the outbreak of the COVID-19 pandemic. 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.

	Number of loans <sup>(Note)</sup>	Amount <sup>(Note)</sup>
COVID-19 related loans: January 29, 2020–March 2021	755,301	9,053.1 billion yen
Loans at the time of the Lehman Brothers bankruptcy: April 2009–March 2010	341,231	2,803.8 billion yen
Great East Japan Earthquake Related Loans: March 2011–March 2021	239,861	2,258.0 billion yen
Reference: FY2018 Loan Results	257,640	1,990.7 billion yen

Note: COVID-19 related financing data is prepared on a loan decision basis.

#### ● 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 rains, 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 as of March 31, 2021, the Micro Unit executed 239,861 loans related to the earthquake, amounting to 2,258.0 billion yen.

For loan performance related to the damages suffered from Typhoon No. 19 of 2019 and other disasters, the Micro Unit executed 1,534 loans, amounting to 15.4 billion yen, as of March 31, 2021.

Main consultation desks currently in operation (as of May 31, 2021)

	Number of consultation desks	Consultation desks currently in operation	Date of establishment
Disaster-related	15	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
		Special consultation desk for damage suffered as a result of Typhoon No. 14 of 2020	Oct. 2020
		Special consultation desk for damage suffered as a result of heavy snowfall from December 16, 2020	Dec. 2020
		Special consultation desk for damage suffered as a result of heavy snowfall from January 7, 2021	Jan. 2021
		Special consultation desk for damage suffered as a result of the earthquake off the coast of Fukushima Prefecture in 2021	Feb. 2021
		Special consultation desk for damage suffered as a result of the large-scale fire in Ashikaga City, Tochigi Prefecture in 2021	Feb. 2021
		Special consultation desk for damage suffered as a result of the landslide in Itoigawa City, Niigata Prefecture in 2021	Mar. 2021
Special consultation desk for damage suffered as a result of the large-scale fire in Matsue City, Shimane Prefecture in 2021	Apr. 2021		
Others	1	Special consultation desk relating to COVID-19	Feb. 2020

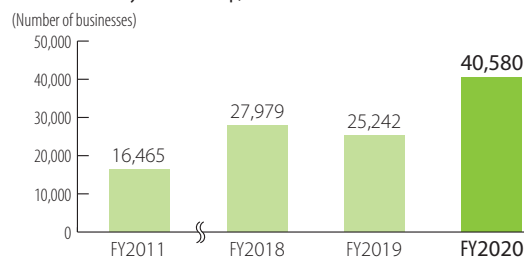
## Supporting Business Start-ups (consisting of those that have yet to start and those that are within 1 year of start-up) Proactively

### ● Support for business start-ups

Not a few companies that have yet to start and those that are within 1 year of start-up face difficulties in raising funds for such reasons as a shortage of business experiences. The Micro Unit actively provides loans to these companies to support their business activities.

The Micro Unit provided loans to a total of 40,580 business start-ups (consisting of those that have yet to start and those that are within 1 year of start-up) in FY2020. It is estimated that about 130,000 jobs were created annually as a result.

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



### [Job Creation Effects]

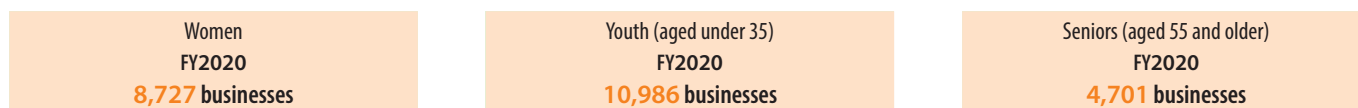
40,580 businesses × average of 3.2 employees<sup>(Note)</sup> = 129,856 employees

Note: The average number of employees at time of business start, based on Survey on Business Start-ups in Japan (FY2020) by the JFC Research Institute.

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

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

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



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

### ● Setting up business start-up support desks

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

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

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

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

### ● 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 (Shinjuku) Business Support Plaza.

Locations (as of June 2021)



## 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. We use Capital Subordinated Loans, which are characterized by certain term lump-sum repayment and fixed interest rates according to business performance and the loan itself can be treated as “owned capital” rather than a “debt” for the purpose of asset audits by financial institutions. 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 FY2020 loans to social businesses came to: 15,037 loans, 184.5 billion yen, of which 1,803 loans, 19.6 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

Overseas Expansion Support Desks, established at 152 branches nationwide cooperate with Japan External Trade Organization (JETRO), Organization for Small & Medium Enterprises and Regional Innovation (SME Support, Japan), Japan Federation of Bar Associations, and other external experts that support overseas expansion. The Micro Unit provides detailed support information according to the needs of customers by providing advice for first-time overseas expansion, information on overseas exhibitions and business meetings, and confirmation of local laws and regulations, required permits and licenses, and the details of contracts.

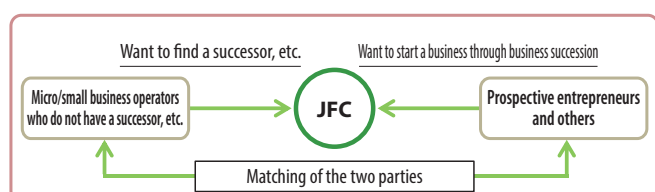
## Supporting Business Revitalization Actively

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 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, and reduction of payment installments, we also give advice regarding solving business issues and support for creating business improvement plans.

## Supporting Business Succession Actively

To strengthen support for micro/small businesses in securing successors, the Micro Unit conducts a nationwide business succession matching support program to match micro/small businesses that do not have a successor with people who wish to start their own businesses. In addition, we are working on disseminating information on best practices, distributing videos on third-party succession, and holding online seminars to raise the awareness of business owners and create social momentum for third-party succession.



### Business succession matching support results

Results	Want to transfer business	Want to acquire business
Number of application registrations	163	544 (191)
Number of matching	78	

Notes: 1. Please refer to the JFC website for detailed information on business succession matching support.  
2. The results of business succession matching support are cumulative results from FY2019 to FY2020. Figures in parentheses are the numbers of registered application registrations persons who wish to start a business.

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

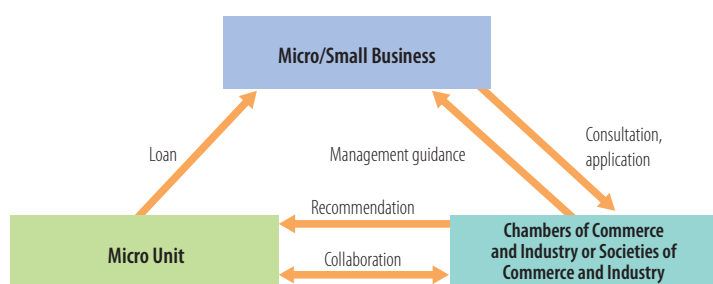
### ● Collaboration with Chambers of Commerce and Industry, and with Societies of Commerce and Industry

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.

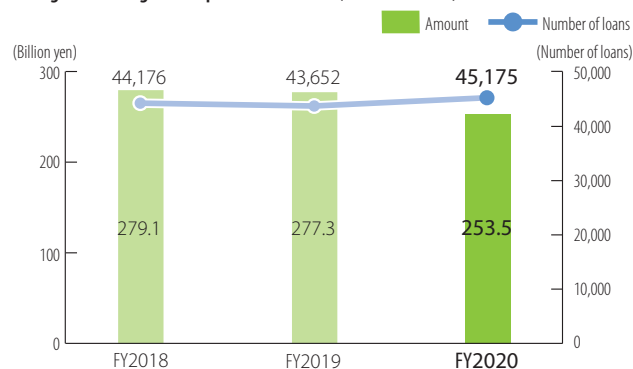
Managerial Improvement Loans (MARUKEI Loans) are a program whereby micro/small businesses receiving management guidance, such as from Chambers of Commerce and Industry or Societies of Commerce and Industry, can utilize funds needed for managerial improvement without collateral and guarantors. Since the establishment of this program in 1973, approximately 5.18 million loans have been provided.

Also, in FY2015, 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)



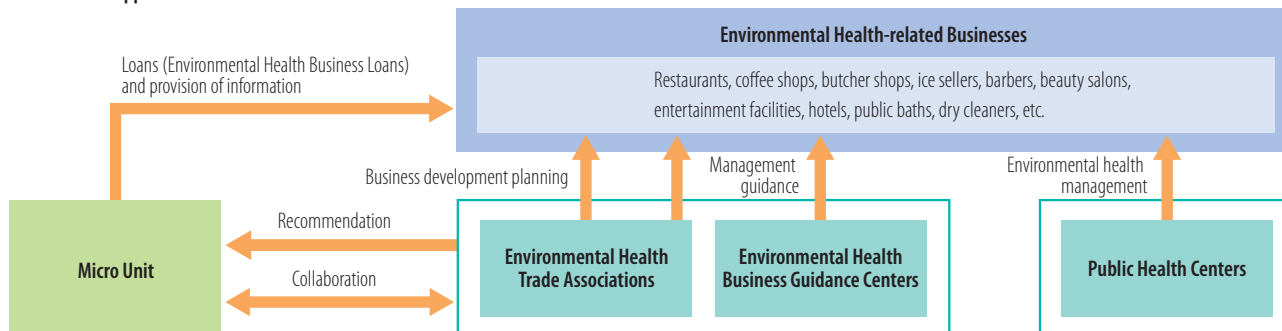
### ● Holding of "One-Day JFC" consultation sessions at Chambers of Commerce and Industry or at Societies of Commerce and Industry

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. In addition, we also conducted online consultations in FY2020 to prevent the spread of COVID-19.

### ● 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 70% are sole proprietorship, and approximately 40% have been before start-ups or within five years of start-ups.

Initiatives to support Environmental Health-related Businesses



### ● 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 support customers affected by the COVID-19 pandemic, revitalize the regional economy, and meet the customer's convenience.

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.

### ● Total of cooperative loan <sup>(Note)</sup>

In FY2020, total cooperative loans from regional financial institutions came to: 12,134 loans, 161.8 billion yen.

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

#### Cooperative loans by business category

(FY 2020)

Cooperative loan	City banks	Regional banks	Regional banks II	Shinkin banks	Credit cooperatives	Others	Total		Reference FY2019 results
								Compared to the previous fiscal year	
Number of loans	2,185	9,232	3,175	8,640	1,269	572	24,467	85%	28,736
Micro Unit	171	3,369	1,592	5,995	984	23	12,134	60%	20,225
Amount	359.5 billion yen	787.3 billion yen	201.6 billion yen	345.8 billion yen	41.1 billion yen	61.2 billion yen	1,684.7 billion yen	134%	1,255.6 billion yen
Micro Unit	3.2 billion yen	47.5 billion yen	21.8 billion yen	77.4 billion yen	11.3 billion yen	0.3 billion yen	161.8 billion yen	76%	212.2 billion yen

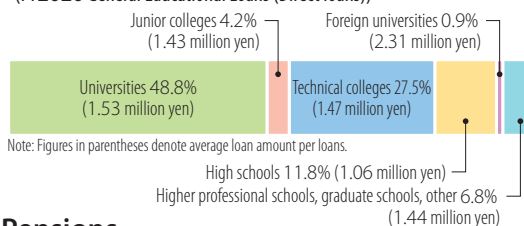
## Educational Loans for School Entrance Fees and Related Expenses

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 90,000 Educational Loans were provided in FY2020.

### ● 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**  
(FY2020 General Educational Loans (Direct 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. A decision was made that new applications will be closed at the end of March 2022 due to the amendment of pension system laws in 2020, with the exception of military pensions and relief pensions.

## 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, Laos and Myanmar.

#### i. Laos

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



Lectures given at local seminars in Laos (Vientiane)

#### ii. Myanmar

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



Seminar in Myanmar (Yangon)



# Agriculture, Forestry, Fisheries and Food Business Unit

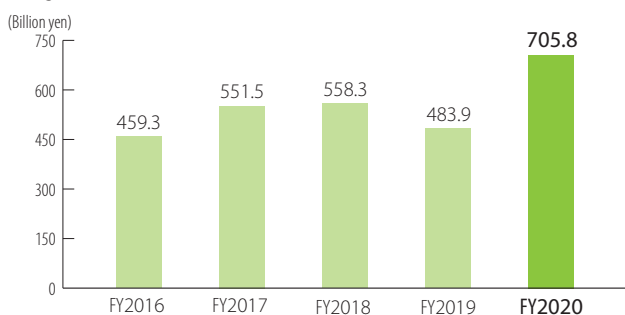
Through providing loans, etc. to businesses in agriculture, forestry and fishery industries as well as the food industry in Japan, the Agriculture, Forestry, Fisheries and Food Business Unit (AFFF Unit) contributes towards strengthening of these industries while ensuring the stable supply of safe and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

## Overview of Operations

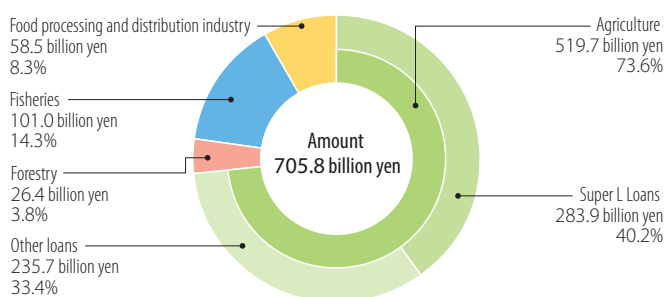
### Status of Loan and Feature of Operations

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

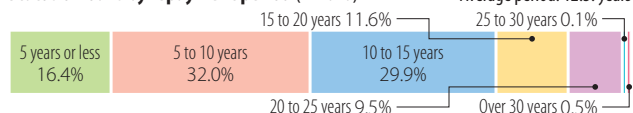
#### Changes in loan amounts



#### Breakdown of loans (FY2020)



#### Status of loans by repayment period (FY2020)



### 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, as well as COVID-19.

### Promotion of Consulting and Financing Activities

By performing project assessments and follow-ups based on those assessments, the AFFF Unit actively supports customers who seek to assertively develop business by expanding the scope of business or diversifying business.

### 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 123 consultation service sites that operate throughout Japan on a routine schedule.

#### ● Management support provided through collaboration with external networks

The AFFF Unit also cooperates with management advisors in the fields of agriculture, forestry, and fisheries and private financial institutions and external specialized agencies on matters concerning business cooperation in order to respond to consultation requests from customers.

#### ● Business matching support

The AFFF Unit supports efforts by agricultural, forestry and fishery business operators to expand their own sales channels through the Agri-Food EXPO (an exhibit and business fair for domestically produced agricultural products) and JFC Internet Business Matching.

#### ● Provision of information

The AFFF Unit provides useful information through its information magazines such as AFC Forum and Agri-Food Support, various reports such as the Business Confidence Survey of the Agricultural Industry and the Survey on Movement of the Food Industry, and news releases.

### 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.



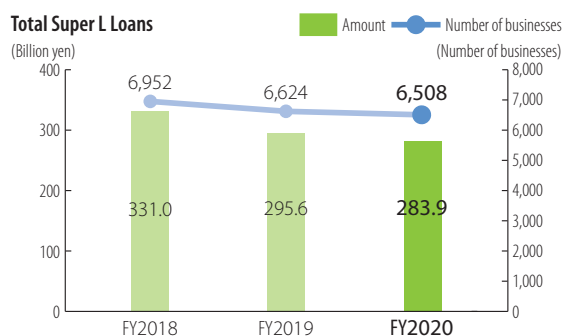
# Feature of Operations

## Feature of Operations

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.

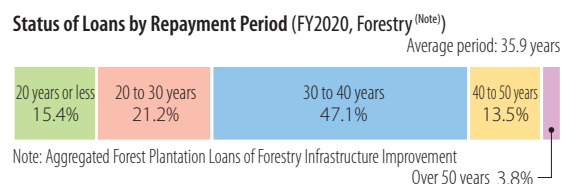


## Forestry

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.



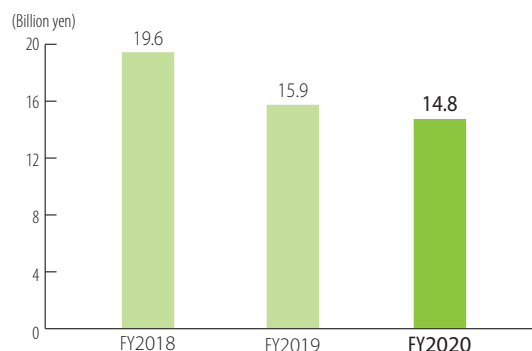
## Fisheries

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. In FY2020, Fisheries Management Improvement Support Loans, which proactively supported building of larger fishing vessels, came to 14.8 billion yen.

### Fisheries Management Improvement Support Loans



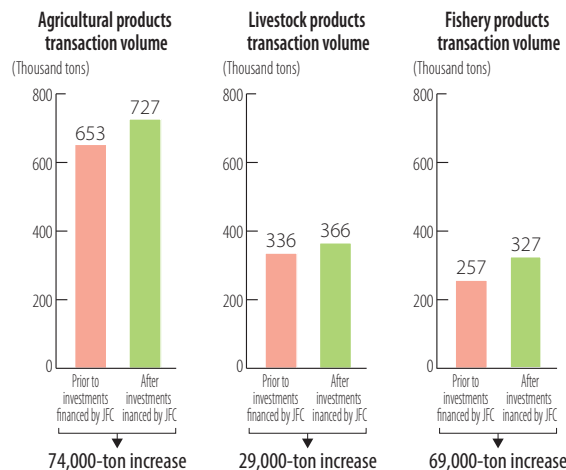
## Food Processing and Distribution Industry

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 FY2020 suggests that the transaction volumes of domestically produced agricultural, forestry, and fishery products will increase by approximately 173,000 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.



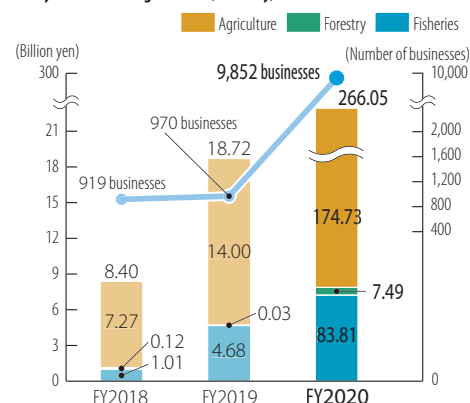
Notes: 1. The transaction volumes are rounded off by the unit.  
2. The transaction volume indicated in "After investments financed by JFC" is an estimate.

## 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 to agricultural, forestry, and fisheries businesses

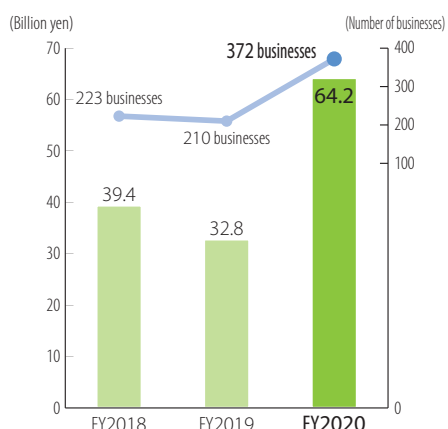


## Export and "Sixth Industrialization" Development Measures

In addition to the agricultural, forestry, and fisheries products and processed foods export promotion loan program created in 2020, the AFFF Unit 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.

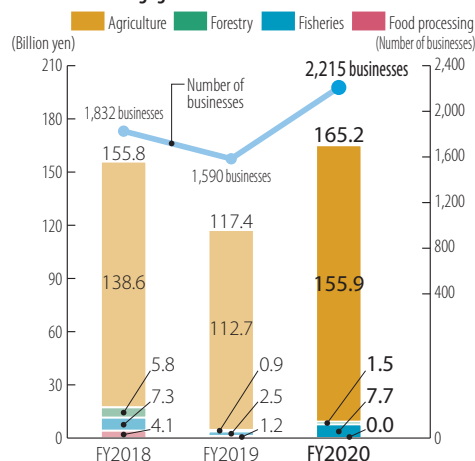
The AFFF Unit also supports measures for the development of "Sixth Industrialization" (integrated processing and sales measures for increasing the added value of products) by agricultural, forestry, and fisheries business operators through various financing programs and the provision of information.

Loans to those engaged in export



In FY2020, loans to improve management through exports were made to 372 businesses (177% compared to the previous fiscal year) and amounted to 64.2 billion yen (196% compared to the previous fiscal year).

Loans to those engaged in the "Sixth Industrialization"



FY2020 loans to activities due to improved management by the "Sixth Industrialization" (e.g., processing, sales, and other business undertaken integrally by agricultural, forestry, and fishery businesses to increase the added value of products) increased to: 2,215 businesses (139% compared to the previous fiscal year), 165.2 billion yen (141% 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.

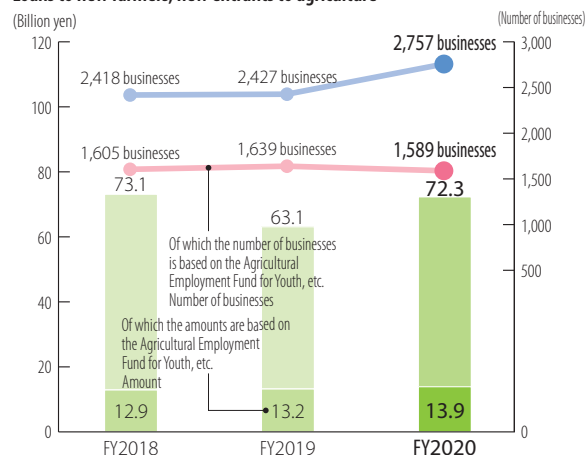
### Loans to new farmers, new entrants to agriculture

In FY2020, loans to new agricultural business and new entry farmers came to 2,757 businesses (114% compared to the previous fiscal year), and 72.3 billion yen (115% compared to the previous fiscal year).

From FY2014, newly started loans to Agricultural Employment Fund for Youth, etc. <sup>(Note)</sup> came to: 1,589 businesses (97% compared to the previous fiscal year), 13.9 billion yen (105% 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

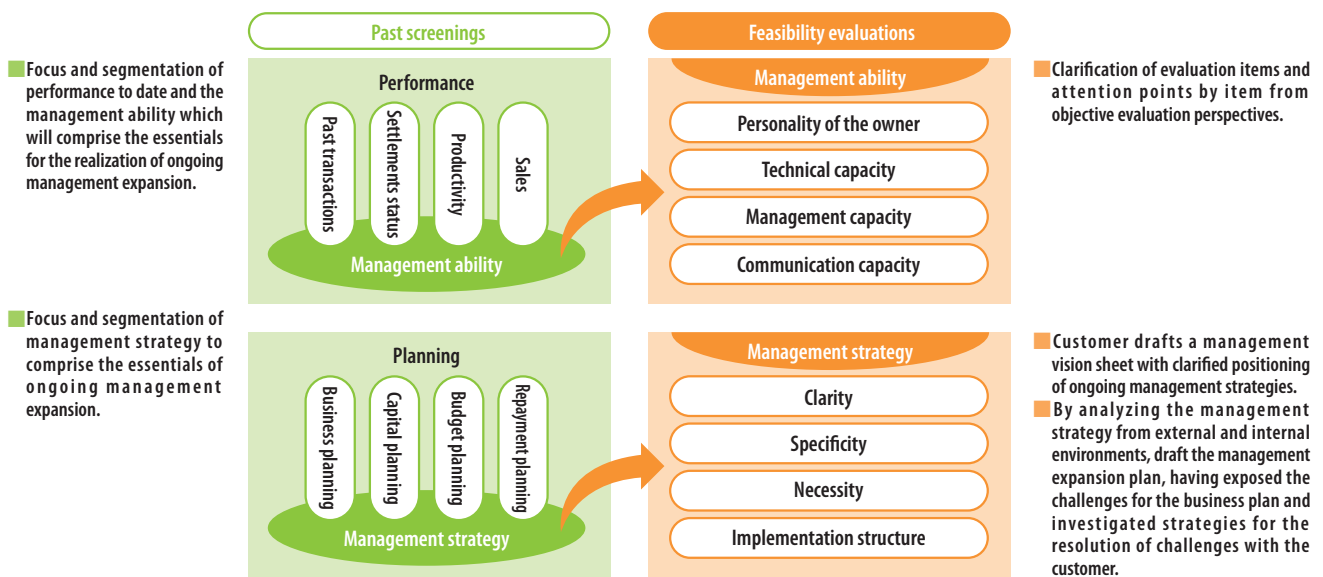
The AFFF Unit organizes managerial strengths and deficiencies with customers, investigates means of leveraging managerial strengths that the customer may have difficulty recognizing and measures to overcome weaknesses, and performs project assessment to promise solutions to problems in order to provide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

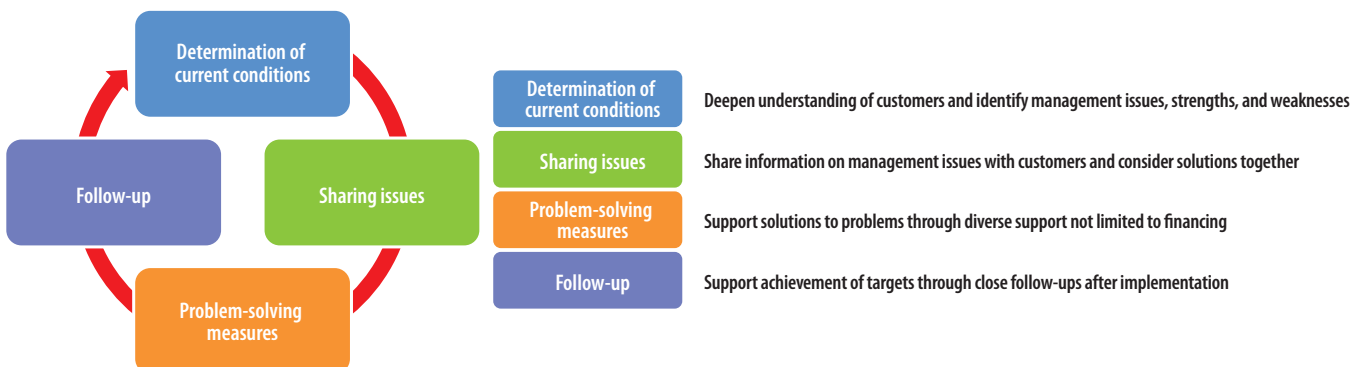
The AFFF Unit segments and actively evaluates management capacities (including past management performance and the basis for realizing management development) and management strategies (the basis for future management development) in order to accurately discern management strengths and growth potentials.

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

In response to requests from agricultural, forestry, and fishery businesses for advice on taxes, labor, marketing, and other topics from experts who understand the unique characteristics of primary industries, the AFFF Unit operates the Agricultural, Forestry and Fishery Management Advisor Program to develop human resources who can provide comprehensive and accurate management advice.

The AFFF Unit also provides comprehensive management support services in collaboration with tax accountants, SME management consultants, and management advisors of private financial institutions. In conjunction with this, we established Agricultural Advisor Liaison Committees in each prefecture to promote advisory activities by exchanging information and improving skills among members and strengthening cooperation with agriculture related organizations.

Breakdown of personnel with agricultural, forestry, and fishery management advisory qualifications (as of March 31, 2021)

	Agricultural management advisors	Senior agricultural management advisors	Forestry management advisors	Fishery management advisors
Private financial institutions	2,572	22	35	28
Professionals (tax accountants, SME management consultants, etc.)	746	19	28	16
Others (agricultural extension officers, etc.)	677	16	17	14
JFC employees	352	20	53	21
Total	4,347	77	133	79

### Business Matching Support

#### ● Agri-Food EXPO Online, domestic agricultural product exhibition and business fair held

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.

In FY2020, we held the Agri-Food EXPO Online for the first time in consideration of the COVID-19 pandemic. The EXPO features a new official website where exhibitors and products information can be viewed and searched through videos and images, and a concierge service was provided by the administrative office to support business negotiations in a proactive manner over a period of about five months.

Many agricultural, fishery, and food companies from around Japan that focus on domestic production participated, and active business discussions were held with buyers.



Agri-Food EXPO Online website

### 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.

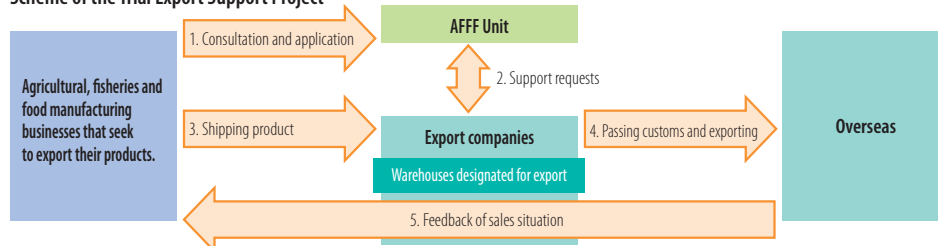
For example, J-PAO gets assistance from its members from a wide variety of types of businesses and uses its agriculture-support knowhow to provide sales and commercialization support to customers. JETRO hosts an export business conference in conjunction with the Agri-Food EXPO, where it provides assistance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

In addition, the AFFF Unit supports customers who are working to export agricultural products 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 FY2020, a total of 1,108 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 631 private financial institutions with which it has entered into outsourcing agreements. In FY2020, the number of JFC loans provided through private financial institutions was 13,302.

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



Overview of Operations

## Securitization Support

The AFFF Unit established a credit supplementation program (securitization support operation) using credit default swap (CDS) 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, 2021, a total of 134 financial institutions had signed a basic agreement with the AFFF Unit.

92 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, 2021)

	Banks	Shinkin banks	Credit cooperatives	Total
Hokkaido	1	12	2	15
Tohoku	7	5	1	13
Kanto	3	8	2	13
Chubu	7	22	4	33
Kinki	5	10	—	15
Chugoku	2	11	1	14
Shikoku	5	2	—	7
Kyushu	10	13	1	24
<b>Total</b>	<b>40</b>	<b>83</b>	<b>11</b>	<b>134</b>
(Of these, institutions that developed new programs)	(32)	(54)	(6)	(92)

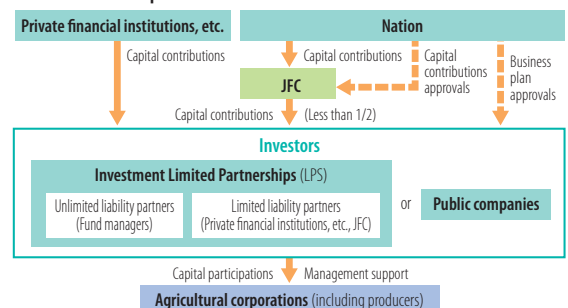
## Providing Investment Support to Agricultural Corporations

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, 2021)

	LPS	Public companies
Number of capital contributions	18 associations	1 company
Pledged investment amount or investment amount (of which invested by JFC)	7.46 billion yen (3.56 billion yen)	4.07 billion yen (2.03 billion yen)

Overview of the capital contribution scheme





# 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 as well as the primary force underpinning regional economies.

## 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.

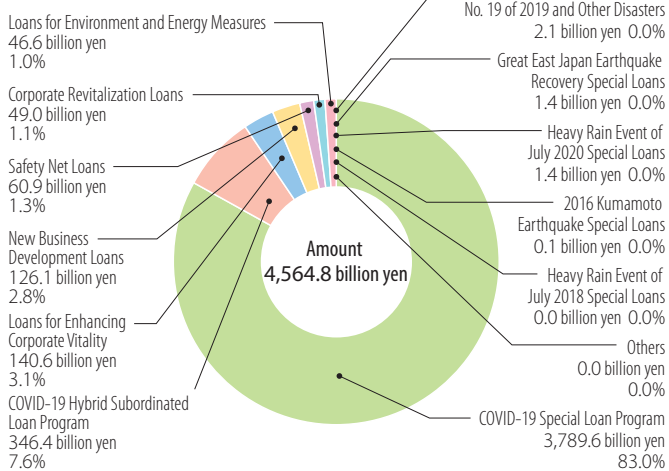
Based on these policies, while supplementing private financial institutions as a policy-based financial institution specialized in SMEs, the SME Unit supports the growth and development of SMEs and micro/small businesses through its financial tools as well as serving as a safety net function.



### Loan Programs

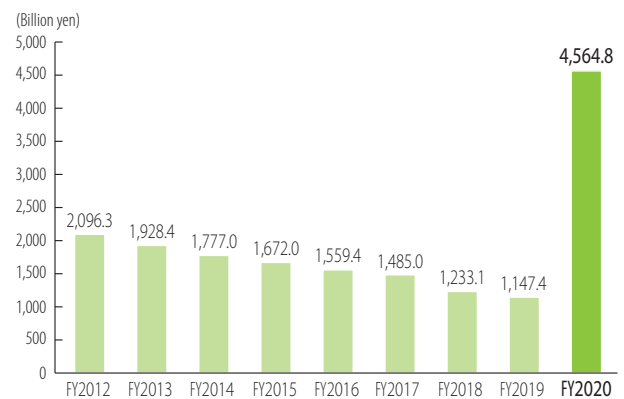
The SME Unit complements the financing of private financial institutions through its stable, long-term, fixed interest rate loans that is needed for the business growth of SMEs.

#### Breakdown of loans (FY2020)



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.



# Feature of Operations

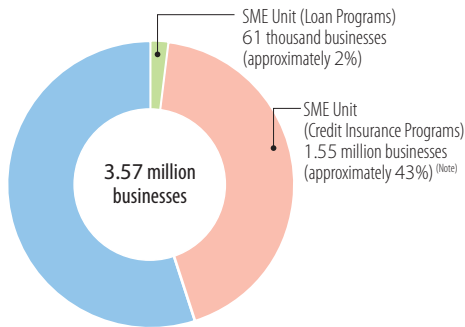
## SME Unit's Clients

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 100 years and family-owned private shops.

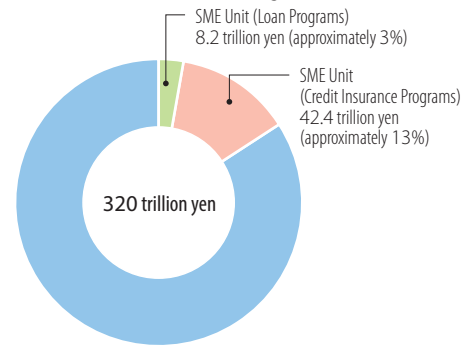
The SME Unit provides a wide range of support to meet the individual needs of each SME and micro/small business through its financial tools, Loan Programs, Credit Insurance Programs and Securitization Support Programs.

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



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

The SME Unit facilitates funds to 1.61 million SMEs and micro/small businesses (approximately 45%) and accounts for 16% of outstanding loans to SMEs and micro/small businesses.

### Characteristics of SME Unit's Clients

#### Loan Programs (Direct Loans)

- Number of businesses ..... 61 thousand businesses
- Average loan for FY2020
  - Average loan amount per business ..... 105 million yen
  - Average term of loan ..... 10 years and 1 month
  - Average amount of capital per business ..... 40 million yen
  - Average number of employees per business ..... 84
- Approximately 80% of outstanding loans are loans to businesses with 20 employees or more, and approximately 91% have capital of 10 million yen or more.
- Covers a wide range of industries particularly manufacturing (approximately 39% of outstanding loans as of the end of FY2020)

#### Credit Insurance Programs

- Number of businesses ..... 1.55 million businesses <sup>(Note)</sup>
- Average insurance for FY2020
  - Average amount of insurance acceptance per business ... 28 million yen
  - Average term of insurance ..... 7 years and 9 months
  - Average number of employees per business ..... 8
- Approximately 75% of the outstanding amounts of insurance are insurance to businesses with 20 employees or less, and approximately 71% have capital of 10 million yen or less.
- Covers a wide range of industries

Note: Number of businesses utilizing the Credit Guarantee System

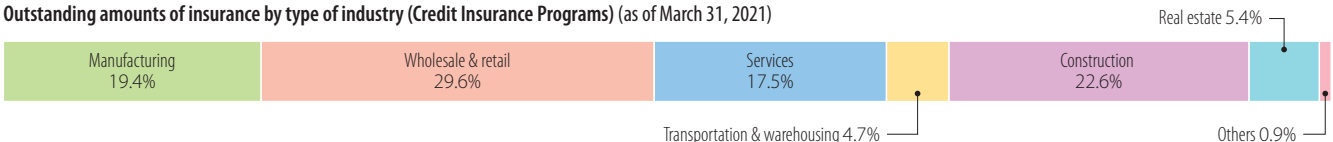
Note: Results are current as of March 31, 2021.

The SME Unit also helps to maintain employment, with the number of employees at the 61 thousand businesses having approximately 3.78 million persons (as of March 31, 2021) by direct loans.

Outstanding loans by type of industry (Loan Programs) (as of March 31, 2021)



Outstanding amounts of insurance by type of industry (Credit Insurance Programs) (as of March 31, 2021)



## Loan Programs

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

#### ● Dedicated to long-term funding

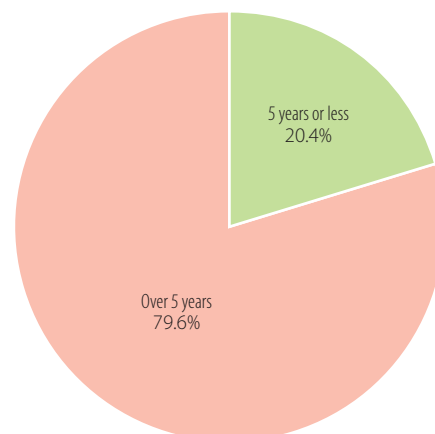
If SMEs are to grow and prosper, they must continually invest capital appropriately and consolidate their financial strength. To do this, they need to be able to raise long-term funds in a stable manner.

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) (FY2020)



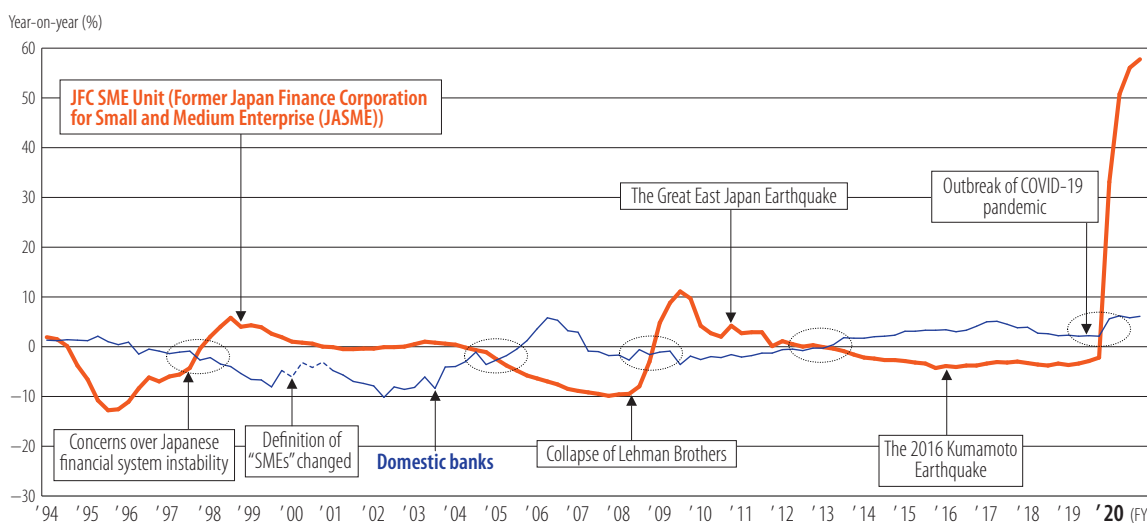
Note: Data are for fixed interest rate loans only.

#### ● 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)



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

Notes: 1. Domestic banks' balances refer to the outstanding of loans to SMEs covering banking accounts only.

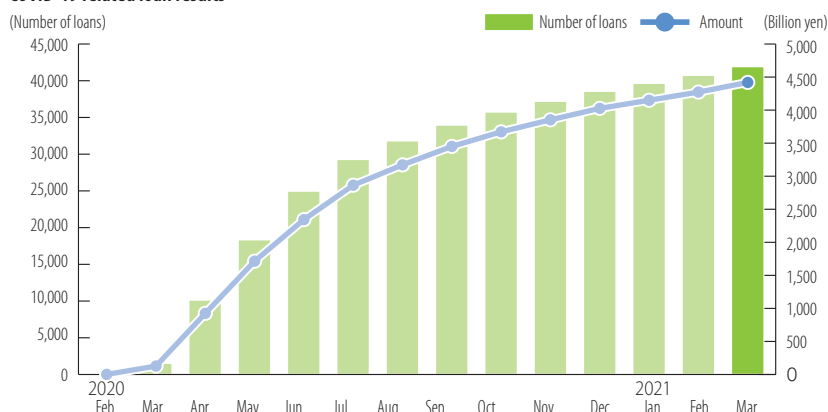
2. The definition of "SMEs" was changed in April 2000; the SME Unit has estimated the growth rate for domestic banks in the period from June 2000 to March 2001 based on the ratio between the old and new standards.

### 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 Typhoon No. 19 of 2019 Special Loans, the Heavy Rain Event of July 2020 Special Loans, Safety Net Loans, and COVID-19 Special Loan Program, etc., 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.

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, 698.8 billion yen has been loaned to 14,499 businesses (as of March 31, 2021). 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

	FY2018	FY2019	FY2020
Number of businesses	1,310	1,319	285
Amount of loans (billion yen)	62.8	63.4	21.6

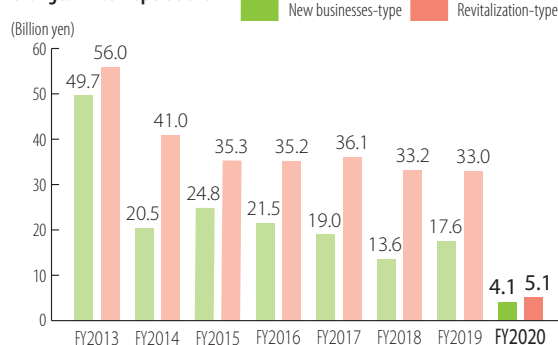
Stock Subscription Rights Loans

	FY2018	FY2019	FY2020
Number of businesses	32	31	15
Amount of loans (billion yen)	1.5	3.04	2.09

### 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 fundraising by SMEs' overseas subsidiaries and branches through the Standby Letter of Credit Program and cross-border loans, offering management consulting services and holding business network meetings abroad.

In FY2020, Loans for Overseas Investment and Expansion were utilized by 191 businesses, for a total of 18.1 billion yen.

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, 2021, the number of affiliated financial institutions, mainly in Asia, was 15 institutions.

JFC also established a scheme to partner regional financial institutions throughout Japan, and through the end of March 2021, JFC established collaborative relationships with 60 regional financial institutions.

As for FY2020, letters of credit were issued to the financial institutions in 8 countries and regions, being utilized by 83 businesses.

We began handling cross-border loans in January 2021 and support effective capital procurement by overseas subsidiaries. The cross-border loans are a program under which JFC provides direct loans to overseas subsidiaries that work with their domestic parent companies (SMEs and others) to improve management capabilities, implement management innovations, and revitalize local economies in order to adapt to structural changes overseas. The countries and regions where this program can be used are Thailand, Viet Nam, and Hong Kong, and loans were provided to 11 borrowers in FY2020.

Loans for Overseas Investment and Expansion (by countries and regions) (FY2020)

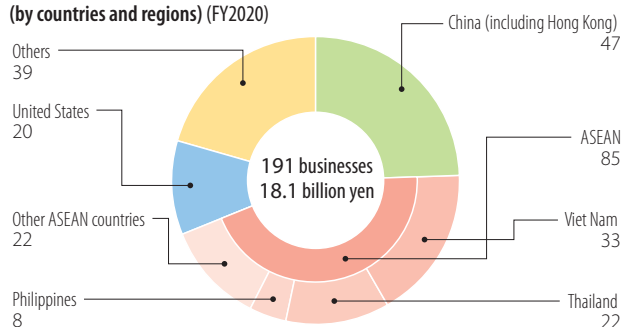
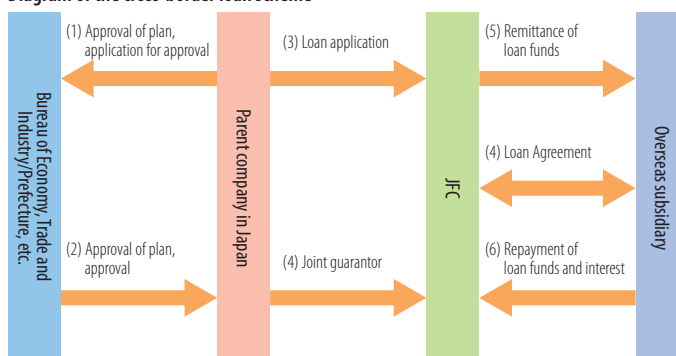


Diagram of the cross-border loan scheme

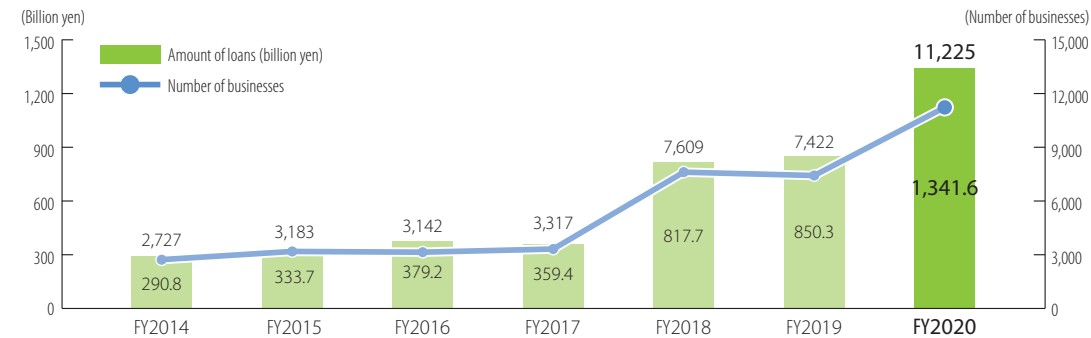


## ● Cooperative loans and securitization support in collaboration with private financial institutions

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 61,000 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. In response to the COVID-19 pandemic, we also provide financial support to affected SMEs based on existing cooperative relationships.

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



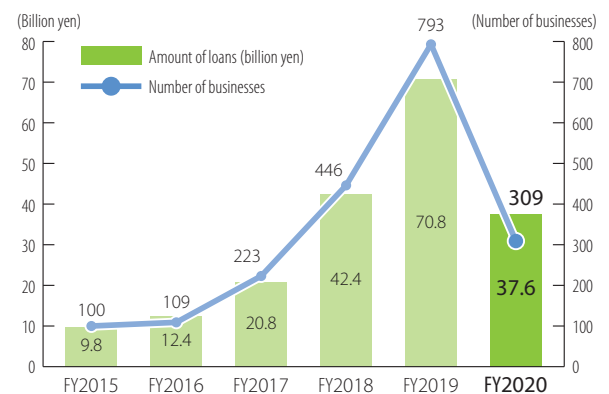
Note: Loans (guarantees) that are disbursed or decided by both JFC and private financial institutions after consultation by both parties for loan plans with identical objectives (Calculated by JFC. Including loans made on different dates between both parties).

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

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

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

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



## Supporting the growth of businesses

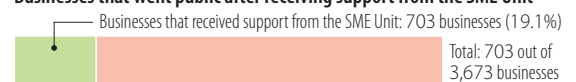
### ● Businesses that have utilized JFC funds are flourishing in many fields

A total of 703 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.

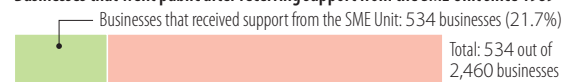
The number of businesses going public after receiving support from the SME Unit since 1989 is 534<sup>(Note)</sup>, accounting for roughly 20% of the total number of businesses that went.

Note: The number of publicly listed businesses is as of March 31, 2021 (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, 2021. 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).

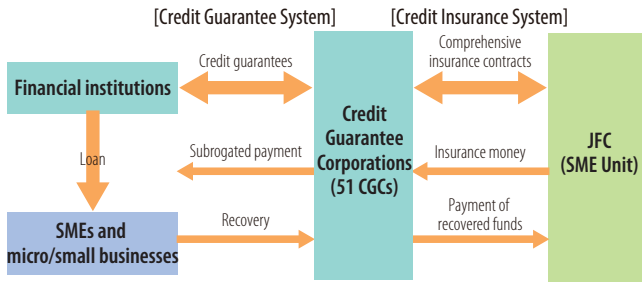
# Credit Insurance Programs

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

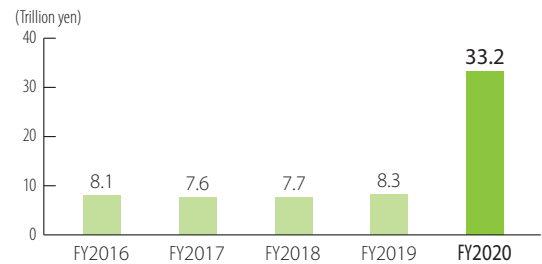
### ● Role of the Credit Insurance System

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



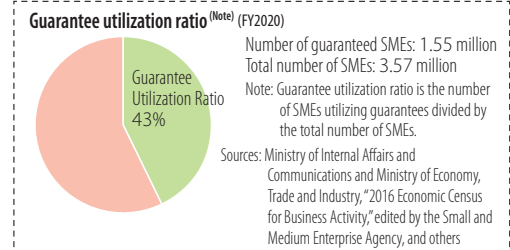
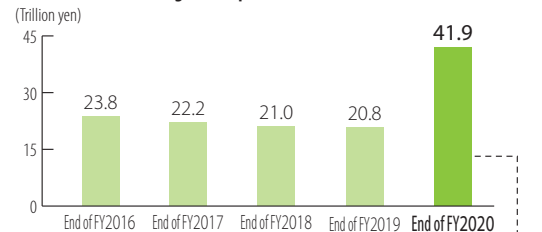
### ● 43% of SMEs utilize the Credit Supplementation System

As of March 31, 2021, the portion of outstanding loans to SMEs guaranteed by CGCs (outstanding guaranteed liabilities) amounted to 41 trillion yen, accounting for 13% of all loans to SMEs.

Moreover, 1.55 million SMEs and micro/small businesses, accounting for 43% 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



Overview of Operations

## 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 FY2020, the “synthetic CLO of regional financial institutions (Clover 2021 LLC)” was issued in the securitization support purchasing business. Besides entering into credit default swap (CDS) contracts with 14 regional financial institutions, the SME Unit acquired 3.3 billion yen of the 16.4 billion yen in corporate bonds issued by the special-purpose company (SPC) (Clover 2021 LLC), and also guaranteed 3.1 billion yen in the bonds. 17.0 billion yen in unsecured loans were provided to 800 businesses in 22 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.

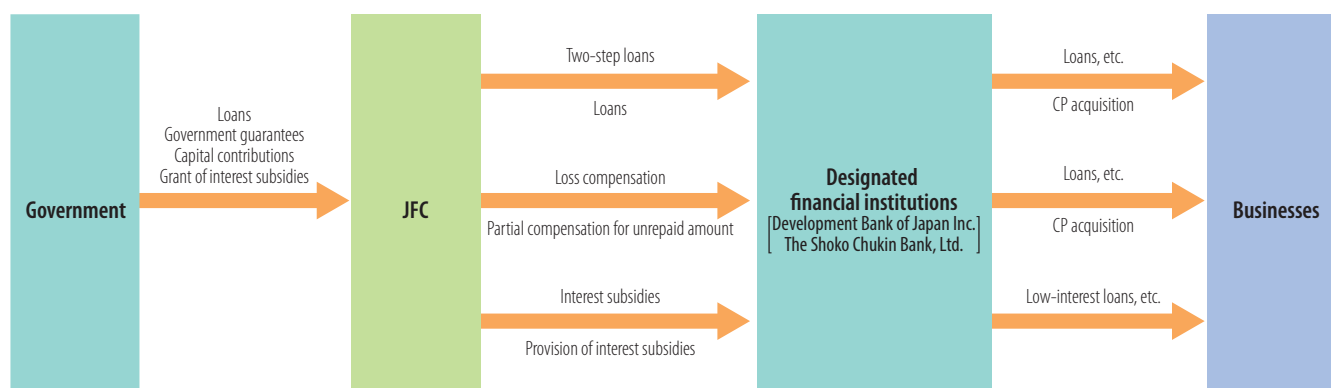
#### Methods of securitization support

Purchase-type	Guarantee-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	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, 2021 was 4,570.6 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, 2021 was 2,507.9 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	FY2020
<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	3,549.4
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	3,549.4
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	2,364.5
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	2,364.5
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	4.6

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 2021.

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 2021, with loss compensation underwritten by JFC for losses incurred until May 10, 2021.

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 2020 (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) needed for loans that are provided by designated financial institutions to certified businesses who are going to implement specific businesses certified by competent ministers. The balance as of March 31, 2021 was 14.6 billion yen.

## 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) needed for loans that are provided by designated financial institutions to certified businesses, etc. 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, 2021 was 107.0 billion yen.

## Overview of Operations to Facilitate Development and Supply Promotion, etc.

In accordance with the Act on Promotion of Developing/Supplying and Introducing Systems Making Use of Specified Advanced Information Communication Technologies (Act No. 37 of 2020), JFC lends funds (two-step loans) needed for loans that are provided by designated financial institutions to certified businesses that are going to implement development or supply and introduce systems that make use of specified advanced information communication technologies of specific businesses certified by competent ministers.

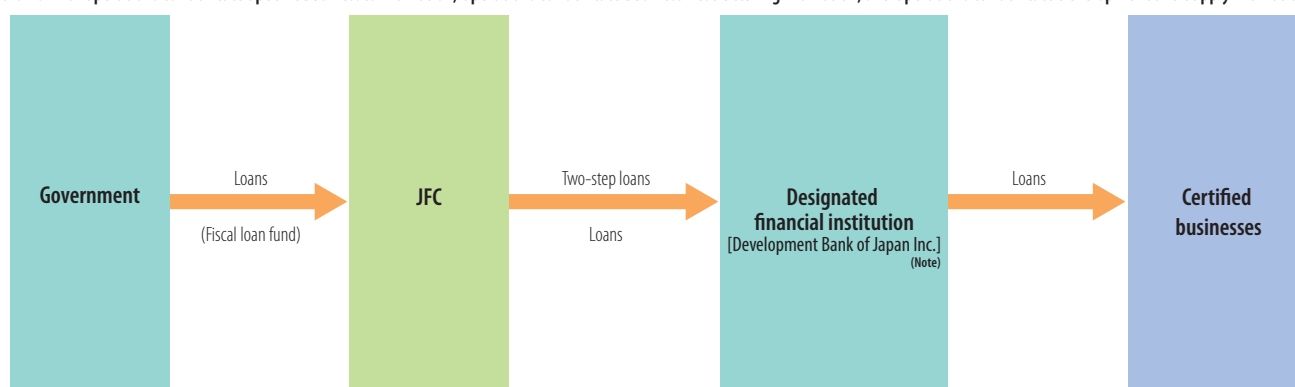
Results of Operations to Facilitate Specific Businesses Promotion, Operations to Facilitate Business Restructuring Promotion, and Operations to Facilitate Development and Supply Promotion, etc. (Two-step Loans)

(Billion yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Operations to Facilitate Specific Businesses Promotion	20.0	1.3	7.8	10.6	2.9	1.1	1.0	0.5	—	—	—
Operations to Facilitate Business Restructuring Promotion	—	—	25.0	—	20.0	—	—	—	—	100.0	—
Operations to Facilitate Development and Supply Promotion, etc.	—	—	—	—	—	—	—	—	—	—	—

- Notes: 1. The figures refer to the amount of loans provided by JFC to the designated financial institution (Development Bank of Japan Inc.) through the end of March 2021.  
 2. Day of commencement of operations: Operations to Facilitate Specific Businesses Promotion: August 16, 2010; Operations to Facilitate Business Restructuring Promotion: January 20, 2014; Operations to Facilitate Development and Supply Promotion, etc. : August 31, 2020.  
 3. 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.

Mechanism for Operations to Facilitate Specific Businesses Promotion, Operations to Facilitate Business Restructuring Promotion, and Operations to Facilitate Development and Supply Promotion, etc.



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

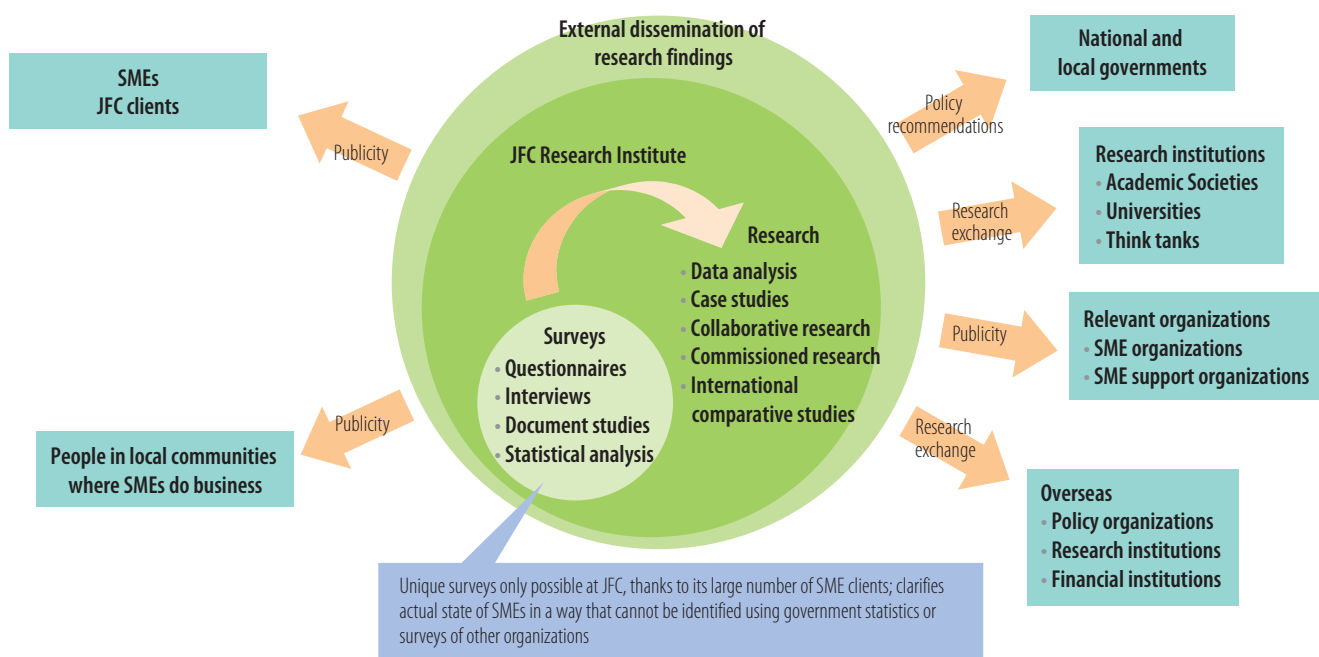
# Research Institute

**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.

Overview of Operations



## 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 workers; 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 workers. 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 FY2020) –

- Survey on Business Start-ups
- Panel Survey on Business Start-ups
- Survey on Starting Businesses and Entrepreneurial Minds
- Survey on Businesses Start-ups Accompanied by Relocation
- Survey on “Unaware Entrepreneurs”
- Survey on the Impacts of Natural Disasters on SME Management
- Survey on Foreign CEOs Who Grow SMEs
- Long-Term Analysis of the Impact of Climate Change on SME Performance
- Status of Use of Crowdsourcing by SMEs
- Survey on Structural Changes to Capital Investment by Small and Medium Manufacturing Enterprises
- Impact of the COVID-19 Pandemic on SMEs
- Research on the post-COVID Direction of SME Management

#### – Main Research Papers and Reports (released in FY2020) –

- ◇ The Impact of SME Closure on the Macro Economy
- ◇ Consideration of People who have a Borderless Consciousness about Entrepreneurship
- ◇ Current Status and Outlook for Alternative Finance by SMEs in Japan
- ◇ The Reality of Business Closures Due To Managerial Circumstances and Necessary Support Measures

### ● 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.

#### – FY2020 survey –

- Small Companies Refining Their Business Models with Cutting-Edge Technology

#### – FY2020 publication –

- ◇ Companies that Customers Choose

### ● 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 FY2020) –

- SMEs Entering the Subscription Business
- SMEs Active in the Space Industry

#### – Main Research Papers and Reports (released in FY2020) –

- ◇ Current Status of AI Utilization in SMEs and Required Support
- ◇ Management Strategy of Small and Medium-Sized Manufacturers to Diversify by Entering the Medical Device Field
- ◇ Small and Medium-Sized Manufacturers Working on Skill Transfer: Technology and Human Resource Development Pass on Craftsmanship to the Next Generation
- ◇ Current Status and Solutions to Skill Transfer Problems in Small and Medium-Sized Manufacturers
- ◇ Small and Medium-Sized Manufacturers Manufacturing Machinery and Equipment for Production that Support automation of Manufacturing Sites

## Research Results and Reports at Academic Societies

### ● 40th Conference of the Japan Academy of Small Business Studies (October 11, 2020)

“Skill Transfer by Using Information Technology in Small and Medium-Sized Manufacturers in Japan”

By Using IT such as Databases, Smart Glasses, and AI, Knowledge can be Accumulated and Used by the Entire Organization. In this Research, We Clarified Specific IT Utilization Methods for SMEs to Transfer Their Skills Effectively and Efficiently.

### ● 23rd JASV Annual Academic Meeting (December 5, 2020)

“Research on the Willingness to Re-start Businesses of Workers Who have Experience of Going out of Business”

As a result of analyzing the willingness to re-start businesses by those who have closed their own business and are currently working, it became clear that it is important to increase the “immunity” against management failure to promote re-starting.

## 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 51 (May 2021) —

Actual State of Damage and Preparation for Natural Disasters in SMEs

Consideration of Entrepreneurs Who Relocated with a Focus on Regions and Careers

Increase in Foreign CEOs in Japan and Their Overall Picture

Encouraging Business Start-ups by Foreigners Using National Strategic Special Zones



#### 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 2021 Edition —

Summary of Results: Survey on Business Start-ups (FY2020)

Summary of Results: Survey on Starting Businesses and Entrepreneurial Minds (FY2020)

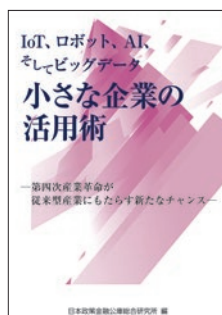
Status of Entrepreneurs Who Relocated with a Focus on Regions and Careers

Changes in Self-Employment in Japan



#### Increasing Foreign CEOs

Foreign SME CEOs are attracting attention as players who can bring diversity to the Japanese business world. Based on a large-scale questionnaire survey and interviews, a detailed analysis of the actual situation of foreign SME CEOs born and raised overseas in an environment different from that of Japan was conducted.



#### Use by Small Companies of IoT, Robots, AI and Big Data

We analyze the introduction of cutting-edge technologies such as IoT and AI through a questionnaire survey, and consider measures for small companies to make the Fourth Industrial Revolution a leap opportunity from the case studies of companies that utilize cutting-edge technologies.

# Systems for Organizational Management

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Governance ..... 60

# Governance

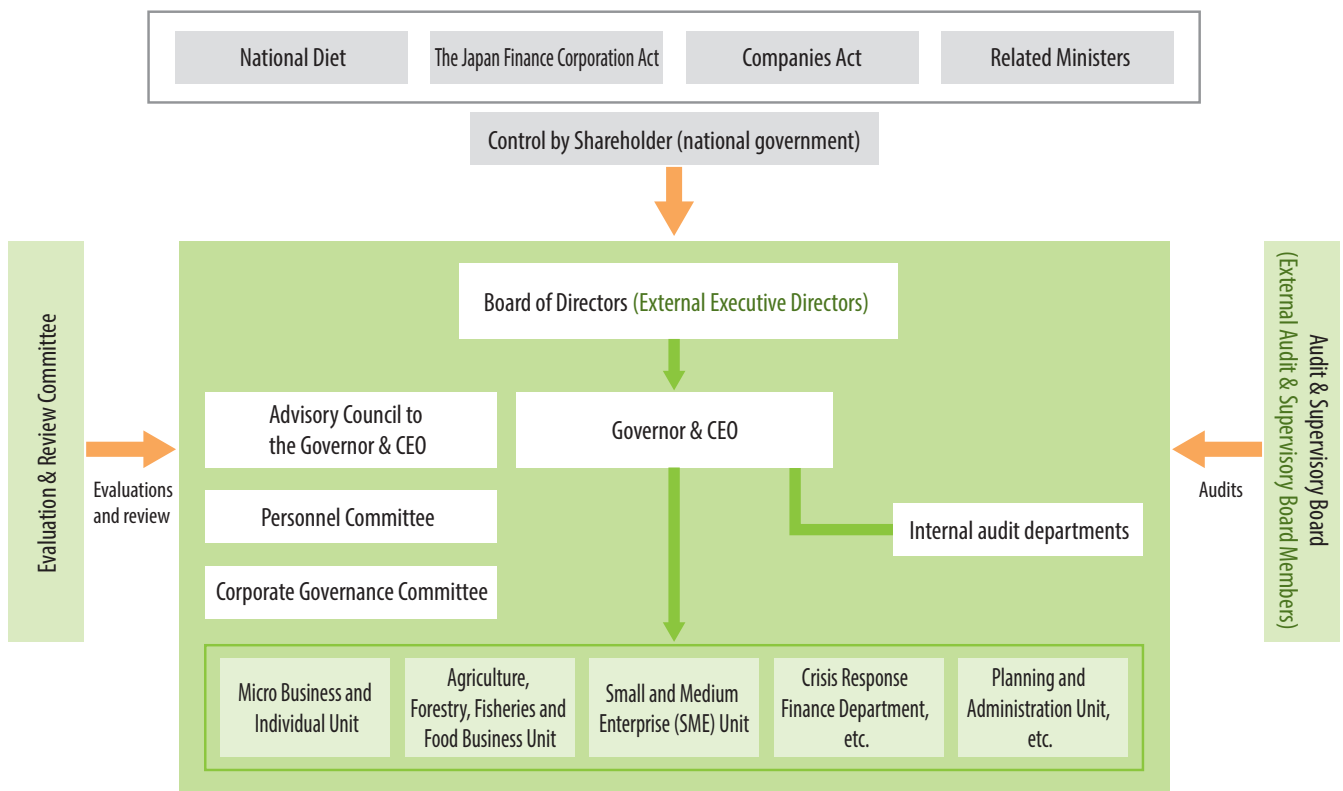
## Fundamental Approach

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

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

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

## Governance Structure



### 1 Control by national government

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

Note: Control by the government

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

### 2 Board of Directors

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

### 3 Audit & Supervisory Board

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



## 4 Evaluation & Review Committee

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

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

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

### Member of the Evaluation & Review Committee

(as of July 1, 2021; in Japanese alphabetical order)

#### Evaluation & Review Members

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

#### Expert Members

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

(\* : Chairman; \*\* : Deputy Chairman)

### Meetings of Evaluation & Review Committee

(Main agenda)

- **First meeting of FY2020 (May 21, 2020)**
  - Responses to the COVID-19 pandemic
  - FY2019 evaluation of the performance of directors
  - Evaluation and review of candidate directors and Audit & Supervisory Board members
- **Second meeting of FY2020 (July 7, 2020)**
  - Performance evaluations of retiring directors
- **Third meeting of FY2020 (September 10, 2020)**
  - Evaluation and review of candidate directors and Audit & Supervisory Board members
- **Fourth meeting of FY2020 (November 11, 2020)**
  - Appointment of Chairman and Deputy Chairman
  - Report on the evaluation of FY2019 business performance
  - Report on the FY2020 business management plan
  - Report on FY2020 business performance evaluation criteria

## 5 Advisory Council to the Governor & CEO

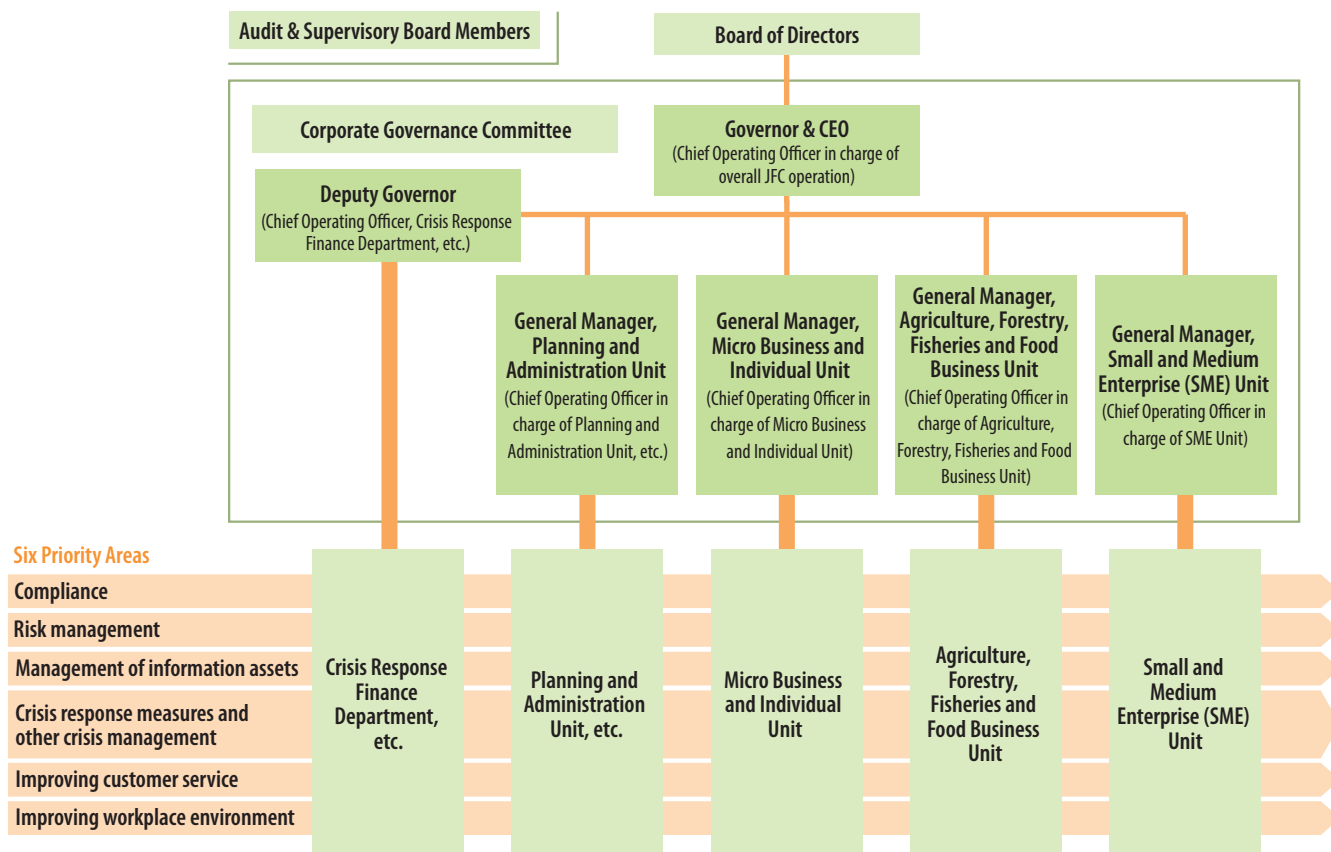
The Advisory Council to the Governor & CEO receives reports and reviews and investigates key matters concerning management of JFC in response to inquiries from the Governor.

## 6 Corporate Governance Committee

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

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

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



## 7 Internal Audit

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

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

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

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

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

## ◆ Fundamental Policy on Internal Control

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

### Fundamental Policy on Internal Control

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Priority Areas of Internal Control

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

### 1 Compliance

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

#### (1) Compliance Manual

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

#### (2) Internal Reporting System

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

#### (3) Handling of Antisocial Forces

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

#### (4) Preventing Insider Trading

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

### 2 Risk Management

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

#### Risks Subject to Management

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

### 3 Management of Information Assets

JFC has adopted a security policy in order to ensure a high level of information security and contribute to appropriate and efficient business operations and also conducts appropriate information assets management.

#### Security Policy

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

##### (1) Basic Principles

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

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

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

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

a. clarification of responsibilities and roles within implementation structures;

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

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

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

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

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

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

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

##### (5) Information Security Training

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

##### (6) Outsourcing of Work

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

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

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

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

##### (8) Evaluation and Review

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



## 4 Crisis Response Measures and Other Crisis Management

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

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

## 5 Improving Customer Service

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

### Customer Protection Management Policy

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

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

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

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

## 6 Improving Workplace Environment

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

## Promote Diversity and Improve the Workplace Environment

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

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

### 1 Promotion of Career Development for Women

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

Among the specific measures are a training system to take participants from clerical work to business operations, and female employees are sent to external seminars with the aim of increasing their skills. An in-house forum is also held for female managers.

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

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

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

In light of the environmental changes that occurred during the COVID-19 pandemic, JFC encourages new working styles that take advantage of digital technologies, such as teleworking, and seeks to create workplaces where diverse human resources can demonstrate their full capabilities with reassurance.

### 3 Supporting Work-life Balance

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

In addition, we encourage men to participate in housework and childcare by urging male employees to take childcare leave and time off.

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



@Platinum Kurumin

### 4 Promotion of Diverse Work Styles

As part of our implementation of work-life management, we promote the implementation of "two no overtime days per week" and the planning vacation acquisition. We also hold study sessions and disseminate information internally in order to encourage flexible working styles such as teleworking. Through these initiatives, we are raising time productivity and promoting diverse work styles for each employee.

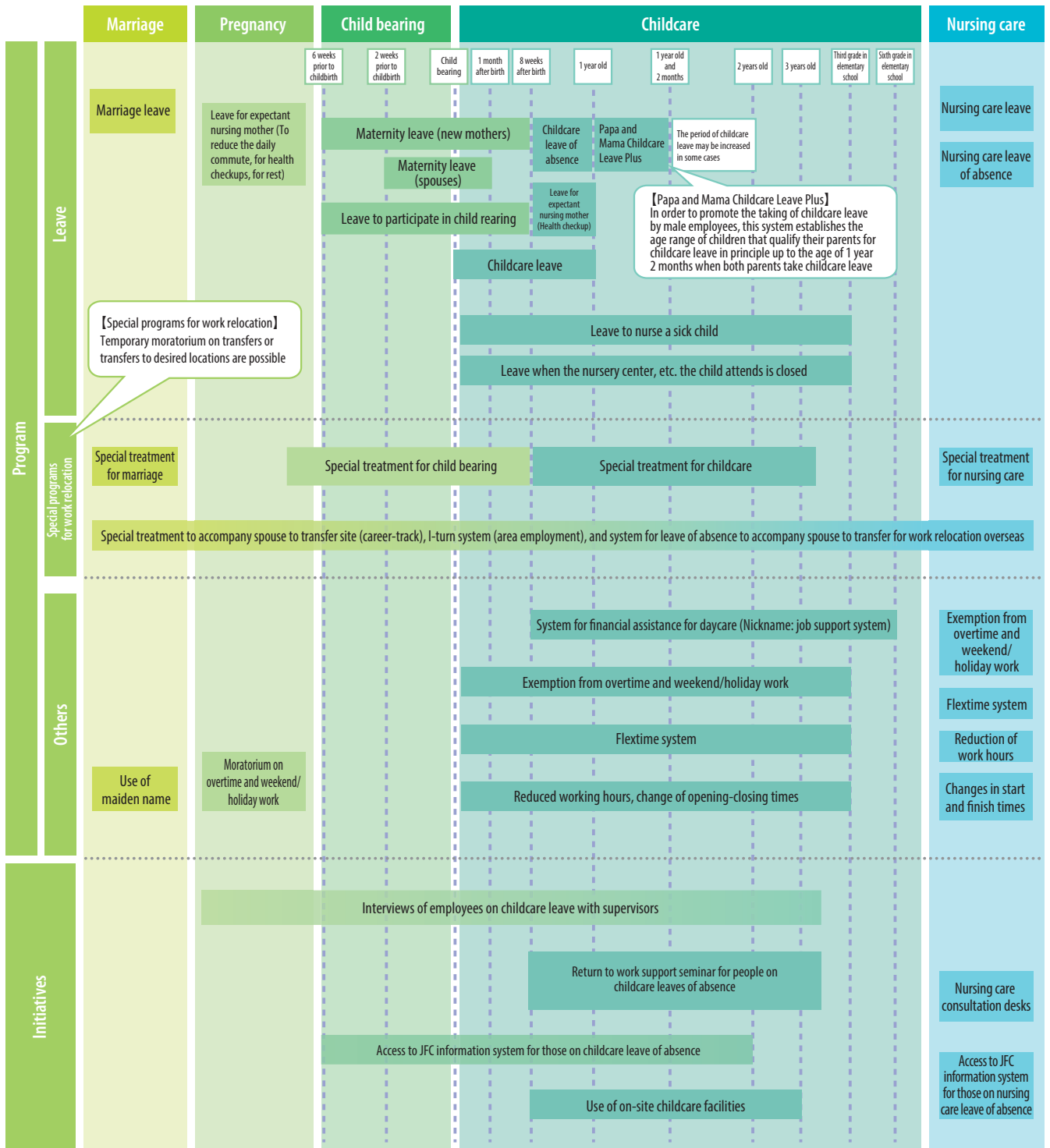
### 5 Measures to Promote Diversity at the Head Office and Branch Offices

In FY2020, we suspended activities in order to take all possible measures to respond to customers during the COVID-19 pandemic, but we have created a system that undertakes activities to solve regional and workplaces issues at all 152 branches nationwide, mainly through the ten "Regional Committees for the Promotion of Diversity" blocks (located at the Sapporo, Sendai, Saitama, Tokyo, Yokohama, Nagoya, Osaka, Hiroshima, Takamatsu, and Fukuoka branches).

### 6 Reflection of Employee Needs in All Policies

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

Balance support measures for major life stage



Systems for Organizational Management

## Protection of Personal Information

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

### Privacy Policy

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

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

#### 1 Acquisition of Personal Information

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

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

#### 2 Use of Personal Information

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

##### For all JFC Sectors

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

##### Micro Business and Individual Unit

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

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

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

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

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

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

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

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

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

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

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

**Crisis Response Finance Department, etc.**

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

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

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

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

**4 Subcontract**

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

**5 Personal Information Management**

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

**6 Disclosure, Correction, and Disuse**

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

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

**7 Inquiries about Personal Information Management**

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

**8 Continuous Improvement**

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

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

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

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

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

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

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

#### (1) Regulatory compliance

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

Note: Laws, etc. includes the following

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

#### (2) Safety Management Measures

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

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

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

#### (4) Outsourcing and Subcontracting

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

#### (5) Continuous Improvement

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



## Information Disclosure Systems

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

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

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

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

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

# Memo

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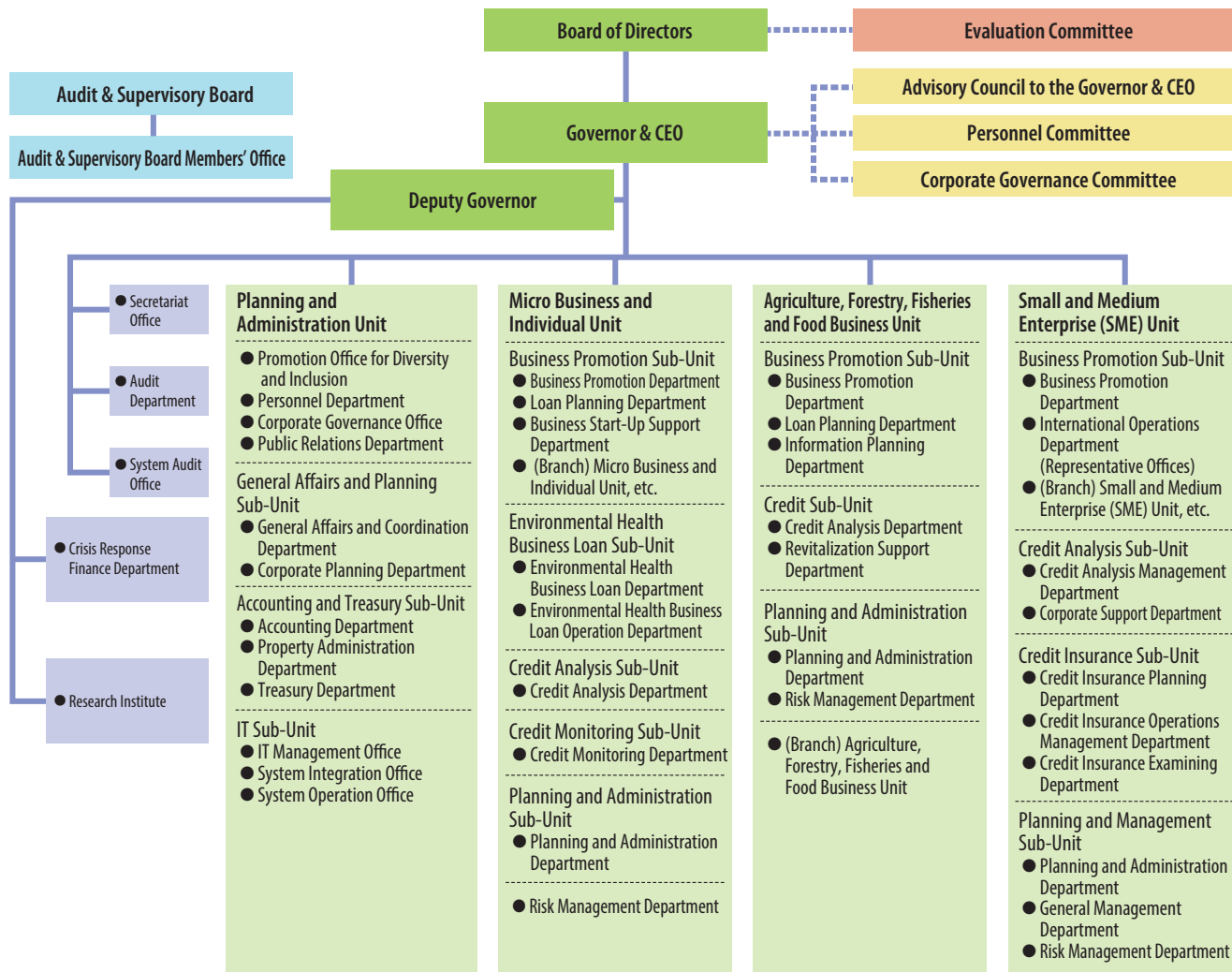
## Organization and History

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Organization .....	76
Office Locations .....	77
History of JFC .....	82

# Organization

## Organization Chart of Japan Finance Corporation



Organization and History

### Directors and Audit & Supervisory Board Members (As of June 23, 2021)

Governor & CEO	TANAKA Kazuho	Managing Director	TAGUCHI Katsuyuki	External Executive Director	OTANI Kunio
Deputy Governor	IWAMA Kunihiro	Managing Director	MARUYAMA Takanori	External Executive Director	KURIHARA Mitsue
Senior Managing Director	ARAI Tsuyoshi	Executive Director	SUZUKI Naoto	Audit & Supervisory Board Member	JOKO Keisuke
Senior Managing Director	YOSHINO Kyoji	Executive Director	SOGAME Miikio	Audit & Supervisory Board Member	KUSUMI Nobuyasu
Senior Managing Director	TOMIYAMA Kazushige	Executive Director	MANIWA Noriyuki	External Audit & Supervisory Board Member	YAMADA Yuichi
Senior Managing Director	ONO Yota	Executive Director	GOTO Kenji	External Audit & Supervisory Board Member	MURATA Tsuneko
Managing Director	KATAOKA Yoshikazu	Executive Director	MATSUOKA Hiroyuki		
Managing Director	WAKAI Katsuyuki	Executive Director	WATANABE Masahiro		

# Office Locations (As of July 2021)

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

	Location	Telephone Number
<b>Akita</b>		
<b>Akita Branch</b>		
Micro Unit AFFF Unit SME Unit	Hokuto Bldg., 5-1-51, Naka-dori, Akita-shi, Akita 010-0001, Japan	+81-18-832-5641 +81-18-833-8247 +81-18-832-5511
<b>Odate Branch</b>		
Micro Unit	2-3-38, Onaricho, Odate-shi, Akita 017-8567, Japan	+81-186-42-3407
<b>Yamagata</b>		
<b>Yamagata Branch</b>		
Micro Unit AFFF Unit SME Unit	Yamagata Shoko Kaigisho Kaikan, 3-1-9, Nanokamachi, Yamagata-shi, Yamagata 990-0042, Japan	+81-23-642-1331 +81-23-625-6135 +81-23-641-7941
<b>Yonezawa Branch</b>		
Micro Unit	Yonezawa Shoko Kaigisho Kaikan, 4-1-30, Chuo, Yonezawa-shi, Yamagata 992-0045, Japan	+81-238-21-5711
<b>Sakata Branch</b>		
Micro Unit	1-1-2, Funabacho, Sakata-shi, Yamagata 998-0036, Japan	+81-234-22-3120
<b>Fukushima</b>		
<b>Fukushima Branch</b>		
Micro Unit AFFF Unit SME Unit	NBF Unix Bldg., 6-6, Sakaemachi, Fukushima-shi, Fukushima 960-8031, Japan	+81-24-523-2341 +81-24-521-3328 +81-24-522-9241
<b>Aizuwakamatsu Branch</b>		
Micro Unit	2-3-5, Nakamachi, Aizuwakamatsu-shi, Fukushima 965-0878, Japan	+81-242-27-3120
<b>Koriyama Branch</b>		
Micro Unit	Yamaso Koriyama Bldg., 1-6-21, Shimizudai, Koriyama-shi, Fukushima 963-8005, Japan	+81-24-923-7140
<b>Iwaki Branch</b>		
Micro Unit	1-5, Hishikawacho, Taira, Iwaki-shi, Fukushima 970-8026, Japan	+81-246-25-7251
<b>Ibaraki</b>		
<b>Mito Branch</b>		
Micro Unit AFFF Unit SME Unit	3-3-55, Minamimachi, Mito-shi, Ibaraki 310-0021, Japan	+81-29-221-7137 +81-29-232-3623 +81-29-231-4246
<b>Hitachi Branch</b>		
Micro Unit	Akiyama Bldg., 2-1-48, Saiwaicho, Hitachi-shi, Ibaraki 317-0073, Japan	+81-294-24-2451
<b>Tsuchiura Branch</b>		
Micro Unit	Tamagawa Tsuchiura Bldg., 1-1-26, Chuo, Tsuchiura-shi, Ibaraki 300-0043, Japan	+81-29-822-4141
<b>Tochigi</b>		
<b>Utsunomiya Branch</b>		
Micro Unit AFFF Unit SME Unit	1-31, Nibancho, Utsunomiya-shi, Tochigi 320-0813, Japan	+81-28-634-7141 +81-28-636-3901 +81-28-636-7171
<b>Sano Branch</b>		
Micro Unit	2806-1, Takasagocho, Sano-shi, Tochigi 327-0022, Japan	+81-283-22-3011
<b>Gunma</b>		
<b>Maebashi Branch</b>		
Micro Unit AFFF Unit SME Unit	1-6-19, Honmachi, Maebashi-shi, Gunma 371-0023, Japan	+81-27-223-7311 +81-27-243-6061 +81-27-243-0050
<b>Takasaki Branch</b>		
Micro Unit	Okaba Takasaki Bldg., 81, Renjakucho, Takasaki-shi, Gunma 370-0826, Japan	+81-27-326-1621
<b>Saitama</b>		
<b>Saitama Branch</b>		
Micro Unit AFFF Unit SME Unit	Omiya Miyacho Bldg., 1-109-1, Miyacho, Omiyaku, Saitama-shi, Saitama 330-0802, Japan	+81-570-017202 (Navi Dial) +81-48-645-5421 +81-48-643-8320

	Location	Telephone Number
<b>Urawa Branch</b>		
Micro Unit	4-25-14, Kishicho, Urawa-ku, Saitama-shi, Saitama 330-0064, Japan	+81-570-015295 (Navi Dial)
<b>Kawagoe Branch</b>		
Micro Unit	Nihon Seimei Kawagoe Bldg., 14-1, Wakitahoncho, Kawagoe-shi, Saitama 350-1123, Japan	+81-570-017448 (Navi Dial)
<b>Kumagaya Branch</b>		
Micro Unit	2-45, Miyacho, Kumagaya-shi, Saitama 360-0041, Japan	+81-570-015958 (Navi Dial)
<b>Koshigaya Branch</b>		
Micro Unit	Koshigaya Higashi Ekimae Bldg., 3-33, Yayoicho, Koshigaya-shi, Saitama 343-0816, Japan	+81-570-017686 (Navi Dial)
<b>Niigata</b>		
<b>Niigata Branch</b>		
Micro Unit	NBF Niigata Telecom Bldg., 4-4-27, Bandai, Chuoku, Niigata-shi, Niigata 950-0088, Japan	+81-25-246-2011
AFFF Unit		+81-25-240-8511
SME Unit		+81-25-244-3122
<b>Nagaoka Branch</b>		
Micro Unit	3-9-23, Senju, Nagaoka-shi, Niigata 940-0087, Japan	+81-258-36-4360
<b>Sanjo Branch</b>		
Micro Unit	Sanjo Shoko Kaigisho Kaikan, 1-20, Sugoro, Sanjoshi, Niigata 955-0092, Japan	+81-256-34-7511
<b>Takada Branch</b>		
Micro Unit	Asutopia Takada, 5-4-5 Honcho, Joetsu-shi, Niigata 943-0832, Japan	+81-25-524-2340
<b>Nagano</b>		
<b>Nagano Branch</b>		
Micro Unit	1291, Miwatamachi, Nagano-shi, Nagano 380-0816, Japan	+81-26-233-2141
AFFF Unit		+81-26-233-2152
<b>Matsumoto Branch</b>		
Micro Unit	Nihon Seimei Matsumotoekimae Bldg., 1-4-20, Chuo, Matsumoto-shi, Nagano 390-0811, Japan	+81-263-33-7070
SME Unit		+81-263-33-0300
<b>Komoro Branch</b>		
Micro Unit	Komoro Shoko Kaigisho Kaikan, 3-3-12, Aioicho, Komoro-shi, Nagano 384-0025, Japan	+81-267-22-2591
<b>Ina Branch</b>		
Micro Unit	3413-2, Arai, Ina-shi, Nagano 396-0025, Japan	+81-265-72-5195
<b>Chiba</b>		
<b>Chiba Branch</b>		
Micro Unit	Sen City Tower, 1000, Shinmachi, Chuo-ku, Chiba-shi, Chiba 260-0028, Japan	+81-570-037502 (Navi Dial)
AFFF Unit		+81-43-238-8501
SME Unit		+81-43-243-7121
<b>Funabashi Branch</b>		
Micro Unit	Funabashi Shoko Kaigisho Kaikan, 1-10-10, Honcho, Funabashi-shi, Chiba 273-0005, Japan	+81-570-039512 (Navi Dial)
<b>Tateyama Branch</b>		
Micro Unit	1063-2, Hojo, Tateyama-shi, Chiba 294-0045, Japan	+81-570-037524 (Navi Dial)
<b>Matsudo Branch</b>		
Micro Unit	Chibagin Bldg., 7-10, Honcho, Matsudo-shi, Chiba 271-0091, Japan	+81-570-037762 (Navi Dial)
<b>Tokyo</b>		
<b>Tokyo Branch</b>		
Micro Unit	Otemachi Financial City North Tower, 1-9-4, Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan	+81-570-031227 (Navi Dial)
AFFF Unit		+81-3-3270-9791
SME Unit1, Tokyo Branch		+81-3-3270-1282
SME Unit2, Tokyo Branch		+81-3-3270-7994
SME Unit3, Tokyo Branch		+81-3-3270-6801
<b>Tokyo-Chuo Branch</b>		
Micro Unit	1-17-28, Shinkawa, Chuo-ku, Tokyo 104-0033, Japan	+81-570-026103 (Navi Dial)
<b>Shinjuku Branch</b>		
Micro Unit	1-14-9, Nishishinjuku, Shinjuku-ku, Tokyo 160-0023, Japan	+81-570-026825 (Navi Dial)
SME Unit		+81-3-3343-1261

	Location	Telephone Number
<b>Ueno Branch</b>		
Micro Unit	Nihon Seimei Ueno Bldg., 2-18-10, Higashiueno, Taito-ku, Tokyo 110-0015, Japan	+81-570-032371 (Navi Dial)
<b>Koto Branch</b>		
Micro Unit	Nihon Seimei Kinshicho Bldg., 3-7-8, Kotobashi, Sumida-ku, Tokyo 130-0022, Japan	+81-570-031092 (Navi Dial)
<b>Gotanda Branch</b>		
Micro Unit	Nihon Seimei Gotanda Bldg., 1-31-1, Nishigotanda, Shinagawa-ku, Tokyo 141-0031, Japan	+81-570-032140 (Navi Dial)
<b>Omorori Branch</b>		
Micro Unit	1-15-17, Omorikita, Ota-ku, Tokyo 143-0016, Japan	+81-570-026894 (Navi Dial)
SME Unit		+81-3-5763-3001
<b>Shibuya Branch</b>		
Micro Unit	Nihon Seimei Bldg., 1-21-1, Jinnan, Shibuya-ku, Tokyo 150-0041, Japan	+81-570-031502 (Navi Dial)
<b>Ikebukuro Branch</b>		
Micro Unit	Nissei Ikebukuro Bldg., 1-24-1, Higashiikebukuro, Toshima-ku, Tokyo 170-0013, Japan	+81-570-027352 (Navi Dial)
SME Unit		+81-3-3986-1261
<b>Itabashi Branch</b>		
Micro Unit	Itabashi Hojin Kaikan, 39-2, Hikawacho, Itabashi-ku, Tokyo 173-0013, Japan	+81-570-032415 (Navi Dial)
<b>Senju Branch</b>		
Micro Unit	Tajju Seimei Kitasenju Bldg., 41-1, Senjunakacho, Adachi-ku, Tokyo 120-0036, Japan	+81-570-031482 (Navi Dial)
SME Unit		+81-3-3870-2125
<b>Hachioji Branch</b>		
Micro Unit	T-5place, 7-3, Azumacho, Hachioji-shi, Tokyo 192-0082, Japan	+81-570-037386 (Navi Dial)
<b>Tachikawa Branch</b>		
Micro Unit	Shin-Suzuharu Bldg., 2-8-3 Akebonocho, Tachikawa-shi, Tokyo 190-8551, Japan	+81-570-032591 (Navi Dial)
SME Unit		+81-42-528-1261
<b>Mitaka Branch</b>		
Micro Unit	Sanshiro Bldg., 3-26-9, Shimorenjaku, Mitaka-shi, Tokyo 181-0013, Japan	+81-570-035745 (Navi Dial)
<b>Kanagawa</b>		
<b>Yokohama Branch</b>		
Micro Unit	2-21-2, Minaminakadori, Naka-ku, Yokohama-shi, Kanagawa 231-8831, Japan	+81-570-039574 (Navi Dial)
AFFF Unit		+81-45-641-1841
SME Unit		+81-45-682-1061
<b>Yokohama Nishiguchi Branch</b>		
Micro Unit	Nihon Seimei Bldg., 1-11-7, Kitasaiwai, Nishi-ku, Yokohama-shi, Kanagawa 220-0004, Japan	+81-570-041137 (Navi Dial)
<b>Kawasaki Branch</b>		
Micro Unit	Kawasaki Frontier Bldg., 11-2, Ekimaehoncho, Kawasaki-ku, Kawasaki-shi, Kanagawa 210-0007, Japan	+81-570-041403 (Navi Dial)
<b>Odawara Branch</b>		
Micro Unit	Odawara Hakone Shoko Kaigisho Kaikan, 4-2-39, Honcho, Odawara-shi, Kanagawa 250-0012, Japan	+81-570-041420 (Navi Dial)
<b>Atsugi Branch</b>		
Micro Unit	Meiji Yasuda Seimei Atsugi Bldg., 3-11-21, Nakacho, Atsugi-shi, Kanagawa 243-8575, Japan	+81-570-041632 (Navi Dial)
SME Unit		+81-46-297-5071
<b>Yamanashi</b>		
<b>Kofu Branch</b>		
Micro Unit	2-26-2, Marunouchi, Kofu-shi, Yamanashi 400-0031, Japan	+81-55-224-5361
AFFF Unit		+81-55-228-2182
SME Unit		+81-55-228-5790
<b>Toyama</b>		
<b>Toyama Branch</b>		
Micro Unit	Toyama Daiichi Seimei Bldg., 2-25, Sakurabashidori, Toyama-shi, Toyama 930-0004, Japan	+81-76-431-1191
AFFF Unit		+81-76-441-8411
SME Unit		+81-76-442-2483



	Location	Telephone Number
<b>Takaoka Branch</b>		
Micro Unit	Takaoka Shoko Bldg. Annex, 1-40, Marunouchi, Takaoka-shi, Toyama 933-0912, Japan	+81-766-25-1171
<b>Ishikawa</b>		
<b>Kanazawa Branch</b>		
Micro Unit	Asahi Seimei Kanazawa Bldg., 6-1, Minamicho, Kanazawa-shi, Ishikawa 920-0919, Japan	+81-76-263-7191
AFFF Unit		+81-76-263-6471
SME Unit		+81-76-231-4275
<b>Komatsu Branch</b>		
Micro Unit	Komatsu Shoko Kaigisho Bldg., Ni-1, Sonomachi, Komatsu-shi, Ishikawa 923-0801, Japan	+81-761-21-9101
<b>Fukui</b>		
<b>Fukui Branch</b>		
Micro Unit	Fukui Shoko Kaigisho Bldg., 2-8-1, Nishikida, Fukui-shi, Fukui 918-8004, Japan	+81-776-33-1755
AFFF Unit		+81-776-33-2385
SME Unit		+81-776-33-0030
<b>Takefu Branch</b>		
Micro Unit	Century Plaza, 1-2-3, Fuchu, Echizen-shi, Fukui 915-0071, Japan	+81-778-23-1133
<b>Gifu</b>		
<b>Gifu Branch</b>		
Micro Unit	Gifu Skywing 37 West Building, 6-31, Yoshinomachi, Gifu-shi, Gifu 500-8844, Japan	+81-58-263-2136
AFFF Unit		+81-58-264-4855
SME Unit		+81-58-265-3171
<b>Tajimi Branch</b>		
Micro Unit	Totetsu Bldg., 2-70-5, Honmachi, Tajimi-shi, Gifu 507-0033, Japan	+81-572-22-6341
<b>Shizuoka</b>		
<b>Shizuoka Branch</b>		
Micro Unit	Daido Seimei Shizuoka Bldg., 59-6, Kuroganecho, Aoi-ku, Shizuoka-shi, Shizuoka 420-0851, Japan	+81-54-254-4411
AFFF Unit		+81-54-205-6070
SME Unit		+81-54-254-3631
<b>Hamamatsu Branch</b>		
Micro Unit	Hamamatsu ACT Tower, 111-2, Itayamachi, Naka-ku, Hamamatsu-shi, Shizuoka 430-7723, Japan	+81-53-454-2341
SME Unit		+81-53-453-1611
<b>Numazu Branch</b>		
Micro Unit	5-7, Ichibacho, Numazu-shi, Shizuoka 410-8585, Japan	+81-55-931-5281
<b>Aichi</b>		
<b>Nagoya Branch</b>		
Micro Unit	Horiuchi Bldg., 3-25-9, Meieki, Nakamura-ku, Nagoya-shi, Aichi 450-0002, Japan	+81-570-053634 (Navi Dial)
AFFF Unit		+81-52-582-0741
SME Unit		+81-52-551-5181
<b>Nagoya Naka Branch</b>		
Micro Unit	Daiei Bldg., 1-11-20, Nishiki, Naka-ku, Nagoya-shi, Aichi 460-0003, Japan	+81-570-053502 (Navi Dial)
<b>Atsuta Branch</b>		
Micro Unit	7-30, Tamanoicho, Atsuta-ku, Nagoya-shi, Aichi 456-0025, Japan	+81-570-053569 (Navi Dial)
SME Unit		+81-52-682-7881
<b>Toyohashi Branch</b>		
Micro Unit	2-15, Hacchodori, Toyohashi-shi, Aichi 440-0806, Japan	+81-570-054351 (Navi Dial)
<b>Okazaki Branch</b>		
Micro Unit	Asahi Seimei Okazaki Bldg., 1-4-2, Karasawacho, Okazaki-shi, Aichi 444-0043, Japan	+81-570-054689 (Navi Dial)
SME Unit		+81-564-65-3025
<b>Ichinomiya Branch</b>		
Micro Unit	2-3-18, Daishi, Ichinomiya-shi, Aichi 491-0852, Japan	+81-570-054412 (Navi Dial)
<b>Mie</b>		
<b>Tsu Branch</b>		
Micro Unit	133, Yorozumachitsu, Tsu-shi, Mie 514-0021, Japan	+81-59-227-5211
AFFF Unit		+81-59-229-5750
SME Unit		+81-59-227-0251

	Location	Telephone Number
<b>Yokkaichi Branch</b>		
Micro Unit	Asahi Seimei Yokkaichi Bldg., 1-12, Suwasakaemachi, Yokkaichi-shi, Mie 510-0086, Japan	+81-59-352-3121
<b>Ise Branch</b>		
Micro Unit	Sangin Nissei Bldg., 2-5-1, Iwabuchi, Ise-shi, Mie 516-0037, Japan	+81-596-24-5191
<b>Shiga</b>		
<b>Otsu Branch</b>		
Micro Unit	Shiga Bldg., 1-3-10, Umabayashi, Otsu-shi, Shiga 520-0051, Japan	+81-77-524-1656
AFFF Unit		+81-77-525-7195
SME Unit		+81-77-524-3825
<b>Hikone Branch</b>		
Micro Unit	11-34, Sawacho, Hikone-shi, Shiga 522-0075, Japan	+81-749-24-0201
<b>Kyoto</b>		
<b>Kyoto Branch</b>		
Micro Unit	Urbannet Shijokarasuma Bldg., 101, Kankobokocho, Hlgashiiru, Shijodorimurumachi, Shimogyo-ku, Kyoto-shi, Kyoto 600-8009, Japan	+81-570-058788 (Navi Dial)
AFFF Unit		+81-75-221-2147
SME Unit		+81-75-221-7825
<b>Nishijin Branch</b>		
Micro Unit	82, Okamincho, Onmae-dori, Nishiiru, Ichijo-dori, Kamigyo-ku, Kyoto-shi, Kyoto 602-8375, Japan	+81-570-061401 (Navi Dial)
<b>Maizuru Branch</b>		
Micro Unit	66, Uoya, Maizuru-shi, Kyoto 624-0923, Japan	+81-570-061435 (Navi Dial)
<b>Osaka</b>		
<b>Osaka Branch</b>		
Micro Unit	Umeshin Dai-ichi Seimei Bldg., 2-3-5, Sonezaki, Kita-ku, Osaka-shi, Osaka 530-0057, Japan	+81-570-065604 (Navi Dial)
AFFF Unit		+81-6-6131-0750
SME Unit1, Osaka Branch		+81-6-6314-7615
SME Unit2, Osaka Branch		+81-6-6314-7810
<b>Osaka Nishi Branch</b>		
Micro Unit	Shin-shinanobashi Bldg., 1-13-47, Nishihonmachi, Nishi-ku, Osaka-shi, Osaka 550-0005, Japan	+81-570-065446 (Navi Dial)
SME Unit		+81-6-4390-0366
<b>Abeno Branch</b>		
Micro Unit	3-15-12, Matsuzakicho, Abeno-ku, Osaka-shi, Osaka 545-0053, Japan	+81-570-065462 (Navi Dial)
SME Unit		+81-6-6623-2160
<b>Tamade Branch</b>		
Micro Unit	Meiji Yasuda Seimei Tamade Bldg., 2-15-22, Tamadenaka, Nishinari-ku, Osaka-shi, Osaka 557-0044, Japan	+81-570-065986 (Navi Dial)
<b>Juso Branch</b>		
Micro Unit	Meiji Yasuda Seimei Juso Bldg., 1-2-13, Shinkitano, Yodogawa-ku, Osaka-shi, Osaka 532-0025, Japan	+81-570-065530 (Navi Dial)
<b>Osaka Minami Branch</b>		
Micro Unit	Midosuji Jun Ashida Bldg., 2-2-7, Nishishinsaibashi, Chuo-ku, Osaka-shi, Osaka 542-0086, Japan	+81-570-065596 (Navi Dial)
<b>Sakai Branch</b>		
Micro Unit	Sakai Shoko Kaigisho Kaikan, 130-23, Nagasonecho, Kita-ku, Sakai-shi, Osaka 591-8025, Japan	+81-570-068698 (Navi Dial)
SME Unit		+81-72-255-1261
<b>Suita Branch</b>		
Micro Unit	Matsuoka Bldg., 27-14, Asahimachi, Suita-shi, Osaka 564-0027, Japan	+81-570-068846 (Navi Dial)
<b>Moriguchi Branch</b>		
Micro Unit	4-10, Keihankita-hondori, Moriguchi-shi, Osaka 570-0094, Japan	+81-570-068502 (Navi Dial)
<b>Izumisano Branch</b>		
Micro Unit	3-1-6, Uemachi, Izumisano-shi, Osaka 598-0007, Japan	+81-570-068829 (Navi Dial)
<b>Higashiosaka Branch</b>		
Micro Unit	2-9-2, Takaidatomomachi, Higashiosaka-shi, Osaka 577-0054, Japan	+81-570-068663 (Navi Dial)
SME Unit		+81-6-6787-2661

	Location	Telephone Number
<b>Hyogo</b>		
<b>Kobe Branch</b>		
Micro Unit	Harborland Dia Nissei Bldg., 1-7-4, Higashikawasakicho, Chuo-ku, Kobe-shi, Hyogo 650-0044, Japan	+81-570-061468 (Navi Dial)
AFFF Unit		+81-78-362-8451
SME Unit		+81-78-362-5961
<b>Kobe Higashi Branch</b>		
Micro Unit	KHK Nada Bldg., 3-6-15, Tomodacho, Nada-ku, Kobe-shi, Hyogo 657-0035, Japan	+81-570-061497 (Navi Dial)
<b>Himeji Branch</b>		
Micro Unit	200, Shinobumachi, Himeji-shi, Hyogo 670-0917, Japan	+81-570-062292 (Navi Dial)
<b>Amagasaki Branch</b>		
Micro Unit	4-18-1, Higashinaniwacho, Amagasaki-shi, Hyogo 660-0892, Japan	+81-570-062547 (Navi Dial)
<b>Akashi Branch</b>		
Micro Unit	8-36, Taruyamachi, Akashi-shi, Hyogo 673-0898, Japan	+81-570-062017 (Navi Dial)
<b>Toyooka Branch</b>		
Micro Unit	10-6, Chiyodacho, Toyooka-shi, Hyogo 668-0032, Japan	+81-570-065418 (Navi Dial)
<b>Nara</b>		
<b>Nara Branch</b>		
Micro Unit	Nara Center Bldg., 7-1-33, Omiyacho, Nara-shi, Nara 630-8115, Japan	+81-570-069483 (Navi Dial)
AFFF Unit		+81-742-32-2270
SME Unit		+81-742-35-9910
<b>Wakayama</b>		
<b>Wakayama Branch</b>		
Micro Unit	58, Junibancho, Wakayama-shi, Wakayama 640- 8158, Japan	+81-570-071039 (Navi Dial)
AFFF Unit		+81-73-423-0644
SME Unit		+81-73-431-9301
<b>Tanabe Branch</b>		
Micro Unit	1-11-27, Takao, Tanabe-shi, Wakayama 646-0028, Japan	+81-570-071826 (Navi Dial)
<b>Tottori</b>		
<b>Tottori Branch</b>		
Micro Unit	Tottori JA-kaikan, 723, Suehiroosencho Tottori- shi, Tottori 680-0833, Japan	+81-857-22-3156
AFFF Unit		+81-857-20-2151
SME Unit		+81-857-23-1641
<b>Yonago Branch</b>		
Micro Unit	Kounan-Asset Yonago Bldg., 2-106, Kamocho, Yonago-shi, Tottori 683-0823, Japan	+81-859-34-5821
<b>Shimane</b>		
<b>Matsue Branch</b>		
Micro Unit	Matsue Century Bldg., 111, Tonomachi, Matsue- shi, Shimane 690-0887, Japan	+81-852-23-2651
AFFF Unit		+81-852-26-1133
SME Unit		+81-852-21-0110
<b>Hamada Branch</b>		
Micro Unit	82-7, Tonomachi, Hamada-shi, Shimane 697-0027, Japan	+81-855-22-2835
<b>Okayama</b>		
<b>Okayama Branch</b>		
Micro Unit	Taiyo Seimei Okayama Yanagimachi Bldg., 1-1-27, Yanagimachi, Kita-ku, Okayama-shi, Okayama 700- 0904, Japan	+81-86-225-0011
AFFF Unit		+81-86-232-3611
SME Unit		+81-86-222-7666
<b>Kurashiki Branch</b>		
Micro Unit	Kurashiki Nakayoshi Bldg. II, 1-40, Saiwaicho, Kurashiki-shi, Okayama 710-0051, Japan	+81-86-425-8401
<b>Tsuyama Branch</b>		
Micro Unit	18-1, Sange, Tsuyama-shi, Okayama 708-0022, Japan	+81-868-22-6135
<b>Hiroshima</b>		
<b>Hiroshima Branch</b>		
Micro Unit	Hiroshima Train Vert Bldg., 1-2-22, Kamiyacho, Naka-ku, Hiroshima-shi, Hiroshima 730-0031, Japan	+81-82-244-2231
AFFF Unit		+81-82-249-9152
SME Unit		+81-82-247-9151

	Location	Telephone Number
<b>Kure Branch</b>		
Micro Unit	Kure Shokokaigisho Bldg., 4-7-1-201, Hondori, Kure-shi, Hiroshima 737-0045, Japan	+81-823-24-2600
<b>Onomichi Branch</b>		
Micro Unit	JB Honshi-kosoku Onomichi Bldg., 1-20, Higashigoshicho, Onomichi-shi, Hiroshima 722- 0036, Japan	+81-848-22-6111
<b>Fukuyama Branch</b>		
Micro Unit	2-2-7, Konancho, Fukuyama-shi, Hiroshima 720- 0814, Japan	+81-84-922-6550
<b>Yamaguchi</b>		
<b>Yamaguchi Branch</b>		
Micro Unit	New Media Plaza Yamaguchi, 1-10, Kumanocho, Yamaguchi-shi, Yamaguchi 753-0077, Japan	+81-83-922-3660
AFFF Unit		+81-83-922-2140
<b>Shimonoseki Branch</b>		
Micro Unit	2-4-3, Hosoecho, Shimonoseki-shi, Yamaguchi 750-0016, Japan	+81-83-222-6225
SME Unit		+81-83-223-2251
<b>Iwakuni Branch</b>		
Micro Unit	ARK Bldg. II, 4-1-3, Marifumachi, Iwakuni-shi, Yamaguchi 740-0018, Japan	+81-827-22-6265
<b>Tokuyama Branch</b>		
Micro Unit	Daido Seimei Tokuyama Bldg. 1-3 Honcho, Shunan-shi, Yamaguchi 745-0036, Japan	+81-834-21-3455
<b>Tokushima</b>		
<b>Tokushima Branch</b>		
Micro Unit	1-58, Nakazucho, Tokushima-shi, Tokushima 770- 0856, Japan	+81-88-622-7271
AFFF Unit		+81-88-656-6880
SME Unit		+81-88-625-7790
<b>Kagawa</b>		
<b>Takamatsu Branch</b>		
Micro Unit	ICHIGO Takamatsu Bldg., 2-2-7 Kotobukicho, Takamatsu-shi, Kagawa 760-0023, Japan	+81-87-851-0181
AFFF Unit		+81-87-851-2880
SME Unit		+81-87-851-9141
<b>Ehime</b>		
<b>Matsuyama Branch</b>		
Micro Unit	6-7-3, Sanbancho, Matsuyama-shi, Ehime 790- 0003, Japan	+81-89-941-6148
AFFF Unit		+81-89-933-3371
SME Unit		+81-89-943-1231
<b>Uwajima Branch</b>		
Micro Unit	Shokokaigisho Kaikan, 1-3-24, Marunouchi, Uwajima-shi, Ehime 798-0060, Japan	+81-895-22-4766
<b>Niihama Branch</b>		
Micro Unit	3-3, Shigemotocho, Niihama-shi, Ehime 792-8691, Japan	+81-897-33-9101
<b>Kochi</b>		
<b>Kochi Branch</b>		
Micro Unit	Kochi Chuo Business Square, 2-26, Sakaimachi, Kochi-shi, Kochi 780-0834, Japan	+81-88-822-3191
AFFF Unit		+81-88-825-1091
SME Unit		+81-88-875-0281
<b>Fukuoka</b>		
<b>Fukuoka Branch</b>		
Micro Unit	3-21-12, Hakataekimae, Hakata-ku, Fukuoka-shi, Fukuoka 812-0011, Japan	+81-92-411-9111
AFFF Unit		+81-92-451-1780
SME Unit		+81-92-431-5296
<b>Fukuoka Nishi Branch</b>		
Micro Unit	ND Bldg., 1-4-1, Daimyo, Chuo-ku, Fukuoka-shi, Fukuoka 810-0041, Japan	+81-92-712-4381
<b>Kitakyushu Branch</b>		
Micro Unit	Daido Seimei Kitakyushu Bldg., 1-10-10, Kajimachi, Kokurakita-ku, Kitakyushu-shi, Fukuoka 802-0004, Japan	+81-93-541-7550
SME Unit		+81-93-531-9191
<b>Yahata Branch</b>		
Micro Unit	Earth Court Kurosakiekimae Bldg., 3-1-7, Kurosaki, Yahatanishi-ku, Kitakyushu-shi, Fukuoka 806- 0021, Japan	+81-93-641-7715
<b>Kurume Branch</b>		
Micro Unit	Daido Seimei Kurume Bldg., 38-1, Higashimachi, Kurume-shi, Fukuoka 830-0032, Japan	+81-942-34-1212

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

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

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

#### Overseas Representative Offices

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

# History of JFC

## [Micro Business and Individual Unit]

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

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

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

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

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

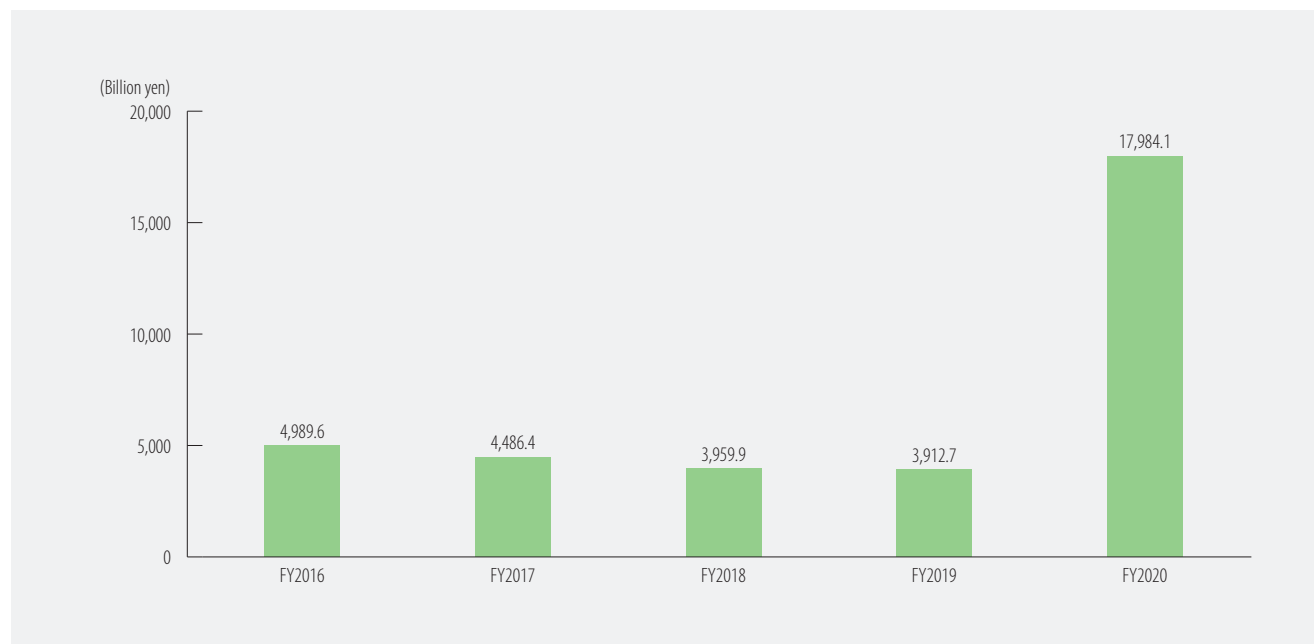
## [Japan Finance Corporation]

Date	Events
Dec. 2005	Cabinet Decision on Important Policy for Administrative Reform
May 2006	Act on Promotion of Administrative Reform for Realization of Small and Efficient Government enacted
Jun. 2006	System Design regarding the Reform of Policy-based Finance adopted by the council for the Reform of policy-based Finance
May 2007	Japan Finance Corporation Act and "Act on Special Measures to Enable Smooth Restructuring of US Forces" established to regulate the operations of the Finance Department for Facilitating Realignment of U.S. Forces Japan
Oct. 2008	JFC is established based on the Japan Finance Corporation Act JFC inherits all rights and obligations, excluding assets inherited by the government, from the National Life Finance Corporation (NLFC) (now Micro Business and Individual Unit), Agriculture, Forestry and Fisheries Finance Corporation (AFC) (now Agriculture, Forestry and Fisheries and Food Business Unit), Japan Finance Corporation for Small and Medium Enterprise (now Small and Medium Enterprise Unit) and the International Financial Operations (IFOs) of the (former) Japan Bank for International Cooperation (JBIC) (now Japan Bank for International Cooperation (JBIC)) Based on "laws related to establishment of laws concerning implementation of the Japan Finance Corporation Act," even following the establishment of JFC operations of the Finance Department for Facilitating Realignment of U.S. Forces Japan are inherited as operations to be conducted by the Japan Bank for International Cooperation (JBIC) Operations to Facilitate Crisis Responses established
Apr. 2010	Established special account for business related to the Finance Department for Facilitating Realignment of U.S. Forces Japan (Finance Department for Facilitating Realignment of U.S. Forces Japan accounts)
Aug. 2010	Established special account for business related to the Operations to Facilitate Specific Businesses Promotion (Operations to Facilitate Specific Businesses Promotion accounts)
Apr. 2011	The Japan Bank for International Cooperation Act enacted. (Decision to separate JBIC from JFC effective April 1, 2012)
Jul. 2011	Operations to Facilitate Business Restructuring Promotion, etc. commenced
Mar. 2012	"Laws revising portions of the Okinawa Promotion and Development Special Treatment Act" enacted. It is determined that JFC will merge with the Okinawa Development Finance Corporation (ODFC) from FY2022
Apr. 2012	JBIC separated from JFC JBIC operations and financial operations for facilitating realignment of U.S. forces in Japan transferred to the Japan Bank for International Cooperation
Jan. 2014	Operations to Facilitate Business Restructuring Promotion commenced
Aug. 2020	Operations to Facilitate Development and Supply Promotion commenced

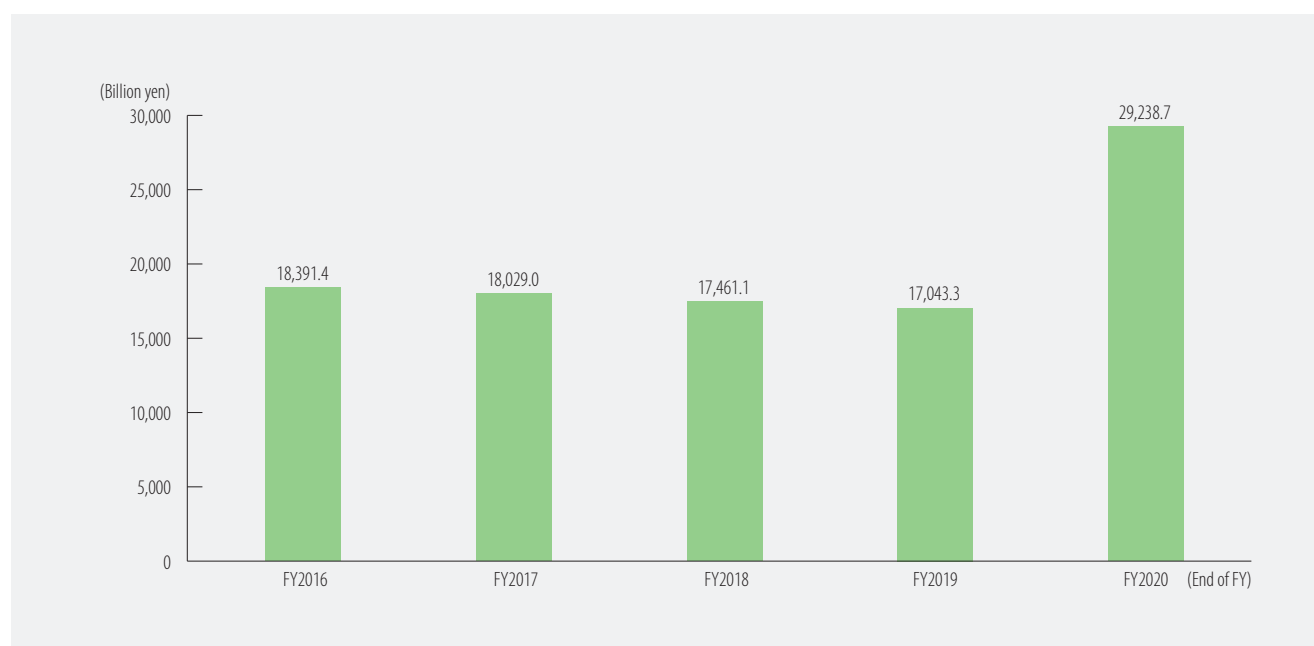
## Data

Operational Performances .....	84
Financial Statements and Notes .....	97
Reference Information .....	196

### 1 Changes in Annual Loan Operations

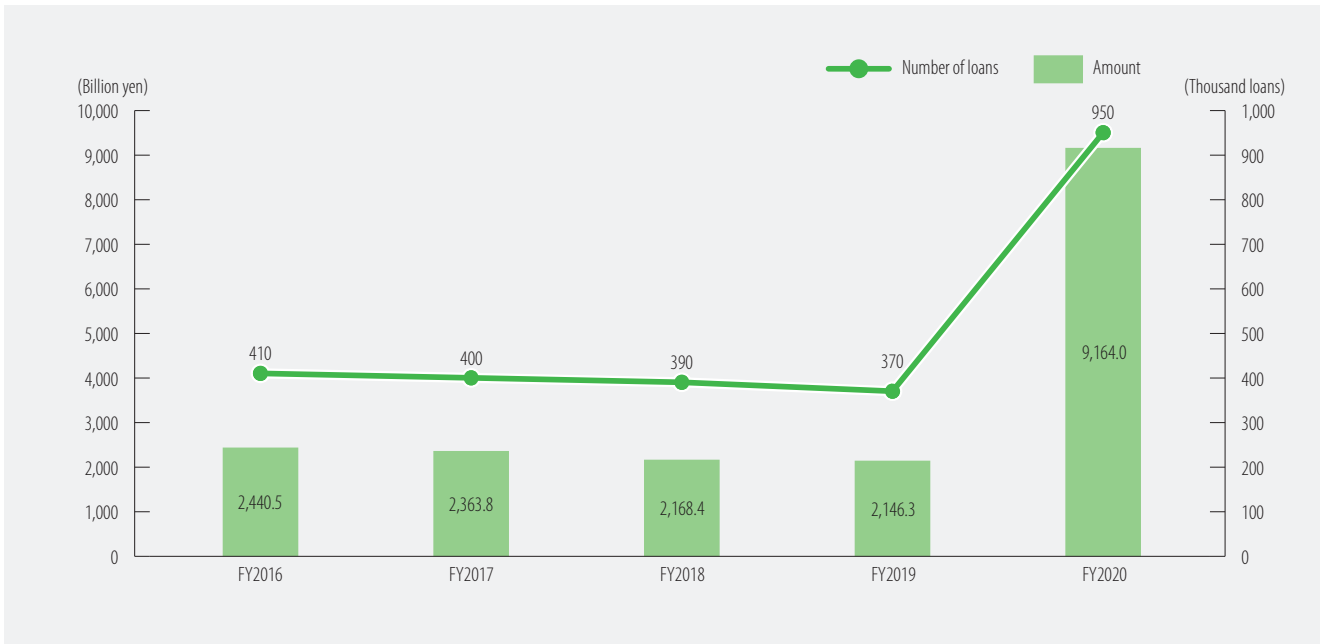


### 2 Changes in Outstanding Loans



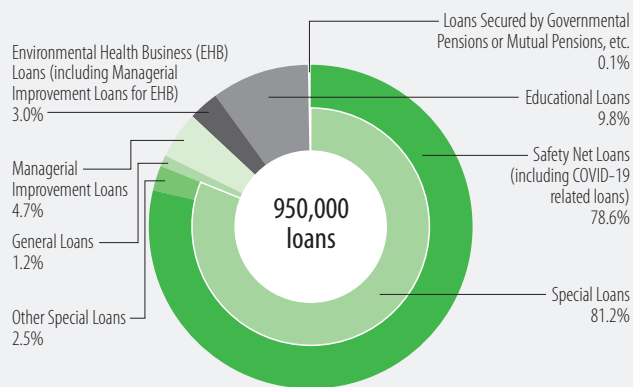


## 1 Changes in Annual Loan Operations

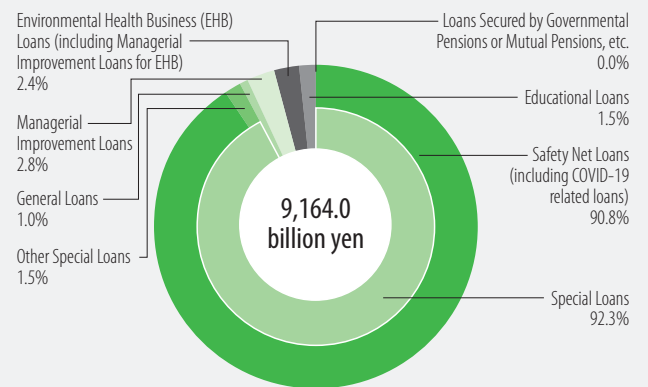


## 2 Breakdown of Loans by Scheme

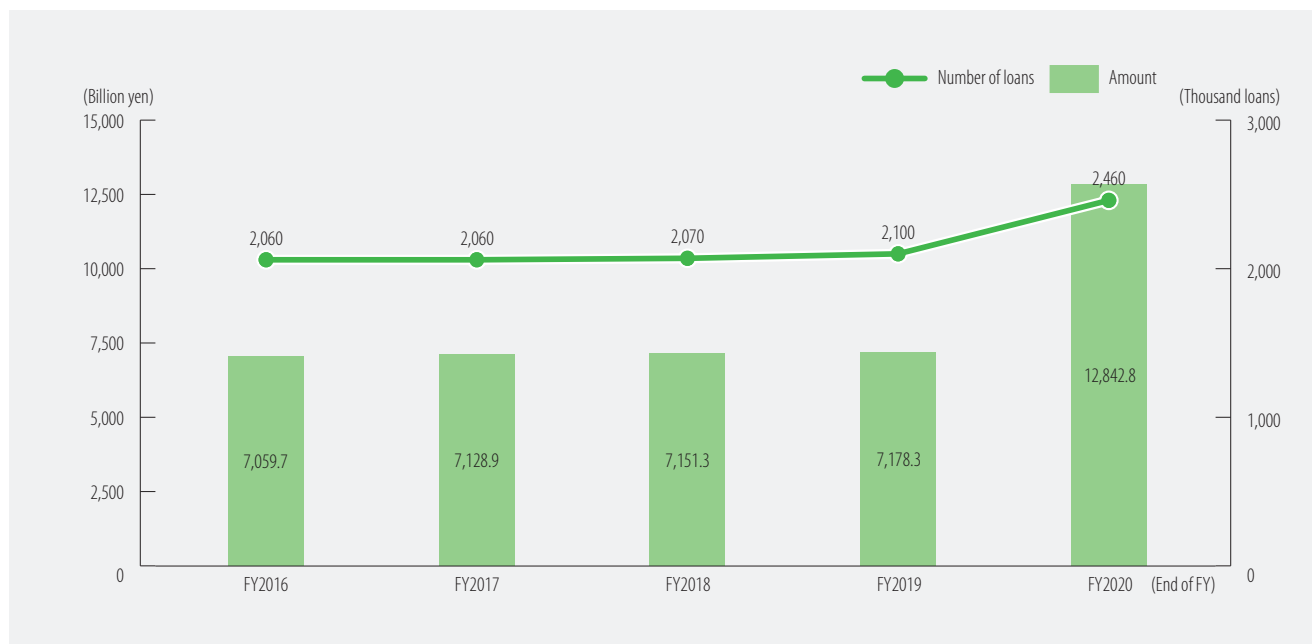
▼ Number of Loans (FY2020)



▼ Total Amount of Loans (FY2020)



### 3 Changes in Outstanding Loans



### 4 Breakdown of Business Loans Outstanding by Industry

(Billion yen, %)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Manufacturing	623.8 (10.2)	606.2 (9.8)	586.1 (9.5)	574.2 (9.3)	1,043.0 (8.8)
Wholesale & Retail	1,359.0 (22.1)	1,346.5 (21.8)	1,318.1 (21.3)	1,293.6 (20.9)	2,362.7 (19.9)
Restaurants & Hotels	512.8 (8.3)	532.7 (8.6)	547.9 (8.9)	580.7 (9.4)	1,475.1 (12.4)
Services	1,434.1 (23.3)	1,472.5 (23.8)	1,501.1 (24.2)	1,525.4 (24.6)	3,106.8 (26.2)
Construction	900.3 (14.6)	916.8 (14.8)	919.5 (14.9)	911.1 (14.7)	1,870.1 (15.7)
Others	1,316.1 (21.4)	1,315.8 (21.3)	1,317.7 (21.3)	1,313.6 (21.2)	2,016.7 (17.0)
<b>Total</b>	<b>6,146.4</b> <b>(100.0)</b>	<b>6,190.8</b> <b>(100.0)</b>	<b>6,190.6</b> <b>(100.0)</b>	<b>6,198.8</b> <b>(100.0)</b>	<b>11,874.6</b> <b>(100.0)</b>

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

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

3. Figures in parentheses denote percentage of shares.

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

(Billion yen, %)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Restaurant-related Services	148.0 (49.4)	159.1 (50.8)	169.7 (51.7)	178.0 (51.9)	233.0 (54.4)
Beauty parlors	61.3 (20.4)	65.6 (21.0)	69.9 (21.3)	73.1 (21.3)	89.9 (21.0)
Hotels	49.8 (16.6)	48.8 (15.6)	49.4 (15.1)	53.9 (15.7)	63.2 (14.8)
Barbershops	19.4 (6.5)	19.4 (6.2)	19.4 (5.9)	19.4 (5.7)	21.6 (5.0)
Public baths	10.3 (3.5)	9.5 (3.0)	8.7 (2.7)	8.0 (2.4)	7.6 (1.8)
Laundries	7.1 (2.4)	7.1 (2.3)	6.9 (2.1)	6.7 (2.0)	8.5 (2.0)
Meat shops	2.4 (0.8)	2.4 (0.8)	2.6 (0.8)	2.4 (0.7)	2.9 (0.7)
Entertainment facilities	0.8 (0.3)	0.6 (0.2)	0.8 (0.3)	0.5 (0.2)	0.7 (0.2)
Others	0.3 (0.1)	0.3 (0.1)	0.4 (0.1)	0.3 (0.1)	0.3 (0.1)
Total	299.8 (100.0)	313.3 (100.0)	328.0 (100.0)	342.8 (100.0)	428.0 (100.0)

Note: Figures in parentheses denote percentage of shares.

## 6 Breakdown of Outstanding Loans by Use

(Billion yen, %)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Operating funds	3,871.2 (63.0)	3,914.0 (63.2)	3,880.7 (62.7)	3,891.8 (62.8)	10,071.6 (84.8)
Facility funds	2,275.1 (37.0)	2,276.7 (36.8)	2,309.9 (37.3)	2,307.0 (37.2)	1,803.0 (15.2)
Total	6,146.4 (100.0)	6,190.8 (100.0)	6,190.6 (100.0)	6,198.8 (100.0)	11,874.6 (100.0)

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

2. Figures in parentheses denote percentage of shares.

## 7 Number of Borrowers

(Number of borrowers)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Number of borrowers	880,104	879,639	881,622	881,026	1,177,346

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

## 8 Average Loan Balance per Business

(Thousand yen)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Average loan balance per business	6,983	7,037	7,021	7,036	10,085

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

## 9 Educational Loans Outstanding, etc.

(Billion yen)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Educational Loans	903.4	930.0	953.2	973.6	963.9
Loans Secured by Governmental Pensions and Mutual Pensions, etc.	9.7	7.9	7.3	5.8	4.2

## 10 Breakdown of Loans by Credit Amount

(Number of loans, %)

	FY2016	FY2017	FY2018	FY2019	FY2020
Up to 3 million yen	90,876 (32.8)	89,410 (33.2)	88,280 (34.3)	87,643 (34.2)	229,761 (26.6)
Over 3 million yen and up to 5 million yen	56,115 (20.2)	54,534 (20.2)	53,659 (20.8)	52,774 (20.6)	151,201 (17.5)
Over 5 million yen and up to 8 million yen	37,288 (13.5)	35,830 (13.3)	34,829 (13.5)	34,586 (13.5)	102,930 (11.9)
Over 8 million yen	92,945 (33.5)	89,603 (33.3)	80,872 (31.4)	80,994 (31.6)	379,998 (44.0)
Total	277,224 (100.0)	269,377 (100.0)	257,640 (100.0)	255,997 (100.0)	863,890 (100.0)

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

2. Figures in parentheses denote percentage of shares.

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

(Number of loans, %)

	FY2016	FY2017	FY2018	FY2019	FY2020
4 or fewer	197,007 (71.1)	192,794 (71.6)	172,541 (67.0)	166,749 (65.1)	564,073 (65.3)
5-9	51,279 (18.5)	48,486 (18.0)	51,002 (19.8)	51,647 (20.2)	167,596 (19.4)
10-19	19,550 (7.1)	19,046 (7.1)	21,541 (8.4)	23,108 (9.0)	80,433 (9.3)
20 or more	9,386 (3.4)	9,047 (3.4)	12,555 (4.9)	14,489 (5.7)	51,785 (6.0)
Total	277,222 (100.0)	269,373 (100.0)	257,639 (100.0)	255,993 (100.0)	863,887 (100.0)

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

2. Figures in parentheses denote percentage of shares.

## 12 Breakdown of Loans by Type of Collateral

(Number of loans, %)

	FY2016	FY2017	FY2018	FY2019	FY2020	
No collateral	229,665 (82.9)	230,263 (85.5)	223,271 (86.7)	223,441 (87.3)	857,271 (99.2)	
Collateral	Real estate (including partial collateral)	47,488 (17.1)	39,054 (14.5)	34,323 (13.3)	32,522 (12.7)	6,602 (0.8)
	Securities	21 (0.0)	10 (0.0)	10 (0.0)	4 (0.0)	1 (0.0)
	Credit Guarantee Corporations (CGCs)	— (—)	— (—)	— (—)	— (—)	— (—)
	Others	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Total	277,174 (100.0)	269,327 (100.0)	257,604 (100.0)	255,967 (100.0)	863,874 (100.0)	

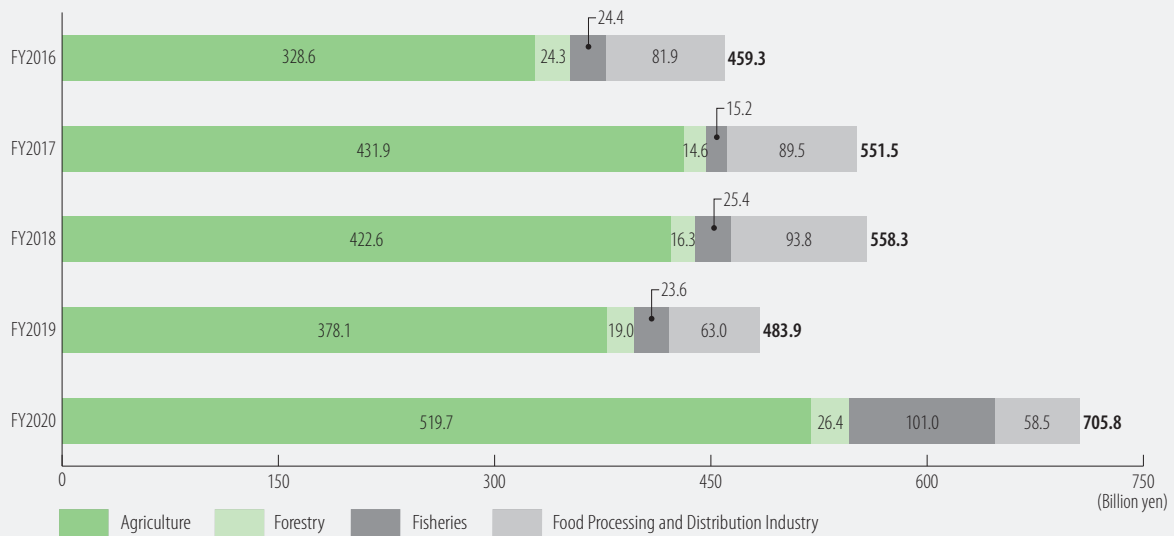
Notes: 1. Loans comprise General Loans and Environmental Health Business Loans.

2. Figures in parentheses denote percentage of shares.

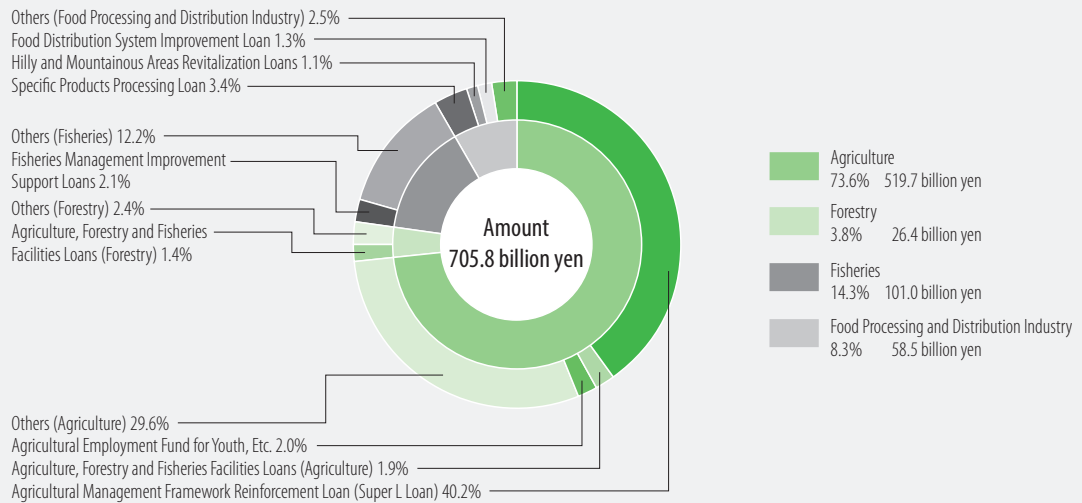
3. Partial collateral refers to real estate or other collateral whose estimated values do not reach amounts borrowed. Partial collateral of "Securities," "Credit Guarantee Corporations" and "Others" are included in "Real estate."

# Agriculture, Forestry, Fisheries and Food Business Unit

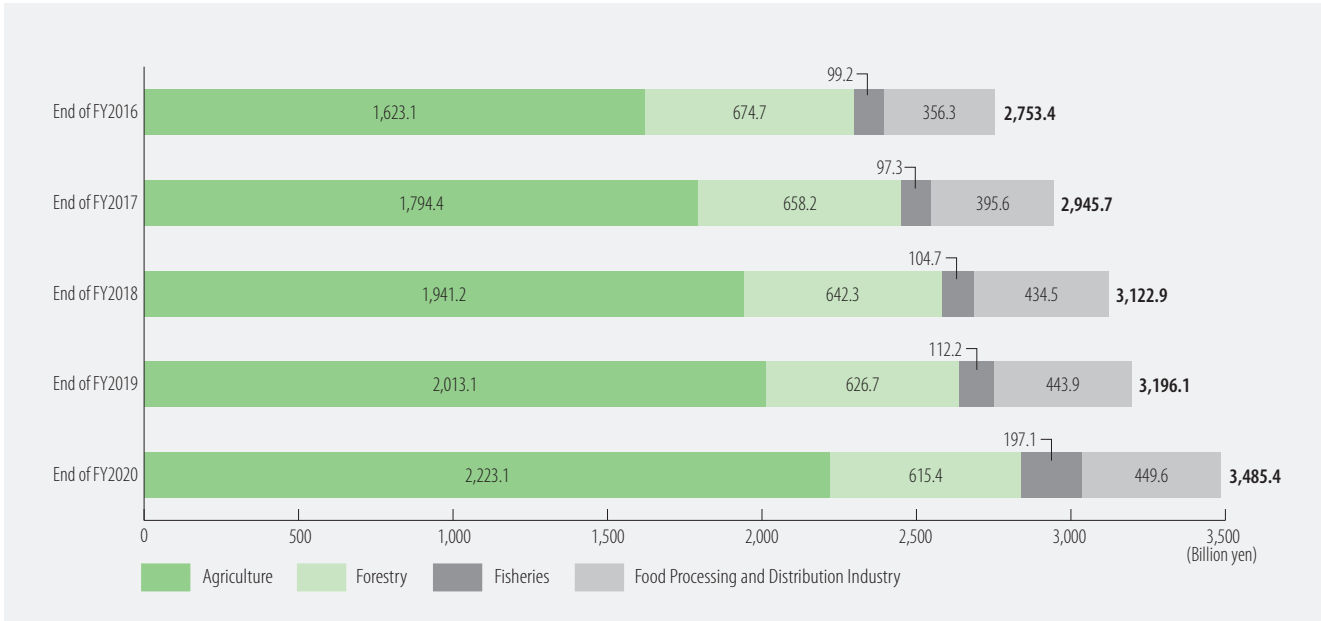
## 1 Changes in Annual Loan Operations



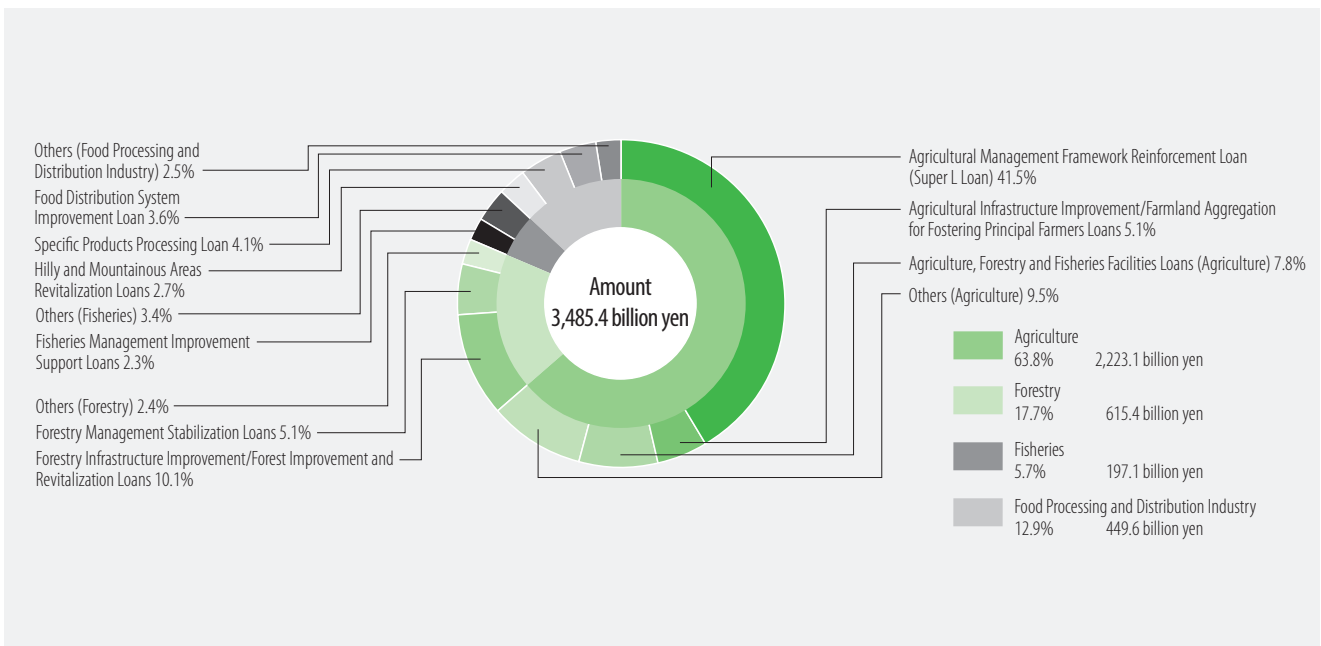
## 2 Breakdown of Loans by Scheme (FY2020)



### 3 Changes in Outstanding Loans

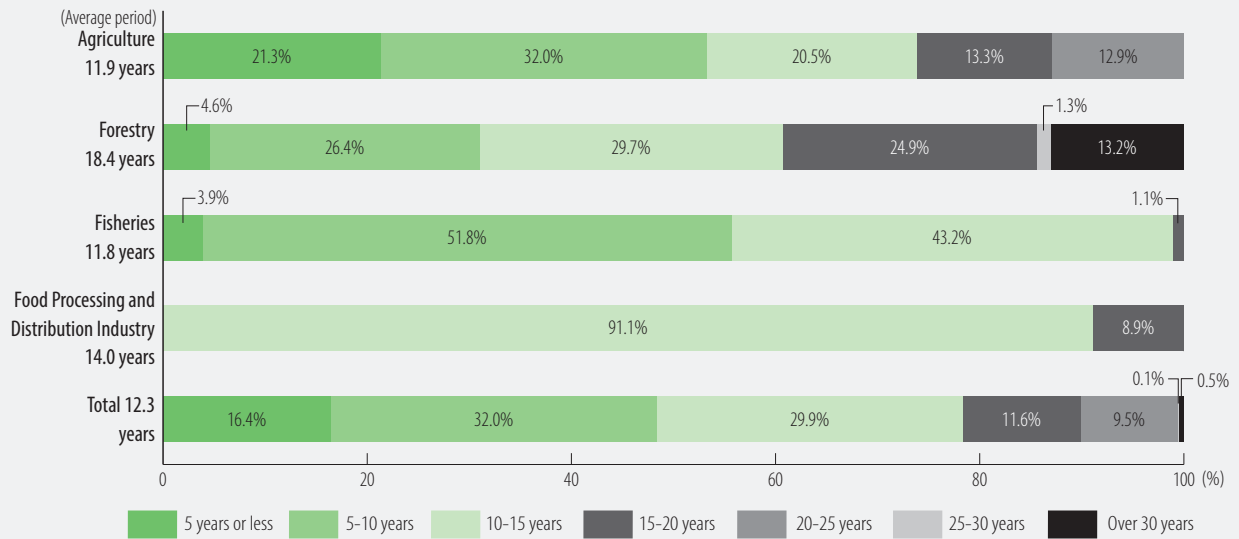


### 4 Breakdown of Outstanding Loans by Sector and Use (End of FY2020)



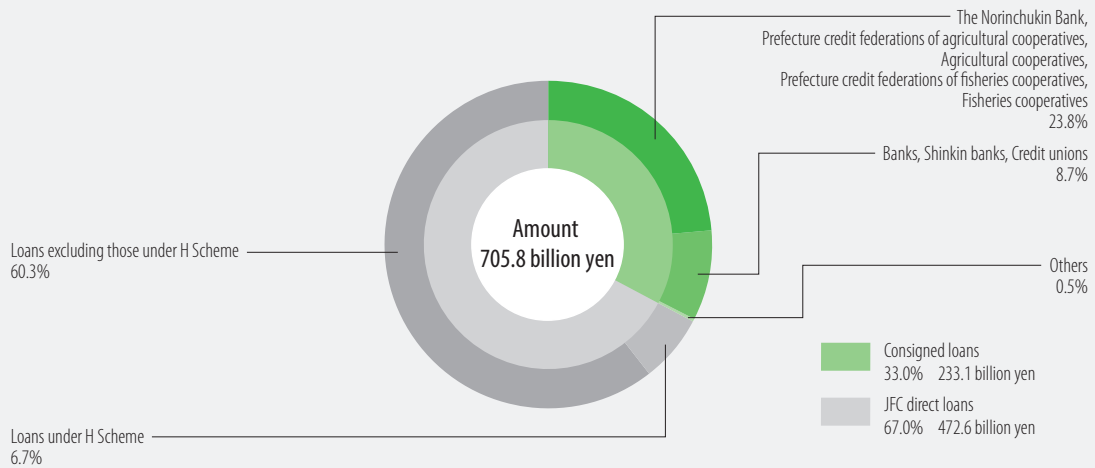


## 5 Loans by Repayment Period (FY2020)



Note: Aggregated by loan amount.

## 6 Loans by Commissioned Financial Institutions (FY2020)

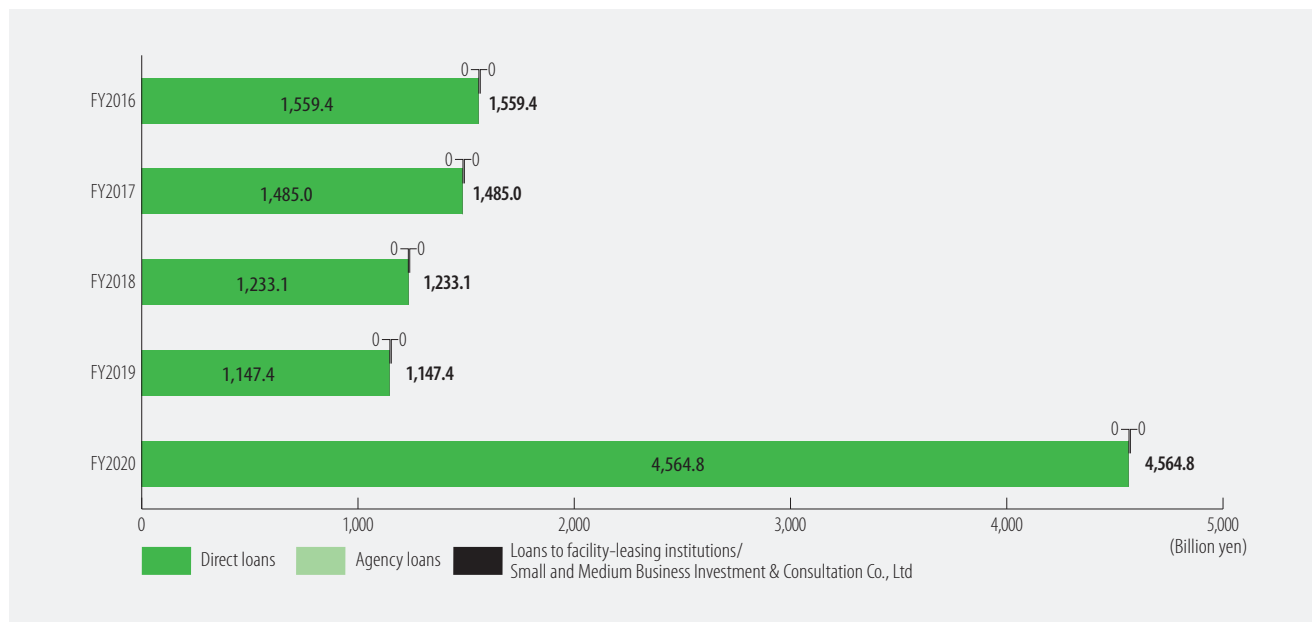


Note: H Scheme refers to a loan system through consignment of part of administration works for JFC's direct loans to agricultural cooperatives, banks, Shinkin banks, etc.

# Small and Medium Enterprise (SME) Unit

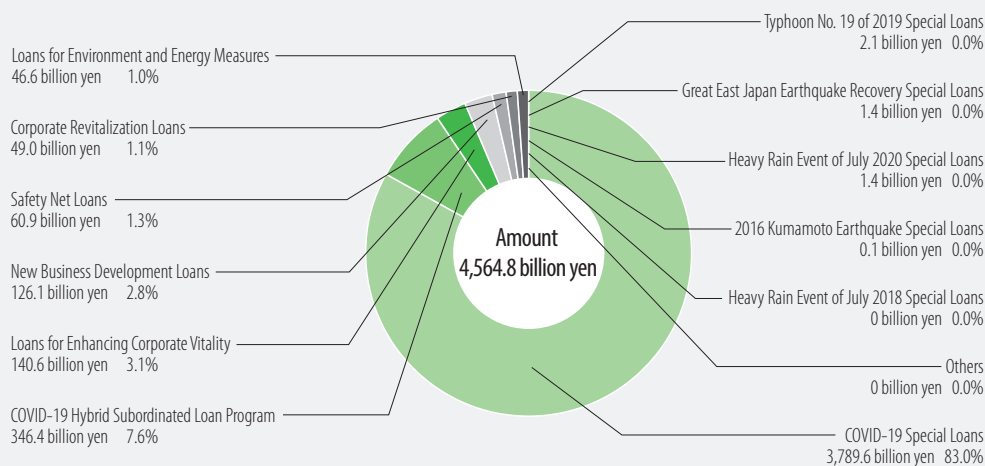
## I. Loan Programs

### 1 Changes in Annual Loan Operations



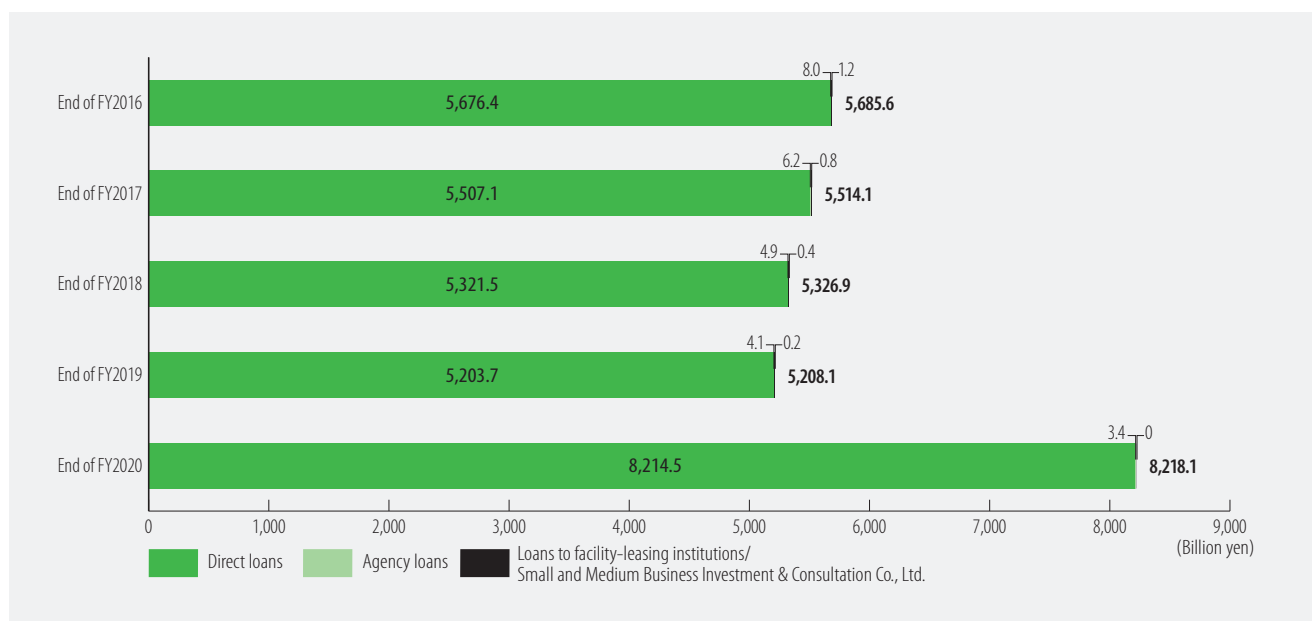
### 2 Breakdown of Loans by Scheme

#### ▼ Total Amount of Loans (FY2020)



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

### 3 Changes in Outstanding Loans



### 4 Breakdown of Outstanding Loans by Industry

(Unit: billion yen, %)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Manufacturing	2,675.2 (47.1)	2,588.1 (46.9)	2,487.1 (46.7)	2,387.4 (45.8)	3,220.1 (39.2)
Construction	260.2 (4.6)	255.9 (4.6)	252.1 (4.7)	249.4 (4.8)	516.4 (6.3)
Wholesale & retail	920.1 (16.2)	895.5 (16.2)	834.3 (15.7)	787.1 (15.1)	1,413.7 (17.2)
Transport & telecommunications	538.9 (9.5)	535.6 (9.7)	538.2 (10.1)	549.9 (10.6)	850.6 (10.4)
Services	601.0 (10.6)	581.8 (10.6)	584.2 (11.0)	612.5 (11.8)	1,488.9 (18.1)
Others	688.7 (12.1)	656.2 (11.9)	630.2 (11.8)	621.1 (11.9)	728.1 (8.9)
Total	5,684.4 (100.0)	5,513.3 (100.0)	5,326.4 (100.0)	5,207.9 (100.0)	8,218.0 (100.0)

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

2. Figures in parentheses denote percentage of shares.

### 5 Breakdown of Outstanding Loans by Use

(Unit: billion yen, %)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Operating funds	3,497.2 (61.5)	3,321.1 (60.2)	3,013.5 (56.6)	2,785.2 (53.5)	5,919.4 (72.0)
Facility funds	2,187.2 (38.5)	2,192.2 (39.8)	2,312.8 (43.4)	2,422.6 (46.5)	2,298.5 (28.0)
Total	5,684.4 (100.0)	5,513.3 (100.0)	5,326.4 (100.0)	5,207.9 (100.0)	8,218.0 (100.0)

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

2. Figures in parentheses denote percentage of shares.

## 6 Number of Borrowers

(Number of businesses)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Number of borrowers	44,665	44,145	43,929	44,102	61,074

Note: Figures cover only businesses with direct loans.

## 7 Average Loan Balance per Business

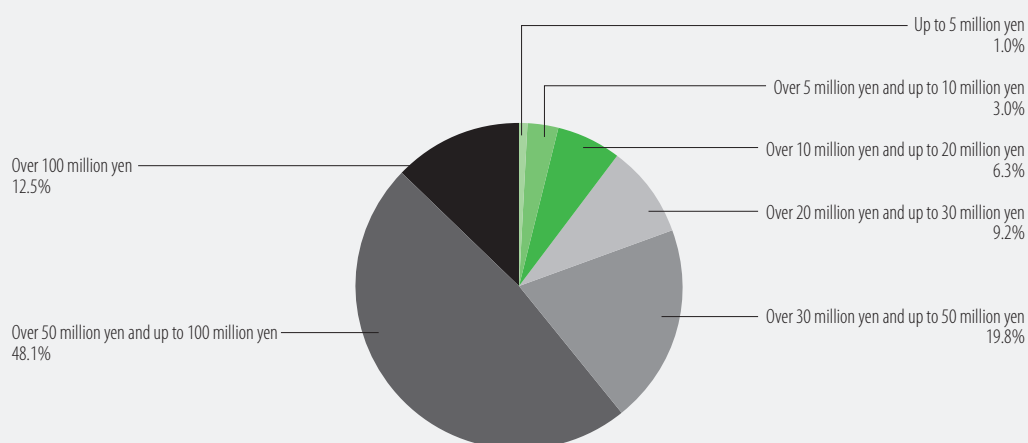
(Million yen)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Average loan balance per business	127	124	121	117	134

Note: Figures cover only businesses with direct loans.

## 8 Loans by Credit Amount

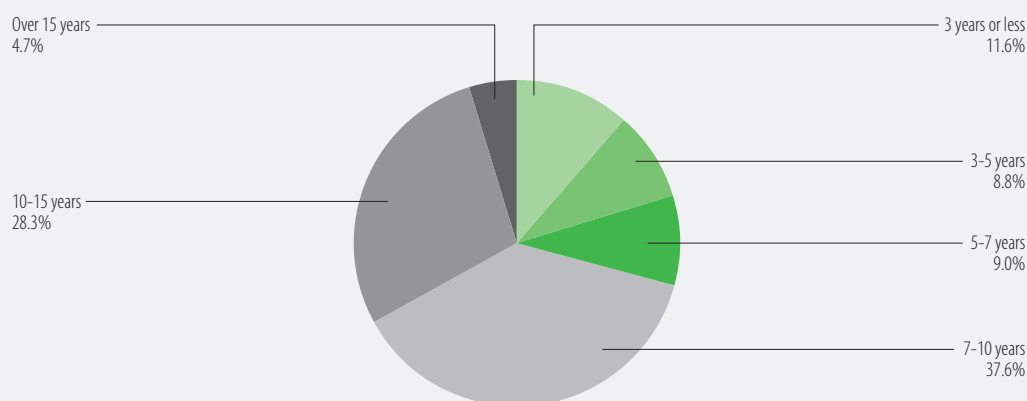
### ▼ Loan Percentage Breakdown (FY2020)



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

## 9 Loans by Repayment Period

### ▼ Loan Percentage Breakdown (FY2020)



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

## II. Credit Insurance Programs

(Billion yen)

Items	FY2016	FY2017	FY2018	FY2019	FY2020
<b>Amounts of insurance acceptance and loans</b>					
Small Business Credit Insurance	8,101.1	7,635.5	7,707.2	8,324.3	33,210.6
Loans to CGCs	—	—	—	—	—
Special Insurance for Mid-size Enterprises	—	—	—	—	—
<b>Outstanding amounts of insurance and loans</b>					
Small Business Credit Insurance	24,093.6	22,401.0	21,264.0	21,244.8	42,416.1
Loans to CGCs	—	—	—	—	—
Special Insurance for Mid-size Enterprises	0.0	0.0	0.0	0.0	0.0
Machinery Credit Insurance	0.7	0.4	—	—	—

Notes: 1. Suspending the acceptance of new insurance since FY2003, the SME Unit currently pays on insurance money and receives recoveries based on insurance contracts already in force (Transitional Operation of the Machinery Credit Insurance Programs).

2. Outstanding amounts of insurance and loans are as of March 31, 2021.

## III. Securitization Support Programs

(Billion yen)

Items	FY2016	FY2017	FY2018	FY2019	FY2020
<b>Financing support amount</b>					
Purchase-type	25.7	27.0	34.5	33.2	17.0
Guarantee-type	—	—	—	—	—
<b>Outstanding amount of financing support</b>					
Purchase-type	33.7	50.1	67.2	78.3	65.9
Guarantee-type	—	—	—	—	—
<b>Outstanding amounts of trust beneficiary rights and guaranteed liabilities</b>					
Purchase-type (outstanding amount of trust beneficiary rights)	12.1	15.1	18.1	17.4	12.9
Purchase-type (outstanding amounts of asset-backed securities)	3.7	6.6	10.3	14.9	17.8
Guarantee-type (outstanding amount of guaranteed liabilities)	0.0	0.0	0.0	0.0	0.0
Standby Letter of Credit Program (outstanding amount of guaranteed liabilities)	4.6	5.3	5.2	4.7	5.0

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

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

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

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

5. Outstanding amounts of trust beneficiary rights and guaranteed liabilities are as of March 31, 2021.

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

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

### Results of Operations to Facilitate Crisis Responses

(Billion yen)

	Second Half of FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Two-step loans	1,430.1	3,869.3	405.2	1,153.4	733.7	559.3	130.0	105.2	529.2	85.4	—	35.0	3,549.4
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	3,549.4
Commercial paper (CP) acquisitions	299.8	339.8	—	—	—	—	—	—	—	—	—	—	—
Loss compensation	345.1	1,811.9	1,893.3	1,739.8	1,470.2	1,409.3	1,234.2	1,077.5	547.3	89.2	1.0	0.8	2,364.5
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	2,364.5
Commercial paper (CP) acquisitions	—	—	—	—	—	—	—	—	—	—	—	—	—
Equity participations	—	30.0	—	—	—	—	—	—	—	—	—	—	—
Interest subsidies	—	—	0.3	2.4	7.8	10.9	12.4	11.0	5.4	12.6	4.9	2.7	4.6

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 2021.

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 2021, with loss compensation underwritten by JFC for losses incurred until May 10, 2021. Equity participation figures (pertaining to the Act on Special Measures for Industrial Revitalization) are the amounts of equity investments made by the designated financial institutions through the end of March 2013, with loss compensation underwritten by JFC.

3. The figures for interest subsidies represent the amounts of interest subsidies JFC provided to designated financial institutions for loans, etc. provided by the designated financial institutions through the end of September 2020 (in principle, disbursements pertaining to the period from October 1 each year to March 31 of the following year are made by June 10, while those pertaining to the period from April 1 to September 30 are made by December 10).

### Results of Operations to Facilitate Specific Businesses Promotion, Operations to Facilitate Business Restructuring Promotion, and Operations to Facilitate Development and Supply Promotion, etc. (Two-step Loans)

(Billion yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Operations to Facilitate Specific Businesses Promotion	20.0	1.3	7.8	10.6	2.9	1.1	1.0	0.5	—	—	—
Operations to Facilitate Business Restructuring Promotion	—	—	25.0	—	20.0	—	—	—	—	100.0	—
Operations to Facilitate Development and Supply Promotion, etc.	—	—	—	—	—	—	—	—	—	—	—

Notes: 1. The figures refer to the amount of loans provided by JFC to the designated financial institution (Development Bank of Japan Inc.) through the end of March 2021.

2. Day of commencement of operations: Operations to Facilitate Specific Businesses Promotion: August 16, 2010; Operations to Facilitate Business Restructuring Promotion: January 20, 2014 Operations to Facilitate Development and Supply Promotion, etc.: August 31, 2020.

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



# Financial Statements and Notes

## Japan Finance Corporation

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

Financial statements and notes in English were prepared based on these audited financial statements and notes in Japanese.

### Balance Sheet (as of March 31, 2021)

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Cash and due from banks</b>	<b>7,403,520</b>	<b>Borrowed money</b>	<b>23,713,831</b>
Cash	20	Borrowings	23,713,831
Due from banks	7,403,500	<b>Bonds payable</b>	<b>1,575,618</b>
<b>Securities</b>	<b>37,428</b>	<b>Entrusted funds</b>	<b>26,085</b>
Government bonds	21,173	<b>Reserve for insurance policy liabilities</b>	<b>1,536,853</b>
Corporate bonds	13,010	<b>Other liabilities</b>	<b>35,240</b>
Stocks	2,030	Accrued expenses	5,667
Other securities	1,214	Unearned revenue	11,058
<b>Loans and bills discounted</b>	<b>28,945,758</b>	Derivatives other than for trading-liabilities	16
Loans on deeds	28,945,758	Lease obligations	5,346
<b>Other assets</b>	<b>44,911</b>	Other	13,151
Prepaid expenses	99	<b>Provision for bonuses</b>	<b>5,406</b>
Accrued income	16,491	<b>Provision for directors' bonuses</b>	<b>24</b>
Agency accounts receivable	909	<b>Provision for retirement benefits</b>	<b>90,283</b>
Other	27,410	<b>Provision for directors' retirement benefits</b>	<b>49</b>
<b>Property, plant and equipment</b>	<b>195,166</b>	<b>Reserve for compensation losses</b>	<b>25,449</b>
Buildings	50,867	<b>Acceptances and guarantees</b>	<b>93,858</b>
Land	139,089	<b>Total liabilities</b>	<b>27,102,700</b>
Lease assets	3,950	<b>Net assets</b>	
Construction in progress	420	<b>Capital stock</b>	<b>6,990,201</b>
Other	839	<b>Capital surplus</b>	<b>3,685,484</b>
<b>Intangible assets</b>	<b>18,302</b>	Special reserve for administrative improvement funds	181,500
Software	10,088	Legal capital surplus	3,503,984
Lease assets	797	<b>Retained earnings</b>	<b>(1,818,590)</b>
Other	7,416	Legal retained earnings	289,324
<b>Customers' liabilities for acceptances and guarantees</b>	<b>93,858</b>	Other retained earnings	(2,107,914)
<b>Allowance for loan losses</b>	<b>(779,151)</b>	Retained earnings brought forward	(2,107,914)
		<b>Total shareholders' equity</b>	<b>8,857,095</b>
		<b>Total net assets</b>	<b>8,857,095</b>
<b>Total assets</b>	<b>35,959,796</b>	<b>Total liabilities and net assets</b>	<b>35,959,796</b>

**Statement of Operations** (Year ended March 31, 2021)

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>478,800</b>
Interest income	210,272
Interest on loans and discounts	209,733
Interest and dividends on securities	232
Interest on deposits with banks	307
Other interest income	0
Fees and commissions	2,673
Fees and commissions on compensation security contract	1,998
Other fees and commissions	674
Insurance premiums and other	201,250
Insurance premiums	190,561
Receipts of burden charges under the Responsibility-sharing System	10,688
Receipts from the national budget	59,995
Receipts from general account of the national budget	59,982
Receipts from special account of the national budget	12
Other income	4,608
Recoveries of written-off claims	844
Gain on sales of stocks and other securities	386
Other	3,377
<b>Ordinary expenses</b>	<b>1,515,864</b>
Interest expenses	32,947
Interest on call money	26
Interest on borrowings and rediscounts	28,888
Interest on bonds	4,033
Fees and commissions payments	3,875
Other fees and commissions	3,875
Expenses on insurance claims and other	910,314
Expenses on insurance claims	211,683
Recoveries of insurance claims	(65,056)
Provision of reserve for insurance policy liabilities	763,687
Other ordinary expenses	5,796
Loss on foreign exchange transactions	137
Loss on devaluation of bonds	8
Amortization of bond issuance cost	669
Interest subsidies	4,981
General and administrative expenses	127,820
Other expenses	435,109
Provision of allowance for loan losses	407,567
Provision of reserve for compensation losses	9,903
Written-off of loans	11,998
Other	5,640
<b>Ordinary loss</b>	<b>1,037,064</b>
<b>Extraordinary income</b>	<b>49</b>
Gain on disposal of noncurrent assets	49
<b>Extraordinary losses</b>	<b>272</b>
Loss on disposal of noncurrent assets	193
Impairment loss	78
<b>Net loss</b>	<b>1,037,286</b>

**Statement of Changes in Net Assets (Year ended March 31, 2021)**

(Millions of yen)

	Shareholders' equity								Total net assets
	Capital stock	Capital surplus			Retained earnings			Total shareholders' equity	
		Special reserve for administrative improvement funds	Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings		
					Retained earnings brought forward				
Balance at the beginning of current period	4,324,220	181,500	2,052,284	2,233,784	291,637	(1,072,864)	(781,227)	5,776,777	5,776,777
Changes of items during the period									
Issuance of new shares	2,665,981		1,451,700	1,451,700				4,117,681	4,117,681
Provision of legal retained earnings					76	(76)	—	—	—
Reversal of legal retained earnings					(2,390)	2,390	—	—	—
Payment to the national treasury						(76)	(76)	(76)	(76)
Net income (loss)						(1,037,286)	(1,037,286)	(1,037,286)	(1,037,286)
Total changes of items during the period	2,665,981	—	1,451,700	1,451,700	(2,313)	(1,035,049)	(1,037,362)	3,080,318	3,080,318
Balance at the end of current period	6,990,201	181,500	3,503,984	3,685,484	289,324	(2,107,914)	(1,818,590)	8,857,095	8,857,095

Data

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Securities

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

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

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

### (c) Depreciation basis for fixed assets

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

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

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

Buildings: 2 years to 50 years

Other: 2 years to 20 years

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

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

#### (iii) Lease assets

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

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

Bond issuance costs are expensed as incurred.

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

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

### (f) Accounting policy for reserves

#### (i) Allowance for loan losses

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

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

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

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

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

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), the residual booked amount of the claims after deduction of the amount which is deemed collectible through the disposal of collateral or the execution of guarantees is written-off. The amount of accumulated write-off is ¥203,997 million.

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

**(ii) Reserve for compensation losses**

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

**(iii) Provision for bonuses**

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

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

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

**(v) Provision for retirement benefits**

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

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

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

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

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

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

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

**(i) Policy reserve**

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

**(ii) Outstanding claims reserve**

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

**(h) Consumption and other taxes**

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

**Significant accounting estimates**

The items for which the amount was recorded in the financial statements for the current fiscal year based on accounting estimates that may have significant impacts on the financial statements for the following fiscal year are as follows.

## 1. Allowance for loan losses

## (1) Amount recorded in financial statements for the current fiscal year

Allowance for loan losses: ¥779,151 million

## (2) Information that will contribute to understanding in relation to the details of significant accounting estimates relating to the identified items

## a. Account for micro business and individual operations

## (a) Calculation method

The method of calculating the allowance for loan losses is described in Significant accounting policies, (f) Accounting policy for reserves, (i) Allowance for loan losses.

When making calculations, JFC takes the effect of COVID-19 into consideration and adds necessary revisions. Specifically, the borrowers’ categories are determined based on the status of loan repayment, whether loan conditions were re-structured, and the facts ascertained in the course of normal operations and other factors. Due to the increase in borrowers for which a principal deferment period has been set and other factors in conjunction with the rapid increase in COVID-19 related loans, it is possible that deterioration of borrower credit risks will not immediately appear and will not be reflected in the borrowers’ categories, and therefore, loan losses expected to occur in the future are additionally estimated.

## (b) Main assumptions

Although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. Because of this, potential short-term credit risks concerning borrowers for which principal deferment periods were set to a certain degree are anticipated, and accordingly, it was assumed that the borrowers’ categories would decline to a certain degree and necessary revisions were made. In addition, necessary corrections to the anticipated

loss rate were made based on the assumptions that a deterioration of borrower credit risks will occur and late payment, relaxation of lending conditions, bankrupt, termination of business, and so on will occur at approximately the same rate as before the COVID-19 pandemic.

(c) Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of borrowers and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

b. Account for Agriculture, Forestry, Fisheries and Food Business Operations

(a) Calculation method

The method of calculating the allowance for loan losses is described in Significant accounting policies, (f) Accounting policy for reserves, (i) Allowance for loan losses.

When making calculations, the borrowers' categories are determined by assessing and setting borrower repayment capacity based on borrower repayment status, financial details, business performance, projections of these, and other factors and an anticipated loss rate on the basis of the average default rate over a certain period in the past based on the loan loss, and making necessary adjustments such as future expectations is included.

(b) Main assumptions

The main assumptions are the outlook for borrowers when determining the borrowers' categories and the impacts of COVID-19.

The outlook for borrowers is assessed on an individual basis according to repayment status including effects from COVID-19, financial details, balance of payments status, reasonableness and feasibility of management improvement plans, and other factors.

Also, although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. However, it is assumed that the short-term credit risks of loans held at the end of the current fiscal year are approximately the same as in the past due to the various supports provided to businesses based on a variety of government measures.

(c) Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of borrowers and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

c. Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)

(a) Calculation method

The method of calculating the allowance for loan losses is described in Significant accounting policies, (f) Accounting policy for reserves, (i) Allowance for loan losses.

When making calculations, the borrowers' categories are determined by assessing and setting borrower repayment capacity based on borrower repayment status, financial details, business performance, projections of these, and other factors, and an anticipated loss rate on the basis of the average default rate over a certain period in the past based on the loan loss, and making necessary adjustments such as future expectations is included.

For subordinated capital loan receivables, expected loss amounts are recorded based primarily on the assumption that the portion corresponding to substantive insolvency is not expected to be recovered.

(b) Main assumptions

The main assumptions are the outlook for borrowers when determining the borrowers' categories and the impacts of COVID-19.

The outlook for borrowers is assessed on an individual basis according to repayment status including effects from COVID-19, financial details, balance of payments status, reasonableness and feasibility of management improvement plans, and other factors.

Also, although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. However, it is assumed that the short-term credit risks of loans held at the end of the current fiscal year are approximately the same as in the past due to the various supports provided to businesses based on a variety of government measures.

(c) Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of borrowers and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

2. Reserve for insurance policy liabilities

(1) Amount recorded in financial statements for the current fiscal year

Reserve for insurance policy liabilities: ¥1,536,853 million

(2) Information that will contribute to understanding in relation to the details of significant accounting estimates relating to identified items

a. Calculation method

The method of calculating the reserve for insurance policy liabilities is described in Significant accounting policies, (g) Accounting policies for reserve for insurance policy liabilities.

When making calculations, grouping for each program category and insurance type category is made on March 31 and September 30 of each fiscal year as the record dates in accordance with the standards on the reserve for insurance policy liabilities, the accounting base rates including the balance compared with the prior fiscal year and accident rate are determined, and the reserve for insurance policy liabilities (policy reserve and outstanding claims reserve) is calculated based on estimated future cash flows including estimated insurance claims payment amounts.

In cases where the amount of cumulative maximum excess expenditures of future income and expenditures calculated for each fiscal year after a record date surpasses the amount of the reserve for insurance policy liabilities, the corresponding amount is additionally recorded.

b. Main assumptions

An assumed accident rate based on actual performance over a certain period in the past is used for estimating future insurance claims payment amounts.

The accident rate used for such estimates is the average for the most recent 10 years based on prior results for each insurance underwriting fiscal year and elapsed fiscal year.

Also, although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. However, it is assumed that the short-term credit insurance underwriting risks relating to insurance underwriting at the end of the current fiscal year are approximately the same as in the past due to the various supports provided to businesses based on a variety of government measures.

c. Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of SMEs and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on the reserve for insurance policy liabilities in the financial statements for the following fiscal year.

3. Reserve for compensation losses

(1) Amount recorded in financial statements for the current fiscal year

Reserve for compensation losses: ¥25,449 million

(2) Information that will contribute to understanding in relation to the details of significant accounting estimates relating to identified items

a. Calculation method

The method of calculating the reserve for compensation losses is described in Significant accounting policies, (f) Accounting policy for reserves, (ii) Reserve for compensation losses.

Specifically, compensation security contracts were grouped based on reports from designated financial institutions about the presence or absence of the arrival of repayment performance deadline, and the reserves for compensation losses are calculated based on the anticipated loss rate for each group.

b. Main assumptions

The anticipated loss rate is calculated based on past compensation payment results rate with the assumption that there will not be a major change in the credit risks included in compensation security contracts.

It is assumed that there is no major change in credit risks included in compensation security contracts in relation to COVID-19 or other crises.

c. Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of businesses and economic conditions, and there may be a material impact on reserve for compensation losses in the financial statements for the following fiscal year.

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

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

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



standard for revenue recognition and issued it in conjunction with the implementation guidance.

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

(2) Scheduled date of application

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

(3) Effects of application of these accounting standards

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

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

(1) Overview

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

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

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

(2) Scheduled date of application

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

(3) Effects of application of these accounting standards

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

### The Change in presentation

#### The Accounting Standard for Disclosure of Accounting Estimates

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) is applied to the financial statements ended in the fiscal year and notes for significant accounting estimates are found in the financial statements.

## 2. Equity securities of affiliates

Equity securities of affiliates is ¥2,030 million.

## 3. Loans

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

(Millions of yen)

	As of March 31, 2021		
	Account for Micro Business and Individual Operations	Account for Agriculture, Forestry, Fisheries and Food Business Operations	Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)
Bankrupt loans	4,192	641	3,817
Non-accrual loans	116,297	77,425	681,051
Loans with interest or principal repayments more than three months in arrears	53	320	—
Restructured loans	389,568	68,770	109,933
Total	510,113	147,157	794,803

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

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

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

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

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

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

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheet. The balance of unpaid amounts as of March 31, 2021 is ¥89,428 million.

In cases where a customer makes a request for loan disbursement in relation to a loan agreement with a commitment period, as long

as there are not violations of the conditions set forth in the agreement, the agreement provides for a promise to loan funds up to a certain maximum amount. The undisbursed loan balance of above agreements is ¥400 million.

This agreement contains provisions such that if there are changes in financial conditions, it is necessary for preservation of claims, or there is other cause, JFC may reject a request for disbursement. In addition, JFC collects collateral such as real estate and securities at the time of contract execution as necessary, takes periodical credit preservation measures such as being aware of customer business performance in accordance with JFC procedures specified and review of agreements as necessary after agreement execution.

#### 4. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for bonds totaling ¥1,575,618 million.

#### 5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥38,766 million.

#### 6. Amount of compensation security contract

(Millions of yen)

The total amount of compensation outstanding (52,839 contracts)	1,934,625
Reserve for compensation	25,449
Net amount	1,909,175

#### 7. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act<sup>\*1</sup>. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations<sup>\*2</sup> listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No.38, 2010).

\*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No.38, 2010).

#### 8. The account title and the amount related to transactions with affiliates

Ordinary income-Other income-Other: ¥0 million

#### 9. Issued shares

For the fiscal year ended March 31, 2021, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stock	10,529,448,107,741	4,117,681,000,000	—	14,647,129,107,741

(Note) Increase is due to the issuance of 4,117,681,000,000 shares.

#### 10. Financial instruments and related disclosure

##### 1. Status of financial instruments

###### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted

for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

The Account for Micro Business and Individual Operations is for operations, such as business fund financing and educational loans, etc. To conduct these operations funds are raised through the borrowing of fiscal investment funds and loans and the issuing of bonds.

In the Account for Agriculture, Forestry, Fisheries and Food Business Operations, the main operations consist of supplementing the financing provided by general financial institutions and supplying long-term funds at a low interest rate aimed at businesses engaged in agriculture, forestry, fisheries and food manufacturing, etc., in order to contribute to the sustainable and robust development of the agriculture, forestry, fisheries business and ensure the stable supply of food. To conduct these operations funds are raised through borrowing from fiscal investment funds and loans and the issuing of bonds.

In the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), a stable supply of long-term funds is provided to supplement private sector financial institutions in order to support the growth and development of SMEs. To conduct these operations, funds are raised by borrowing from the government and through the issuing of bonds. Forward exchange contracts are conducted for avoiding foreign exchange risk related to foreign currency loans.

Operations in the Account for Securitization Support Programs (Purchase-type Operation) are conducted for the purpose of promoting the supply of unsecured funds to SMEs from private sector financial institutions, etc., utilizing securitization and fostering the securitization market for SME loan claims. To conduct these operations funds are raised through the issuing of bonds.

In the Account for Credit Insurance Programs, insurance is provided for the guarantees related to the liabilities on SME loans. To conduct these operations funds are raised through capital investment from the government.

In the Account for Operations to Facilitate Crisis Responses financing operations including 1) loans, 2) credit insurance underwriting (a certain portion of compensation paid by JFC to cover losses incurred by specified financial institutions on loans), and 3) interest subsidies (interest subsidies provided by JFC to specified financial institutions for loans, etc., conducted by specified financial institutions that received a credit facility from JFC) are conducted for financial institutions specified by the competent minister for domestic and global financial disturbance that is recognized by the competent minister when a crisis such as a large-scale disaster occurs. To conduct these operations, the financing required for 1) loans is procured funds through the borrowing from Fiscal Investment and Loan Program ("FILP"), and the issuing of government guaranteed bonds. The loan period and borrowing period are equal, and the financing cost is covered by the interest on the loans. The financing required for 2) credit insurance underwriting, and 3) interest subsidies is procured funds through equity participation from the government, etc.

The Account for Operations to Facilitate Specific Businesses Promotion, etc. account provides loans to designated financial institutions appointed by the competent minister in order to assist in the smooth financing of required funds for the execution of business by companies that develop or manufacture energy and environmentally friendly products, the execution of business restructuring in order to strengthen their industrial competitiveness, and the development and provision or introduction of systems using specified advanced information and communications technology. The funds for these lending operations are financed using fiscal investment and loans. The loan period and borrowing period are equal, and the financing cost is covered by the interest on loans.

## (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts, and the risks associated with the financial assets and liabilities contained within each operation account are described below.

### a. Account for Micro Business and Individual Operations

The financial assets in this operation account mainly include loans to micro business and individuals, and the financial liabilities mainly include borrowings and bonds. The associated risks are described below.

#### (a) Credit risk

The associated credit risk consists of risk of losses arising from uncollectable claims on business and educational loans from deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the entity to which credit is granted.

For this operation account, JFC strives to make a proper financing decision in the financial screening process, conduct detailed claims management based on the condition of the borrower after financing is provided, use statistical management methods, and increase the sophistication of management methods employed. In addition, risks are distributed as the credit portfolio is comprised of small business and educational loans, etc. that are not concentrated in a specified region or industry.

However, based on future economic trends and changes in the business climate of borrowers, the number of borrowers with deteriorated creditworthiness could increase, bringing about requests for financial support including loan restructuring, causing an increase in uncollectable debt and credits costs for this operation account.

#### (b) Market risk

The main type of market risk associated with this operation account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps

arise between assets and liabilities. This operation account could incur losses from the interest rate risk caused by this gap.

(c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, government-backed bonds, the FILP agency bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

b. Account for Agriculture, Forestry, Fisheries and Food Business Operations

The financial assets in this operation account mainly include loans to agriculture, forestry, fisheries and food businesses, and financial liabilities mainly include borrowings and bonds. The associated risks are described below.

(a) Credit risk

The associated credit risk consists of risk of losses arising from uncollectable claims on credit to agriculture, forestry, fisheries and food businesses from deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the entity to which credit is granted. For this reason, efforts are made to maintain and improve the soundness of assets through proper financial screening and account management throughout the year.

However, among the majority of borrowers that make up this operation account, there are many small businesses in the agriculture, forestry, fisheries sector. These businesses are especially susceptible to natural conditions such as weather, etc., so depending on future conditions, uncollectable debt and credits costs for this operation account could increase.

(b) Market risk

The main type of market risk associated with this operation account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, due to characteristics such as long redemption periods and fixed interest rates that are required by agriculture, forestry, and fisheries policy, not all cash flows can be matched, so some gaps arise between assets and liabilities. This operation account could incur losses from the interest rate risk caused by this gap.

(c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, the FILP agency bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

c. Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)

The financial assets in this operation account mainly include loans and securities for SMEs, and financial liabilities mainly include borrowings and bonds. The associated risks are described below.

(a) Credit risk

The following operations are conducted in this operation account: (1) Loans to SMEs, (2) Acquisition of bonds issued by SMEs, (3) Securitization of loan claims and bonds of SMEs, (4) Partial guarantee of loan claims for private sector financial institutions and guarantee of securitized financial products, (5) Guarantee related to the liabilities of SMEs and micro businesses' overseas subsidiaries and branches, (6) Loans to foreign-affiliated corporations, and (7) Acquisition of shares or equity of SMEs that have debt in the form of loans from JFC for the purpose of reducing qualifying debt. For this operation account, JFC identifies and evaluates credit risk by taking steps for appropriate screening and monitoring of loans and implements the necessary management to steadily put in place measures aimed at reducing credit costs. However, future economic trends in Japan and overseas, which may lead to a deterioration in creditworthiness of borrowers, and a fluctuation in the value of the real estate-collateral and other unexpected events could cause losses for this operation account as a result of bad debts and uncollectable claims.

(b) Market risk

The main type of market risks associated with this operation account are interest rate risk and foreign exchange risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps arise between assets and liabilities. This operation account could suffer losses from the interest rate risk caused by this gap.

It is JFC policy to minimize foreign exchange risk arising from foreign currency loans in this operation account by conducting forward exchange contracts.

(c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, government-backed bonds, the FILP agency bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

d. Account for Securitization Support Programs (Purchase-type Operation)

The financial assets in this operation account mainly include securities, and the financial liabilities are bonds payable. The associated risks are described below.

(a) Credit risk

The following operations are conducted in this operation account: (1) Receipt and securitization of loan claims for private sector financial institutions and (2) Partial purchase of securitized instruments. Since credit is provided to SMEs in this operation account, the account risks losses arising from uncollectable claims caused by deterioration in creditworthiness of the SMEs to which credit is granted and the resulting drop in value of securitized instruments owned.

(b) Market risk

The main type of market risk associated with this operation account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities.

(c) Liquidity risk

Long-term and stable funds such as FILP agency bonds are secured to finance this operation account and deposits are not accepted. Proper measures, including establishing overdraft facility accounts with multiple private sector financial institutions, are taken to maintain daily cash flows, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

e. Account for Credit Insurance Programs

The financial assets in this operation account mainly include deposits. The associated risks are described below.

(a) Market risk

The main type of market risk associated with this operation account is interest rate risk.

However, this operation account is exposed to limited interest rate risk because funds procured through government investments are managed using highly stable instruments including the deposit for the FILP.

(b) Liquidity risk

This operation account does not accept deposits and since long-term stable funds such as investments from the Japanese government are secured to finance this operation account, liquidity risk is considered to be limited.

f. Account for Operations to Facilitate Crisis Responses

The financial assets in this operation account mainly include loans and financial liabilities against designated financial institutions, and the financial liabilities include borrowings and bonds payable. The associated risks are described below.

(a) Credit risk

The main financial assets in this operation account are loans of funds to designated financial institutions that are required to conduct crisis response operations. The associated credit risk consists of risk of losses arising from uncollectable claims due to deterioration in creditworthiness of the designated financial institution.

(b) Market risk

The operations of this operation account consist of loans to designated financial institutions, and fiscal investment and loans and issuing of government-backed bonds are used for financing. Interest rate risk is not present as a type of market risk because the terms and conditions of the loans and borrowings are equal, and the financing cost is covered by the interest on the loans, etc.

(c) Liquidity risk

Long-term and stable funds such as fiscal investment and loans, government-backed bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted, and as a result, liquidity risk is considered to be limited. However, borrowings and bonds payable are exposed to liquidity risk that payment cannot be made on the payment date due to unexpected events.

g. Account for Operations to Facilitate Specific Businesses Promotion, etc.  
The financial assets in this operation account mainly include loans and financial liabilities against designated financial institutions, and the financial liabilities include borrowings. The associated risks are described below.

(a) Credit risk

The main financial assets in this operation account are loans to designated financial institutions that are required to conduct specific businesses promotion operations, businesses restructuring promotion, etc. operations, business reorganization promotion operations, and development and provision, etc. promotion operations. The associated credit risk consists of risk of losses arising from uncollectable claims due to deterioration in creditworthiness of the designated financial institution.

(b) Market risk

The operations of this operation account consist of loans to designated financial institutions, and fiscal investment and loans are used for financing. Interest rate risk is not present as a market risk because the terms and conditions of the loans and borrowings are equal, and the financing cost is covered by the interest on the loans.

(c) Liquidity risk

Long-term and stable fiscal investment and loans are secured to finance this operation account and deposits are not accepted. As a result, liquidity risk is considered to be limited. However, borrowings are exposed to liquidity risk that payment cannot be made on the payment date due to unexpected events.

(3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for each type of operation is described below.

a. Micro Business and Individual Operations

The risk management structure of these operations is described below.

(a) Credit risk management

For these operations, JFC has a structure to manage the credit risk of loans through (i) individual credit management, (ii) asset self assessment, and (iii) quantification of credit risk in accordance with regulations concerning financing operations and claims management operations, and management regulations concerning credit risk. This credit risk management is conducted by the Credit Analysis Department and risk management department as well as each branch office, and business operations meetings are regularly held with the General Manager acting as chairman to conduct discussions and reporting.

The specific risk management method is described below.

(i) Individual credit management

The financial screening process associated with these operations to support appropriate financing decisions is based on consideration of the borrower's financial condition in terms of eligibility for financing, validity of the use of funds, profitability and sustainability of the business, as well as the business's qualitative aspects such as technical capabilities, selling power, and the future potential of the business.

Efforts are made to carefully manage claims after financing has been conducted through assessment of the future business outlook and repayment capacity.

(ii) Asset self assessment

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In this process, first stage assessments are conducted by the branch offices, second stage assessments by the Asset Self Assessment Office, and internal inspections by the auditing department.

The results of this self assessment are used to properly estimate write-off and allowance, and are used internally for the constant assessment of the credit conditions of the operations. They are also actively used for the disclosure of the quality of assets to enhance the transparency of financial position for the operations.

(iii) Quantification of credit risk

A credit scoring model for borrowers based on analysis of transaction data collected over a number of years has been constructed for these operations and this model has been used for screening procedures and to monitor credit portfolios. The reliability of this credit scoring model is ensured through continual recalibration based on annual inspections of the model's accuracy.

In addition, to assess the overall risk of the portfolio, efforts are made to quantify credit risk through methods that take into consideration the extremely diversified nature of the portfolios for these operations.

(b) Market risk management

These operations are subject to the interest rate risk caused by the cash flow gap between assets and liabilities, and the operations could incur losses caused by this risk. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder approach and duration analysis, and appropriate risk management is carried out through adjustment of procurement period limits and other means to reduce interest rate risk by diversifying the year of issue for bonds.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations include loans, borrowings, and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2021 will cause the fair value after netting of the financial assets and financial liabilities held in this account to decrease by ¥4,303 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to increase by ¥4,018 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related to fund procurement

To conduct proper risk management in these operations, long-term and stable funds such as fiscal loan funds, government-backed bonds, FILP agency bonds, and funding provided by government are secured to finance this account and deposits are not accepted. Cash flows are assessed and overdraft facility accounts are established with multiple private sector financial institutions to maintain daily cash flows.

b. Agriculture, Forestry, Fisheries and Food Business Operations

The risk management structure for these operations is described below.

(a) Credit risk management

For these operations, credit risk is properly managed through (i) individual credit management, (ii) credit rating, (iii) asset self assessment, and (iv) quantification of credit risk.

(i) Individual credit management

The screening process for these operations includes screening of the probability of repayment based on eligibility for financing, validity of the financing conditions, and the future potential of the business. Particularly, screening for the certainty of repayment is conducted with a screening standard that gives sufficient consideration to the specific industry (agriculture, forestry, and fisheries) risks. This consists of close examination of the creditworthiness of the borrower, investment-risk, investment-effect, and comprehensive verification and confirmation of repayment ability that takes into account feasibility of the payment and repayment plan, and suitability of financing conditions.

Efforts are also made to continuously assess the customer's economic condition, and maintain and improve the soundness of loan assets through active and detailed support activities.

(ii) Credit rating

These operations strive to maintain and improve the quality of loan assets by using ratings for early discovery of customers with business conditions that could be cause for concern in order to enact business support. Ratings are assigned based on a model built using internal data. The reliability of this scoring model is ensured through continual recalibration based on annual inspection of the model's evaluation accuracy.

The credit ratings are also used for individual credit management, asset self assessment, and quantification of credit risk as the basis for credit risk management. For this reason reassessment of the credit ratings system is conducted as required.

(iii) Asset self assessment

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In this process, first stage assessments are conducted by the branch offices, second stage assessments by the Credit Analysis Department and the Revitalization Support Department, and internal inspections by the auditing departments.

The results of this self assessment are used to appropriately estimate write-offs and allowances, and are used internally for the constant assessment of the credit conditions of the operations. They are also actively used for the disclosure of the quality of assets to enhance the transparency of the financial position of the operations.

(iv) Quantification of credit risk

To assess the overall risk of the portfolio, credit risks are quantified for internal management in these operations.



(b) Market risk management

These operations are subject to the interest rate risk caused by the cash flow gap between assets and liabilities, and the operations could incur losses caused by this risk. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder approach and duration analysis, and appropriate risk management is carried out to reduce interest rate risk by adjustments of financing periods.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations include loans, borrowings, and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2021 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥14,922 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥13,504 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related with fund procurement

Long-term and stable funds such as fiscal loans, FILP agency bonds, and funding provided by government are secured to finance this account and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions have been taken to maintain daily cash flows for proper risk management.

c. SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)

The risk management structure for these operations is described below.

(a) Credit risk management

(i) Individual credit management

For financing operations, the decision on financing and other related matters is conducted upon assessment of the situation of companies applying for funds from a fair and neutral position and verification of the certainty of repayment and validity of use of funds.

Since these financing operations specialize in long-term funding for businesses, in the screening process, verification assessment is made of the likelihood of long-term repayment focusing on business profits as well as on overall judgment being made on the certainty of repayment.

An overall judgment of the company's enterprise power is made, not limited to a quantitative analysis focusing on the financial statements, but taking into consideration various management activities including the combination of people, money, and conducting fact finding surveys from a variety of view points, including the business environment in which the company is placed, in addition to determining the future prospects of the company that has applied for funds.

We strive to continuously assess the situation after financing has been granted through review of financial reports and regular company visits. Based on the classification of the borrower or otherwise as required, and after consideration of the results of management improvement plans, follow-ups will be conducted as required to define transaction policy.

In addition, in order to support the growth and development of the borrower, we will strive to give as much feedback as possible on the screening results and provide consultation support to help resolve management issues. In particular, we will support companies struggling to respond to changes in the business environment by formulating management improvement plans.

(ii) Credit rating

A proprietary credit scoring model based on analysis of transaction data collected over the years for borrowers and a credit rating system that assesses the creditworthiness of borrowers based on qualitative analysis through fact finding surveys and other methods have been developed for these financing operations and have been used in the formulation of lending policy and in the screening process.

(iii) Asset self assessment

For these financing operations, JFC has conducted the asset self assessment such that the characteristics of assets in these financing operations are properly reflected in the assessment results. In this process, first stage assessments of borrower classification are conducted by the front offices and second stage assessments by a separate credit department. An auditing department independent from the other sections then conducts an internal inspection to verify the accuracy of self assessments.

The results of the self assessments are used in providing the allowance for loan losses, taking into account the amount expected to be recovered through the disposal of collateral and the execution of guarantees, the actual rate of loan losses and other factors.

## (iv) Quantification of credit risk

In the quantification of credit risk in financing operations, we conduct statistical analysis based on credit ratings and other factors to quantify and monitor the overall risk of the portfolio, and we advance our studies by using this monitoring in controlling credit risk.

## (v) Credit risk management for securitization support operations

In the securitization support operations, we use our proprietary scoring model which was developed based on the analysis of transaction data collected over the years for SMEs, and external models such as the Credit Risk Database (CRD) to conduct screening. In addition, statistical methods such as Monte Carlo simulations are used to accurately assess the overall credit risk for pools of claims to establish a proper guarantee rate based on credit risk.

After formation of a securitization project, the redemption status of the underlying claims is verified and monitoring is performed. With respect to loan receivable-backed securities guaranteed in this operation account, credit risks are accurately determined by using external ratings or statistical methods such as Monte Carlo simulations.

## (b) Market risk management

## (i) Interest rate risk

It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps do arise between assets and liabilities. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder approach, and duration analysis, and conduct proper risk management by attempting to reduce interest rate risk through adjustment of procurement period limits and other means.

## (ii) Foreign exchange risk

It is JFC policy to minimize foreign exchange risk by conducting forward exchange contracts.

With regards to forward exchange contracts transactions, we have established internal control system which is separating the departments executing and managing.

Forward exchange contracts are conducted by actual needs, and are not maintained in speculative positions.

## (iii) Quantitative information relating to market risk

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans, borrowings, and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2021 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥45,167 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥41,803 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

## (c) Liquidity risk management related to fund procurement

Long-term and stable funds such as fiscal loan funds, government-backed bonds, FILP agency bonds, and funding provided by government are secured to finance this account and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions have been taken to maintain daily cash flows for proper risk management.

## d. Securitization Support Programs (Purchase-type Operation)

The risk management structure for these operations is described below.

## (a) Credit risk management

In the securitization support operations, we use our proprietary scoring model developed based on analysis of transaction data collected over a number of years for SMEs, and external models such as CRD (Credit Risk Database) to conduct screening. In addition, statistical methods such as Monte Carlo simulations are used to accurately assess the overall credit risk for pools of claims to establish a proper return based on credit risk.

After formation of a securitization project, the redemption status of the underlying claims is verified and monitoring is performed. With respect to loan receivable-backed securities in this operation account, credit risks are accurately determined by using external ratings or statistical methods such as Monte Carlo simulations.

## (b) Market risk management

The main type of market risk associated with these operations is interest rate risk. It is JFC policy to minimize interest rate risk

by matching the cash flows between assets and liabilities, and we consider that interest rate risk is limited.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations are securities and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2021 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥1,582 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥1,445 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related with fund procurement

It is considered that liquidity risk is limited because a system has been adopted to minimize liquidity risk and sufficient funding support can be expected from the government.

e. Credit Insurance Programs

The risk management structure for these operations is described below.

(a) Market risk management

The main type of market risk associated with these operations is interest rate risk.

These operations strive to undertake appropriate risk management practices by managing funds procured from government investments through using highly stable instruments such as the deposit for the FILP.

(b) Liquidity risk management related to fund procurement

Long-term and stable financing is provided from government funds. Efforts are made for proper risk management through the assessment of cash flows.

f. Operations to Facilitate Crisis Responses

The risk management structure for these operations is described below.

(a) Credit risk management

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In the asset self assessment, an inspection is conducted by the auditing department.

(b) Market risk management

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans, borrowings, and bonds payable.

These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans as well as issuance of government-backed bonds. Since the terms and conditions of lendings and borrowings are equal, cash inflows resulting from lendings and cash outflows resulting from borrowings and bonds payable are matched. Therefore, as a whole operations, interest rate risk does not exist as a market risk.

(c) Liquidity risk management related to fund procurement

Long-term and stable funds, such as fiscal investment and loans, government-backed bonds, and funding provided by government are secured to finance this account and deposits are not accepted. In addition, the loan period and borrowing period are equal, and liquidity risk is considered to be limited. In addition, continual efforts are being made to make financing plans more sophisticated and minimize liquidity risk.

g. Operations to Facilitate Specific Businesses Promotion, etc.

The risk management structure for these operations is described below.

(a) Credit risk management

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In the asset self assessment, an inspection is conducted by the auditing department.

(b) Market risk management

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans and borrowings.

These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans. Since the terms and conditions of lendings and borrowings are equal, cash inflows resulting from

lendings and cash outflows resulting from borrowings are matched. Therefore, as a whole operations, interest rate risk does not exist as a market risk.

(c) Liquidity risk management related to fund procurement

Long-term stable funds, such as fiscal investment and loans are secured to finance this account and deposits are not accepted. Liquidity risk is believed to be limited because the loan period and borrowing period are equal.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2021, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine are not included in the following chart (refer to Note 2).

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	7,403,520	7,408,273	4,752
(2) Securities			
Held-to-maturity debt securities	21,191	22,234	1,043
Other securities	2	2	—
(3) Loans and bills discounted	28,143,738		
Allowance for loan losses <sup>(*)</sup>	(504,687)		
	27,639,051	28,550,424	911,373
Total assets	35,063,765	35,980,934	917,169
(1) Borrowings	23,560,239	23,696,972	136,733
(2) Bonds payable	1,575,618	1,594,505	18,886
Total liabilities	25,135,857	25,291,477	155,619
Derivative transactions <sup>(**)</sup>			
Derivative transactions not qualifying for hedge accounting	(16)	(16)	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	(16)	(16)	—

(\*1) General allowance for loan losses and specific allowance for loan losses have been deducted from loans.

(\*2) Derivative recorded in "other assets and other liabilities" are collectively displayed. The net values of assets and liabilities arising from derivative transactions are displayed. The figures in parentheses indicate net liabilities.

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount. For due from banks that have a maturity over 3 months, fair value is based on the current price calculated by discounting future cash flow by the risk free rate (the standard Japanese government bond rate) based on the appropriate deposit term.

(2) Securities

Market value is used for bonds. However, for corporate bonds in the Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), the carrying amount is used as fair value because fair value approximates the carrying amount. Partnership assets that could be assessed at fair value were measured at fair value, and the amount corresponding to equity holding was recorded as the fair value of the partnership investments.

Notes for securities by purpose of holding are found in "11. Fair value of securities."

(3) Loans and bills discounted

Loans are calculated as follows.

a. Account for Micro Business and Individual Operations

All loans, with the exception of subordinated capital loans and loans with post-establishment target-achievement type interest rates, have a fixed interest rate and fair value is calculated for all loans other than bankrupt loans, substantially bankrupt loans, potentially bankrupt loans and performing loans that require monitoring by discounting the risk-adjusted principal and interest by the risk free rate (the standard Japanese government bond rate) based on the borrowers' categories and period of loan. For obligations on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers, allowance for loan losses is calculated based on the expected collectable amount from the collateral or guaran-

tee. Fair value resembles the amount of loans on the balance sheet on the closing date after a deduction has been made for allowance for loan losses, so this amount is used for fair value.

b. Account for Agriculture, Forestry, Fisheries and Food Business Operations

All loans except some capital-related subordinated loans have a fixed interest rate and fair value is calculated for each borrower's status by discounting the risk-reflected principal and interest that incorporates risk by the risk free rate (the standard Japanese government bond rate) based on the borrowers' categories and period of loan.

c. Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)

For loans with fixed interest rates, the fair value is calculated by discounting the risk-adjusted principal and interest by the risk free rate (the standard Japanese government bond rate) based on the borrowers' categories and period of loan. For loans with variable interest rates, since short-term market rates are reflected, the fair value resembles the carrying amount as long as there is no significant difference in the credit status of the borrower, the carrying amount is used as the fair value. For obligations on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers subject to variable interest rates, allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value resembles the amount of loans on the balance sheet on the closing date after a deduction has been made for allowance for loan losses, so this amount is used for fair value.

d. Account for Securitization Support Programs (Purchase-type Operation) and Account for Credit Insurance Programs  
Not applicable.

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

All loans have a fixed interest rate and fair value is calculated by discounting the principal and interest by the interest rate estimated from the market yield of bonds issued by the borrower based on the type of borrower and period of loan.

Liabilities

(1) Borrowings

Borrowings are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

(2) Bonds payable

Market value is used for fair value of bonds.

Derivative transactions

Derivative transactions are forward exchange contracts. The fair value of derivative transactions is determined based on the price provided by financial institutions.

(Note 2) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

They are not included in "Assets, (2) Securities," "Assets, (3) Loans and bills discounted" or "Liabilities, (1) Borrowings".

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Unlisted stocks <sup>(*)1</sup>	2,030
2) Corporate bonds (specific asset-backed securities) <sup>(*)2</sup>	12,993
3) Partnership investments <sup>(*)3</sup>	1,211
4) Loans on deeds (subordinated capital loans and loans with post-establishment target-achievement type interest rates) <sup>(*)4</sup>	802,019
5) Borrowings from general account of the national budget <sup>(*)5</sup>	131,300
6) Borrowings from the FILP special account (investment account) of the national budget <sup>(*)6</sup>	22,292
Total	971,846

(\*)1 Since unlisted stocks do not have quoted market prices available and fair value is extremely difficult to be determined, fair values are not stated.

(\*)2 Corporate bonds (specified asset-backed securities) do not have a market value.

These are securities issues backed by loan claims on SMEs originating from multiple financial institutions. The following steps are followed when constructing the subordination structure for the securities:

(1) First, groups of loan claims from the financial institutions are put into sub-pools, and the most subordinated section is removed;

(2) The remainder of the sub-pool besides the most subordinated section is treated as an amalgamate and divided into levels of senior and subordinate.

For this reason, to evaluate the fair value of corporate bonds (specified asset-backed securities) owned by JFC that have been amalgamated, the individual financial data for the borrowers that back the securities issue is required. Because JFC is not structured to continuously acquire this data, fair value is extremely difficult to be determined and is not stated.

(\*)3 For partnership assets composed of unlisted stocks that do not have quoted market prices available and for which fair value is extremely difficult to be determined fair values are not stated.

(\*)4 For loans on deed (subordinated capital loans) under the Provision Scheme for Challenge Support and Capital Enhancement or other schemes, the scheme is such that an interest rate based on the results of success determination according to the business performance of the borrower each year applies. In addition,

for loans on deed (post-establishment target-achievement type interest rate) to which a post-establishment target-achievement type interest rate applies, the interest rate is reduced by 0.2% after three years from the date of the loan if the requirements for an interest rate reduction are met based on business performance and other factors in the second fiscal year after establishment of the company. With regard to these, fair values are not stated because it is recognized that fair value is extremely difficult to be determined. This is because future cash flow can not be reasonably estimated due to its particular scheme in which applicable interest rates are determined by every year's business performance of the debtor, instead of being determined at the time of loan execution.

(\*5) For borrowings on the Account for Micro Business and Individual Operations from general account of the national budget, fair values are not stated because it is recognized that fair value is extremely difficult to be determined because no redemption period is stipulated and it is not possible to reasonably estimate future cash flows.

(\*6) For borrowings from the FILP special account (investment account) of the national budget, fair values are not stated because it is recognized that fair value is extremely difficult to be determined for the following reason: an interest rate is not set at the time of borrowing, as this type of borrowing consists of a scheme in which a lump interest payment is made after the final installment payment redemption and it is not possible to reasonably estimate future cash flows.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks <sup>(*)</sup>	6,458,400	500,100	445,000	—	—	—
Securities	17	—	—	—	—	21,068
Held-to-maturity debt securities						
Loans and bills discounted <sup>(*)</sup>	3,561,560	7,219,830	5,996,907	4,366,242	4,447,297	3,156,818
Total	10,019,978	7,719,930	6,441,907	4,366,242	4,447,297	3,177,886

(\*1) Demand deposits contained within due from banks are stated as "Maturities within one year."

(\*2) Within loans, claims against bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers contains an amount of ¥197,102 million that is not expected to be redeemed and not included in the table above.

(Note 4) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings <sup>(*)</sup>	3,959,924	6,918,165	5,252,190	3,044,248	2,719,256	1,688,745
Bonds payable	300,000	615,000	345,000	110,000	180,000	25,000
Total	4,259,924	7,533,165	5,597,190	3,154,248	2,899,256	1,713,745

(\*) In borrowings, ¥131,300 million of general accounting investments with no redemption period stipulated are not included.

## 11. Fair value of securities

In addition to "Government bonds," "Corporate bonds," "Stocks" and "Other securities" on the balance sheet, transferable deposits in "Due from banks" are also included.

The fair value of securities at March 31, 2021 is as follows:

### (a) Held-to-maturity debt securities with fair value

	Type	Carrying amount on the balance sheet (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Securities whose fair value exceeds their carrying amount	Japanese government bonds	21,173	22,216	1,043
Securities whose fair value does not exceed their carrying amount	Corporate bonds	17	17	—
Total		21,191	22,234	1,043

### (b) Equity securities of or investment in subsidiaries and affiliates

(Note) These are equity securities of, or investment in, subsidiaries and affiliates whose fair value is extremely difficult to be determined.

	Carrying amount on the balance sheet (Millions of yen)
Equity securities of or investment in affiliates	2,030

They have no quoted market price and their fair value is extremely difficult to be determined.

### (c) Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount does not exceed their acquisition cost	Others	175,492	175,501	(8)

(Note) Available-for-sale securities whose fair value is extremely difficult to be determined

	Carrying amount on the balance sheet (Millions of yen)
Stocks	0
Bonds	
Corporate Bonds	12,993
Others	1,211
Total	14,204

These are not included in the above table of "Available-for-sale securities" because they have no quoted market price and their fair value is extremely difficult to be determined.

### (d) Available-for-sale securities sold in the fiscal year in review (from April 1, 2020 to March 31, 2021)

	Sales amount (Millions of yen)	Total gain on sales (Millions of yen)	Total loss on sales (Millions of yen)
Stocks	12	4	—

## 12. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 13. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

### Defined benefits plan

#### (1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	175,370 million yen
Service cost	6,245
Interest cost	175
Actuarial difference	3,795
Payment of retirement benefits	(8,207)
Prior service cost	—
Other	—
Closing balance of projected benefit obligations	<u>177,378</u>

#### (2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	60,848 million yen
Expected return on plan assets	1,216
Actuarial difference	5,068
Financing from employer	2,925
Payment of retirement benefits	(3,330)
Other	—
Closing balance of fair value of plan assets	<u>66,728</u>



- (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	87,198 million yen
Fair value of plan assets	<u>(66,728)</u>
	20,469
Projected benefit obligations of unfunded plan	<u>90,180</u>
Unfunded pension obligations	110,650
Actuarial unrecognized difference	(24,110)
Unrecognized prior service cost	<u>3,744</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>90,283</u>
Provision for retirement benefits	90,283
Prepaid pension cost	<u>—</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>90,283</u>

- (4) Net pensions cost and breakdown of included items

Service cost	6,245 million yen
Interest cost	175
Expected return on plan assets	(1,216)
Amount of actuarial difference accounted for as expense	5,329
Amortization of prior service cost accounted for as expense	(1,195)
Other	<u>—</u>
Net pensions cost related to defined benefits plan	<u>9,337</u>

- (5) Items concerning fair value of plan assets

- 1) The percentage of each category of total fair value of plan assets is as follows.

Shares	23%
Debentures	65%
General account	11%
Cash and deposits	<u>1%</u>
Total	<u>100%</u>

- 2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

- (6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.5% to 6.2%

Defined contribution pension plan

JFC's defined contribution to the defined contribution pension plan is ¥374 million.

## 14. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥2,048 million
Profit on investment in affiliates (equity method)	¥32 million

## 15. Related party transactions

Related party transactions in the fiscal year ended March 31, 2021 are as follows:

### Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights(%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2021
Principal shareholder	Ministry of Finance (Minister of Finance) <sup>(Notes i and ii)</sup>	97.67 (Direct)	Administration for policy based financing	Underwriting of capital increase <sup>(Note iii)</sup>	4,117,105	—	—
				Receipts from general account of the national budget	13,049	—	—
				Receipt of funds <sup>(Note iv)</sup>	14,314,972	Borrowings	23,570,902
				Repayment of borrowing	3,407,926		
				Payment of interest on borrowings	28,866	Accrued expenses	3,982
				Deposit of funds <sup>(Note v)</sup>	11,155,900	Due from banks	4,846,000
				Refund of funds	9,678,700		
Guarantee for bonds payable <sup>(Note vi)</sup>	815,631	—	—				

(Notes)

(i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:

-Ministry of Health, Labour and Welfare (Minister of Health, Labour and Welfare)	0.04%
-Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries)	0.27%
-Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry)	2.02%

(ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:

-Ministry of Health, Labour and Welfare	
Underwriting of capital increase	¥176 million
-Ministry of Economy, Trade and Industry	
Underwriting of capital increase	¥400 million
-Ministry of Health, Labour and Welfare	
Receipts from the national budget	¥2,738 million
-Ministry of Agriculture, Forestry and Fisheries	
Receipts from the national budget	¥25,674 million
-Ministry of Economy, Trade and Industry	
Receipts from the national budget	¥75 million
-Agency for Natural Resources and Energy	
Receipts from the national budget	¥0 million
-Small and Medium Enterprise Agency	
Receipts from the national budget	¥18,456 million
-Ministry of Agriculture, Forestry and Fisheries	
Repayment of borrowed money	¥3,588million

(iii) The underwriting of capital increase represents the increase in capital by JFC at an allocation amount of ¥1 per share.

(iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.

(v) Deposit of funds is the deposit for the FILP and the interest rates applicable under the FILP are applied.

(vi) No guarantee fee has been paid for the guarantee of bonds.

(vii) Figures in the table above do not include consumption taxes.

## 16. Per share information

Net assets per share	¥0.60
Net loss per share	¥0.08

## 17. Subsequent events

Not applicable.

**Balance Sheet (as of March 31, 2021)**

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Cash and due from banks</b>	<b>1,225,787</b>	<b>Borrowed money</b>	<b>10,513,211</b>
Cash	15	Borrowings	10,513,211
Due from banks	1,225,772	<b>Bonds payable</b>	<b>680,311</b>
<b>Loans and bills discounted</b>	<b>12,720,479</b>	<b>Other liabilities</b>	<b>10,764</b>
Loans on deeds	12,720,479	Accrued expenses	1,214
<b>Other assets</b>	<b>9,910</b>	Lease obligations	3,510
Prepaid expenses	16	Other	6,039
Accrued income	6,142	<b>Provision for bonuses</b>	<b>3,290</b>
Agency accounts receivable	578	<b>Provision for directors' bonuses</b>	<b>8</b>
Other	3,172	<b>Provision for retirement benefits</b>	<b>53,625</b>
<b>Property, plant and equipment</b>	<b>96,383</b>	<b>Provision for directors' retirement benefits</b>	<b>15</b>
Buildings	28,594	<b>Total liabilities</b>	<b>11,261,225</b>
Land	64,485	<b>Net assets</b>	
Lease assets	2,625	<b>Capital stock</b>	<b>2,997,738</b>
Construction in progress	117	<b>Capital surplus</b>	<b>181,500</b>
Other	560	Special reserve for administrative improvement funds	181,500
<b>Intangible assets</b>	<b>8,428</b>	<b>Retained earnings</b>	<b>(662,001)</b>
Software	4,320	Other retained earnings	(662,001)
Lease assets	492	Retained earnings brought forward	(662,001)
Other	3,616	<b>Total shareholders' equity</b>	<b>2,517,236</b>
<b>Allowance for loan losses</b>	<b>(282,528)</b>	<b>Total net assets</b>	<b>2,517,236</b>
<b>Total assets</b>	<b>13,778,462</b>	<b>Total liabilities and net assets</b>	<b>13,778,462</b>

**Statement of Operations (Year ended March 31, 2021)**

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>135,840</b>
Interest income	114,309
Interest on loans and discounts	114,308
Interest on deposits with banks	0
Other interest income	0
Fees and commissions	0
Other fees and commissions	0
Receipts from the national budget	19,949
Receipts from general account of the national budget	19,949
Other income	1,582
Recoveries of written-off claims	503
Other	1,078
<b>Ordinary expenses</b>	<b>290,370</b>
Interest expenses	3,433
Interest on call money	8
Interest on borrowings and rediscounts	3,212
Interest on bonds	211
Fees and commissions payments	596
Other fees and commissions	596
Other ordinary expenses	327
Amortization of bond issuance cost	327
General and administrative expenses	78,138
Other expenses	207,874
Provision of allowance for loan losses	197,254
Written-off of loans	10,583
Other	36
<b>Ordinary loss</b>	<b>154,529</b>
<b>Extraordinary income</b>	<b>49</b>
Gain on disposal of noncurrent assets	49
<b>Extraordinary losses</b>	<b>152</b>
Loss on disposal of noncurrent assets	75
Impairment loss	77
<b>Net loss</b>	<b>154,632</b>

Data

**Statement of Changes in Net Assets (Year ended March 31, 2021)**

(Millions of yen)

	Shareholders' equity						Total net assets
	Capital stock	Capital surplus		Retained earnings		Total share- holders' equity	
		Special reserve for administra- tive improve- ment funds	Total capital surplus	Other retained earnings	Total retained earnings		
				Retained earnings brought forward			
Balance at the beginning of current period	1,223,643	181,500	181,500	(507,369)	(507,369)	897,773	897,773
Changes of items during the period							
Issuance of new shares	1,774,095					1,774,095	1,774,095
Net income (loss)				(154,632)	(154,632)	(154,632)	(154,632)
Total changes of items during the period	1,774,095	—	—	(154,632)	(154,632)	1,619,462	1,619,462
Balance at the end of current period	2,997,738	181,500	181,500	(662,001)	(662,001)	2,517,236	2,517,236

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Depreciation basis for fixed assets

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

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

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

Buildings: 2 years to 50 years

Other: 2 years to 20 years

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

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

#### (iii) Lease assets

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

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

Bond issuance costs are expensed as incurred.

### (c) Accounting policy for reserves

#### (i) Allowance for loan losses

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

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

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

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

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

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), the residual booked amount of the claims after deduction of the amount which is deemed collectible through the disposal of collateral or the execution of guarantees is written-off. The amount of accumulated write-off is ¥121,001 million.

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

#### (ii) Provision for bonuses

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

#### (iii) Provision for directors' bonuses

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

#### (iv) Provision for retirement benefits

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

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

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

**(v) Provision for directors' retirement benefits**

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

**(d) Consumption and other taxes**

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

**Significant accounting estimates**

The item for which the amount was recorded in the financial statements for the current fiscal year based on accounting estimates that may have significant impacts on the financial statements for the following fiscal year is the allowance for loan losses.

1. Amount recorded in financial statements for the current fiscal year

Allowance for loan losses: ¥282,528 million

2. Information that will contribute to understanding in relation to the details of significant accounting estimates relating to the identified item

(1) Calculation method

The method of calculating the allowance for loan losses is described in Significant accounting policies, (c) Accounting policy for reserves, (i) Allowance for loan losses.

When making calculations, JFC takes the effect of COVID-19 into consideration and adds necessary revisions. Specifically, the borrowers' categories are determined based on the status of loan repayment, whether loan conditions were restructured, and the facts ascertained in the course of normal operations and other factors. Due to the increase in borrowers for which a principal deferment period has been set and other factors in conjunction with the rapid increase in COVID-19 related loans, it is possible that deterioration of borrower credit risks will not immediately appear and will not be reflected in the borrowers' categories, and therefore, loan losses expected to occur in the future are additionally estimated.

(2) Main assumptions

Although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. Because of this, potential short-term credit risks concerning borrowers for which principal deferment periods were set to a certain degree are anticipated, and accordingly, it was assumed that the borrowers' categories would decline to a certain degree and necessary revisions were made. In addition, necessary corrections to the anticipated loss rate were made based on the assumptions that a deterioration of borrower credit risks will occur and late payment, relaxation of lending conditions, bankrupt, termination of business, and so on will occur at approximately the same rate as before the COVID-19 pandemic.

(3) Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of borrowers and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

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

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

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

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

(2) Scheduled date of application

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

(3) Effects of application of these accounting standards

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



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

(1) Overview

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

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

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

(2) Scheduled date of application

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

(3) Effects of application of these accounting standards

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

### The Change in presentation

The Accounting Standard for Disclosure of Accounting Estimates

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) is applied to the financial statements ended in the fiscal year and notes for significant accounting estimates are found in the financial statements.

## 2. Loans

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

(Millions of yen)

	As of March 31, 2021 Account for Micro Business and Individual Operations
Bankrupt loans	4,192
Non-accrual loans	116,297
Loans with interest or principal repayments more than three months in arrears	53
Restructured loans	389,568
Total	510,113

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

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

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

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

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

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheets. The balance of unpaid amounts as of March 31, 2021 is ¥1,580 million.

## 3. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes this operation account bonds issued to a total amount of ¥680,311 million).

## 4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥21,906 million.

## 5. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No.38, 2010).

\*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No.38, 2010).

## 6. Issued shares

For the fiscal year ended March 31, 2021 types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	1,405,143,000,000	1,774,095,000,000	—	3,179,238,000,000

(Note) Increases is due to the issuance of 1,774,095,000,000 shares.

## 7. Financial instruments and related disclosure

### 1. Status of financial instruments

#### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

This operation account is for operations, such as business fund financing and educational loans, etc. To conduct these operations funds are raised through the borrowing of fiscal investment funds and loans and the issuing of bonds.

#### (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this operation account mainly include loans to micro business and individuals, and the financial liabilities mainly include borrowings and bonds. The associated risks are described below.

##### (a) Credit risk

The associated credit risk consists of risk of losses arising from uncollectable claims on business and educational loans from deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the entity to which credit is granted.

For this operation account, JFC strives to make a proper financing decision in the financial screening process, conduct detailed claims management based on the condition of the borrower after financing is provided, use statistical management methods, and increase the sophistication of management methods employed. In addition, risks are distributed as the credit portfolio is comprised of small business and educational loans, etc. that are not concentrated in a specified region or industry.

However, based on future economic trends and changes in the business climate of borrowers, the number of borrowers with deteriorated creditworthiness could increase, bringing about requests for financial support including loan restructuring, causing an increase in uncollectable debt and credits costs for this operation account.

##### (b) Market risk

The main type of market risk associated with this operation account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps arise between assets and liabilities. This operation account could incur losses from the interest rate risk caused by this gap.

##### (c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, government-backed bonds, the FILP agency bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

### (3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure of these operations is described below.

#### (a) Credit risk management

For these operations, JFC has a structure to manage the credit risk of loans through (i) individual credit management, (ii) asset self assessment, and (iii) quantification of credit risk in accordance with regulations concerning financing operations and claims management operations, and management regulations concerning credit risk. This credit risk management is conducted by the Credit Analysis Department and risk management department as well as each branch office, and business operations meetings are regularly held with the General Manager acting as chairman to conduct discussions and reporting.

The specific risk management method is described below.

##### (i) Individual credit management

The financial screening process associated with these operations to support appropriate financing decisions is based on consideration of the borrower's financial condition in terms of eligibility for financing, validity of the use of funds, profitability and sustainability of the business, as well as the business's qualitative aspects such as technical capabilities, selling power, and the future potential of the business.

Efforts are made to carefully manage claims after financing has been conducted through assessment of the future business outlook and repayment capacity.

##### (ii) Asset self assessment

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In this process, first stage assessments are conducted by the branch offices, second stage assessments by the Asset Self Assessment Office, and internal inspections by the auditing department.

The results of this self assessment are used to properly estimate write-off and allowance, and are used internally for the constant assessment of the credit conditions of the operations. They are also actively used for the disclosure of the quality of assets to enhance the transparency of financial position for the operations.

##### (iii) Quantification of credit risk

A credit scoring model for borrowers based on analysis of transaction data collected over a number of years has been constructed for these operations and this model has been used for screening procedures and to monitor credit portfolios. The reliability of this credit scoring model is ensured through continual recalibration based on annual inspections of the model's accuracy.

In addition, to assess the overall risk of the portfolio, efforts are made to quantify credit risk through methods that take into consideration the extremely diversified nature of the portfolios for these operations.

#### (b) Market risk management

These operations are subject to the interest rate risk caused by the cash flow gap between assets and liabilities, and the operations could incur losses caused by this risk. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder approach and duration analysis, and appropriate risk management is carried out to reduce interest rate risk by adjustments of financing periods.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations include loans, borrowings, and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2021 will cause the fair value after netting of the financial assets and financial liabilities held in this account to decrease by ¥4,303 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to increase by ¥4,018 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

#### (c) Liquidity risk management related to fund procurement

To conduct proper risk management in these operations, long-term and stable funds such as fiscal loan funds, government-backed bonds, FILP agency bonds, and funding provided by government are secured to finance this account and deposits are not accepted. Cash flows are assessed and overdraft facility accounts are established with multiple private sector financial institutions to maintain daily cash flows.

#### (4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

## 2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2021, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine are not included in the following chart (refer to note 2).

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	1,225,787	1,225,787	—
(2) Loans and bills discounted Allowance for loan losses <sup>(*)</sup>	12,697,007 (263,713)		
	12,433,293	12,798,857	365,563
Total assets	13,659,081	14,024,645	365,563
(1) Borrowings	10,381,911	10,412,815	30,904
(2) Bonds payable	680,311	680,501	189
Total liabilities	11,062,222	11,093,316	31,094

(\*) General allowance for loan losses and specific allowance for loan losses have been deducted from loans.

### (Note 1) Valuation methodologies used for estimating fair values for financial instruments

#### Assets

##### (1) Cash and due from banks

For due from banks that do not mature, the carrying amount is used as fair value because fair value resembles the carrying amount.

##### (2) Loans and bills discounted

All loans, with the exception of subordinated capital loans and loans with post-establishment target-achievement type interest rates, have a fixed interest rate and fair value is calculated for all loans other than bankrupt loans, substantially bankrupt loans, potentially bankrupt loans and performing loans that require monitoring by discounting the risk-adjusted principal and interest by the risk free rate (the standard Japanese government bond rate) based on the borrowers' categories and period of loan. For obligations on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers, allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value resembles the amount of loans on the balance sheet on the closing date after a deduction has been made for allowance for loan losses, so this amount is used for fair value.

#### Liabilities

##### (1) Borrowings

Borrowings through the fiscal investment funds and loans are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

##### (2) Bonds payable

Market value is used for fair value of bonds.

(Note 2) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

They are not included in "Assets, (2) Loans and bills discounted" or "Liabilities, (1) Borrowings".

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Loans on deeds (subordinated capital loans and loans with post-establishment target-achievement type interest rates) <sup>(*)1</sup>	23,471
2) Borrowings from general account of the national budget <sup>(*)2</sup>	131,300
Total	154,771

(\*)1 For loans on deed (subordinated capital loans) under the Provision Scheme for Challenge Support and Capital Enhancement or other schemes, the scheme is such that an interest rate based on the results of success determination according to the business performance of the borrower each year applies. In addition, for loans on deed (post-establishment target-achievement type interest rate) to which a post-establishment target-achievement type interest rate applies, the interest rate is reduced by 0.2% after three years from the date of the loan if the requirements for an interest rate reduction are met based on business performance and other factors in the second fiscal year after establishment of the company. With regard to these, fair values are not stated because it is recognized that fair value is extremely difficult to be determined. This is because future cash flow cannot be reasonably estimated due to its particular scheme in which applicable interest rates are determined by every year's business performance of the debtor, instead of being determined at the time of loan execution.

(\*)2 For borrowings from general account of the national budget, fair values are not stated because it is recognized that fair value is extremely difficult to be determined because no redemption period is stipulated and it is not possible to reasonably estimate future cash flows.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks <sup>(*)1</sup>	1,225,772	—	—	—	—	—
Loans and bills discounted <sup>(*)2</sup>	1,498,929	3,250,881	2,868,053	2,113,047	1,934,408	934,656
Total	2,724,701	3,250,881	2,868,053	2,113,047	1,934,408	934,656

(\*)1 Demand deposits contained within due from banks are stated as "Maturities within one year".

(\*)2 Within loans, claims against bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers contains an amount of ¥120,503 million that is not expected to be redeemed and not included in the table above.

(Note 4) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings <sup>(*)</sup>	2,130,756	3,633,697	2,424,225	1,177,620	675,318	340,295
Bonds payable	185,000	295,000	120,000	20,000	60,000	—
Total	2,315,756	3,928,697	2,544,225	1,197,620	735,318	340,295

(\*) In borrowings, ¥131,300 million of general accounting investments with no redemption period stipulated are not included.

## 8. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 9. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

Defined benefits plan

(1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	108,301 million yen
Service cost	3,793
Interest cost	108
Actuarial difference	2,340
Payment of retirement benefits	(5,027)
Prior service cost	—
Other	(34)
Closing balance of projected benefit obligations	<u>109,480</u>

(2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	37,722 million yen
Expected return on plan assets	754
Actuarial difference	3,139
Financing from employer	1,775
Payment of retirement benefits	(2,044)
Other	(5)
Closing balance of fair value of plan assets	<u>41,341</u>

## (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	54,023 million yen
Fair value of plan assets	<u>(41,341)</u>
	12,681
Projected benefit obligations of unfunded plan	<u>55,457</u>
Unfunded pension obligations	68,139
Actuarial unrecognized difference	(17,355)
Unrecognized prior service cost	<u>2,841</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>53,625</u>
Provision for retirement benefits	53,625
Prepaid pension cost	<u>—</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>53,625</u>

## (4) Net pensions cost and breakdown of included items

Service cost	3,793 million yen
Interest cost	108
Expected return on plan assets	(754)
Amount of actuarial difference accounted for as expense	3,560
Amortization of prior service cost accounted for as expense	(907)
Other	<u>—</u>
Net pensions cost related to defined benefits plan	<u>5,800</u>

## (5) Items concerning fair value of plan assets

## 1) The percentage of each category of total fair value of plan assets is as follows.

Shares	23%
Debentures	65%
General account	11%
Cash and deposits	<u>1%</u>
Total	<u>100%</u>

## 2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

## (6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	2.1% to 5.7%

## Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥227 million.

## 10. Related party transactions

Related party transactions in the fiscal year ended March 31, 2021 are as follows:

### Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2021
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	99.83 (Direct)	Administration for policy based financing	Underwriting of capital increase <sup>(Note iii)</sup>	1,773,919	—	—
				Receipts from general account of the national budget	12,991	—	—
				Receipt of funds <sup>(Note iv)</sup>	6,600,900	Borrowings	10,381,911
				Repayment of borrowing	1,840,889		
				Payment of interest on borrowings	3,203	Accrued expenses	620
				Guarantee for bonds payable <sup>(Note v)</sup>	370,309	—	—

(Notes)

(i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:

-Ministry of Health, Labour and Welfare (Minister of Health, Labour and Welfare) 0.17%

(ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:

-Ministry of Health, Labour and Welfare

Underwriting of capital increase ¥176 million

Receipts from the national budget ¥2,738 million

-Small and Medium Enterprise Agency

Receipts from the national budget ¥4,218 million

(iii) The underwriting of capital increase represents the increase in capital by JFC at an allocation amount of ¥1 per share.

(iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.

(v) No guarantee fee has been paid for the guarantee of bonds.

(vi) Figures in the table above do not include consumption taxes.

## 11. Per share information

Net assets per share ¥0.79

Net loss per share ¥0.08

## 12. Subsequent events

Not applicable.



## Balance Sheet (as of March 31, 2021)

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
Cash and due from banks	69,049	Borrowed money	2,812,074
Cash	0	Borrowings	2,812,074
Due from banks	69,049	Bonds payable	224,984
Securities	3,244	Entrusted funds	26,085
Stocks	2,030	Other liabilities	8,663
Other securities	1,214	Accrued expenses	3,464
Loans and bills discounted	3,416,516	Unearned revenue	10
Loans on deeds	3,416,516	Lease obligations	541
Other assets	7,785	Other	4,648
Prepaid expenses	0	Provision for bonuses	668
Accrued income	7,108	Provision for directors' bonuses	8
Agency accounts receivable	330	Provision for retirement benefits	11,350
Other	346	Provision for directors' retirement benefits	16
Property, plant and equipment	33,066	Acceptances and guarantees	2,841
Buildings	7,534	<b>Total liabilities</b>	<b>3,086,694</b>
Land	24,933	Net assets	
Lease assets	395	Capital stock	424,823
Construction in progress	130	Retained earnings	2,642
Other	72	Legal retained earnings	2,642
Intangible assets	4,141	<b>Total shareholders' equity</b>	<b>427,465</b>
Software	1,651		
Lease assets	84		
Other	2,405		
Customers' liabilities for acceptances and guarantees	2,841		
Allowance for loan losses	(22,486)	<b>Total net assets</b>	<b>427,465</b>
<b>Total assets</b>	<b>3,514,160</b>	<b>Total liabilities and net assets</b>	<b>3,514,160</b>

**Statement of Operations (Year ended March 31, 2021)**

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>49,931</b>
Interest income	23,612
Interest on loans and discounts	23,611
Interest on deposits with banks	1
Other interest income	0
Fees and commissions	37
Other fees and commissions	37
Receipts from the national budget	25,636
Receipts from general account of the national budget	25,623
Receipts from special account of the national budget	12
Other income	645
Recoveries of written-off claims	253
Other	391
<b>Ordinary expenses</b>	<b>49,905</b>
Interest expenses	18,465
Interest on call money	(0)
Interest on borrowings and rediscounts	15,673
Interest on bonds	2,792
Fees and commissions payments	2,746
Other fees and commissions	2,746
Other ordinary expenses	29
Amortization of bond issuance cost	29
General and administrative expenses	15,749
Other expenses	12,914
Provision of allowance for loan losses	12,655
Written-off of loans	160
Other	99
<b>Ordinary profit</b>	<b>25</b>
<b>Extraordinary losses</b>	<b>25</b>
Loss on disposal of noncurrent assets	24
Impairment loss	1
<b>Net income</b>	<b>—</b>

Data

**Statement of Changes in Net Assets (Year ended March 31, 2021)**

(Millions of yen)

	Shareholders' equity					Total net assets
	Capital stock	Retained earnings			Total shareholders' equity	
		Legal retained earnings	Other retained earnings	Total retained earnings		
			Retained earnings brought forward			
Balance at the beginning of current period	402,363	2,642	(0)	2,642	405,005	405,005
Changes of items during the period						
Issuance of new shares	22,460				22,460	22,460
Reversal of legal retained earnings		(0)	0	—	—	—
Net income (loss)			—	—	—	—
Total changes of items during the period	22,460	(0)	0	—	22,460	22,460
Balance at the end of current period	424,823	2,642	—	2,642	427,465	427,465

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Securities

Investments in affiliates are carried at cost based on the moving average method. As a rule, available-for-securities are stated at fair value based on market prices on the closing date.

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

Certain credit default swap transactions, for which neither quoted market price nor reliably estimated value is available and the fair value is undeterminable, are accounted for as guarantee of obligation.

### (c) Depreciation basis for fixed assets

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

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

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

Buildings: 2 years to 50 years

Other: 2 years to 20 years

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

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

#### (iii) Lease assets

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

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

Bond issuance costs are expensed as incurred.

### (e) Accounting policy for reserves

#### (i) Allowance for loan losses

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

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

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

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

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

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), the residual booked amount of the claims after deduction of the amount which is deemed collectible through the disposal of collateral or the execution of guarantees is written-off. The amount of accumulated write-off is ¥9,113 million.

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

#### (ii) Provision for bonuses

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

### (iii) Provision for directors' bonuses

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

### (iv) Provision for retirement benefits

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

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

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

### (v) Provision for directors' retirement benefits

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

## (f) Consumption and other taxes

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

## Significant accounting estimates

The item for which the amount was recorded in the financial statements for the current fiscal year based on accounting estimates that may have significant impacts on the financial statements for the following fiscal year is the allowance for loan losses.

### 1. Amount recorded in financial statements for the current fiscal year

Allowance for loan losses: ¥22,486 million

### 2. Information that will contribute to understanding in relation to the details of significant accounting estimates relating to the identified item

#### (1) Calculation method

The method of calculating the allowance for loan losses is described in Significant accounting policies, (e) Accounting policy for reserves, (i) Allowance for loan losses.

When making calculations, the borrowers' categories are determined by assessing and setting borrower repayment capacity based on borrower repayment status, financial details, business performance, projections of these, and other factors and an anticipated loss rate on the basis of the average default rate over a certain period in the past based on the loan loss, and making necessary adjustments such as future expectations is included.

#### (2) Main assumptions

The main assumptions are the outlook for borrowers when determining the borrowers' categories and the impacts of COVID-19.

The outlook for borrowers is assessed on an individual basis according to repayment status including effects from COVID-19, financial details, balance of payments status, reasonableness and feasibility of management improvement plans, and other factors.

Also, although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. However, it is assumed that the short-term credit risks of loans held at the end of the current fiscal year are approximately the same as in the past due to the various supports provided to businesses based on a variety of government measures.

#### (3) Impacts on financial statements for the following fiscal year

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of borrowers and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

## Issued but not yet adopted accounting standards and others

### 1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

#### (1) Overview

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

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should

be reflected as far as such treatments would not significantly impair international comparability.

(2) Scheduled date of application

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

(3) Effects of application of these accounting standards

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

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

(1) Overview

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

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

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

(2) Scheduled date of application

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

(3) Effects of application of these accounting standards

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

### The Change in presentation

The Accounting Standard for Disclosure of Accounting Estimates

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) is applied to the financial statements ended in the fiscal year and notes for significant accounting estimates are found in the financial statements.

## 2. Equity securities of affiliates

Equity securities of affiliates is ¥2,030 million.

## 3. Loans

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

(Millions of yen)

	As of March 31, 2021 Account for Agriculture, Forestry, Fisheries and Food Business Operations
Bankrupt loans	641
Non-accrual loans	77,425
Loans with interest or principal repayments more than three months in arrears	320
Restructured loans	68,770
Total	147,157

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

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

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

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

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

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheet. The balance of unpaid amounts as of March 31, 2021 is ¥59,884 million.

## 4. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes this operation account bonds issued to a total amount of ¥224,984 million).

## 5. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥5,500 million.

## 6. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*<sup>1</sup>. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*<sup>2</sup> listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

\*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

## 7. The account title and the amount related to transactions with affiliates

Ordinary income—Other income—Other: ¥0 million

## 8. Issued shares

For the fiscal year ended March 31, 2021 types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	402,363,700,000	22,460,000,000	—	424,823,700,000

(Note) Increase is due to the issuance of 22,460,000,000 shares.

## 9. Financial instruments and related disclosure

### 1. Status of financial instruments

#### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

In this operation account, the main operations consist of supplementing the financing provided by general financial institutions and supplying long-term funds at a low interest rate aimed at businesses engaged in agriculture, forestry, fisheries and food manufacturing, etc., in order to contribute to the sustainable and robust development of the agriculture, forestry, fisheries business and ensure the stable supply of food. To conduct these operations funds are raised through borrowing from fiscal investment funds and loans and the issuing of bonds.

#### (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this operation account mainly include loans to agriculture, forestry, fisheries and food businesses, and financial liabilities mainly include borrowings and bond. The associated risks are described below.

##### (a) Credit risk

The associated credit risk consists of risk of losses arising from uncollectable claims on credit to agriculture, forestry, fisheries and food businesses from deterioration in creditworthiness or fluctuation in the value of the real estate-collateral of the entity to which credit is granted. For this reason, efforts are made to maintain and improve the soundness of assets through proper financial screening and account management throughout the year.

However, among the majority of borrowers that make up this operation account, there are many small businesses in the



agriculture, forestry, fisheries sector. These businesses are especially susceptible to natural conditions such as weather, etc., so depending on future conditions, uncollectable debt and credits costs for this operation account could increase.

(b) Market risk

The main type of market risk associated with this operation account is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, due to characteristics such as long redemption periods and fixed interest rates that are required by agriculture, forestry, and fisheries policy, not all cash flows can be matched, so some gaps arise between assets and liabilities. This operation account could incur losses from the interest rate risk caused by this gap.

(c) Liquidity risk

Long-term and stable funds such as fiscal loan funds and the FILP agency bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

(3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

(a) Credit risk management

For these operations, credit risk is properly managed through (i) individual credit management, (ii) credit rating, (iii) asset self assessment, and (iv) quantification of credit risk.

(i) Individual credit management

The screening process for these operations includes screening of the probability of repayment based on eligibility for financing, validity of the financing conditions, and the future potential of the business. Particularly, screening for the certainty of repayment is conducted with a screening standard that gives sufficient consideration to the specific industry (agriculture, forestry, and fisheries) risks. This consists of close examination of the creditworthiness of the borrower, investment-risk, investment-effect, and comprehensive verification and confirmation of repayment ability that takes into account feasibility of the payment and repayment plan, and suitability of financing conditions.

Efforts are also made to continuously assess the customer's economic condition, and maintain and improve the soundness of loan assets through active and detailed support activities.

(ii) Credit rating

These operations strive to maintain and improve the quality of loan assets by using ratings for early discovery of customers with business conditions that could be cause for concern in order to enact business support. Ratings are assigned based on a model built using internal data. The reliability of this scoring model is ensured through continual recalibration based on annual inspection of the model's evaluation accuracy.

The credit ratings are also used for individual credit management, asset self assessment, and quantification of credit risk as the basis for credit risk management. For this reason reassessment of the credit ratings system is conducted as required.

(iii) Asset self assessment

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In this process, first stage assessments are conducted by the branch offices, second stage assessments by the Credit Analysis Department and the Revitalization Support Department, and internal inspections by the auditing department.

The results of this self assessment are used to appropriately estimate write-off and allowance, and are used internally for the constant assessment of the credit conditions of the operations. They are also actively used for the disclosure of the quality of assets to enhance the transparency of the financial position of the operations.

(iv) Quantification of credit risk

To assess the overall risk of the portfolio, credit risks are quantified for internal management in these operations.

(b) Market risk management

These operations are subject to the interest rate risk caused by the cash flow gap between assets and liabilities, and the operations could incur losses caused by this risk. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder approach and duration analysis, and appropriate risk management is carried out to reduce interest rate risk by adjustments of financing periods.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations include loans, borrowings, and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2021 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥14,922million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥13,504 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

(c) Liquidity risk management related with fund procurement

Long-term and stable funds such as fiscal loan funds, FILP agency bonds, and funding provided by government are secured to finance this account and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions have been taken to maintain daily cash flows for proper risk management.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2021, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine are not include in the following chart (refer to Note 2).

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	69,049	69,049	—
(2) Securities			
Other securities	2	2	—
(3) Loans and bills discounted	3,414,810		
Allowance for loan losses <sup>(*)</sup>	(21,815)		
	3,392,994	3,549,186	156,192
Total assets	3,462,046	3,618,238	156,192
(1) Borrowings	2,812,074	2,879,160	67,085
(2) Bonds payable	224,984	241,615	16,631
Total liabilities	3,037,059	3,120,776	83,716

(\*) General allowance for loan losses and specific allowance for loan losses have been deducted from loans.

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount.

(2) Securities

Partnership assets that could be assessed at fair value were measured at fair value, and the amount corresponding to equity holding was recorded as the fair value of the partnership investments.

Notes for securities by purpose of holding are found in "10. Fair Value of Securities."

(3) Loans and bills discounted

All loans except some capital-related subordinated loans have a fixed interest rate and fair value is calculated for each borrower's status by discounting the risk-reflected principal and interest that incorporates risk by the risk free rate (the standard Japanese government bond rate) based on the borrowers' categories and period of loan.

## Liabilities

### (1) Borrowings

Borrowings are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

### (2) Bonds payable

Market value is used for fair value of bonds.

(Note 2) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

They are not included in "Assets, (2) Securities" or "Assets, (3) Loans and bills discounted".

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Unlisted stocks <sup>(*)1</sup>	2,030
2) Partnership investments <sup>(*)2</sup>	1,211
3) Loans on deeds (subordinated capital loans) <sup>(*)3</sup>	1,706
Total	4,947

(\*)1 Since unlisted stocks do not have quoted market prices available and fair value is extremely difficult to be determined, fair values are not stated.

(\*)2 For partnership assets composed of unlisted stocks that do not have quoted market prices available and for which fair value is extremely difficult to be determined fair values are not stated.

(\*)3 For loans on deeds (subordinated capital loans) to which the challenge-oriented capital lending scheme for new sectors, etc. has been applied, fair values are not stated because it is recognized that fair value is extremely difficult to be determined. This is because future cash flow cannot be reasonably estimated due to its particular scheme in which applicable interest rates are determined by every year's business performance of the debtor, instead of being determined at the time of loan execution.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks <sup>(*)1</sup>	69,049	—	—	—	—	—
Loans and bills discounted <sup>(*)2</sup>	376,400	668,530	531,700	448,258	520,229	810,730
Total	445,450	668,530	531,700	448,258	520,229	810,730

(\*)1 Demand deposits contained within due from banks are stated as "Maturities within one year".

(\*)2 Within loans, claims against bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers contains an amount of ¥60,665 million that is not expected to be redeemed and not included in the table above.

(Note 4) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	310,766	624,959	559,777	395,348	417,566	503,656
Bonds payable	25,000	55,000	10,000	30,000	80,000	25,000
Total	335,766	679,959	569,777	425,348	497,566	528,656

## 10. Fair value of securities

In addition to "Stocks" and "Other securities" on the balance sheet, transferable deposits in "Due from banks" are also included. The fair value of securities at March 31, 2021 is as follows:

### (a) Equity securities of or investment in subsidiaries and affiliates

(Note) These are equity securities of, or investment in, subsidiaries and affiliates whose fair value is extremely difficult to be determined.

	Carrying amount on the balance sheet (Millions of yen)
Equity securities of or investment in affiliates	2,030

They have no quoted market price and their fair value is extremely difficult to be determined.

### (b) Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount does not exceed their acquisition cost	Others	13,492	13,501	(8)

(Note) Available-for-sale securities whose fair value is extremely difficult to be determined

	Carrying amount on the balance sheet (Millions of yen)
Others	1,211

These are not included in the above table of "Available-for-sale securities" because they have no quoted market price and their fair value is extremely difficult to be determined.

## 11. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 12. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

Defined benefits plan

### (1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	20,806 million yen
Service cost	760
Interest cost	20
Actuarial difference	387
Payment of retirement benefits	(928)
Prior service cost	—
Other	54
Closing balance of projected benefit obligations	<u>21,101</u>

### (2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	7,059 million yen
Expected return on plan assets	141
Actuarial difference	544
Financing from employer	356
Payment of retirement benefits	(382)
Other	7
Closing balance of fair value of plan assets	<u>7,727</u>

### (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	10,097 million yen
Fair value of plan assets	<u>(7,727)</u>
	2,370
Projected benefit obligations of unfunded plan	<u>11,003</u>
Unfunded pension obligations	13,373
Actuarial unrecognized difference	(2,504)
Unrecognized prior service cost	480
Net amount of liabilities and assets recorded on the balance sheet	<u>11,350</u>
Provision for retirement benefits	11,350
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>11,350</u>

### (4) Net pensions cost and breakdown of included items

Service cost	760 million yen
Interest cost	20
Expected return on plan assets	(141)
Amount of actuarial difference accounted for as expense	579
Amortization of prior service cost accounted for as expense	(142)
Other	—
Net pensions cost related to defined benefits plan	<u>1,077</u>

(5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.

Shares	23%
Debentures	65%
General account	11%
Cash and deposits	1%
Total	100%

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

(6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	2.0% to 6.2%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥45 million.

### 13. Profit and loss on equity method

Investment in affiliates	¥2,030 million
Investment in affiliates (equity method)	¥2,048 million
Profit on Investment in affiliates (equity method)	¥32 million

### 14. Related party transactions

Related party transactions in the fiscal year ended March 31, 2021 are as follows:

#### (a) Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2021
Principal shareholder	Ministry of Finance (Minister of Finance) <sup>(Notes i and ii)</sup>	90.81 (Direct)	Administration for policy based financing	Underwriting of capital increase <sup>(Note iii)</sup>	22,460	—	—
				Receipt of funds <sup>(Note iv)</sup>	615,000	Borrowings	2,800,445
				Repayment of borrowing	286,382		
				Payment of interest on borrowings	15,673	Accrued expenses	2,685

(Notes)

(i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:

-Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries) 9.19%

(ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:

-Ministry of Agriculture, Forestry and Fisheries  
 Receipts from the national budget ¥25,636 million  
 Repayment of borrowed money ¥3,588 million

(iii) The underwriting of capital increase represents the increase in capital by JFC at an allocation amount of ¥1 per share.

(iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.

(v) Figures in the table above do not include consumption taxes.

#### (b) Transactions with fellow subsidiaries and affiliates' subsidiaries

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2021
Principal shareholder (corporates) holding the majority of voting rights	JBIC	—	Relation of joint and several liability	Joint and several liability	60,000 (Notes i and ii)	—	—

(Notes)

(i) Pursuant to paragraph 1, Article 46-2 of the Supplementary Provisions to the JFC Act, JBIC has joint and several liability for bonds issued by JFC that this operation account will redeem. Pursuant to paragraph 2, Article 46-2 of the Supplementary Provisions, JBIC's assets have been pledged as general collateral for the joint and several liabilities.

- 
- (ii) There are no transactions recorded under income or expenses related to the joint and several liabilities.
  - (iii) Figures in the table above do not include consumption taxes.

### 15. Per share information

Net assets per share    ¥1.00  
Net income per share    ¥0

### 16. Subsequent events

Not applicable.

## Balance Sheet (as of March 31, 2021)

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
Cash and due from banks	757,003	Borrowed money	5,846,249
Cash	4	Borrowings	5,846,249
Due from banks	756,999	Bonds payable	499,049
<b>Securities</b>	17	<b>Other liabilities</b>	4,019
Corporate bonds	17	Accrued expenses	735
Stocks	0	Unearned revenue	87
<b>Loans and bills discounted</b>	8,116,466	Derivatives other than for trading-liabilities	16
Loans on deeds	8,116,466	Lease obligations	1,115
<b>Other assets</b>	4,201	Other	2,065
Prepaid expenses	3	<b>Provision for bonuses</b>	1,232
Accrued income	2,962	<b>Provision for directors' bonuses</b>	6
Other	1,235	<b>Provision for retirement benefits</b>	20,485
<b>Property, plant and equipment</b>	48,030	<b>Provision for directors' retirement benefits</b>	14
Buildings	11,168	<b>Acceptances and guarantees</b>	22,928
Land	35,701	<b>Total liabilities</b>	6,393,986
Lease assets	800	<b>Net assets</b>	
Construction in progress	172	<b>Capital stock</b>	2,546,937
Other	187	<b>Retained earnings</b>	(461,963)
<b>Intangible assets</b>	4,429	Other retained earnings	(461,963)
Software	2,947	Retained earnings brought forward	(461,963)
Lease assets	190	<b>Total shareholders' equity</b>	2,084,973
Other	1,291		
<b>Customers' liabilities for acceptances and guarantees</b>	22,928		
<b>Allowance for loan losses</b>	(474,118)	<b>Total net assets</b>	2,084,973
<b>Total assets</b>	8,478,960	<b>Total liabilities and net assets</b>	8,478,960



## Statement of Operations (Year ended March 31, 2021)

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>80,698</b>
Interest income	65,096
Interest on loans and discounts	65,095
Interest and dividends on securities	0
Interest on deposits with banks	0
Other interest income	0
Fees and commissions	157
Other fees and commissions	157
Receipts from the national budget	14,180
Receipts from general account of the national budget	14,179
Receipts from special account of the national budget	0
Other income	1,264
Recoveries of written-off claims	87
Gain on sales of stocks and other securities	386
Other	789
<b>Ordinary expenses</b>	<b>232,949</b>
Interest expenses	4,423
Interest on call money	17
Interest on borrowings and rediscounts	3,285
Interest on bonds	1,120
Fees and commissions payments	59
Other fees and commissions	59
Other ordinary expenses	294
Loss on foreign exchange transactions	137
Loss on devaluation of bonds	8
Amortization of bond issuance cost	149
General and administrative expenses	28,723
Other expenses	199,448
Provision of allowance for loan losses	197,670
Written-off of loans	1,254
Other	523
<b>Ordinary loss</b>	<b>152,250</b>
<b>Extraordinary losses</b>	<b>94</b>
Loss on disposal of noncurrent assets	94
<b>Net loss</b>	<b>152,345</b>

## Statement of Changes in Net Assets (Year ended March 31, 2021)

(Millions of yen)

	Shareholders' equity				Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	
		Other retained earnings	Total retained earnings		
		Retained earnings brought forward			
Balance at the beginning of current period	1,703,937	(309,618)	(309,618)	1,394,318	1,394,318
Changes of items during the period					
Issuance of new shares	843,000			843,000	843,000
Net income (loss)		(152,345)	(152,345)	(152,345)	(152,345)
Total changes of items during the period	843,000	(152,345)	(152,345)	690,654	690,654
Balance at the end of current period	2,546,937	(461,963)	(461,963)	2,084,973	2,084,973

Data

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Securities

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

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

Derivative financial instruments are carried at fair value.

### (c) Depreciation basis for fixed assets

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

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

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

Buildings: 2 years to 50 years

Other: 2 years to 20 years

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

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

#### (iii) Lease assets

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

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

Bond issuance costs are expensed as incurred.

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

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

### (f) Accounting policy for reserves

#### (i) Allowance for loan losses

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

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

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

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

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

With respect to claims with collateral or guarantees on debtors who are legally or substantially bankrupt (Bankrupt borrowers and Substantially bankrupt borrowers), the residual booked amount of the claims after deduction of the amount which is deemed collectible through the disposal of collateral or the execution of guarantees is written-off. The amount of accumulated write-off is ¥73,882 million.

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

**(ii) Provision for bonuses**

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

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

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

**(iv) Provision for retirement benefits**

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

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

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

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

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

**(g) Consumption and other taxes**

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

**Significant accounting estimates**

The item for which the amount was recorded in the financial statements for the current fiscal year based on accounting estimates that may have significant impacts on the financial statements for the following fiscal year is the allowance for loan losses.

**1. Amount recorded in financial statements for the current fiscal year**

Allowance for loan losses: ¥474,118 million

**2. Information that will contribute to understanding in relation to the details of significant accounting estimates relating to the identified item****(1) Calculation method**

The method of calculating the allowance for loan losses is described in Significant accounting policies, (f) Accounting policy for reserves, (i) Allowance for loan losses.

When making calculations, the borrowers’ categories are determined by assessing and setting borrower repayment capacity based on borrower repayment status, financial details, business performance, projections of these, and other factors and an anticipated loss rate on the basis of the average default rate over a certain period in the past based on the loan loss, and making necessary adjustments such as future expectations is included.

For subordinated capital loan receivables, anticipated loss amounts are recorded based primarily on the assumption that the portion corresponding to substantive insolvency is not expected to be recovered.

**(2) Main assumptions**

The main assumptions are the outlook for borrowers when determining the borrowers’ categories and the impacts of COVID-19.

The outlook for borrowers is assessed on an individual basis according to repayment status including effects from COVID-19, financial details, balance of payments status, reasonableness and feasibility of management improvement plans, and other factors.

Also, although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. However, it is assumed that the short-term credit risks of loans held at the end of the current fiscal year are approximately the same as in the past due to the various supports provided to businesses based on a variety of government measures.

**(3) Impacts on financial statements for the following fiscal year**

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of borrowers and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on allowances for loan losses in the financial statements for the following fiscal year.

**Issued but not yet adopted accounting standards and others****1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)****(1) Overview**

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years

beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

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

(2) Scheduled date of application

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

(3) Effects of application of these accounting standards

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

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

(1) Overview

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

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

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

(2) Scheduled date of application

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

(3) Effects of application of these accounting standards

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

### The Change in presentation

#### The Accounting Standard for Disclosure of Accounting Estimates

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) is applied to the financial statements ended in the fiscal year and notes for significant accounting estimates are found in the financial statements.

## 2. Loans

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

(Millions of yen)

	As of March 31, 2021 Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation)
Bankrupt loans	3,817
Non-accrual loans	681,051
Loans with interest or principal repayments more than three months in arrears	—
Restructured loans	109,933
Total	794,803

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

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

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

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

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

JFC, as a policy, does not pay down loans in part or in full immediately after the execution of the loan agreements, but instead makes disbursement, in accordance with the progress of the underlying projects. These undisbursed amounts are not included in the loans on deed in the Balance Sheet. The balance of unpaid amounts as of March 31, 2021 is ¥27,964 million.

In cases where a customer makes a request for loan disbursement in relation to a loan agreement with a commitment period, as long as there are not violations of the conditions set forth in the agreement, the agreement provides for a promise to loan funds up to a certain maximum amount. The undisbursed loan balance of above agreements is ¥400 million.

This agreement contains provisions such that if there are changes in financial conditions, it is necessary for preservation of claims, or there is other cause, JFC may reject a request for disbursement. In addition, JFC collects collateral such as real estate and securities at

the time of contract execution as necessary, takes periodical credit preservation measures such as being aware of customer business performance in accordance with JFC procedures specified and review of agreements as necessary after agreement execution.

### 3. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes this operation account bonds issued to a total amount of ¥499,049 million).

### 4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥8,593 million.

### 5. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

\*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

### 6. Issued shares

For the fiscal year ended March 31, 2021 types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	1,703,937,000,000	843,000,000,000	—	2,546,937,000,000

(Note) Increases is due to the issuance of 843,000,000,000 shares.

### 7. Financial instruments and related disclosure

#### 1. Status of financial instruments

##### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

In this operation account, a stable supply of long-term funds is provided to supplement private sector financial institutions in order to support the growth and development of SMEs. To conduct these operations, funds are raised by borrowing from the government and through the issuing of bonds. Forward exchange contracts are conducted for avoiding foreign exchange risk related to foreign currency loans.

##### (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this operation account mainly include loans and securities for SMEs, and financial liabilities mainly include borrowings and bonds. The associated risks are described below.

## (a) Credit risk

The following operations are conducted in this operation account: (1) Loans to SMEs, (2) Acquisition of bonds issued by SMEs, (3) Securitization of loan claims and bonds of SMEs, (4) Partial guarantee of loan claims for private sector financial institutions and guarantee of securitized financial products, (5) Guarantee related to the liabilities of SMEs and micro businesses' overseas subsidiaries and branches, (6) Loans to foreign-affiliated corporations, and (7) Acquisition of shares or equity of SMEs that have debt in the form of loans from JFC for the purpose of reducing qualifying debt. For this operation account, JFC identifies and evaluates credit risk by taking steps for appropriate screening and monitoring of loans and implements the necessary management to steadily put in place measures aimed at reducing credit costs. However, future economic trends in Japan and overseas, which may lead to a deterioration in creditworthiness of borrowers, and a fluctuation in the value of the real estate-collateral and other unexpected events could cause losses for this operation account as a result of bad debts and uncollectable claims.

## (b) Market risk

The main type of market risks associated with this operation account are interest rate risk and foreign exchange risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps arise between assets and liabilities. This operation account could suffer losses from the interest rate risk caused by this gap.

It is JFC policy to minimize foreign exchange risk arising from foreign currency loans in this operation account by conducting forward exchange contracts.

## (c) Liquidity risk

Long-term and stable funds such as fiscal loan funds, government-backed bonds, the FILP agency bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted. Cash flows are assessed and daily cash flows are maintained by performing proper risk management including establishing overdraft facility accounts with several private sector financial institutions, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

## (3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

## (a) Credit risk management

## (i) Individual credit management

For financing operations, the decision on financing and other related matters is conducted upon assessment of the situation of companies applying for funds from a fair and neutral position and verification of the certainty of repayment and validity of use of funds.

Since these financing operations specialize in long-term funding for businesses, in the screening process, verification assessment is made of the likelihood of long-term repayment focusing on business profits as well as on overall judgment being made on the certainty of repayment.

An overall judgment of the company's enterprise power is made, not limited to a quantitative analysis focusing on the financial statements, but taking into consideration various management activities including the combination of people, money, and conducting fact finding surveys from a variety of view points, including the business environment in which the company is placed, in addition to determining the future prospects of the company that has applied for funds.

We strive to continuously assess the situation after financing has been granted through review of financial reports and regular company visits. Based on the classification of the borrower or otherwise as required, and after consideration of the results of management improvement plans, follow-ups will be conducted as required to define transaction policy.

In addition, in order to support the growth and development of the borrower, we will strive to give as much feedback as possible on the screening results and provide consultation support to help resolve management issues. In particular, we will support companies struggling to respond to changes in the business environment by formulating management improvement plans.

## (ii) Credit rating

A proprietary credit scoring model based on analysis of transaction data collected over the years for borrowers and a credit rating system that assesses the creditworthiness of borrowers based on qualitative analysis through fact finding surveys and other methods have been developed for these financing operations and have been used in the formulation of lending policy and in the screening process.



## (iii) Asset self assessment

For these financing operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In this process, first stage assessments of borrower classification are conducted by the front offices and second stage assessments by a separate credit department. An auditing department independent from the other sections then conducts an internal inspection to verify the accuracy of self assessments.

The results of the self assessments are used in providing the allowance for loan losses, taking into account the amount expected to be recovered through the disposal of collateral and the execution of guarantees, the actual rate of loan losses and other factors.

## (iv) Quantification of credit risk

In the quantification of credit risk in financing operations, we conduct statistical analysis based on credit ratings and other factors to quantify and monitor the overall risk of the portfolio, and we advance our studies by using this monitoring in controlling credit risk.

## (v) Credit risk management for securitization support operations

In the securitization support operations, we use our proprietary scoring model which was developed based on the analysis of transaction data collected over the years for SMEs, and external models such as the Credit Risk Database (CRD) to conduct screening. In addition, statistical methods such as Monte Carlo simulations are used to accurately assess the overall credit risk for pools of claims to establish a proper guarantee rate based on credit risk.

After formation of a securitization project, the redemption status of the underlying claims is verified and monitoring is performed. With respect to loan receivable-backed securities guaranteed in this operation account, credit risks are accurately determined by using external ratings or statistical methods such as Monte Carlo simulations.

## (b) Market risk management

## (i) Interest rate risk

It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities. However, not all cash flows can be matched, so some gaps do arise between assets and liabilities. Efforts are made to assess interest rate risk in these operations through methods such as maturity ladder approach and duration analysis, and conduct proper risk management by attempting to reduce interest rate risk through adjustment of procurement period limits and other means.

## (ii) Foreign exchange risk

It is JFC policy to minimize foreign exchange risk by conducting forward exchange contracts.

With regards to forward exchange contracts transactions, we have established internal control system which is separating the departments executing and managing.

Forward exchange contracts are conducted by actual needs, and are not maintained in speculative positions.

## (iii) Quantitative information relating to market risk

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans, borrowings, and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2021 will cause the fair value after netting of the financial assets and financial liabilities held in this account to increase by ¥45,167 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥41,803 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

## (c) Liquidity risk management related to fund procurement

Long-term and stable funds such as fiscal loan funds, government-backed bonds, FILP agency bonds, and funding provided by government are secured to finance this account and deposits are not accepted.

Cash flows are assessed and proper measures including establishing overdraft facility accounts with multiple private sector financial institutions have been taken to maintain daily cash flows for proper risk management.

## (4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

## 2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2021, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine are not included in the following chart (refer to Note 2).

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	757,003	757,003	—
(2) Securities			
Held-to-maturity debt securities	17	17	—
(3) Loans and bills discounted	7,339,624		
Allowance for loan losses <sup>(*)</sup>	(219,158)		
	7,120,466	7,532,344	411,878
Total assets	7,877,487	8,289,366	411,878
(1) Borrowings	5,823,957	5,842,014	18,057
(2) Bonds payable	499,049	501,366	2,317
Total liabilities	6,323,006	6,343,380	20,374
Derivative transactions <sup>(**)</sup>			
Derivative transactions not qualifying for hedge accounting	(16)	(16)	—
Derivative transactions qualifying for hedge accounting	—	—	—
Total derivative transactions	(16)	(16)	—

(\*1) General allowance for loan losses and specific allowance for loan losses have been deducted from loans.

(\*2) Derivative recorded in "other assets and other liabilities" are collectively displayed. The net values of assets and liabilities arising from derivative transactions are displayed. The figures in parentheses indicate net liabilities.

### (Note 1) Valuation methodologies used for estimating fair values for financial instruments

#### Assets

##### (1) Cash and due from banks

For due from banks that do not mature, the carrying amount is used as fair value because fair value resembles the carrying amount.

##### (2) Securities

For corporate bonds in this operation account, the carrying amount is used as fair value because fair value approximates the carrying amount.

Notes for securities by purpose of holding are found in "8. Fair value of securities".

##### (3) Loans and bills discounted

For loans with fixed interest rates, the fair value is calculated by discounting the risk-adjusted principal and interest by the risk free rate (the standard Japanese government bond rate) based on the borrowers' categories and period of loan. For loans with variable interest rates, since short-term market rates are reflected, the fair value resembles the carrying amount as long as there is no significant difference in the credit status of the borrower, the carrying amount is used as the fair value. For obligations on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers subject to variable interest rates, allowance for loan losses is calculated based on the expected collectable amount from the collateral or guarantee. Fair value resembles the amount of loans on the balance sheet on the closing date after a deduction has been made for allowance for loan losses, so this amount is used for fair value.

#### Liabilities

##### (1) Borrowings

Borrowings through the fiscal investment funds and loans are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

##### (2) Bonds payable

Market value is used for fair value of bonds.

#### Derivative transactions

Derivative transactions are forward exchange contracts. The fair value of derivative transactions is determined based on the price provided by financial institutions.

(Note 2) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

They are not included in "Assets, (2) Securities," "Assets, (3) Loans and bills discounted" and "Liabilities, (1) Borrowings".

(Millions of yen)

Classification	Carrying amount on the balance sheet
1) Unlisted stocks <sup>(*)1</sup>	0
2) Loans on deeds (subordinated capital loans and loans with post-establishment target-achievement type interest rates) <sup>(*)2</sup>	776,842
3) Borrowings from the FILP special account (investment account) of the national budget <sup>(*)3</sup>	22,292
Total	799,134

(\*)1 Since unlisted stocks do not have quoted market prices available and fair value is extremely difficult to be determined, fair values are not stated.

(\*)2 For loans on deed (subordinated capital loans) under the Provision Scheme for Challenge Support and Capital Enhancement or other schemes, the scheme is such that an interest rate based on the results of success determination according to the business performance of the borrower each year applies. In addition, for loans on deed (post-establishment target-achievement type interest rate) to which a post-establishment target-achievement type interest rate applies, the interest rate is reduced by 0.2% after three years from the date of the loan if the requirements for an interest rate reduction are met based on business performance and other factors in the second fiscal year after establishment of the company. With regard to these, fair values are not stated because it is recognized that fair value is extremely difficult to be determined. This is because future cash flow can not be reasonably estimated due to its particular scheme in which applicable interest rates are determined by every year's business performance of the debtor, instead of being determined at the time of loan execution.

(\*)3 For borrowings from the FILP special account (investment account) of the national budget, fair values are not stated because it is recognized that fair value is extremely difficult to be determined for the following reason: an interest rate is not set at the time of borrowing, as this type of borrowing consists of a scheme in which a lump interest payment is made after the final installment payment redemption and it is not possible to reasonably estimate future cash flows.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks <sup>(*)1</sup>	756,999	—	—	—	—	—
Securities	17	—	—	—	—	—
Held-to-maturity debt securities						
Loans and bills discounted <sup>(*)2</sup>	1,165,008	2,192,779	1,493,198	1,082,669	1,302,166	864,711
Total	1,922,025	2,192,779	1,493,198	1,082,669	1,302,166	864,711

(\*)1 Demand deposits contained within due from banks are stated as "Maturities within one year".

(\*)2 Within loans, claims against bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers contains an amount of ¥15,933 million that is not expected to be redeemed and not included in the table above.

(Note 4) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	997,180	1,621,870	1,244,233	749,013	935,879	298,074
Bonds payable	83,200	180,800	135,000	60,000	40,000	—
Total	1,080,380	1,802,670	1,379,233	809,013	975,879	298,074

## 8. Fair value of securities

The fair value of securities at March 31, 2021 is as follows:

### (a) Held-to-maturity debt securities with fair value

	Type	Carrying amount on the balance sheet (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Securities whose fair value does not exceed their carrying amount	Corporate bonds	17	17	—

### (b) Available-for-sale securities

(Note) Available-for-sale securities whose fair value is extremely difficult to be determined

	Carrying amount on the balance sheet (Millions of yen)
Stocks	0

They have no quoted market price and their fair value is extremely difficult to be determined.

### (c) Available-for-sale securities sold in the fiscal year in review (from April 1, 2020 to March 31, 2021)

	Sales amount (Millions of yen)	Total gain on sales (Millions of yen)	Total loss on sales (Millions of yen)
Stocks	12	4	—

## 9. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 10. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

Defined benefits plan

### (1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	37,754 million yen
Service cost	1,413
Interest cost	37
Actuarial difference	892
Payment of retirement benefits	(1,936)
Prior service cost	—
Other	(16)
Closing balance of projected benefit obligations	<u>38,144</u>

### (2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	13,066 million yen
Expected return on plan assets	261
Actuarial difference	1,130
Financing from employer	663
Payment of retirement benefits	(751)
Other	(0)
Closing balance of fair value of plan assets	<u>14,368</u>

### (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	18,776 million yen
Fair value of plan assets	(14,368)
	4,407
Projected benefit obligations of unfunded plan	<u>19,368</u>
Unfunded pension obligations	23,776
Actuarial unrecognized difference	(3,639)
Unrecognized prior service cost	348
Net amount of liabilities and assets recorded on the balance sheet	<u>20,485</u>
Provision for retirement benefits	20,485
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>20,485</u>

### (4) Net pensions cost and breakdown of included items

Service cost	1,413 million yen
Interest cost	37
Expected return on plan assets	(261)
Amount of actuarial difference accounted for as expense	1,012
Amortization of prior service cost accounted for as expense	(121)
Other	—
Net pensions cost related to defined benefits plan	<u>2,080</u>

### (5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.	
Shares	23%
Debentures	65%
General account	11%
Cash and deposits	1%
Total	<u>100%</u>

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

(6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.5% to 5.9%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥84 million.

## 11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2021 are as follows:

### Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2021
Principal shareholder	Ministry of Finance (Minister of Finance) <sup>(Notes i and ii)</sup>	93.97 (Direct)	Administration for policy based financing	Underwriting of capital increase <sup>(Note iii)</sup>	842,600	—	—
				Receipt of funds <sup>(Note iv)</sup>	3,699,600	Borrowings	5,846,249
				Repayment of borrowing	962,762		
				Payment of interest on borrowings	3,273	Accrued expenses	454
				Guarantee for bonds payable <sup>(Note v)</sup>	295,049	—	—

(Notes)

(i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:  
 -Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry) 6.03%

(ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:

-Ministry of Economy, Trade and Industry	
Underwriting of capital increase	¥400 million
-Agency for Natural Resources and Energy	
Receipts from the national budget	¥0 million
-Small and Medium Enterprise Agency	
Receipts from the national budget	¥14,179 million

(iii) The underwriting of capital increase represents the increase in capital by JFC at an allocation amount of ¥1 per share.

(iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.

(v) No guarantee fee has been paid for the guarantee of bonds.

(vi) Figures in the table above do not include consumption taxes.

## 12. Per share information

Net assets per share	¥0.81
Net loss per share	¥0.07

## 13. Subsequent events

Not applicable.

## Balance Sheet (as of March 31, 2021)

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
Cash and due from banks	11,976	Bonds payable	21,000
Due from banks	11,976	Other liabilities	160
<b>Securities</b>	<b>34,166</b>	Accrued expenses	0
Government bonds	21,173	Unearned revenue	104
Corporate bonds	12,993	Other	55
<b>Other assets</b>	<b>127</b>	Provision for bonuses	3
Prepaid expenses	79	Provision for directors' bonuses	0
Accrued income	7	Provision for retirement benefits	40
Other	41	Provision for directors' retirement benefits	0
Prepaid pension cost	4	Acceptances and guarantees	68,087
Customers' liabilities for acceptances and guarantees	68,087	<b>Total liabilities</b>	<b>89,292</b>
Allowance for loan losses	(18)	<b>Net assets</b>	
		Capital stock	24,476
		Retained earnings	576
		Legal retained earnings	424
		Other retained earnings	151
		Retained earnings brought forward	151
		<b>Total shareholders' equity</b>	<b>25,052</b>
		<b>Total net assets</b>	<b>25,052</b>
<b>Total assets</b>	<b>114,344</b>	<b>Total liabilities and net assets</b>	<b>114,344</b>

## Statement of Operations (Year ended March 31, 2021)

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>724</b>
Interest income	231
Interest and dividends on securities	231
Interest on deposits with banks	0
Fees and commissions	479
Other fees and commissions	479
Other income	13
Reversal of allowance for loan losses	12
Other	1
<b>Ordinary expenses</b>	<b>573</b>
Interest expenses	3
Interest on bonds	3
Fees and commissions payments	472
Other fees and commissions	472
Other ordinary expenses	1
Amortization of bond issuance cost	1
General and administrative expenses	95
Other expenses	0
Other	0
<b>Ordinary profit</b>	<b>151</b>
<b>Net income</b>	<b>151</b>

Data



**Statement of Changes in Net Assets (Year ended March 31, 2021)**

(Millions of yen)

	Shareholders' equity					Total net assets
	Capital stock	Retained earnings			Total shareholders' equity	
		Legal retained earnings	Other retained earnings	Total retained earnings		
			Retained earnings brought forward			
Balance at the beginning of current period	24,476	348	153	501	24,977	24,977
Changes of items during the period						
Provision of legal retained earnings		76	(76)	—	—	—
Payment to the national treasury			(76)	(76)	(76)	(76)
Net income (loss)			151	151	151	151
Total changes of items during the period	—	76	(1)	74	74	74
Balance at the end of current period	24,476	424	151	576	25,052	25,052

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method) based on the moving average method. As a rule, available-for-sale securities are stated at cost based on the moving average method.

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

Certain credit default swap transactions, for which neither quoted market price nor reliably estimated value is available and the fair value is undeterminable, are accounted for as guarantee of obligation.

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

Bond issuance costs are expensed as incurred.

### (d) Accounting policy for reserves

#### (i) Allowance for loan losses

The allowance for loan losses is calculated and recorded based on an anticipated loan loss ratio in accordance with internally established standards for write-offs and allowances.

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

#### (ii) Provision for bonuses

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

#### (iii) Provision for directors' bonuses

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

#### (iv) Provision for retirement benefits

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

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

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

#### (v) Provision for directors' retirement benefits

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

### (e) Consumption and other taxes

Consumption taxes and local consumption taxes ("consumption taxes") are excluded from transaction amounts.

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

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

#### (1) Overview

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

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

#### (2) Scheduled date of application

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

(3) Effects of application of these accounting standards

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

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

(1) Overview

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

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

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

(2) Scheduled date of application

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

(3) Effects of application of these accounting standards

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

## 2. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes this operation account bonds issued to a total amount of ¥21,000 million).

## 3. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

\*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

## 4. Issued shares

For the fiscal year ended March 31, 2021, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	24,476,000,000	—	—	24,476,000,000

## 5. Financial instruments and related disclosure

### 1. Status of financial instruments

#### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one op-

eration account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

This operation account is conducted for the purpose of promoting the supply of unsecured funds to SMEs from private sector financial institutions, etc., utilizing securitization and fostering the securitization market for SME loan claims. To conduct these operations, funds are raised through the issuing of bonds.

## (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this operation account mainly include securities, and the financial liabilities are bonds payable. The associated risks are described below.

### (a) Credit risk

The following operations are conducted in this operation account: (1) Receipt and securitization of loan claims for private sector financial institutions and (2) Partial purchase of securitized instruments. Since credit is provided to SMEs in this operation account, the account risks losses arising from uncollectable claims caused by deterioration in creditworthiness of the SMEs to which credit is granted and the resulting drop in value of securitized instruments owned.

### (b) Market risk

The main type of market risk associated with this operation account is interest-rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities.

### (c) Liquidity risk

Long-term and stable funds such as FILP agency bonds are secured to finance this operation account and deposits are not accepted. Proper measures, including establishing overdraft facility accounts with multiple private sector financial institutions, are taken to maintain daily cash flows, and JFC considers liquidity risk to be limited. However, financing costs could increase due to unexpected events.

## (3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

### (a) Credit risk management

In these operations, we use our proprietary scoring model developed based on analysis of transaction data collected over a number of years for SMEs, and external models such as CRD (Credit Risk Database) to conduct screening. In addition, statistical methods such as Monte Carlo simulations are used to accurately assess the overall credit risk for pools of claims to establish a proper return based on credit risk.

After formation of a securitization project, the redemption status of the underlying claims is verified and monitoring is performed. With respect to loan receivable-backed securities in this operation account, credit risks are accurately determined by using external ratings or statistical methods such as Monte Carlo simulations.

### (b) Market risk management

The main type of market risk associated with these operations is interest rate risk. It is JFC policy to minimize interest rate risk by matching the cash flows between assets and liabilities, and we consider that interest rate risk is limited.

These operations do not use quantitative analysis of interest rate risk for risk management purposes.

The primary financial instruments that are subject to interest rate risk in these operations are securities and bonds payable.

When all other risk variables are fixed, it is considered that a 50 basis point (0.5%) decline in the current interest rate as of March 31, 2021 will cause the fair value after netting (assets) of the financial assets and financial liabilities held in this account to increase by ¥1,582 million. Conversely, it is considered that a 50 basis point (0.5%) rise in the interest rate will cause the fair value to decrease by ¥1,445 million. This impact presumes that risk variables excluding interest rate are fixed, and does not consider the correlation between interest rate and other risk variables. In addition, there is a possibility that these calculated amount may underestimate the impact when the interest rate fluctuation goes beyond a rationally expected range.

### (c) Liquidity risk management related with fund procurement

It is considered that liquidity risk is limited because a system has been adopted to minimize liquidity risk and sufficient funding support can be expected from the government.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2021, and the related fair value, and difference is as follows. Note that financial instruments whose fair value is extremely difficult to determine are not included in the following chart (refer to Note 2).

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	11,976	11,976	—
(2) Securities			
Held-to-maturity debt securities	21,173	22,216	1,043
Total assets	33,150	34,193	1,043
Bonds payable	21,000	20,997	(2)
Total debt	21,000	20,997	(2)

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature, the carrying amount is used as fair value because fair value resembles the carrying amount.

(2) Securities

Market value is used for securities.

Notes for securities by purpose of holding are found in "6. Fair value of securities".

Liabilities

Bonds payable

Market value is used for fair value of bonds.

(Note 2) The carrying amounts on the balance sheet of financial instruments that are recognized to be extremely difficult to be determined fair value are as follows.

They are not included in "Assets, (2)Securities".

(Millions of yen)

Classification	Carrying amount on the balance sheet
(1) Corporate bonds (specific asset-backed securities) <sup>(*)1</sup>	12,993
(2) Credit default swap <sup>(*)2</sup>	—
Total	12,993

(\*)1 Corporate bonds (specified asset-backed securities) do not have a market value.

These are securities issues backed by loan claims on SMEs originating from multiple financial institutions. The following steps are followed when constructing the subordination structure for the securities:

(1) First, groups of loan claims from the financial institutions are put into sub-pools, and the most subordinated section is removed;

(2) The remainder of the sub-pool besides the most subordinated section is treated as an amalgamate and divided into levels of senior and subordinate.

For this reason, to evaluate the fair value of corporate bonds (specified asset-backed securities) owned by JFC that have been amalgamated, the individual financial data for the borrowers that back the securities issue is required. Because JFC is not structured to continuously acquire this data, fair value is extremely difficult to be determined and is not stated.

(\*)2 Credit default swaps (CDS) reference loan claims on SMEs, and do not have market value. JFC is not structured to continuously acquire the individual financial data for the borrowers referenced by these CDS, and is hence unable to reasonably estimate the likelihood of defaults occurring. For this reason, fair value is extremely difficult to be determined and fair value is not stated for these instruments.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks <sup>(*)</sup>	11,976	—	—	—	—	—
Securities						
Held-to-maturity debt securities	—	—	—	—	—	21,068
Total	11,976	—	—	—	—	21,068

(\*) Demand deposits contained within due from banks are stated as "Maturities within one year".

(Note 4) Redemption schedule for bonds with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Bonds payable	6,800	14,200	—	—	—	—

## 6. Fair value of securities

The fair value of securities at March 31, 2021 is as follows:

### (a) Held-to-maturity debt securities with fair value

	Type	Carrying amount on the balance sheet (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Securities whose fair value exceeds their carrying amount	Japanese government bonds	21,173	22,216	1,043

### (b) Available-for-sale securities

(Note) Available-for-sale securities whose fair value is extremely difficult to be determined

	Carrying amount on the balance sheet (Millions of yen)
Bonds	
Corporate bonds	12,993

They have no quoted market price and their fair value is extremely difficult to be determined.

## 7. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 8. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

Defined benefits plan

### (1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	73 million yen
Service cost	4
Interest cost	0
Actuarial difference	(3)
Payment of retirement benefits	—
Prior service cost	—
Other	(20)
Closing balance of projected benefit obligations	<u>54</u>

### (2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	15 million yen
Expected return on plan assets	0
Actuarial difference	(0)
Financing from employer	1
Payment of retirement benefits	—
Other	(6)
Closing balance of fair value of plan assets	<u>10</u>

## (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	14 million yen
Fair value of plan assets	<u>(10)</u>
	3
Projected benefit obligations of unfunded plan	<u>40</u>
Unfunded pension obligations	43
Actuarial unrecognized difference	(7)
Unrecognized prior service cost	<u>(0)</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>36</u>
Provision for retirement benefits	40
Prepaid pension cost	<u>(4)</u>
Net amount of liabilities and assets recorded on the balance sheet	<u>36</u>

## (4) Net pensions cost and breakdown of included items

Service cost	4 million yen
Interest cost	0
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	2
Amortization of prior service cost accounted for as expense	(0)
Other	<u>—</u>
Net pensions cost related to defined benefits plan	<u>6</u>

## (5) Items concerning fair value of plan assets

## 1) The percentage of each category of total fair value of plan assets is as follows.

Shares	23%
Debentures	65%
General account	11%
Cash and deposits	<u>1%</u>
Total	<u>100%</u>

## 2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

## (6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	3.0% to 5.9%

## Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥0 million.

**9. Per share information**

Net assets per share	¥1.02
Net income per share	¥0.00

**10. Subsequent events**

Not applicable.



## Balance Sheet (as of March 31, 2021)

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
Cash and due from banks	4,572,170	Reserve for insurance policy liabilities	1,536,853
Due from banks	4,572,170	<b>Other liabilities</b>	<b>1,667</b>
<b>Other assets</b>	<b>23,806</b>	Accrued expenses	29
Prepaid expenses	0	Lease obligations	171
Accrued income	39	Other	1,466
Other	23,767	<b>Provision for bonuses</b>	<b>201</b>
<b>Property, plant and equipment</b>	<b>17,679</b>	<b>Provision for directors' bonuses</b>	<b>1</b>
Buildings	3,570	<b>Provision for retirement benefits</b>	<b>4,673</b>
Land	13,968	<b>Provision for directors' retirement benefits</b>	<b>2</b>
Lease assets	122	<b>Total liabilities</b>	<b>1,543,398</b>
Other	18	<b>Net assets</b>	
<b>Intangible assets</b>	<b>1,164</b>	<b>Capital surplus</b>	<b>3,503,984</b>
Software	1,032	Legal capital surplus	3,503,984
Lease assets	29	<b>Retained earnings</b>	<b>(432,562)</b>
Other	103	Legal retained earnings	286,257
		Other retained earnings	(718,819)
		Retained earnings brought forward	(718,819)
		<b>Total shareholders' equity</b>	<b>3,071,421</b>
		<b>Total net assets</b>	<b>3,071,421</b>
<b>Total assets</b>	<b>4,614,820</b>	<b>Total liabilities and net assets</b>	<b>4,614,820</b>

**Statement of Operations** (Year ended March 31, 2021)

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>201,636</b>
Interest income	249
Interest on deposits with banks	249
Insurance premiums and other	201,250
Insurance premiums	190,561
Receipts of burden charges under the Responsibility-sharing System	10,688
Other income	136
Other	136
<b>Ordinary expenses</b>	<b>920,455</b>
Expenses on insurance claims and other	910,314
Expenses on insurance claims	211,683
Recoveries of insurance claims	(65,056)
Provision of reserve for insurance policy liabilities	763,687
General and administrative expenses	5,195
Other expenses	4,945
Other	4,945
<b>Ordinary loss</b>	<b>718,819</b>
<b>Extraordinary losses</b>	<b>0</b>
Loss on disposal of noncurrent assets	0
<b>Net loss</b>	<b>718,819</b>

**Statement of Changes in Net Assets (Year ended March 31, 2021)**

(Millions of yen)

	Shareholders' equity						Total net assets
	Capital surplus		Retained earnings			Total shareholders' equity	
	Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings Retained earnings brought forward	Total retained earnings		
Balance at the beginning of current period	2,052,284	2,052,284	288,646	(2,389)	286,257	2,338,541	2,338,541
Changes of items during the period							
Issuance of new shares	1,451,700	1,451,700				1,451,700	1,451,700
Reversal of legal retained earnings			(2,389)	2,389	—	—	—
Net income (loss)				(718,819)	(718,819)	(718,819)	(718,819)
Total changes of items during the period	1,451,700	1,451,700	(2,389)	(716,429)	(718,819)	732,880	732,880
Balance at the end of current period	3,503,984	3,503,984	286,257	(718,819)	(432,562)	3,071,421	3,071,421

Data

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Securities

As a rule, available-for-sale securities are stated at fair value based on market prices on the closing date.

### (b) Depreciation basis for fixed assets

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

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

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

Buildings: 5 years to 50 years

Other: 2 years to 15 years

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

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

#### (iii) Lease assets

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

### (c) Accounting policy for reserves

#### (i) Allowance for loan losses

The allowance for loan losses is maintained in accordance with internally established standards, and provided primarily based on the default rate, which is calculated based on the actual defaults during a certain period in the past.

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

#### (ii) Provision for bonuses

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

#### (iii) Provision for directors' bonuses

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

#### (iv) Provision for retirement benefits

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

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

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

#### (v) Provision for directors' retirement benefits

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

### (d) Accounting policies for reserve for insurance policy liabilities

The "reserve for insurance policy liabilities" consists of the following two items, pursuant to Article 9, Paragraph 1 of the Ministerial Ordinance Concerning Accounting for JFC (Ordinance of the Ministry of Finance, the Ministry of Health, Labour and Welfare, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Economy, Trade and Industry; Ordinance No. 3 of 2008). Furthermore, in accordance with Article 9, Paragraph 2 of the Ministerial Ordinance Concerning Accounting for JFC, an additional amount shall be provided for insurance policy liabilities in the event that an impediment to the fulfillment of future obligations has been confirmed.

#### (i) Policy reserve

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

**(ii) Outstanding claims reserve**

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

**(e) Consumption and other taxes**

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

**Significant accounting estimates**

The item for which the amount was recorded in the financial statements for the current fiscal year based on accounting estimates that may have significant impacts on the financial statements for the following fiscal year is the reserve for insurance policy liabilities.

**1. Amount recorded in financial statements for the current fiscal year**

Reserve for insurance policy liabilities: ¥1,536,853 million

**2. Information that will contribute to understanding in relation to the details of significant accounting estimates relating to the identified item****(1) Calculation method**

The method of calculating the reserve for insurance policy liabilities is described in Significant accounting policies and (d) Accounting policies for reserve for insurance policy liabilities.

When making calculations, grouping for each program category and insurance type category is performed on March 31 and September 30 of each fiscal year as the record dates in accordance with the standards on the reserve for insurance policy liabilities, the accounting base rates including the balance compared with the prior fiscal year and accident rate are determined, and the reserve for insurance policy liabilities (policy reserve and outstanding claims reserve) is calculated based on estimated future cash flows including estimated insurance claims payment amounts.

In cases where the amount of cumulative maximum excess expenditures of future income and expenditures calculated for each fiscal year after a record date surpasses the amount of the reserve for insurance policy liabilities, the corresponding amount is additionally recorded.

**(2) Main assumptions**

An assumed accident rate based on actual performance over a certain period in the past is used for estimating future insurance claims payment amounts.

The accident rate used for such estimates is the average for the most recent 10 years based on prior results for each insurance underwriting fiscal year and elapsed fiscal year.

Also, although the impacts of COVID-19 will gradually diminish, it is expected that the effects on the economy will continue for about one year into the future. However, it is assumed that the short-term credit insurance underwriting risks relating to insurance underwriting at the end of the current fiscal year are approximately the same as in the past due to the various supports provided to businesses based on a variety of government measures.

**(3) Impacts on financial statements for the following fiscal year**

The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of SMEs and economic conditions and a delay in the resolution of COVID-19, and there may be a material impact on the reserve for insurance policy liabilities in the financial statements for the following fiscal year.

**Issued but not yet adopted accounting standards and others****1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)****(1) Overview**

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

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

**(2) Scheduled date of application**

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

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

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

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

#### (1) Overview

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

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

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

#### (2) Scheduled date of application

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

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

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

### The Change in presentation

The Accounting Standard for Disclosure of Accounting Estimates

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) is applied to the financial statements ended in the fiscal year and notes for significant accounting estimates are found in the financial statements.

## 2. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC. No Operations to this operation account bonds have been issued.

## 3. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥2,762 million.

## 4. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

\*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

## 5. Other expenses

Other expenses include refund of insurance premiums ¥4,906 million.

## 6. Issued shares

For the fiscal year ended March 31, 2021, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	6,023,727,407,741	1,451,700,000,000	—	7,475,427,407,741

(Note) Increase is due to the issuance of 1,451,700,000,000 shares.

## 7. Financial instruments and related disclosure

### 1. Status of financial instruments

#### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to

Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification (“operation account”) for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

In this operation account, insurance is provided for the guarantees related to the liabilities on SME loans. To conduct these operations, funds are raised through capital investment from the government.

## (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this operation account mainly include deposits. The associated risks are described below.

### (a) Market risk

The main type of market risk associated with this operation account is interest rate risk.

However, this operation account is exposed to limited interest rate risk because funds procured through government investments are managed using highly stable instruments including the deposit for the FILP.

### (b) Liquidity risk

This operation account does not accept deposits and since long-term stable funds such as investments from the Japanese government are secured to finance this operation account, liquidity risk is considered to be limited.

## (3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

The risk management structure for these operations is described below.

### (a) Market risk management

The main type of market risk associated with these operations is interest rate risk.

These operations strive to undertake appropriate risk management practices by managing funds procured from government investments through using highly stable instruments such as the deposit for the FILP.

### (b) Liquidity risk management related to fund procurement

Long-term and stable financing is provided from government funds. Efforts are made for proper risk management through the assessment of cash flows.

## (4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

## 2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2021, and the related fair value, and difference is as follows.

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
Cash and due from banks	4,572,170	4,576,753	4,583

### (Note 1) Valuation methodologies used for estimating fair values for financial instruments

#### Assets

##### Cash and due from banks

For due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount. For due from banks that have a maturity over 3 months, fair value is based on the current price calculated by discounting future cash flow by the risk free rate (the standard Japanese government bond rate) based on the appropriate deposit term.



(Note 2) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks <sup>(*)</sup>	3,657,070	470,100	445,000	—	—	—

(\*) Demand deposits contained within due from banks are stated as "Maturities within one year".

## 8. Fair value of securities

Transferable deposits in "Due from banks" on the balance sheet is included.

The fair value of securities at March 31, 2021 is as follows:

### Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount does not exceed their acquisition cost	Others	58,000	58,000	—

## 9. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 10. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

Defined benefits plan

### (1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	8,197 million yen
Service cost	261
Interest cost	8
Actuarial difference	174
Payment of retirement benefits	(314)
Prior service cost	—
Other	41
Closing balance of projected benefit obligations	<u>8,369</u>

### (2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	2,935 million yen
Expected return on plan assets	58
Actuarial difference	253
Financing from employer	122
Payment of retirement benefits	(151)
Other	13
Closing balance of fair value of plan assets	<u>3,232</u>

### (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	4,224 million yen
Fair value of plan assets	<u>(3,232)</u>
	991
Projected benefit obligations of unfunded plan	<u>4,144</u>
Unfunded pension obligations	5,136
Actuarial unrecognized difference	(529)
Unrecognized prior service cost	67
Net amount of liabilities and assets recorded on the balance sheet	<u>4,673</u>

Provision for retirement benefits	4,673
Prepaid pension cost	—
Net amount of liabilities and assets recorded on the balance sheet	<u>4,673</u>

(4) Net pensions cost and breakdown of included items

Service cost	261 million yen
Interest cost	8
Expected return on plan assets	(58)
Amount of actuarial difference accounted for as expense	159
Amortization of prior service cost accounted for as expense	(22)
Other	—
Net pensions cost related to defined benefits plan	<u>347</u>

(5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.

Shares	23%
Debentures	65%
General account	11%
Cash and deposits	1%
Total	<u>100%</u>

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

(6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.5% to 5.9%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥15 million.

## 11. Related party transactions

Related party transactions in the fiscal year ended March 31, 2021 are as follows:

### Transactions with parent company and major shareholder companies

(Millions of yen)

Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2021
Principal shareholder	Ministry of Finance (Minister of Finance)	100 (Direct)	Administration for policy based financing	Underwriting of capital increase <sup>(Note i)</sup>	1,451,700	—	—
				Deposit of funds <sup>(Note ii)</sup>	9,625,900	Due from banks	4,246,000
				Refund of funds	8,358,700		

(Notes)

(i) The underwriting of capital increase represents the increase in capital by JFC at an allocation amount of ¥1 per share.

(ii) Deposit of funds is the deposit for the FILP and the interest rates applicable under the FILP are applied.

(iii) Figures in the table above do not include consumption taxes.

## 12. Per share information

Net assets per share	¥0.41
Net loss per share	¥0.10

## 13. Subsequent events

Not applicable.

## Balance Sheet (as of March 31, 2021)

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
Cash and due from banks	767,321	Borrowed money	4,420,649
Due from banks	767,321	Borrowings	4,420,649
Loans and bills discounted	4,570,649	Bonds payable	150,273
Loans on deeds	4,570,649	Other liabilities	11,141
Other assets	269	Accrued expenses	179
Accrued income	188	Unearned revenue	10,855
Other	80	Lease obligations	5
Property, plant and equipment	3	Other	100
Lease assets	3	Provision for bonuses	7
Intangible assets	118	Provision for directors' bonuses	0
Software	117	Provision for retirement benefits	92
Lease assets	0	Provision for directors' retirement benefits	0
Prepaid pension cost	18	Reserve for compensation losses	25,449
		<b>Total liabilities</b>	<b>4,607,613</b>
		<b>Net assets</b>	
		Capital stock	995,960
		Retained earnings	(265,192)
		Other retained earnings	(265,192)
		Retained earnings brought forward	(265,192)
		<b>Total shareholders' equity</b>	<b>730,767</b>
		<b>Total net assets</b>	<b>730,767</b>
<b>Total assets</b>	<b>5,338,380</b>	<b>Total liabilities and net assets</b>	<b>5,338,380</b>

**Statement of Operations (Year ended March 31, 2021)**

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>10,139</b>
Interest income	6,631
Interest on loans and discounts	6,576
Interest on deposits with banks	55
Fees and commissions	1,998
Fees and commissions on compensation security contract	1,998
Receipts from the national budget	154
Receipts from general account of the national budget	154
Other income	1,354
Other	1,354
<b>Ordinary expenses</b>	<b>21,769</b>
Interest expenses	6,480
Interest on borrowings and rediscounts	6,575
Interest on bonds	(94)
Other ordinary expenses	5,143
Amortization of bond issuance cost	161
Interest subsidies	4,981
General and administrative expenses	206
Other expenses	9,939
Provision of reserve for compensation losses	9,903
Other	35
<b>Ordinary loss</b>	<b>11,630</b>
<b>Net loss</b>	<b>11,630</b>

## Statement of Changes in Net Assets (Year ended March 31, 2021)

(Millions of yen)

	Shareholders' equity				Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	
		Other retained earnings	Total retained earnings		
	Retained earnings brought forward				
Balance at the beginning of current period	969,534	(253,562)	(253,562)	715,971	715,971
Changes of items during the period					
Issuance of new shares	26,426			26,426	26,426
Net income (loss)		(11,630)	(11,630)	(11,630)	(11,630)
Total changes of items during the period	26,426	(11,630)	(11,630)	14,795	14,795
Balance at the end of current period	995,960	(265,192)	(265,192)	730,767	730,767

Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Securities

As a rule, available-for-sale securities are stated at fair value based on market prices on the closing date.

### (b) Depreciation basis for fixed assets

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

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

#### (ii) Lease assets

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

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

Bond issuance costs are expensed as incurred.

### (d) Accounting policy for reserves

#### (i) Allowance for loan losses

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

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

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

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

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

#### (ii) Reserve for compensation losses

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

#### (iii) Provision for bonuses

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

#### (iv) Provision for directors' bonuses

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

#### (v) Provision for retirement benefits

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

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

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

#### (vi) Provision for directors' retirement benefits

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

### (e) Consumption and other taxes

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

## Significant accounting estimates

The item for which the amount was recorded in the financial statements for the current fiscal year based on accounting estimates that may have significant impacts on the financial statements for the following fiscal year is the reserve for compensation losses.

1. Amount recorded in financial statements for the current fiscal year  
Reserve for compensation losses: ¥25,449 million
2. Information that will contribute to understanding in relation to the details of significant accounting estimates relating to the identified item
  - (1) Calculation method  
The method of calculating the reserve for compensation losses is described in Significant accounting policies, (d) Accounting policy for reserves, (ii) Reserve for compensation losses.  
Specifically, compensation security contracts were grouped based on reports from designated financial institutions about the presence or absence of the arrival of repayment performance deadline, and the reserves for compensation losses are calculated based on the anticipated loss rate for each group.
  - (2) Main assumptions  
The anticipated loss rate is calculated based on past compensation payment results rate with the assumption that there will not be a major change in the credit risks included in compensation security contracts.  
It is assumed that there is no major change in credit risks included in compensation security contracts in relation to COVID-19 or other crises.
  - (3) Impacts on financial statements for the following fiscal year  
The main assumptions used for accounting estimates may change in circumstances where there is increased uncertainty regarding the future such as significant changes in the credit conditions of businesses and economic conditions, and there may be a material impact on reserve for compensation losses in the financial statements for the following fiscal year.

## Issued but not yet adopted accounting standards and others

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)
  - (1) Overview  
The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.  
In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.
  - (2) Scheduled date of application  
The accounting standard and guidance will be applied from the beginning of the fiscal year ending March 2022.
  - (3) Effects of application of these accounting standards  
The impact on the financial statements from application of the accounting standard and guidance is currently under assessment.
2. Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)
  - (1) Overview  
The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (the "Fair Value Measurement Standard") were announced and provide guidance on methods of measuring fair value in order to enhance the comparability of international accounting standards. The Fair Value Measurement Standard is applied to the fair value of the following items.
    - Financial instruments specified in the Accounting Standard for Financial Instruments
    - Inventories held for trading purposes specified in the Accounting Standard for Measurement of Inventories
 In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised such that breakdowns for each level of fair value of financial instruments are to be provided in notes.
  - (2) Scheduled date of application  
The accounting standards and guidance will be applied from the beginning of the fiscal year ending March 2022.
  - (3) Effects of application of these accounting standards  
The impact on the financial statements from application of the accounting standards and guidance is currently under assessment.

## The Change in presentation

The Accounting Standard for Disclosure of Accounting Estimates

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) is applied to the financial statements ended in the fiscal year and notes for significant accounting estimates are found in the financial statements.

## 2. Loans

There were no Bankrupt loans, Non-accrual loans, Loans with interest or principal repayments more than three months in arrears and Restructured loans as of March 31, 2021.

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

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

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

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

## 3. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC (which includes this operation account bonds issued to a total amount of ¥150,273 million).

## 4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥1 million.

## 5. Amount of compensation security contract

The total amount of compensation outstanding (52,839 contracts)	1,934,625
Reserve for compensation	25,449
Net amount	1,909,175

## 6. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

\*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

## 7. Issued shares

For the fiscal year ended March 31, 2021, types and number of issued shares are as follows:

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	969,534,000,000	26,426,000,000	—	995,960,000,000

(Note) Increase is due to the issuance of 26,426,000,000 shares.

## 8. Financial instruments and related disclosure

### 1. Status of financial instruments

#### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Busi-



ness Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

In this operation account including 1) loans, 2) credit insurance underwriting (a certain portion of compensation paid by JFC to cover losses incurred by specified financial institutions on loans), and 3) interest subsidies (interest subsidies provided by JFC to a specified financial institutions for loans, etc., conducted by specified financial institutions that received a credit facility from JFC) are conducted for financial institutions specified by the competent minister for domestic and global financial disturbance that is recognized by the competent minister when a crisis such as a large-scale disaster occurs. To conduct these operations, the financing required for 1) loans is procured funds through the borrowing from Fiscal Investment and Loan Program ("FILP"), and the issuing of government guaranteed bonds. The loan period and borrowing period are equal, and the financing cost is covered by the interest on the loans, etc. The financing required for 2) credit insurance underwriting, and 3) interest subsidies is procured funds through equity participation from the government, etc.

## (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this operation account mainly include loans and financial liabilities against designated financial institutions, and the financial liabilities include borrowings and bonds payable. The associated risks are described below.

### (a) Credit risk

The main financial assets in this operation account are loans of funds to designated financial institutions that are required to conduct crisis response operations. The associated credit risk consists of risk of losses arising from uncollectable claims due to deterioration in creditworthiness of the designated financial institution.

### (b) Market risk

The operations of this operation account consist of loans to designated financial institutions, and fiscal investment and loans and issuing of government-backed bonds are used for financing. Interest rate risk is not present as a type of market risk because the terms and conditions of the loans and borrowings are equal, and the financing cost is covered by the interest on the loans, etc.

### (c) Liquidity risk

Long-term and stable funds such as fiscal investment and loans, government-backed bonds, and funding provided by government are secured to finance this operation account and deposits are not accepted, and as a result, liquidity risk is considered to be limited. However, borrowings and bonds payable are exposed to liquidity risk that payment cannot be made on the payment date due to unexpected events.

## (3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

### (a) Credit risk management

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In the asset self assessment, an inspection is conducted by the auditing department.

### (b) Market risk management

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans, borrowings, and bonds payable.

These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans as well as issuance of government-backed bonds. Since the terms and conditions of lendings and borrowings

are equal, cash inflows resulting from lendings and cash outflows resulting from borrowings and bonds payable are matched. Therefore, as a whole operations, interest rate risk does not exist as a market risk.

(c) Liquidity risk management related to fund procurement

Long-term and stable funds, such as fiscal investment and loans, government-backed bonds, and funding provided by government are secured to finance this account and deposits are not accepted. In addition, the loan period and borrowing period are equal, and therefore, liquidity risk is considered to be limited. In addition, continual efforts are being made to make financing plans more sophisticated and minimize liquidity risk.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2021, and the related fair value, and difference is as follows.

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	767,321	767,491	169
(2) Loans and bills discounted	4,570,649	4,548,394	(22,254)
Total assets	5,337,970	5,315,885	(22,085)
(1) Borrowings	4,420,649	4,440,609	19,960
(2) Bonds payable	150,273	150,024	(249)
Total liabilities	4,570,922	4,590,633	19,710

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature or have a maturity under 3 months, the carrying amount is used as fair value because fair value resembles the carrying amount. For due from banks that have a maturity over 3 months, fair value is based on the current price calculated by discounting future cash flow by the risk free rate (the standard Japanese government bond rate) based on the appropriate deposit term.

(2) Loans and bills discounted

All loans have a fixed interest rate and fair value is calculated by discounting the principal and interest by the interest rate estimated from the market yield of bonds issued by the borrower based on the type of borrower and period of loan.

Liabilities

(1) Borrowings

Borrowings are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

(2) Bonds payable

Market value is used for fair value of bonds.

(Note 2) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks <sup>(*)</sup>	737,321	30,000	—	—	—	—
Loans and bills discounted	501,890	1,076,010	1,075,871	694,183	676,127	546,568
Total	1,239,211	1,106,010	1,075,871	694,183	676,127	546,568

(\*) Demand deposits contained within due from banks are stated as "Maturities within one year".

(Note 3) Redemption schedule for bonds and borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	501,890	1,006,010	995,871	694,183	676,127	546,568
Bonds payable	—	70,000	80,000	—	—	—
Total	501,890	1,076,010	1,075,871	694,183	676,127	546,568

## 9. Fair value of securities

Transferable deposits in "Due from banks" on the balance sheet is included.

The fair value of securities at March 31, 2021 is as follows:

### Available-for-sale securities

	Type	Carrying amount on the balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose carrying amount does not exceed their acquisition cost	Others	104,000	104,000	—

## 10. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 11. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

### Defined benefits plan

#### (1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	154 million yen
Service cost	7
Interest cost	0
Actuarial difference	2
Payment of retirement benefits	—
Prior service cost	—
Other	(14)
Closing balance of projected benefit obligations	<u>149</u>

#### (2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	32 million yen
Expected return on plan assets	0
Actuarial difference	(0)
Financing from employer	4
Payment of retirement benefits	—
Other	(5)
Closing balance of fair value of plan assets	<u>31</u>

#### (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	41 million yen
Fair value of plan assets	(31)
	9
Projected benefit obligations of unfunded plan	108
Unfunded pension obligations	118
Actuarial unrecognized difference	(48)
Unrecognized prior service cost	4
Net amount of liabilities and assets recorded on the balance sheet	<u>73</u>
Provision for retirement benefits	92
Prepaid pension cost	(18)
Net amount of liabilities and assets recorded on the balance sheet	<u>73</u>

## (4) Net pensions cost and breakdown of included items

Service cost	7 million yen
Interest cost	0
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	9
Amortization of prior service cost accounted for as expense	(1)
Other	—
Net pensions cost related to defined benefits plan	<u>15</u>

## (5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.

Shares	23%
Debentures	65%
General account	11%
Cash and deposits	1%
Total	<u>100%</u>

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

## (6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	1.5% to 6.0%

## Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥0 million.

## 12. Related party transactions

Related party transactions in the fiscal year ended March 31, 2021 are as follows:

### Transactions with parent company and major shareholder companies

(Millions of yen)							
Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2021
Principal shareholder	Ministry of Finance (Minister of Finance) (Notes i and ii)	85.66 (Direct)	Administration for policy based financing	Underwriting of capital increase <sup>(Note iii)</sup>	26,426	—	—
				Receipts from general account of the national budget	58	—	—
				Receipt of funds <sup>(Note iv)</sup>	3,399,472	Borrowings	4,420,649
				Repayment of borrowings	306,563		
				Payment of interest on borrowings	6,575	Accrued expenses	178
				Deposit of funds <sup>(Note iv)</sup>	1,530,000	Due from banks	600,000
				Refund of funds	1,320,000		
				Guarantee for bonds payable <sup>(Note vi)</sup>	150,273	—	—

(Notes)

(i) Ownership of voting rights by ministries and agencies other than Ministry of Finance (Minister of Finance) is as follows:

- Ministry of Agriculture, Forestry and Fisheries (Minister of Agriculture, Forestry and Fisheries)	0.12%
- Ministry of Economy, Trade and Industry (Minister of Economy, Trade and Industry)	14.21%

(ii) Transactions with the ministries and agencies other than Ministry of Finance are as follows:

- Ministry of Agriculture, Forestry and Fisheries	
Receipts from the national budget	¥38 million
- Small and Medium Enterprise Agency	
Receipts from the national budget	¥58 million

- 
- (iii) The underwriting of capital increase represents the increase in capital by JFC at an allocation amount of ¥1 per share.
  - (iv) The receipts of funds represents borrowing under the FILP, and for this borrowing, the interest rates are applied under the FILP agreement.
  - (v) Deposit of funds is the deposit for the FILP and the interest rates applicable under the FILP are applied.
  - (vi) No guarantee fee has been paid for the guarantee of bonds.
  - (vii) Figures in the table above do not include consumption taxes.

### 13. Per share information

Net assets per share	¥0.73
Net loss per share	¥0.01

### 14. Subsequent events

Not applicable.

Balance Sheet (as of March 31, 2021)

(Millions of yen)

Items	Amount	Items	Amount
<b>Assets</b>		<b>Liabilities</b>	
Cash and due from banks	210	Borrowed money	121,647
Due from banks	210	Borrowings	121,647
Loans and bills discounted	121,647	Other liabilities	96
Loans on deeds	121,647	Accrued expenses	43
Other assets	83	Lease obligations	3
Accrued income	42	Other	49
Other	40	Provision for bonuses	3
Property, plant and equipment	2	Provision for directors' bonuses	0
Lease assets	2	Provision for retirement benefits	47
Intangible assets	19	Provision for directors' retirement benefits	0
Software	19	<b>Total liabilities</b>	<b>121,794</b>
Lease assets	0	<b>Net assets</b>	
Prepaid pension cost	9	Capital stock	267
		Retained earnings	(89)
		Other retained earnings	(89)
		Retained earnings brought forward	(89)
		<b>Total shareholders' equity</b>	<b>177</b>
		<b>Total net assets</b>	<b>177</b>
<b>Total assets</b>	<b>121,972</b>	<b>Total liabilities and net assets</b>	<b>121,972</b>

**Statement of Operations** (Year ended March 31, 2021)

(Millions of yen)

Items	Amount
<b>Ordinary income</b>	<b>216</b>
Interest income	140
Interest on loans and discounts	140
Interest on deposits with banks	0
Receipts from the national budget	75
Receipts from general account of the national budget	75
Other income	0
Other	0
<b>Ordinary expenses</b>	<b>227</b>
Interest expenses	140
Interest on borrowings and rediscounts	140
General and administrative expenses	86
Other expenses	0
Other	0
<b>Ordinary loss</b>	<b>11</b>
<b>Net loss</b>	<b>11</b>

## Statement of Changes in Net Assets (Year ended March 31, 2021)

(Millions of yen)

	Shareholders' equity				Total net assets
	Capital stock	Retained earnings		Total shareholders' equity	
		Other retained earnings	Total retained earnings		
	Retained earnings brought forward				
Balance at the beginning of current period	267	(77)	(77)	189	189
Changes of items during the period					
Net income (loss)		(11)	(11)	(11)	(11)
Total changes of items during the period	—	(11)	(11)	(11)	(11)
Balance at the end of current period	267	(89)	(89)	177	177

Data



Amounts presented are rounded down to the nearest million yen.

## 1. Significant accounting policies

### (a) Depreciation basis for fixed assets

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

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

#### (ii) Lease assets

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

### (b) Accounting policy for reserves

#### (i) Allowance for loan losses

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

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

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

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

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

#### (ii) Provision for bonuses

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

#### (iii) Provision for directors’ bonuses

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

#### (iv) Provision for retirement benefits

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

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

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

#### (v) Provision for directors’ retirement benefits

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

### (c) Consumption and other taxes

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

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

1. Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021), and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

#### (1) Overview

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014

as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

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

(2) Scheduled date of application

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

(3) Effects of application of these accounting standards

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

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

(1) Overview

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

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

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

(2) Scheduled date of application

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

(3) Effects of application of these accounting standards

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

## 2. Loans

There were no Bankrupt loans, Non-accrual loans, Loans with interest or principal repayments more than three months in arrears and Restructured loans as of March 31, 2021.

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

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

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

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

## 3. Assets pledged as collateral

Pursuant to Article 52 of the JFC Act (Act No.57, 2007), assets of JFC are pledged as general collateral for all bonds issued by JFC. No Operations to this operation account bonds have been issued.

## 4. Accumulated depreciation of fixed assets

Accumulated depreciation of fixed assets amounted to ¥0 million.

## 5. Restriction in dividend distribution

JFC is restricted in its dividend distribution pursuant to Article 47 of the JFC Act\*1. In the event that the amount of the retained earnings brought forward in the balance sheet exceeds zero in each account related to the operations\*2 listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order to the extent that it reaches the certain amount, and if there is still a surplus, JFC shall pay such surplus into the national treasury within 3 months after closing date.

In the event that the amount of the retained earnings brought forward falls below zero in each account set forth in the preceding paragraph, legal capital surplus and legal retained earnings shall be transferred to retained earnings brought forward to the extent that the amount of retained earnings brought forward becomes zero.

\*1 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

\*2 Including instances deemed applicable by the replacement of terms pursuant to the provisions of Article 17 of the Act on the Promotion of Businesses to Develop and Manufacture Energy and Environmentally Friendly Products (Act No. 38, 2010).

## 6. Issued shares

For the fiscal year ended March 31, 2021, types and number of issued shares are as follows:

(Unit: shares)

Types	The number of stocks at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	The number of stocks at the end of the fiscal year
Common stocks	267,000,000	—	—	267,000,000

## 7. Financial instruments and related disclosure

### 1. Status of financial instruments

#### (1) Initiatives for financial instruments

Based on the JFC Act, we are a public corporation founded for the purpose of supplementing the financing conducted by general financial institutions and contributing to the improvement of the lifestyle of citizens.

The budget required for governmental financial operations is decided on by the Diet of Japan, and business plans and financial plans (funds through borrowing from the fiscal investment funds and loans, bonds, investments from the general account, and loans, etc.) are appended to the budget and submitted to the Diet of Japan.

These operations are classified into Micro Business and Individual Operations, Agriculture, Forestry, Fisheries and Food Business Operations, SME Loan Programs and Securitization Support Programs (Guarantee-type Operation), Securitization Support Programs (Purchase-type Operation), Credit Insurance Programs, Operations to Facilitate Crisis Responses, and Operations to Facilitate Specific Businesses Promotion, etc. Accounts are made for each classification ("operation account") for accounting treatment.

The funds procured by JFC through borrowing from the fiscal investment funds and loans, bonds and investments from the general account are managed separately by each operational account. In principle, it is assumed that funds intended for one operation account will not be used for another operation account. Accordingly, ALM (asset and liability management) is conducted for the risks associated with financial assets and liabilities for each operation account. Note that financial instruments that can be used for the management of surplus funds are limited to extremely safe instruments such as Japanese government bonds, etc., based on the JFC Act.

This account provides loans to designated financial institutions appointed by the competent minister in order to assist in the smooth financing of required funds for the execution of business by companies that develop or manufacture energy and environmentally friendly products, the execution of business restructuring in order to strengthen their industrial competitiveness, and the development and provision or introduction of systems using specified advanced information and communications technology. The funds for these lending operations are financed using fiscal investment and loans. The loan period and borrowing period are equal, and the financing cost is covered by the interest on loans.

#### (2) Types of financial instruments and risks

The financial assets and liabilities owned by JFC are managed in separate operation accounts.

The financial assets in this operation account mainly include loans and financial liabilities against designated financial institutions, and the financial liabilities include borrowings. The associated risks are described below.

##### (a) Credit risk

The main financial assets in this operation account are loans to designated financial institutions that are required to conduct specific business promotion operations, business restructuring promotion, etc. operations, business reorganization promotion operations, and development and provision, etc. promotion operations. The associated credit risk consists of losses arising from uncollectable claims due to deterioration in creditworthiness of the designated financial institution.

##### (b) Market risk

The operations of this operation account consist of loans to designated financial institutions, and fiscal investment and loans are used for financing. Interest rate risk is not present as a market risk because the terms and conditions of the loans and borrowings are equal, and the financing cost is covered by the interest on the loans.

##### (c) Liquidity risk

Long-term and stable fiscal investment and loans are secured to finance this operation account and deposits are not accepted. As a result, liquidity risk is considered to be limited. However, borrowings are exposed to liquidity risk that payment cannot be made on the payment date due to unexpected events.

#### (3) Risk management structure for financial instruments

JFC has a Corporate Governance Committee established to properly conduct management in order to comprehensively handle risks faced, including risks associated with financial instruments, to ensure the sustained and stable realization of the financing

policies of the function.

For each type of risk, management policies and procedures have been created to handle the specific types of credit risks, market risks, and liquidity risks for financing associated with each operation, and a structure has been established to smoothly handle these tasks in each operation.

The risk management structure for these operations is described below.

(a) Credit risk management

For these operations, JFC has conducted the asset self assessment such that the characteristics of assets in these operations are properly reflected in the assessment results. In the asset self assessment, an inspection is conducted by the auditing department.

(b) Market risk management

The primary financial instruments that are subject to interest rate risk, which is one of the main risk variables in these operations include loans and borrowings.

These operations provide loans to designated financial institutions and are funded through borrowings from fiscal investment and loans. Since the terms and conditions of lendings and borrowings are equal, cash inflows resulting from lendings and cash outflows resulting from borrowings are matched. Therefore, as a whole operations, interest rate risk does not exist as a market risk.

(c) Liquidity risk management related to fund procurement

Long-term stable funds, such as fiscal investment and loans are secured to finance this account and deposits are not accepted. Liquidity risk is believed to be limited because the loan period and borrowing period are equal.

(4) Supplementary explanation concerning fair value of financial instruments

The fair value of financial instruments includes amounts based on market value and amounts that have been reasonably estimated when no market value is available. Set valuation inputs are used for the calculation of this amount, and if different valuation inputs are used, the resulting amount could vary.

2. Fair value of financial instruments

The amount in the balance sheet at March 31, 2021, and the related fair value, and difference is as follows.

(Millions of yen)

	Amount on the Balance Sheet	Fair value	Difference
(1) Cash and due from banks	210	210	—
(2) Loans and bills discounted	121,647	121,640	(6)
Total assets	121,857	121,851	(6)
Borrowings	121,647	122,372	725
Total liabilities	121,647	122,372	725

(Note 1) Valuation methodologies used for estimating fair values for financial instruments

Assets

(1) Cash and due from banks

For due from banks that do not mature, the carrying amount is used as fair value because fair value resembles the carrying amount.

(2) Loans and bills discounted

All loans have a fixed interest rate and fair value is calculated by discounting the principal and interest by the interest rate estimated from the market yield of bonds issued by the borrower based on the type of borrower and period of loan.

Liabilities

Borrowings

Borrowings are based on a fixed rate of interest. Fair value is calculated by discounting the principal and interest of the borrowings by the risk free rate (the standard Japanese government bond rate) based on the set period of loan.

(Note 2) Redemption schedule for receivables and redeemable securities with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Due from banks (*)	210	—	—	—	—	—
Loans and bills discounted	19,332	31,629	28,084	28,084	14,366	152
Total	19,542	31,629	28,084	28,084	14,366	152

(\*) Demand deposits contained within due from banks are stated as "Maturities within one year".

(Note 3) Redemption schedule for borrowings with future redemption dates

(Millions of yen)

	Maturities within one year	Maturities after one year but within three years	Maturities after three years but within five years	Maturities after five years but within seven years	Maturities after seven years but within ten years	Maturities after ten years
Borrowings	19,332	31,629	28,084	28,084	14,366	152

## 8. Deferred tax accounting

JFC does not apply deferred tax accounting since JFC is a nontaxable entity classified in the Article 2 (5) of the Corporation Tax Act (Act No. 34 of 1965).

## 9. Retirement benefits

JFC has a defined benefit pension plan comprising of a corporate pension fund plan and a lump-sum severance indemnity plan and a defined contribution pension plan as its defined contribution-type plan. Although the JFC corporate pension fund plan is a multi-employer plan, related notes are listed within the following defined benefits plan notes, to enable rational calculation of the fair value of plan assets in accordance with the projected benefit obligations ratio.

Under the corporate pension fund plan (a funded plan), JFC pays pensions based on salary and years of service. Under the retirement lump-sum severance indemnity plan (an unfunded plan), JFC pays lump-sum payments based on salary and years of service, as retirement benefits.

### Defined benefits plan

#### (1) Reconciliation schedule of opening balance and closing balance of projected benefit obligations

Opening balance of projected benefit obligations	83 million yen
Service cost	4
Interest cost	0
Actuarial difference	1
Payment of retirement benefits	—
Prior service cost	—
Other	(10)
Closing balance of projected benefit obligations	<u>78</u>

#### (2) Reconciliation schedule of opening balance and closing balance of fair value of plan assets

Opening balance of fair value of plan assets	16 million yen
Expected return on plan assets	0
Actuarial difference	0
Financing from employer	2
Payment of retirement benefits	—
Other	(2)
Closing balance of fair value of plan assets	<u>16</u>

#### (3) Reconciliation schedule of closing balance of projected benefit obligations and fair value of plan assets, and provision for retirement benefits and prepaid pension cost recorded on balance sheet

Projected benefit obligations of funded plan	21 million yen
Fair value of plan assets	(16)
	4
Projected benefit obligations of unfunded plan	57
Unfunded pension obligations	62
Actuarial unrecognized difference	(25)
Unrecognized prior service cost	1
Net amount of liabilities and assets recorded on the balance sheet	<u>38</u>
Provision for retirement benefits	47
Prepaid pension cost	(9)
Net amount of liabilities and assets recorded on the balance sheet	<u>38</u>

#### (4) Net pensions cost and breakdown of included items

Service cost	4 million yen
Interest cost	0
Expected return on plan assets	(0)
Amount of actuarial difference accounted for as expense	5
Amortization of prior service cost accounted for as expense	(0)
Other	—
Net pensions cost related to defined benefits plan	<u>8</u>

(5) Items concerning fair value of plan assets

1) The percentage of each category of total fair value of plan assets is as follows.

Shares	23%
Debentures	65%
General account	11%
Cash and deposits	1%
Total	<u>100%</u>

2) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, JFC takes into account the distribution of current and forecast fair value of plan assets, and the current and expected long-term rate of return on the diverse assets that compose the fair value of plan assets.

(6) Items related to actuarial calculation bases

Major actuarial calculation bases at the end of the fiscal year in review

1) Discount rate	0.1%
2) Long-term expected rate of return on plan assets	2.0%
3) Expected rates of future salary increase	3.0% to 5.9%

Defined contribution pension plan

This operation account's defined contribution to the defined contribution pension plan is ¥0 million.

## 10. Related party transactions

Related party transactions in the fiscal year ended March 31, 2021 are as follows:

### Transactions with parent company and major shareholder companies

(Millions of yen)							
Classification	Corporate name	Ratio to Total Voting Rights (%)	Relation with related parties	Transactions	Amount of transactions	Items	Balance as of March 31, 2021
Principal shareholder	Ministry of Finance (Minister of Finance) <sup>(Note i)</sup>	100 (Direct)	Administration for policy based financing	Repayment of borrowings	11,330	Borrowings	121,647
				Payment of interest on borrowings	140	Accrued expenses	42

(Notes)

(i) Transactions with the ministries and agencies other than Ministry of Finance are as follows:

-Ministry of Economy, Trade and Industry  
Receipts from the national budget ¥75 million

(ii) Figures in the table above do not include consumption taxes.

## 11. Per share information

Net assets per share	¥0.66
Net loss per share	¥0.04

## 12. Subsequent events

Not applicable.

# Reference Information

## Risk-monitored Loans

JFC reports risk-monitored loan amounts calculated based on the “Ministerial Ordinance Concerning Accounting of Japan Finance Corporation” (Ordinance of the Ministry of Finance, the Ministry of Health, Labour and Welfare, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Economy, Trade and Industry; Ordinance No. 3 of 2008).

### ▼ Risk-monitored Loans

(Millions of yen)

	Micro Business and Individual Unit (Account for Micro Business and Individual Operations)	Agriculture, Forestry, Fisheries and Food Business Unit (Account for Agriculture, Forestry, Fisheries and Food Business Operations)	Small and Medium Enterprise (SME) Unit (Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation))	Total
Bankrupt loans	4,192	641	3,817	8,651
Non-accrual loans	116,297	77,425	681,051	874,775
Loans with interest or principal repayments more than three months in arrears	53	320	—	374
Restructured loans	389,568	68,770	109,933	568,272
Total	510,113	147,157	794,803	1,452,073
Total of risk-monitored loans/ outstanding loans (%)	4.01	4.31	9.79	5.99

(Definitions)

- “Bankrupt loans” are loans, defined in Article 96, Paragraph 1, Item 3 and 4 of the corporate Tax Law Enforcement Ordinance (Government Ordinance No. 97, 1965), on which accrued interest income is not recognized as there is substantial uncertainty over the ultimate collectability of either principal or interest because they have been in arrears for a considerable period of time or for other reasons.
- “Non-accrual loans” are loans on which accrued interest income is not recognized, although this excludes Bankrupt loans and the loans on which interest payments are deferred in order to support the borrowers’ recovery from financial difficulties.
- “Loans with interest or principal repayments more than three months in arrears” are loans whose principal or interest payment is more than three months in arrears, and which do not fall under the category of “Bankrupt loans” and “Non-accrual loans.”
- “Restructured loans” are loans whose repayment terms and conditions have been amended in favor of the borrowers (e.g. reduction of or exemption from the stated interest rate, the deferral of interest payments, the extension of principal repayments or renunciation of claims) in order to support the borrowers’ recovery from financial difficulties, and which do not fall under the category of “Bankrupt loans,” “Non-accrual loans,” and “Loans with interest or principal repayments more than three months in arrears.”

### ▼ Claims Disclosed under the Financial Reconstruction Law

(Millions of yen)

	Micro Business and Individual Unit (Account for Micro Business and Individual Operations)	Agriculture, Forestry, Fisheries and Food Business Unit (Account for Agriculture, Forestry, Fisheries and Food Business Operations)	Small and Medium Enterprise (SME) Unit (Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operation))	Total
Bankrupt or de facto bankrupt	23,509	2,180	10,450	36,139
Doubtful	97,188	76,018	674,503	847,710
Special attention	389,622	69,090	109,933	568,647
Subtotal (1)	510,319	147,290	794,887	1,452,498
Normal	12,216,509	3,279,214	7,347,518	22,843,243
Total (2)	12,726,829	3,426,504	8,142,470	24,295,805
(1/2) (%)	4.01	4.30	9.76	5.98

Notes: 1. Although JFC is not subject to the provisions of the law concerning Emergency Measures for the Revitalization of the Financial Functions (Law No.132 of 1998; hereinafter the “Financial Reconstruction Law”), all calculations above are based on the same criteria used for private financial institutions.

2. SME Unit and three Units’ figures for “Total (2)” include loans for which reimbursement agreements have been concluded by means of the indemnity rights of borrowers requiring special attention, and as such vary from the total of “Subtotal (1)” and “Normal.”

(Definitions)

- Bankrupt or de facto bankrupt:  
Loans or loan equivalents to borrowers who have gone bankrupt for reasons such as a declaration of bankruptcy, reorganization, or revitalization proceedings.
- Doubtful:  
Loans to borrowers who have not yet reached a state of legal bankruptcy but whose financial position and business performance have deteriorated; therefore, the prospect of complete repayment of principal and interest is remote in accordance with the contract obligations.
- Special attention:  
Loans that are “past due loans (3 months or more)” or “restructured loans” and are not in the categories of “bankrupt or de facto bankrupt” or “doubtful.”
- Normal:  
Loans to borrowers whose financial position or business performance are not a point of concern; therefore, those are excluded from the above three categories of “bankrupt or de facto bankrupt,” “doubtful,” and “special attention.”

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