

# Japan Finance Corporation

## Guide to the Operations of the Small and Medium Enterprise (SME) Unit

# 2021



JAPAN FINANCE CORPORATION

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A note on figures used in this Report:

1. Figures for which the value is less than one whole unit.

Numbers of businesses and amounts are rounded down to the nearest whole unit.

As a general rule, percentages (%) are rounded down to the nearest first decimal place when less than four and rounded up to the nearest first decimal place when five or more. Therefore, figures in the total column may not match the figure obtained by calculating all individual items.

2. Figures:

Figures lower than the unit are shown as "0." "-" is shown when there is no applicable figure.

## Message from the General Manager of the SME Unit

SMEs are the driving force behind Japan's economy at both the national and regional levels. JFC's SME Unit plays a role as a safety net, as well as providing policy-based financial support to shore up the growth and development of SMEs by having our Loan Programs and Credit Insurance Programs work closely together.

The Japanese economy has been in a severe situation due to the impact of the prolonged COVID-19 pandemic since last year. The SME Unit has been doing its best to support SMEs affected by the crisis.

Through our Loan Programs, by the end of FY2020 we had provided approximately 40,000 loans worth 4 trillion yen under our COVID-19 Special Loan Program. This far exceeds the scale of support provided after the collapse of Lehman Brothers and the Great East Japan Earthquake. The program was used by various industries, including restaurants, hotels, local public transportation, and entertainment businesses, and has had a great impact.

Also, to improve financial structure and secure business continuity in operations affected by COVID-19, we launched a special Subordinated Loan Program in August 2020 and have worked to ensure smooth fund-raising by SMEs in collaboration with private financial institutions and other related institutions.

At the same time, we have implemented diversified Loan Programs formulated by the government to address the various business challenges that SMEs encounter.

To ensure smooth business succession for SMEs, in addition to financial assistance, we provide support such as our original business succession diagnosis, matching support for M&A utilizing our nationwide branch network, and collaboration with experts and support agencies. We will further strengthen our initiatives amid mounting concerns over business closures due to the protracted crisis.

For SMEs working on business revitalization, we have provided support by utilizing mechanisms such as a participation scheme for privately syndicated loans, which was introduced in FY2018. Loan participation in FY2020 amounted to 13.4 billion yen. We endeavored to cooperate with the Small and Medium Enterprises Revitalization Support Councils and private financial institutions in this initiative, considering the difficult situation caused by COVID-19.

In order to respond to the diversification of the global supply chain and improve its resilience, in January 2021 we established new Cross-Border Loans, which are direct loans to overseas subsidiaries. We also continued to provide textured support to meet the funding needs of SMEs by utilizing our existing Standby Letter of Credit Program and Loans in Foreign Currency. Through these initiatives, loans related to overseas expansion in FY2020 totaled 18.1 billion yen and letters of credit issued amounted to 3.8 billion yen. Along with these forms of financial support, we held a business network meeting for our clients' overseas subsidiaries in Shanghai in cooperation with local financial institutions after carefully implementing thorough infectious disease control measures.

Furthermore, for venture businesses, Capital Subordinated Loans and Stock Subscription Rights Loans were utilized to bridge the gap in the growth stages during which investment from venture capital funds and bank loans are difficult to obtain, and the provision of Loans to Foster Growth of New Businesses including these schemes was 21.6 billion yen.

As a result of these efforts, loans to SMEs totaled 4.5 trillion yen in FY2020, and the outstanding loan amount as of the fiscal year-end increased to 8.2 trillion yen.



Through our Credit Insurance Programs, to facilitate the smooth flow of funds to cope with COVID-19 and natural disasters, we offered financial support to SMEs facing harsh business environments by appropriately accepting insurance on Safety-net Guarantees and Crisis-related Guarantees. We also provided credit insurance on private financial institutions' loans with practically no interest and no collateral, one of the supportive measures to deal with COVID-19 that was launched in May 2020. In addition, we have continued to support start-ups, business revitalization, and business succession through credit insurance, besides underwriting insurance for NPOs' social businesses.

Moreover, in close cooperation with 51 Credit Guarantee Corporations (CGCs) located throughout Japan, we worked to identify financial trends of SMEs and provide necessary information to enhance CGCs' support for start-ups, business management, and business revitalization.

Due to these efforts, insurance acceptance for credit guarantees in FY2020 totaled 33.2 trillion yen, and the total underwriting balance was 42.4 trillion yen, which marked the highest level ever.

By implementing the abovementioned supportive measures, the performance of our Loan Programs and Credit Insurance Programs rose dramatically. As the severe business environment surrounding SMEs is still expected to continue, we will respond to the various needs of each SME, including immediate funding, improvement of financial structure, and innovative capital investments focusing on the post-COVID era.

Approximately 3.57 million SMEs in Japan, accounting for 99.7% of the total number of businesses and about 70% of all employees, are truly the backbone of the Japanese economy. For our economy to develop further by responding to the effects of COVID-19, it is essential for SMEs to become more active, as they create regional employment and bring added value. Looking ahead to the future, the SME Unit will continue to commit ourselves to fully functioning as a public financial institution following in step with national SME policy and complementing private financial institutions.

**YOSHINO Kyoji**

General Manager, Small and Medium Enterprise (SME) Unit  
Japan Finance Corporation

# Overview of Japan Finance Corporation

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.

## Profile of Japan Finance Corporation (as of Mar. 31, 2021)

- Name: Japan Finance Corporation (JFC)
- Establishment: October 1, 2008
- Statutory Law: The Japan Finance Corporation Act
- Head Office: Otemachi Financial City North Tower, 1-9-4, Otemachi, Chiyoda-ku, Tokyo, Japan
- Governor & CEO: TANAKA Kazuho
- Capital, etc.: Capital: 6,990.2 billion yen  
Reserve fund: 3,503.9 billion yen
- Branch Offices: Branch Offices in Japan: 152  
Overseas representative offices: 2
- Employees: 7,436 (budgetary fixed number for FY2021)
- 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

## Basic Philosophy

### Focused Policy-based Financing

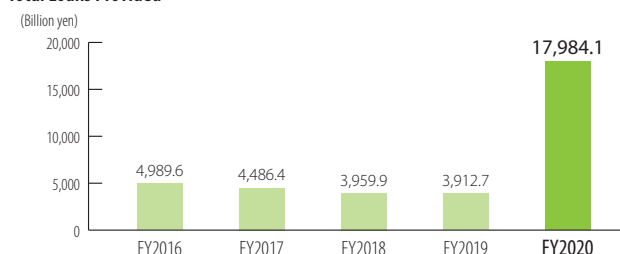
Following the national policy, provide flexible policy-based financing by utilizing a variety of financing programs and schemes to meet the needs of society, while complementing the activities of private financial institutions.

### Mainstreaming Governance

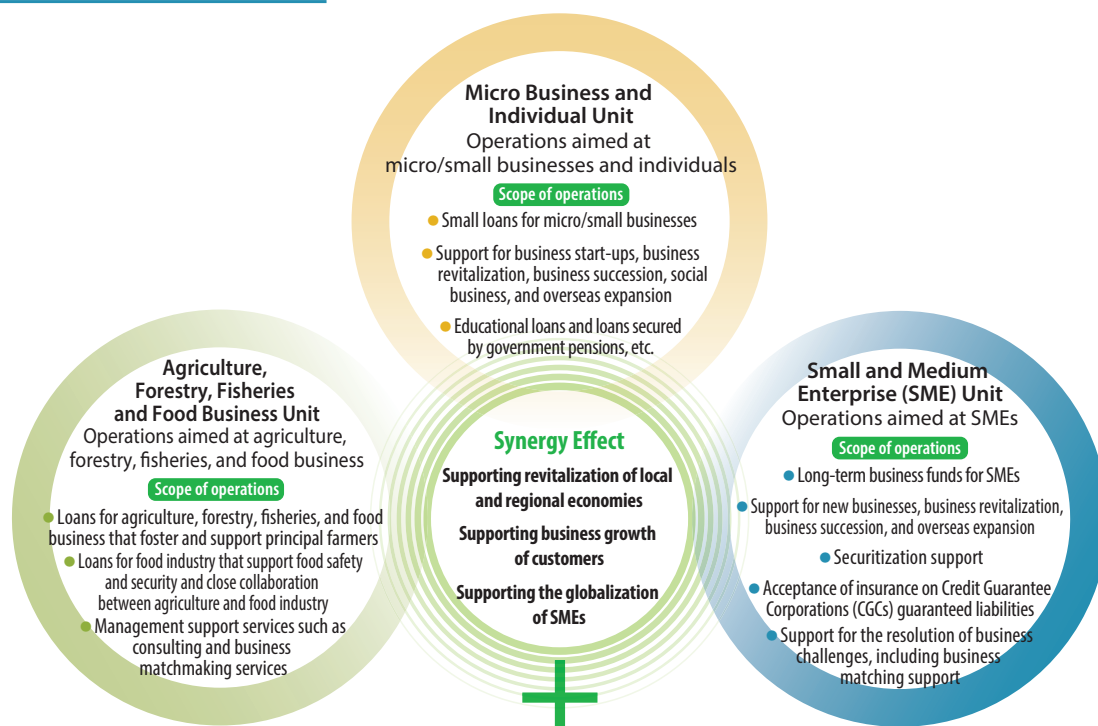
Strive to conduct highly transparent and efficient business operations based on a high level of corporate governance and hold itself accountable to the public.

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

### Total Loans Provided



## Major Business Operations of JFC



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

- Providing a certain credit to designated financial institutions at the occurrence of crises certified by the competent ministers, such as domestic or international financial disorder, large-scale natural disasters, and other similar events.
- Providing loans to designated financial institutions based on the Low-Carbon Investment Promotion Act, the Industrial Competitiveness Enhancement Act, and the Act on Promotion of Developing/Supplying and Introducing Systems Making Use of Specified Advanced Information Communications Technologies.

# Overview of the SME Unit

The SME Unit of JFC has taken over the operations of the former Japan Finance Corporation for Small and Medium Enterprise (JASME), a government-affiliated financial institution originally established in August 1953.

Through its various functions such as its Loan Programs and Credit Insurance Programs, the SME Unit works in hands with the private financial institutions, providing assistance from both financial and informational perspectives to support the growth and development of SMEs and micro/small businesses which are the source of Japanese economic vitality at both the national and regional levels.

## Scope of Business

### Loan Programs

These programs are designed to supply stable, long-term, fixed interest rate business funds which are essential for promoting the businesses of SMEs.

- Loans to SMEs
- Purchases of corporate bonds (with subscription warrants) issued by SMEs
- Loans to Small and Medium Business Investment & Consultation Co., Ltd.
- Securitization of SME loan claims and corporate bonds (CDO Program)
- Management and recovery of loan claims against facility-leasing institutions <sup>(Note)</sup>

Note: Loans to facility-leasing institutions have been terminated with effect from March 30, 2015, and currently, only management and recovery of loan claims against facility-leasing institutions are being carried out.

### 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.

### Performance for FY2020

#### ► Loan Programs

Loans .....	4,564.8 billion yen
Direct loans .....	4,564.8 billion yen
Agency loans .....	0.0 billion yen
Loans to Small and Medium Business Investment & Consultation Co., Ltd. ....	0.0 billion yen
Outstanding loans .....	8,218.1 billion yen
Direct loans .....	8,214.5 billion yen
Agency loans .....	3.4 billion yen
Loans to facility-leasing institutions, loans to Small and Medium Business Investment & Consultation Co., Ltd. ....	0.0 billion yen

#### ► Securitization Support Programs

Financing support amount	
Purchase-type .....	17.0 billion yen
Financing support balance	
Purchase-type .....	65.9 billion yen
Outstanding holdings such as asset backed securities	
Purchase-type .....	12.9 billion yen
Outstanding guaranteed liabilities such as asset backed securities	
Purchase-type .....	17.8 billion yen
Outstanding guaranteed liabilities of loan claims	
Guaranteed-type .....	0.0 billion yen

### 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).

### Performance for FY2020

#### ► Credit Insurance Programs

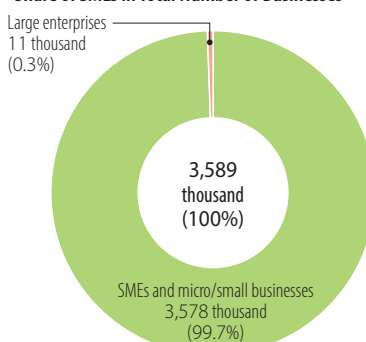
Amounts of insurance acceptance and loans	
Small Business Credit Insurance .....	33,210.6 billion yen
No record of loans to CGCs and	
Special Insurance for Mid-size Enterprises	
Outstanding amounts of insurance and loans	
Small Business Credit Insurance .....	42,416.1 billion yen
Special Insurance for Mid-size Enterprises .....	0.0 billion yen
No record of the acceptance of Machinery Credit Insurance	
No record of loans to CGCs	

## ● The Position of SMEs and Micro/Small Businesses in Japan

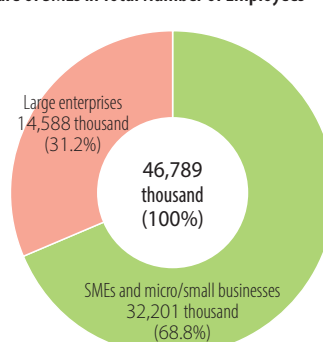
SMEs and micro/small businesses account for 99% of all businesses and approximately 70% of the total workforce in Japan. These figures attest to the fact that SMEs and micro/small businesses are the very source of Japanese economic vitality and the primary force underpinning regional economies.

SMEs and micro/small businesses are also expected to serve as the driving force of the nation's economic revitalization through the creation of new industries, products and services.

Share of SMEs in Total Number of Businesses



Share of SMEs in Total Number of Employees



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.

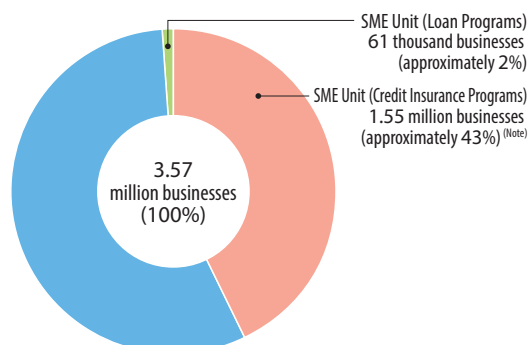


## SME Unit's Clients

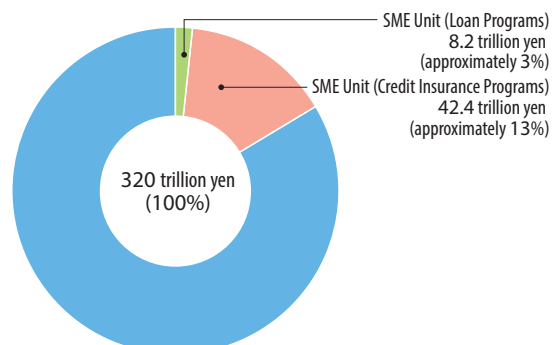
SMEs and micro/small businesses account for 99% of all businesses in Japan, and are both the source of Japanese economic vitality as well as the primary force underpinning regional economies. The size and conditions of each SME and micro/small business differ, such as companies that sustain the regional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

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

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



Share of SME Unit's Clients in Total Amount of Outstanding Loans



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.

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 approximately 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 (Note)
- 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 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

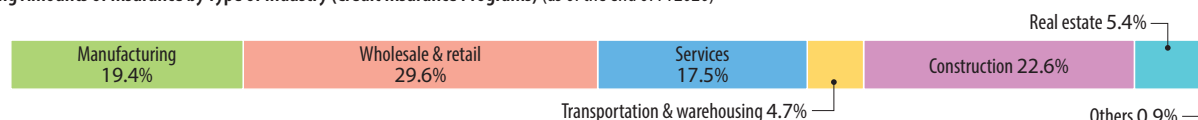
Note: Results are current as of March 31, 2021.

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

Outstanding Loans by Type of Industry (Loan Programs) (as of the end of FY2020)



Outstanding Amounts of Insurance by Type of Industry (Credit Insurance Programs) (as of the end of FY2020)



## 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 that involve high risks, such as new business development, business revitalization, business succession, and overseas expansion.

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



# Roles and Characteristics of the SME Unit

## Demonstrating a Supplementation Function for Private Financial Institutions

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

### Dedicated to Long-term Funding

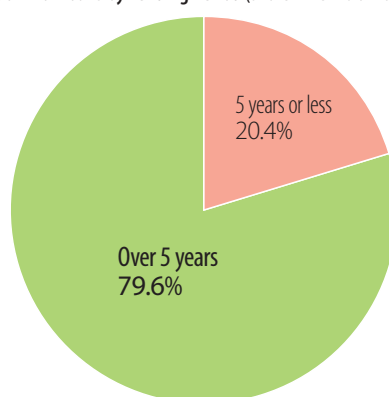
If SMEs are to grow and prosper, they must continually invest capital appropriately and consolidate their financial strength. To do this, they need to be able to raise long-term funds in a stable manner.

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 five years, with fixed interest rates that make it easier to map out repayment schedules.

By Supplementing 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)



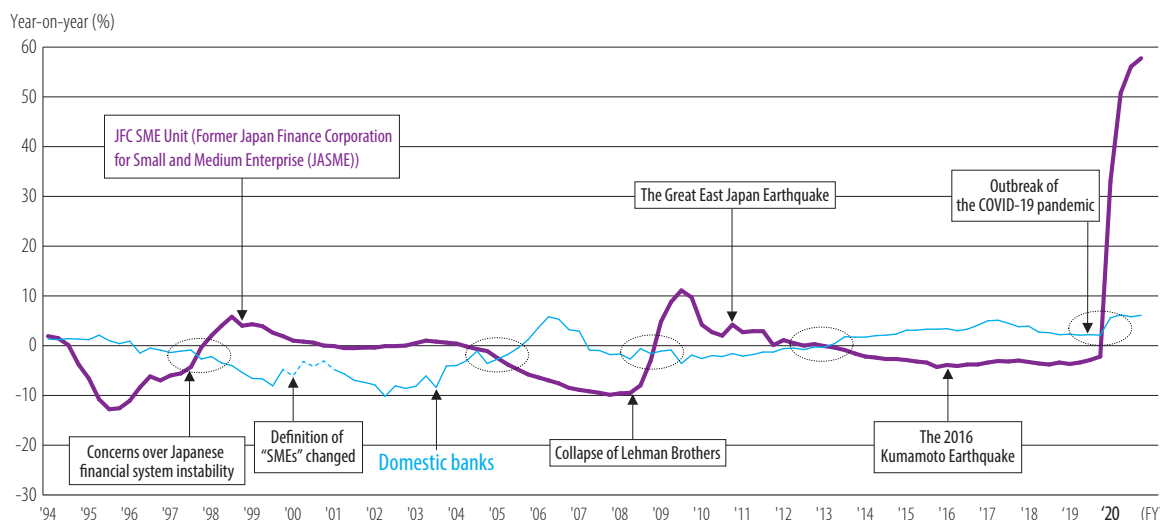
Note: Data are for fixed interest rate loans only.

### Stable Supply of Business Funds

The SME Unit's lending volume tends to rise sharply during the economic stagnation period such as post-Lehman Shock, and conversely decline during the economic recovery period.

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 bank balances refer to loans to SMEs to cover 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.



# Promotion of Policy-based Special-purpose Loans

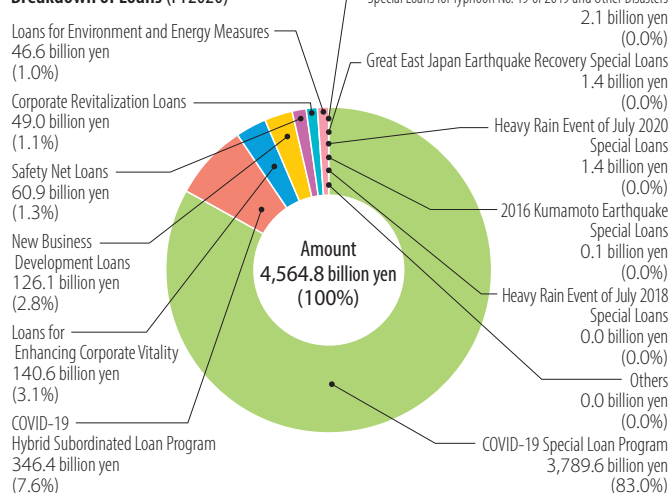
## Promoting policy-based special-purpose loans in response to demands of the times

### Promoting Policy-based Special-purpose Loans

The SME Unit offers a variety of Special-purpose Loans designed to facilitate the government policy guidance by channeling funds into targeted policy-based sectors. These sectors include new businesses, business revitalization, overseas expansion, safety nets, regional economic revitalization, environmental measures, countermeasures against natural disasters, and stimulation of capital investment to promote employment, among others.

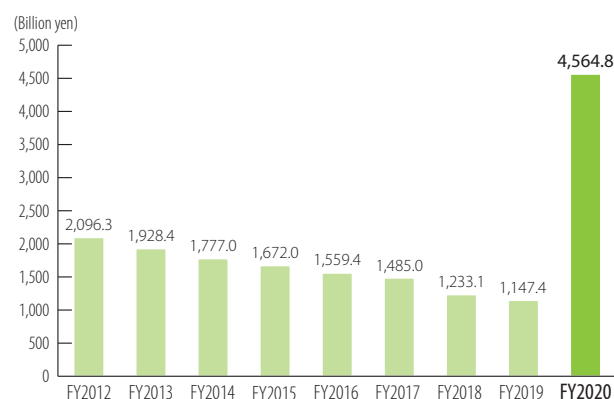
During FY2020, amid full-scale reconstruction after the Great East Japan Earthquake and reconstruction of the disaster region of the Kumamoto Earthquake and torrential rain, etc., the SME Unit continued to take concerted steps to fully exercise its safety net function. In this manner, the SME Unit made every effort to support SMEs, which continued to experience increasingly difficult cash flow conditions brought on by a deteriorating operating environment.

#### Breakdown of Loans (FY2020)



Note: Loans include corporate bonds, but excluding loans to Small and Medium Business Investment & Consultation Co., Ltd. Performance for respective loans is rounded down to the nearest 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.

### Socioeconomic Developments and the SME Unit's Roles

Socioeconomic Developments		Roles Played by the SME Unit — Performance of Special-purpose Loans <sup>(Note)</sup> —
1964 Tokyo Olympic Games held	1960-	Loans to Export-driven Manufacturers ..... 7.7 billion yen (FY1964)
1970 World EXPO'70 held in Osaka	1970-	Loans to Promote Modernization ..... 35.5 billion yen (FY1970)
1985 Plaza Accord reached, triggering sharp appreciation of the yen 1989 Consumption tax introduced	1980-	Special Loans for the Promotion of Application of Businesses to Changes in the World Economy ..... 186.2 billion yen (FY1986) Loans to Facilitate Introduction of Consumption Tax ... 332.5 billion yen (FY1989)
1995 Catastrophic Great Hanshin-Awaji Earthquake strikes 1997 Hokkaido Takushoku Bank and Yamaichi Securities collapse	1990-	Loans for Disaster Recovery ..... 107.1 billion yen (FY1995) Loans to Deal with Changes in the Financial Environment ... 336.9 billion yen (FY1998)
2005 Full introduction of "payoff" system 2006 "Zero interest rate policy" removed 2007 Occurrence of U.S. subprime mortgage crisis 2008 Lehman Brothers files for bankruptcy	2000-	Loans to Promote IT Use ..... 159.3 billion yen (FY2004) Loans for Regional Revitalization and Employment Promotion ..... 215.1 billion yen (FY2005) Loans to Promote New Business Activities ..... 125.2 billion yen (FY2007) Safety Net Loans ..... 925.8 billion yen (FY2008) 2,818.6 billion yen (FY2009)
2011 Catastrophic Great East Japan Earthquake strikes	2010-	Safety Net Loans ..... 2,203.8 billion yen (FY2010) Great East Japan Earthquake Recovery Special Loans ... 1,215.5 billion yen (FY2011)
2020 Expansion of effects from COVID-19	2020-	COVID-19 Special Loan Program ..... 3,789.6 billion yen (FY2020)

Note: The names of the loans listed above are as of their scheme termination dates, or, for active schemes, as of March 31, 2021.

### Flexibly Responding to Relaxation of Repayment Terms, Promoting Efforts with Private Financial Institutions for Financing Facilitating

As a policy-based financial institution, the SME Unit has responded flexibly to meet the needs of clients that are experiencing financing difficulties by relaxing the repayment terms for existing loans. Furthermore, the SME Unit will thoroughly prepare our internal system and make ourselves known while strengthening cooperation with private financial institutions and thereby work to further promote finance facilitation.

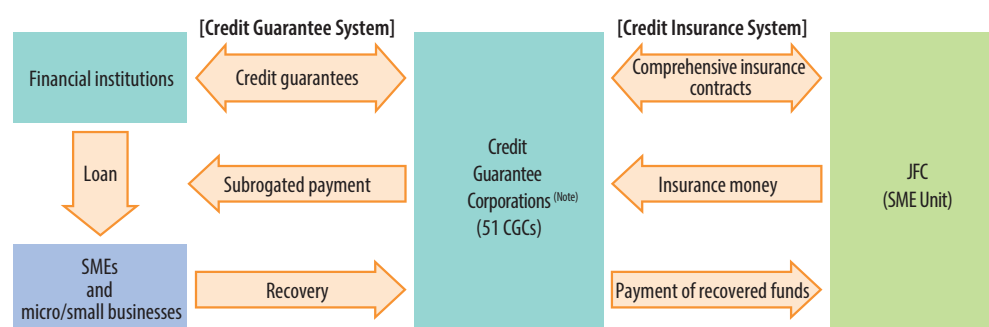
# Demonstrating Credit Supplementation Function

■ 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



Note: Credit Guarantee Corporations (CGCs)

Special public corporations established under the CGC Law. Numbering 51 across Japan, CGCs guarantee loans from financial institutions to SMEs, make subrogated payments against defaults by SMEs, and subsequently recover funds from the SMEs in question. They are supervised by central and local governments, and receive contributions/loans from local governments and financial assistance from financial institutions in the form of contributions.

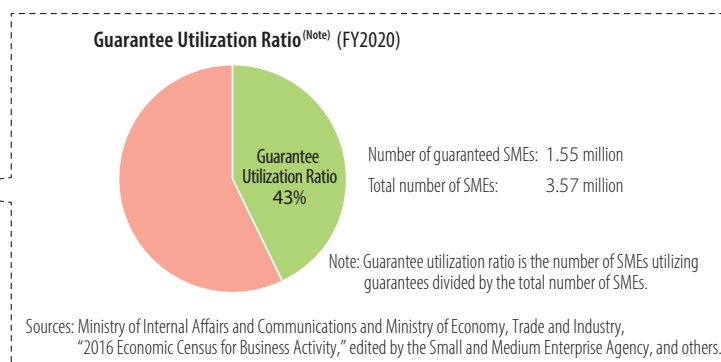
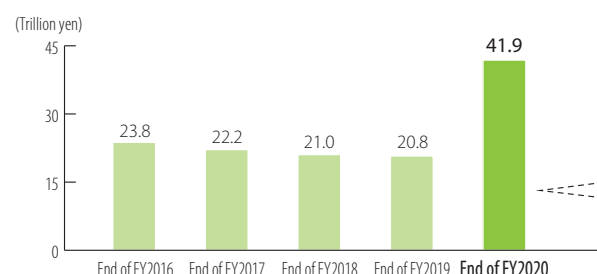
## 43% of SMEs Utilize the Credit Supplementation System

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



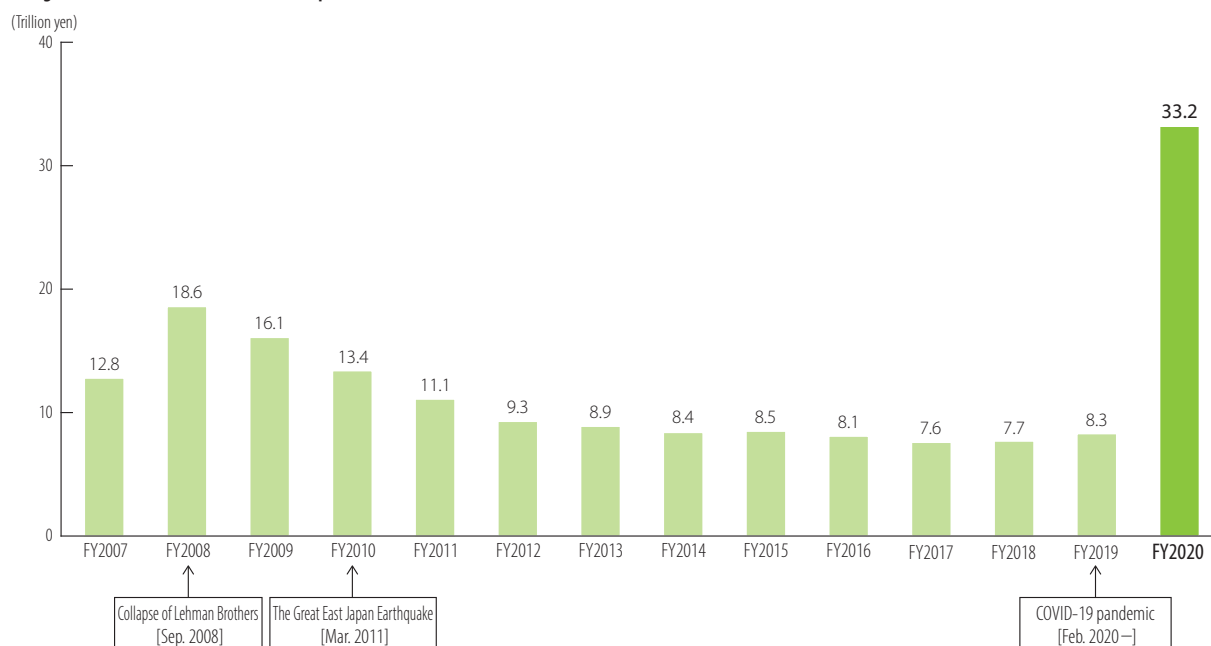
## ■ A powerful tool for promoting the government's economic policy

### Functioning as a Safety Net that Copes with Rapid Changes in the Environment

CGCs throughout Japan have implemented Safety-net Guarantees in light of recent economic and financial conditions. They have also implemented the Great East Japan Earthquake Recovery Emergency Guarantee Program based on the Special Financial Support Act for the Great East Japan Earthquake (Act No. 40 of 2011). By underwriting the insurance for these guarantees, the SME Unit helped in raising funds for SMEs and micro/small businesses that were facing difficulties in financing due to the negative impacts of the Great East Japan Earthquake, global financial market instability, and economic contraction.

In response to the COVID-19 pandemic in particular, we support the fund raising of SMEs and micro/small businesses by accepting insurance on Safety-net Guarantees and Crisis-related Guarantees.

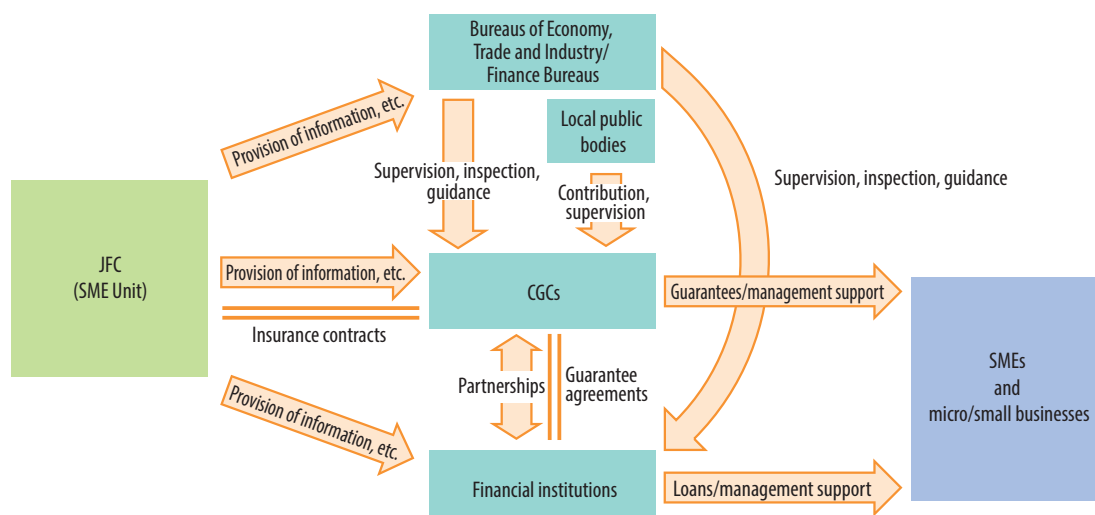
Changes in the Amounts of Insurance Acceptance



### Strengthening Partnerships with CGCs for a Sustainable Operational Basis of the Credit Supplementation System

The SME Unit promotes the sound operation of the system while building close relationships with other institutions such as CGCs and Bureaus of Economy, Trade and Industry, through measures such as the provision of information and the exchange of opinions.

Given the heightened risks of insurance underwriting, the SME Unit will continue to promote partnerships in support of efforts aimed at the operation of sustainable systems.

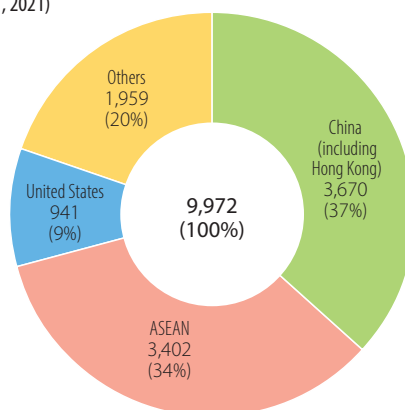


# Approach to Internationalization

## Support for Overseas Expansion Initiatives

Client companies of the SME Unit have 9,972 local subsidiaries actively engaged overseas, and the SME Unit provides Loans for Overseas Investment and Expansion and capital procurement support under our Standby Letter of Credit Program to support the overseas expansion of SMEs. The SME Unit established support structures at 30 sites nationwide that have many clients conducting business overseas by assigning Coordinators for the Promotion of Overseas Business Expansion.

Number of SME Unit's Clients Operating Overseas  
(as of March 31, 2021)



## Overseas Business Development Related Programs

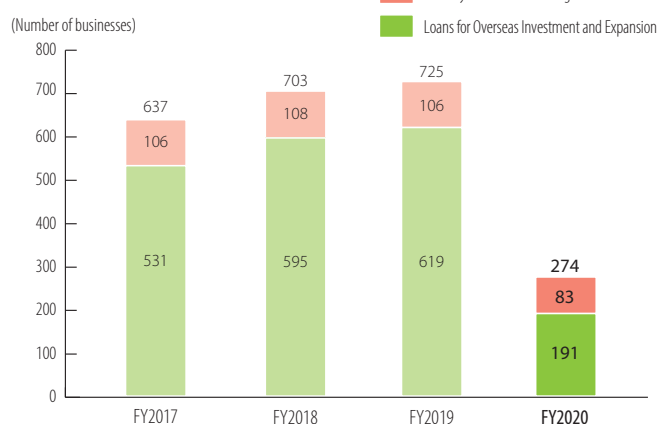
### ● Status of use of Loans for Overseas Investment and Expansion

In FY2020, the SME Unit provided Loans for Overseas Investment and Expansion to 191 SMEs with a total value of 18.1 billion yen. Among these loans, we provided a total of 11 cross-border loans (direct loans to overseas subsidiaries), which we began handling in January 2021, worth a total of 500 million yen.

### ● Status of use of Standby Letter of Credit Program

In FY2020, the Standby Letter of Credit Program was utilized by 83 businesses. Letters of Credit were issued to the affiliated financial institutions in Thailand, China, Republic of Korea, Indonesia, Viet Nam, Mexico, Singapore and Taiwan.

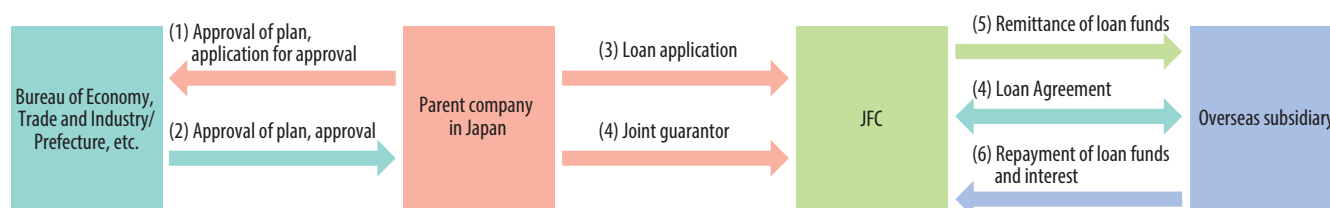
Changes in Overseas Business Development Related Programs



## Cross-Border Loans

The cross-border loans, which JFC began handling in January 2021, 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.

Cross-border Loan Schematic Chart

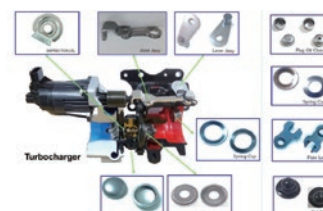


## Support for Business Expansion by a Company Establishing Business in Thailand Using a Cross-Border Loan

The Yokohama Branch SME Unit provided a cross-border loan to TECHNOS R&D (THAILAND) CO., LTD., the Thai subsidiary of Techno State Co., Ltd., a manufacturer of automotive pressed metal components.

TECHNOS R&D was established as a sales company in 2014 to supply parts to automakers and their suppliers and in 2018 it constructed a production plant as a manufacturing base for pressed metal components to be sold in China and Europe.

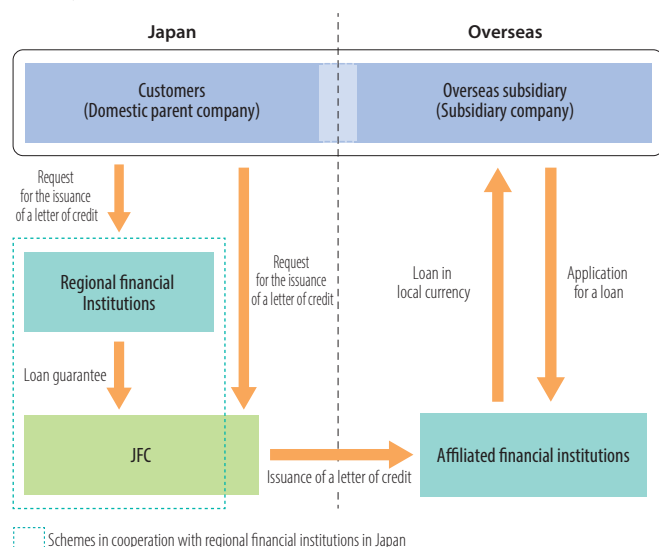
The SME Unit worked in collaboration with The Bank of Yokohama, Ltd., Techno State's main bank, to provide financing to the local subsidiary for use as operating funds for business expansion. It is expected to have the effect of streamlining the balance sheet of the parent company in Japan and making the subsidiary financially independent from the parent company.



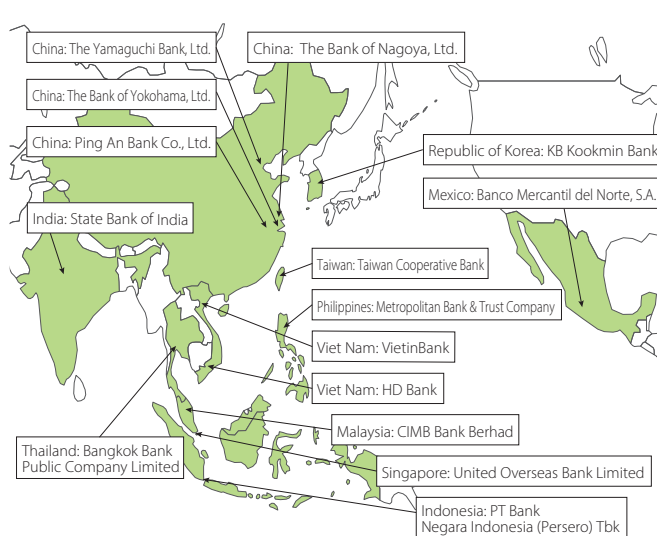
## Standby Letter of Credit Program

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.

Standby Letter of Credit Program Schematic Chart



JFC's Partnering Overseas Financial Institutions (as of March 31, 2021)



## Collaboration with regional financial institutions in Japan

In order to allow more SMEs to make use of the Standby Letter of Credit Program, the SME Unit established a scheme to partner with regional financial institutions throughout Japan in FY2013. This partnership scheme has the benefits of enabling SMEs to perform procedures with local financial institutions with which they do business on a regular basis and enabling local financial institutions to utilize JFC's overseas networks as system infrastructure.

As of March 31, 2021, JFC has business partnerships with 60 regional financial institutions in Japan, and since the start of the program, letters of credit were issued to a total of 46 businesses through this partnership scheme.

Partnering Regional Financial Institutions (Japanese alphabetical order as of March 31, 2021)

- |                               |                                 |                                   |                              |
|-------------------------------|---------------------------------|-----------------------------------|------------------------------|
| • The Aichi Bank, Ltd.        | • The Kyoto Chuo Shinkin Bank   | • The Chukyo Bank, Ltd.           | • The Fukui Bank, Ltd.       |
| • The Awa Bank, Ltd.          | • Kiraboshi Bank, Ltd.          | • Tsukuba Bank, Ltd.              | • Fukui Shinkin Bank         |
| • The Iyo Bank, Ltd.          | • Kuwanamie Shinkin Bank        | • Tono Shinkin Bank               | • The Bank of Fukuoka, Ltd.  |
| • The Ehime Bank, Ltd.        | • The Saikyo Bank, Ltd.         | • The Towa Bank, Ltd.             | • The Fukushima Bank, Ltd.   |
| • The Enshu Shinkin Bank      | • The Bank of Saga, Ltd.        | • The Tokushima Taisho Bank, Ltd. | • The Fuji Shinkin Bank      |
| • The Oita Bank, Ltd.         | • The Sanjo Shinkin Bank        | • The Tochigi Bank, Ltd.          | • Fujinomiya Shinkin Bank    |
| • Ogakiseino Shinkin Bank     | • Shizuoka Yaizu Shinkin Bank   | • The Tottori Bank, Ltd.          | • The Hekikai Shinkin Bank   |
| • The Osaka City Shinkin Bank | • Shimada Kakegawa Shinkin Bank | • Tomato Bank, Ltd.               | • The Mishima Shinkin Bank   |
| • Osaka Shinkin Bank          | • The Shimane Bank, Ltd.        | • Toyama Shinkin Bank             | • The Minato Bank, Ltd.      |
| • The Kagawa Bank, Ltd.       | • The Juhachi-Shinwa Bank, Ltd. | • The Nagano Bank, Ltd.           | • The Yamagata Bank, Ltd.    |
| • Kansai Mirai Bank, Ltd.     | • The Seishin Shinkin Bank      | • The Nagano-ken Shinkumi Bank    | • The Bank of Yokohama, Ltd. |
| • Kitaseueno Shinkin Bank     | • The Seto Shinkin Bank         | • The Nagano Shinkin Bank         | • The Yokohama Shinkin Bank  |
| • The Kita-Nippon Bank, Ltd.  | • The Taiko Bank, Ltd.          | • The Bank of Nagoya, Ltd.        |                              |
| • The Gifu Shinkin Bank       | • The Daisan Bank, Ltd.         | • Numazu Shinkin Bank             |                              |
| • The Kiyo Bank, Ltd.         | • Daishi Hokuetsu Bank, Ltd.    | • The Himeji Shinkin Bank         |                              |
| • The Kyoto Shinkin Bank      | • The Tajima Bank, Ltd.         | • The Hyakujushi Bank, Ltd.       |                              |

## Business Expansion in Thailand Supported through Standby Letter of Credit Program

Pronics Co., Ltd., a plastic molding die manufacturer that produces precision components and other products, established local subsidiaries in Thailand and Viet Nam to respond to overseas expansion of their customers by supplying high-quality products at low cost to its customers' local subsidiaries, and other local affiliates of Japanese companies, etc.

Their subsidiary in Thailand expanded its business from die manufacturing by introducing injection molding machines to go into plastic molding and processing business to diversify its product lineup.

The SME Unit worked with The Kyoto Shinkin Bank to issue a letter of credit to Bangkok Bank under the collaborative standby letter of credit partnership scheme to support their capital procurement in Thai baht.





## Holding of Seminars on Overseas Business Expansion in Japan

The SME Unit conducts overseas business development seminars to support overseas business development by SMEs at branches nationwide. The Unit collaborates with external institutions and private financial institutions to provide information on overseas development initiatives and conducts lectures on overseas situation and the investment environment.

### ● Utsunomiya Branch: Seminar on Trends of Companies Expanding Business in ASEAN

The Utsunomiya Branch conducted an online seminar in cooperation with JETRO Tochigi and the Tochigi Bank, Ltd. A staff from Representative office in Bangkok made a lecture on “Trends of companies expanding their business in ASEAN during the COVID-19 pandemic.” Through this online seminar, we were able to provide opportunities to the participants gaining latest local information even during the COVID-19 pandemic situation.



## Holding of Business Network Meetings Overseas, etc.

The SME Unit holds business networking meetings and business matching meetings targeting overseas subsidiaries of its clients serving as platforms to obtain support for addressing management issues and to build networks.

### ● The 13th Japan-Thai Business Matching Meeting

In January 2020, the SME Unit held its 13th Japan-Thai Business Matching Meeting in Bangkok, Thailand to expand business between JFC's clients' overseas subsidiaries and Thai local companies. Jointly hosted with the Japanese Chamber of Commerce, Bangkok and Thai Board of Investment (BOI), along with the cooperation of 76 Japanese financial institutions and leading local financial institutions, the event is one of Thailand's largest business matching meeting. Under the participation of 376 companies (271 Japanese companies and 105 Thai local companies), including the attendance of 44 large Japanese company's local subsidiaries potential buyers, over 1,900 business negotiations took place exceeding the level of the previous meeting which provided an opportunity for JFC's clients' overseas subsidiaries to develop their sales channel with Thai local companies and Japanese large companies.



### Examples of Support through the Japan-Thai Business Matching Meeting (Printing Company A: Support for Expanding Sales Channels)

Company A expanded its business into Thailand in response to the demand from its major client. However, at first, they were not able to receive as many orders as expected, and was forced to develop new sales channel to local Japanese retailers. Under such circumstances, JFC's representative office in Bangkok suggested to participate in the Japan-Thai Business Matching Meeting, and with the request from the company, arranged negotiation meetings with retailer and wholesales companies. As a result, the company succeeded in receiving new printing orders, and at the same time, started receiving orders from the initial client, and now their business is on track.

### ● Five Regional Financial Institutions-JFC Shanghai Joint Business Network Meeting

A Business Network Meeting jointly held with five regional financial institutions took place in Shanghai, China in January 2021, and the number of client participants from five regional financial institutions and JFC was 30. A lecture was held on “Cost Reduction through Automation of Manufacturing Processes,” and a plant tour was conducted at the same time in a major publicly-traded Japanese company with thorough measures against infection. The participants found the event meaningful and commented that through the lecture and factory tour, they were able to gain clues for improving their own facilities.



## Cooperation with Overseas Institutions

### ● Cooperation with ACSIC Member Institutions

The Asian Credit Supplementation Institution Confederation (ACSIC) comprises 17 institutions including the Korea Credit Guarantee Fund (KODIT), PT. Asuransi Kredit Indonesia (Askrindo) and Thai Credit Guarantee Corporation (TCG). As an ACSIC member, the SME Unit attends the annual conference and actively encourages mutual exchange with institutions engaged in implementing the Credit Supplementation System.



The 32nd ACSIC Conference (Sri Lanka)



# Demonstration of Policy-based Nature

## Exercise of Safety Net Functions

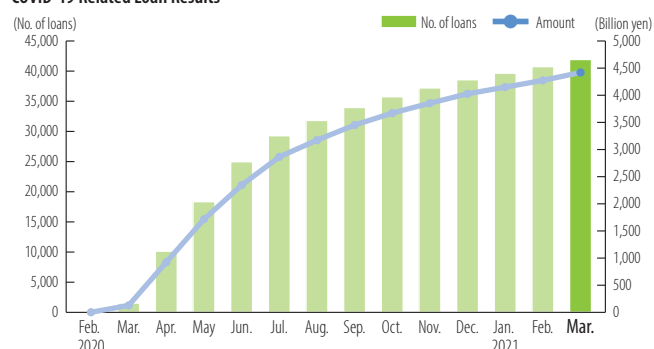
■ The SME Unit supports the financing of SMEs in response to changes in the management, financial, and other environments

### COVID-19 Related Loan Results

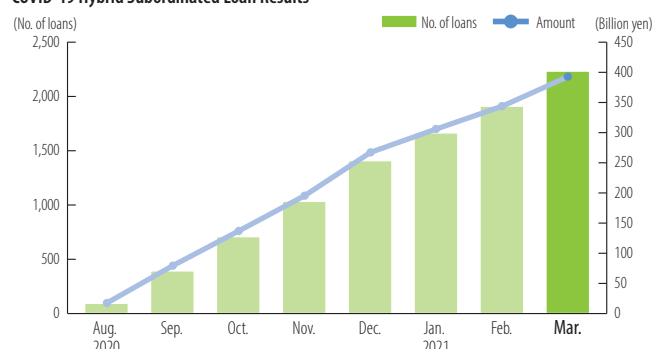
A total of 41,933 loans amounting to 4,418.7 billion yen have been disbursed to borrowers affected by COVID-19 through March 31, 2021. These figures are substantially higher than the number of business loans (19,521) and the financing amount (1,147.4 billion yen) in FY2019.

Of these loans, through March 31, 2021, the number of loan decisions for COVID-19 Hybrid Subordinated Loan Program was 2,234 with a total value of 392.6 billion yen.

COVID-19 Related Loan Results



COVID-19 Hybrid Subordinated Loan Results



### COVID-19 Special Loan Program <sup>(Note)</sup>

The COVID-19 Special Loan Program for SMEs was launched on March 17, 2020. This loan program provides support to businesses that have been temporarily adversely impacted by effects of the COVID-19 pandemic.

Eligibility	Maximum amount	Loan period (grace period)	Interest rate
Business that falls under both of the following due to effects from the COVID-19 pandemic. (1) Business whose sales revenues in the most recent month or other similar period or average sales in the past six months (including the most recent month) declined by 5% or more compared to the same period of any of the previous three years or experienced similar circumstances; and (2) There is a likelihood that business conditions will recover and the business will develop over the medium to long term.	Special quota of 600 million yen	Facility funds: maximum 20 years (up to 5 years) Operating funds: maximum 15 years (up to 5 years)	Standard rate However, the standard rate is reduced by 0.9% through the third year after loan disbursement for amounts up to 300 million yen; the standard rate applies from the fourth year.

Note: An overview of the program as of July 1, 2021.

### COVID-19 Hybrid Subordinated Loan Program <sup>(Note 1)</sup>

We launched the COVID-19 Hybrid Subordinated Loan Program, a loan program for SMEs, on August 3, 2020.

This loan program is intended to strengthen the financial structures of SMEs that plan to develop and continue business with the support of related organizations in an economic environment that is seriously affected by COVID-19. It is a loan program that provides capital funds to reinforce financial status.

Eligibility	Maximum amount	Loan period (grace period)	Interest rate												
SMEs affected by COVID-19. However, limited to those who fall under any of the followings: (1) Businesses selected for the J-Startup Program or that seek to expand their business by receiving investment from an investment limited partnership in which the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN invested; (2) Businesses that are performing business revitalization through participation in the Small and Medium Enterprises Revitalization Support Council or an investment limited liability partnership funded by the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN; (3) Business that do not fall under (1) or (2) above and have formulated a business plan and have built a support system such as receiving support from a private financial institution <sup>(Note 2)</sup> .	Special quota of 1,000 million yen	5 years and 1 month, 7 years, 10 years, 15 years, or 20 years (lump-sum repayment upon maturity)	The rate is 0.50% for the first three years after funds are disbursed. After the third year, the following two categories of interest rate apply depending in performance during the most recent settlement period. <table border="1"> <thead> <tr> <th>Amount of after-tax net income</th><th>Term of 5 years and 1 month, term of 7 years term of 10 years</th><th>Term of 15 years</th><th>Term of 20 years</th></tr> </thead> <tbody> <tr> <td>0 yen or more</td><td>2.60%</td><td>2.70%</td><td>2.95%</td></tr> <tr> <td>Less than 0 yen</td><td>0.50%</td><td>0.50%</td><td>0.50%</td></tr> </tbody> </table>	Amount of after-tax net income	Term of 5 years and 1 month, term of 7 years term of 10 years	Term of 15 years	Term of 20 years	0 yen or more	2.60%	2.70%	2.95%	Less than 0 yen	0.50%	0.50%	0.50%
Amount of after-tax net income	Term of 5 years and 1 month, term of 7 years term of 10 years	Term of 15 years	Term of 20 years												
0 yen or more	2.60%	2.70%	2.95%												
Less than 0 yen	0.50%	0.50%	0.50%												

Notes: 1. An overview of the program as of July 1, 2021.

2. If the applicant does not wish to receive collaborative support from private financial institutions or other such organization, the applicant must create a business plan with the support of an approved management innovation support organization.

# Support for Initiatives for Business Revitalization

■ The SME Unit actively supports initiatives for the business revitalization of SMEs, utilizing Capital Subordinated Loans and other facilities

## Financing of Corporate Revitalization Loans

The SME Unit is actively engaged in providing special Corporate Revitalization Loans to support SMEs with their business revitalization and management reconstruction and initiatives.

Corporate Revitalization Loans

Fiscal year	FY2018	FY2019	FY2020
No. of businesses	1,658	2,260	348
Amount (billion yen)	151.9	203.3	49.0

Capital Subordinated Loans (revitalization-type)

Fiscal year	FY2018	FY2019	FY2020
No. of businesses	488	461	63
Amount (billion yen)	33.2	33.0	5.1

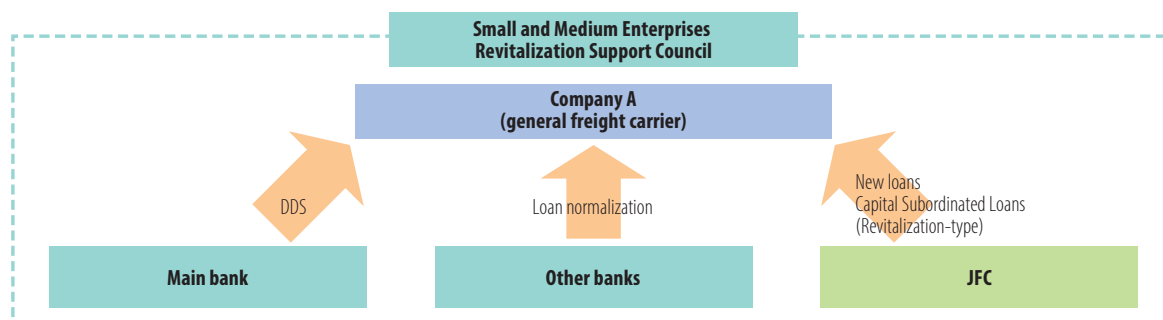
## Cooperation with Public Revitalization Support Institutions

By the end of December 2020, Small and Medium Enterprises Revitalization Support Councils had provided revitalization planning support to 15,448 businesses nationwide. The SME Unit participated in the provision of support to over 20% (3,969 businesses) of these businesses (cumulative total as of December 31, 2020).

No. of revitalization planning support cases completed by Small and Medium Enterprises Revitalization Support Council (cumulative total)	No. of cases where the SME Unit of JFC participated in the provision of support (cumulative total)
15,448 businesses	3,969 (25.7%)

Note: As of December 31, 2020

### Implementation of New Loan (Capital Subordinated Loan: Revitalization-type) in Cooperation with Public Revitalization Support Institutions and Private Financial Institutions



The SME Unit applied the Capital Subordinated Loans (revitalization-type) and provided loans to the company A that received revitalization planning support from the Small and Medium Enterprises Revitalization Support Council.

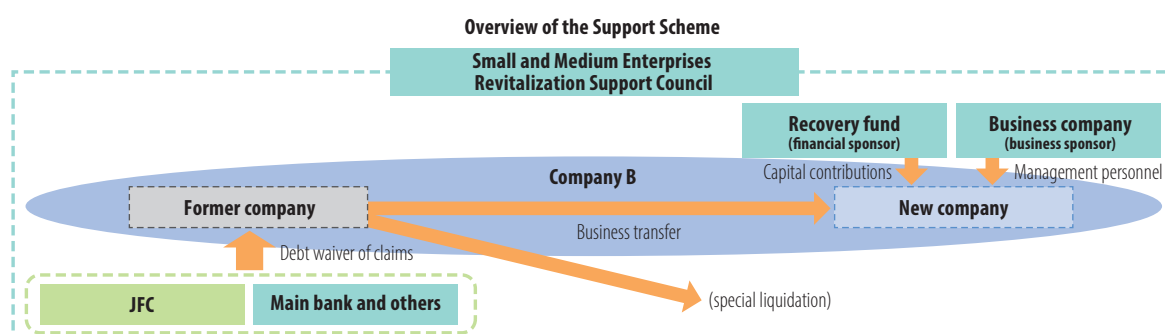
For this project, the SME Unit extended new financing in the form of Capital Subordinated Loan as necessary fund for implementation of revitalization plans to a reorganizing company that had no business with the SME Unit in the past, at the time when main bank supported drastic revitalization of the company with DDS, and other banks normalized the loan condition with new finance. By providing the Capital Subordinated Loan, the company reinforced its financial foundations and stabilized cash flows, leading to its recovery.

The SME Unit of JFC will continue to actively support the business revitalization of SMEs.

### Business Recovery Support Provided in Collaboration with Sponsors and Others through Secondary Company Method

With the participation of the Small and Medium Enterprises Revitalization Support Council, the SME Unit provided business revitalization support to the company B (automobile part manufacturer) in conjunction with an effective debt waiver of claims using a second company method.

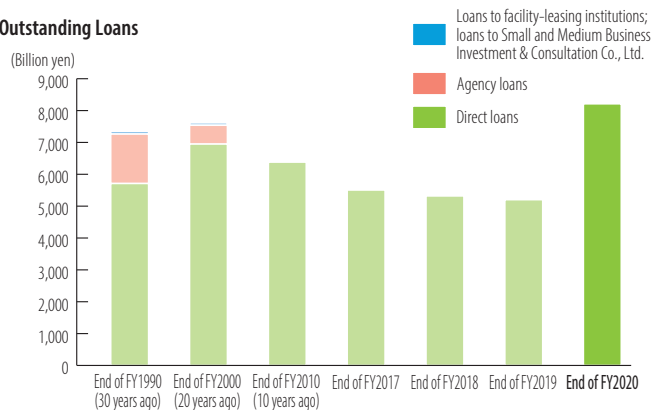
For this project, the company's main bank and JFC established the recovery scheme by sounding out financial sponsors (recovery funds) regarding capital contribution to the company and actively participating in the screening of business sponsor candidates, leading to the formulation of a comprehensive revitalization plan.



# State of the SME Unit's Operations

## State of Loan Programs

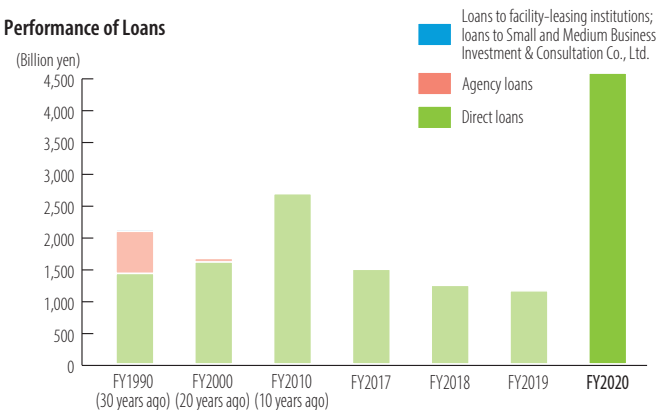
### Outstanding Loans



	End of FY1990 (30 years ago)	End of FY2000 (20 years ago)	End of FY2010 (10 years ago)	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Direct loans	5,712.6	6,950.8	6,383.4	5,507.1	5,321.5	5,203.7	8,214.5
Agency loans	1,552.4	590.8	44.9	6.2	4.9	4.1	3.4
Loans to facility-leasing institutions; loans to Small and Medium Business Investment & Consultation Co., Ltd.	89.0	77.5	8.4	0.8	0.4	0.2	0.0

Note: From FY2001, the outstanding amount of direct loans includes the balance of corporate bonds purchased

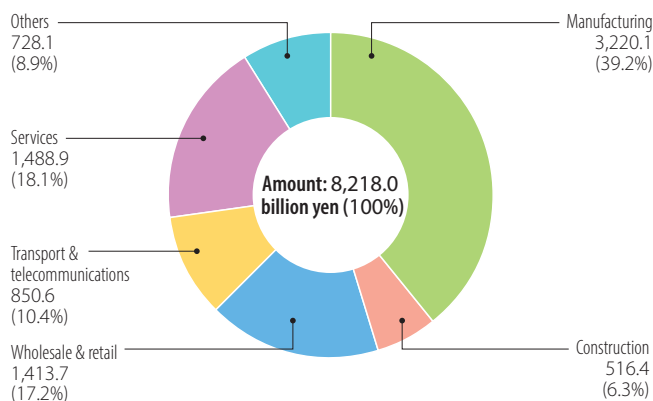
### Performance of Loans



	FY1990 (30 years ago)	FY2000 (20 years ago)	FY2010 (10 years ago)	FY2017	FY2018	FY2019	FY2020
Direct loans	1,419.6	1,598.5	2,672.0	1,485.0	1,233.1	1,147.4	4,564.8
Agency loans	661.7	57.6	0.3	0.0	0.0	0.0	0.0
Loans to facility-leasing institutions; loans to Small and Medium Business Investment & Consultation Co., Ltd.	28.2	13.2	1.9	0.0	0.0	0.0	0.0

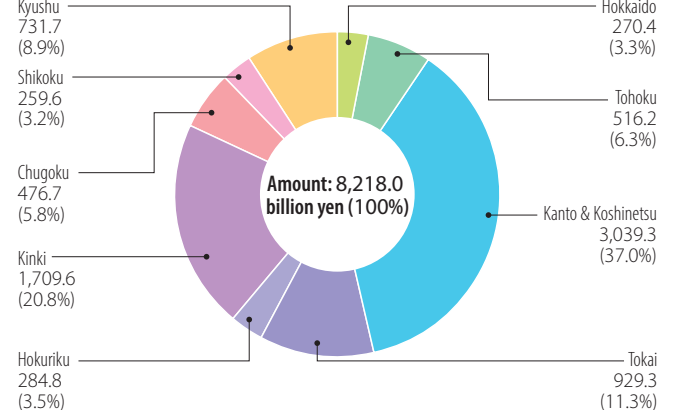
Note: From FY2001, the outstanding amount of direct loans includes the balance of corporate bonds underwritten

### Outstanding Loans by Industry (FY2020 year-end) (Billion yen)



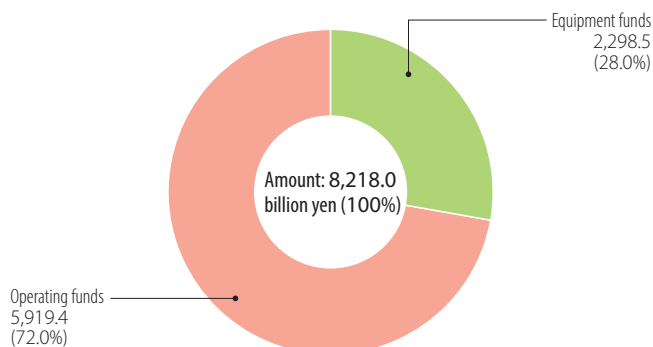
(Outstanding loans include corporate bonds. Breakdowns are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.)

### Outstanding Loans by Region (FY2020 year-end) (Billion yen)



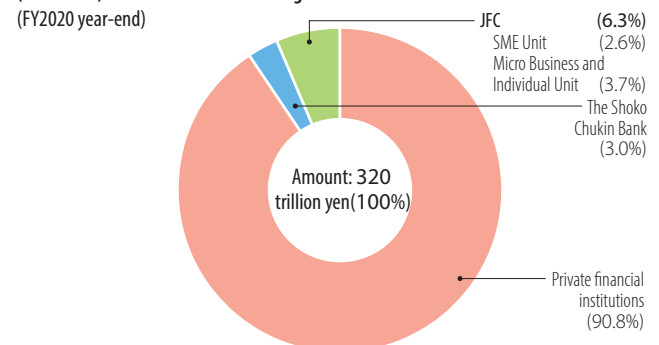
(Outstanding loans include corporate bonds. Breakdowns are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.)

### Breakdown of Loans by Facility and Operating Funds (FY2020 year-end) (Billion yen)



(Outstanding loans include corporate bonds. Breakdowns are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.)

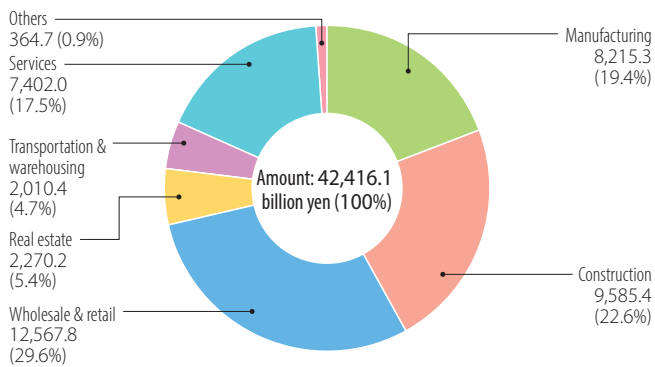
### (Reference) JFC's Share of Outstanding Loans to SMEs (FY2020 year-end)



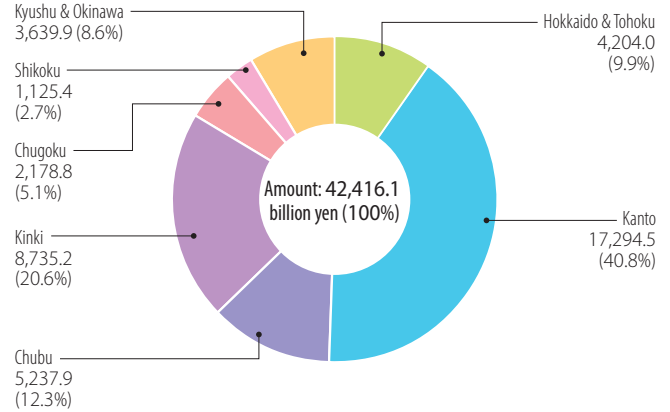
Notes: 1. The SME Unit's outstanding loans are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.  
2. The figure for the Micro Business and Individual Unit's outstanding loans is the total of General Loans and Environmental Health Business Loans.  
3. The Shoko Chukin Bank's outstanding loans do not include loans related to offshore accounts and credit cooperative agency loans.  
4. The amount of outstanding loans by private financial institutions is the total of loans by city banks, trust banks, regional banks, regional banks II, shinkin banks, and credit cooperatives.  
Source: Bank of Japan, "Deposits, Vault Cash, and Loans and Bills Discounted," etc.

## State of Credit Insurance Programs (Small Business Credit Insurance)

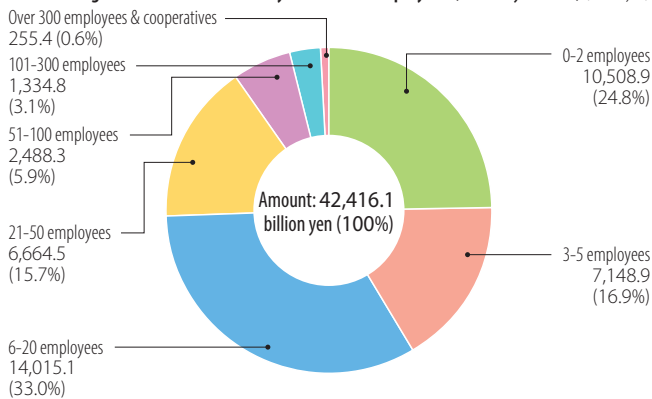
Outstanding Amounts of Insurance by Industry (FY2020 year-end) (Billion yen)



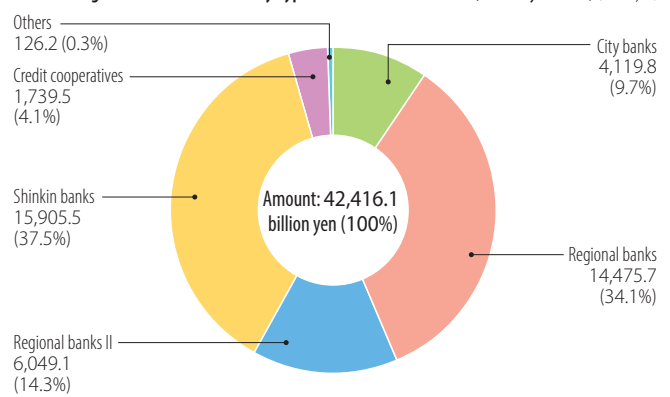
Outstanding Amounts of Insurance by Region (FY2020 year-end) (Billion yen)



Outstanding Amounts of Insurance by Number of Employees (FY2020 year-end) (Billion yen)

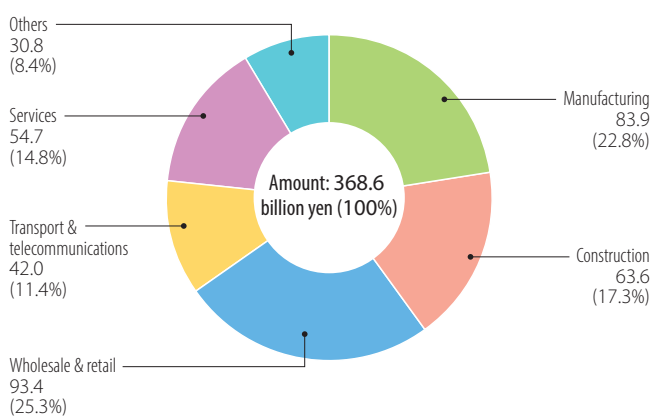


Outstanding Amounts of Insurance by Type of Financial Institution (FY2020 year-end) (Billion yen)

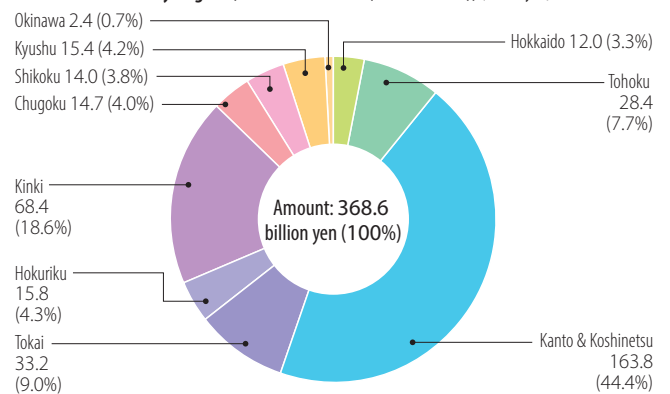


## State of Securitization Support Programs (Purchase-type and Guarantee-type)

Provision of Funds by Industry (cumulative results (FY2004-2020)) (Billion yen)



Provision of Funds by Region (cumulative results (FY2004-2020)) (Billion yen)



# Offices

## Head Office

Otemachi Financial City North Tower,  
1-9-4 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan

**Number of Branch Offices: 152**

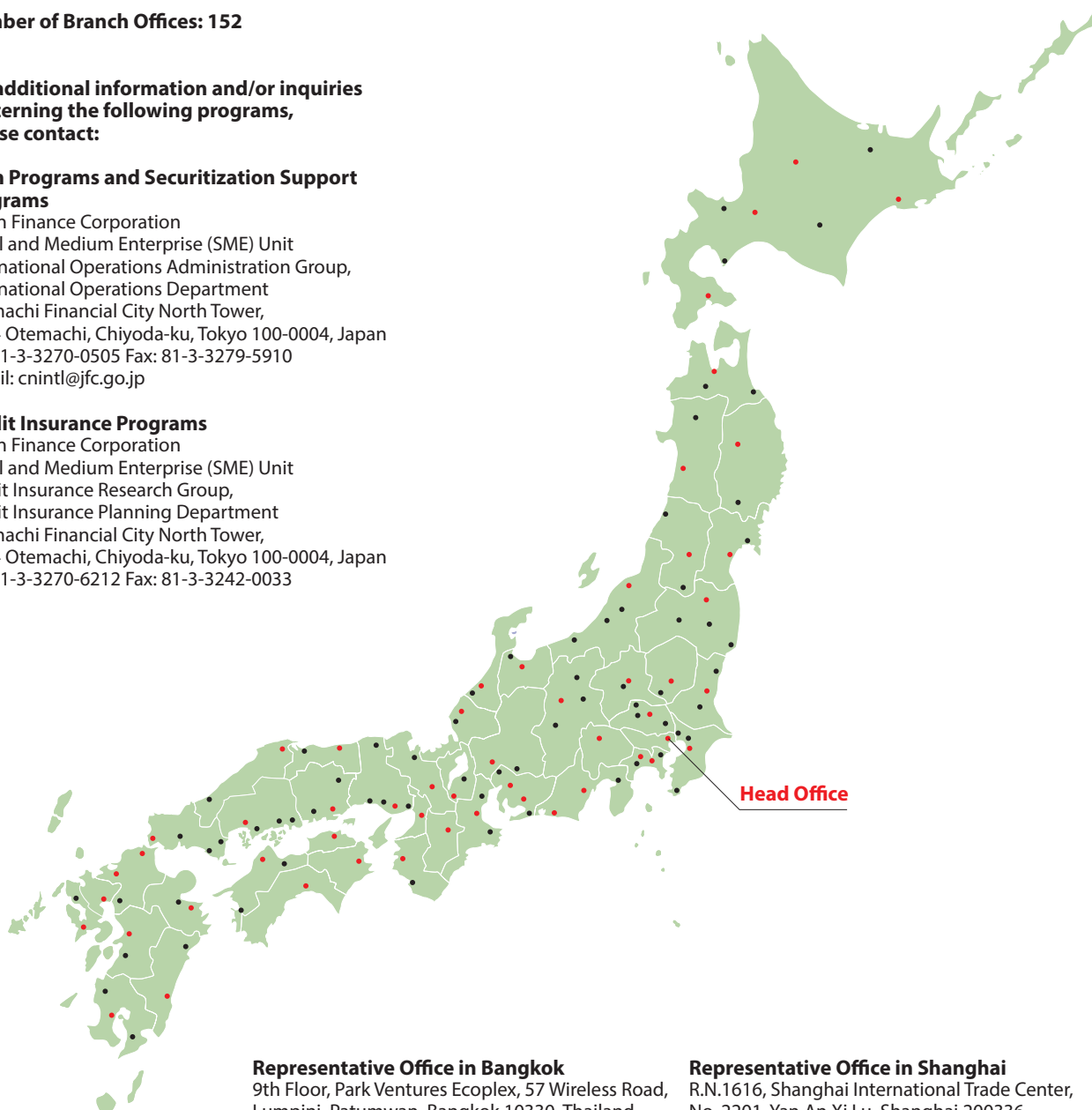
**For additional information and/or inquiries concerning the following programs, please contact:**

## Loan Programs and Securitization Support Programs

Japan Finance Corporation  
Small and Medium Enterprise (SME) Unit  
International Operations Administration Group,  
International Operations Department  
Otemachi Financial City North Tower,  
1-9-4 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan  
Tel: 81-3-3270-0505 Fax: 81-3-3279-5910  
E-mail: [cnintl@jfc.go.jp](mailto:cnintl@jfc.go.jp)

## Credit Insurance Programs

Japan Finance Corporation  
Small and Medium Enterprise (SME) Unit  
Credit Insurance Research Group,  
Credit Insurance Planning Department  
Otemachi Financial City North Tower,  
1-9-4 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan  
Tel: 81-3-3270-6212 Fax: 81-3-3242-0033



## Representative Office in Bangkok

9th Floor, Park Ventures Ecoplex, 57 Wireless Road,  
Lumpini, Patumwan, Bangkok 10330, Thailand  
Tel: 66-2-252-5496 Fax: 66-2-252-9991

## Representative Office in Shanghai

R.N.1616, Shanghai International Trade Center,  
No. 2201, Yan An Xi Lu, Shanghai 200336  
People's Republic of China  
Tel: 86-21-6275-8908 Fax: 86-21-6275-8909



\* Red dots indicate JFC branches that have specialist SME Unit staff assigned to them (as of September, 2021).

