



Japan Finance Corporation
Guide to the Operations of
the Small and Medium Enterprise (SME) Unit

2023

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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, loans 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.

Through our Loan Programs, we provided approximately 60,000 loans worth 6 trillion yen in COVID-19-related loans by the end of FY2022. In addition, we also provided approximately 7,000 loans worth 1 trillion yen under the COVID-19 Hybrid Subordinated Loan Program, which provides capital funds to strengthen the financial structure, and have worked to ensure smooth fundraising by SMEs in collaboration with private financial institutions. Furthermore, we promoted application of the SME Revitalization Package, which was established to support SME business improvement, to contribute to their revitalization and turnaround.

Seeing signs of recovery from COVID-19, we actively supplied funds for growth fields, etc. as shown below, to support SMEs facing challenges, and provide solutions for their business issues.

As a support for new businesses and start-ups, we began offering the Start-up Loan Program from February 2023 in response to government policy that set FY2022 as the initial year of startup creation. The program offers a broader range of eligibility and a higher loan ceiling to contribute to the further growth of startups as drivers of innovation. We also held new events that provided business meetings for both start-ups and SMEs to support growth as well as satisfy their financial needs, and invited start-ups to events organized by private financial institutions and local governments to raise awareness of the startups.

Promoting overseas business expansion, we provided support meticulously to meet the funding needs of SMEs by utilizing Cross-Border Loans, which are direct loans to overseas subsidiaries, the Standby Letter of Credit Program, and Loans in Foreign Currencies. To support SME business activities, we established the Overseas Business Support Package in cooperation with the Organization for Small & Medium Enterprises and Regional Innovation, Japan and Nippon Export and Investment Insurance, facilitated business matching and provided a range of other support for overseas business expansion as well as organizing business meetings in Thailand and China to support the enhancement of overseas sales for their major businesses. We are also planning to open a representative office in Vietnam in FY2023 to enhance the readiness to support our customers' business expansion in Asia.

For SMEs working on business revitalization, we have provided support that enables SMEs suffering from increasing debts to establish management improvement plans utilizing the Guidelines for Business Revitalization, etc. of SMEs, and provide support for the creation of management improvement plans. To ensure the smooth business succession of SMEs, we further promoted the use of the Business Succession Checkup and promoted the Supply Chain Business Succession Initiative, which was developed to arouse awareness of the importance of smooth business succession, not only in-house, but throughout their supply chains.

As a result of these efforts, loans to SMEs totaled 1.3 trillion yen in FY2022, and the outstanding loan amount as of the fiscal year-end was 8.3 trillion yen.

Through our Credit Insurance Programs, to facilitate the smooth flow of funds to cope with COVID-19 and rises in prices,



we offered financial support to SMEs facing harsh business environments by appropriately accepting insurance on Safety-net Guarantees, and more. To reduce the burden of repayment on SMEs due to the end of the deferment period of loans with virtually no interest and no collateral by private financial institutions, we have provided financing support by accepting insurance on COVID-19 Refinancing Guarantees since January 2023. Furthermore, in close cooperation with 51 Credit Guarantee Corporations in Japan, we worked on providing information contributing to the reinforcement of support for business establishment, management, and revitalization for those Credit Guarantee Corporations as well as understanding the financial movements associated with SMEs.

Due to these efforts, insurance acceptance for credit guarantees in FY2022 totaled 7.7 trillion yen, and the total underwriting balance was 40 trillion yen.

We continue providing financial support for SMEs in accordance with government policy through the provision of prompt and detailed responses to the need of a safety net for SMEs suffering from an unpredictable business environment due to prolonged COVID-19 impacts and price hikes, as well as the provision of active support for the SMEs making their best effort to expand business in growth fields, etc. preparing for the post-COVID world in cooperation with private financial institutions, and the promotion of digital transformation and digitalization to improve customer services and business efficiency.

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 the Japanese economy to achieve further development, it is essential for SMEs to become more active, as they generate regional employment and added value in their local communities.

Going forward, we will continue to fulfill our functions as a policy financial institution in line with the government's SME policy, while complementing private financial institutions.

YONEDA Kenzo

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, 2023)

- 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: 11,696.1 billion yen
Reserve fund: 5,309.0 billion yen
- Branch Offices: Branch Offices in Japan: 152
Overseas representative offices: 2
- Employees: 7,436 (budgetary fixed number for FY2023)
- Outstanding Loans: 28,097.0 billion yen
Micro Business and Individual Unit: 12,156.3 billion yen
Agriculture, Forestry, Fisheries and Food Business Unit: 3,670.8 billion yen
Small and Medium Enterprise (SME) Unit (Finance Operations): 8,365.7 billion yen
Operations to Facilitate Crisis Responses: 3,808.8 billion yen
Operations to Facilitate Specific Businesses Promotion, etc.: 95.2 billion yen
- Outstanding Amounts of Insurance: Small and Medium Enterprise (SME) Unit (Credit Insurance Programs): 40,671.3 billion yen

Basic Philosophy

● Focused Policy-based Financing

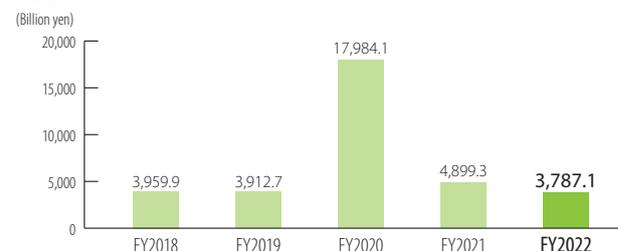
Following the national policy, provide flexible policy-based financing by utilizing a variety of financing programs and schemes to meet the needs of society, while complementing the activities of private financial institutions.

● Mainstreaming Governance

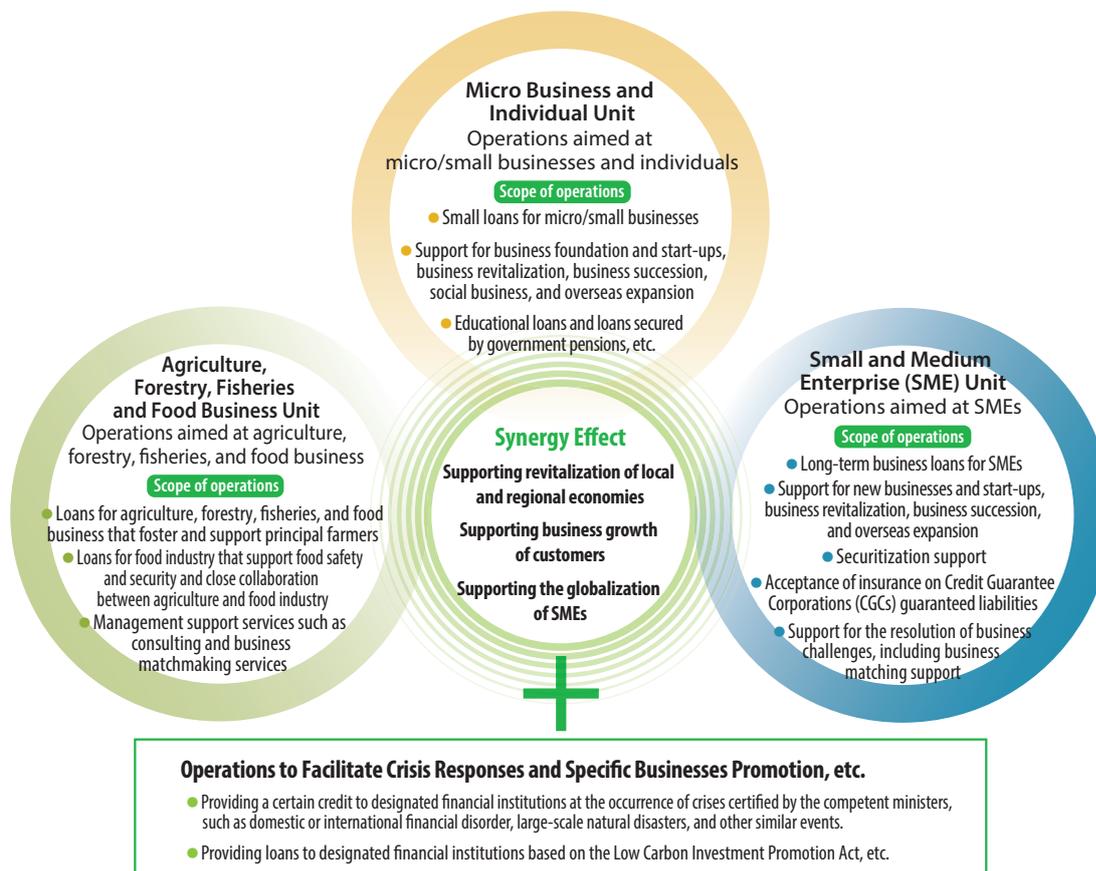
Strive to conduct highly transparent and efficient business operations based on a high level of corporate governance and hold itself accountable to the public.

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

Total Loans Provided



Major Business Operations of JFC



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 ^(Note)

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 FY2022

▶ Loan Programs

| | |
|--|---------------------|
| Loans | 1,355.1 billion yen |
| Direct loans | 1,355.1 billion yen |
| Agency loans | - yen |
| Loans to Small and Medium Business Investment & Consultation Co., Ltd. | - yen |
| Outstanding loans | 8,365.7 billion yen |
| Direct loans | 8,363.1 billion yen |
| Agency loans | 2.5 billion yen |
| Loans to facility-leasing institutions, loans to Small and Medium Business Investment & Consultation Co., Ltd. | - yen |

▶ Securitization Support Programs

| | |
|--|------------------|
| Financing support amount | |
| Purchase-type | 41.0 billion yen |
| Financing support balance | |
| Purchase-type | 84.8 billion yen |
| Outstanding holdings such as asset backed securities | |
| Purchase-type | 23.1 billion yen |
| Outstanding guaranteed liabilities such as asset backed securities | |
| Purchase-type | 23.2 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 ^(Note)

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 FY2022

▶ Credit Insurance Programs

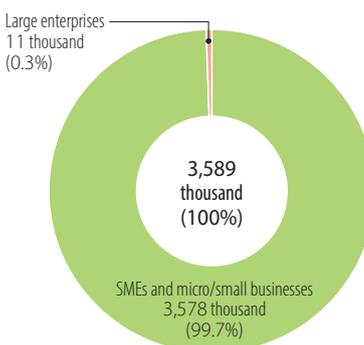
| | |
|---|----------------------|
| Amounts of insurance acceptance and loans | |
| Small Business Credit Insurance | 7,762.0 billion yen |
| No record of loans to CGCs and | |
| Special Insurance for Mid-size Enterprises | |
| Outstanding amounts of insurance and loans | |
| Small Business Credit Insurance | 40,671.3 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

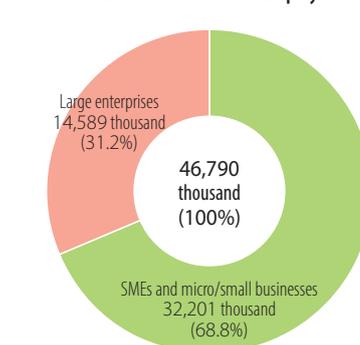
SMEs and micro/small businesses account for 99% of all businesses and approximately 70% of the total workforce in Japan. These figures attest to the fact that SMEs and micro/small businesses are the very source of Japanese economic vitality and the primary force underpinning regional economies.

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



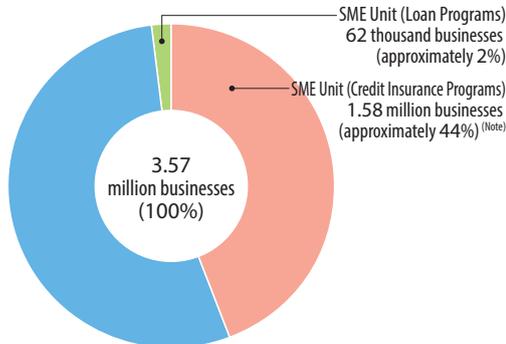
Sources: Small and Medium Enterprise Agency, "2023 White Paper on Small and Medium Enterprises in Japan"
 Note: Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry, "2016 Economic Census for Business Activity," edited by the Small and Medium Enterprise Agency.

SME Unit's Clients

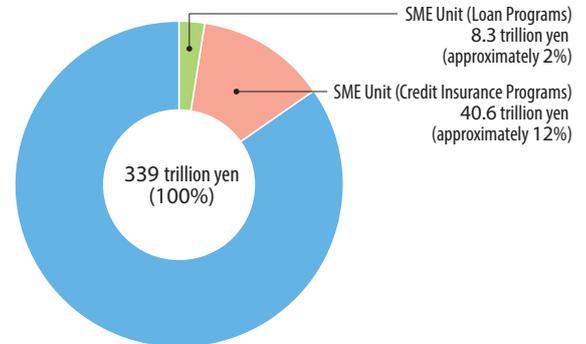
SMEs and micro/small businesses account for 99% of all businesses in Japan, and are both the source of Japanese economic vitality as well as the primary force underpinning regional economies. The size and conditions of each SME and micro/small business differ, such as companies that sustain the regional 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: Small and Medium Enterprise Agency, "2023 White Paper on Small and Medium Enterprises in Japan"
Note: 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.

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

The SME Unit facilitates funds to 1.64 million SMEs and micro/small businesses (approximately 46%) and accounts for approximately 14% of outstanding loans to SMEs and micro/small businesses.

Characteristics of SME Unit's Clients

Loan Programs (Direct Loans)

- Number of businesses 62 thousand businesses
Average loan for FY2022
Average loan amount per business 100 million yen
Average term of loan 9 years and 11 months
Average amount of capital per business 40 million yen
Average number of employees per business 74
- Approximately 79% 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 FY2022)

Credit Insurance Programs

- Number of businesses 1.58 million businesses (Note)
Average insurance for FY2022
Average amount of insurance acceptance per business 19 million yen
Average term of insurance 5 years and 10 months
Average number of employees per business 7
 - Approximately 75% of outstanding amounts of insurance are insurance to businesses with 20 employees or less, and approximately 72% have capital of 10 million yen or less.
 - Covers a wide range of industries
- Note: Number of businesses utilizing the Credit Guarantee System.

Note: Results are current as of March 31, 2023.

The SME Unit also helps to maintain employment, with the number of employees at the 62 thousand businesses receiving support (direct loans) rising to approximately 3.84 million persons (as of March 31, 2023).

Outstanding Loans by Type of Industry (Loan Programs) (as of the end of FY2022)



Outstanding Amounts of Insurance by Type of Industry (Credit Insurance Programs) (as of the end of FY2022)



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 function.



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

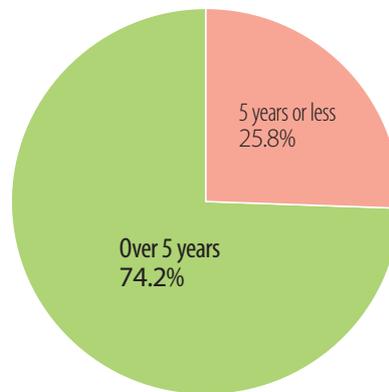
If SMEs are to grow and prosper, they must continually invest capital appropriately and consolidate their financial strength. To do this, they need to be able to raise long-term funds in a stable manner.

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) (FY2022)



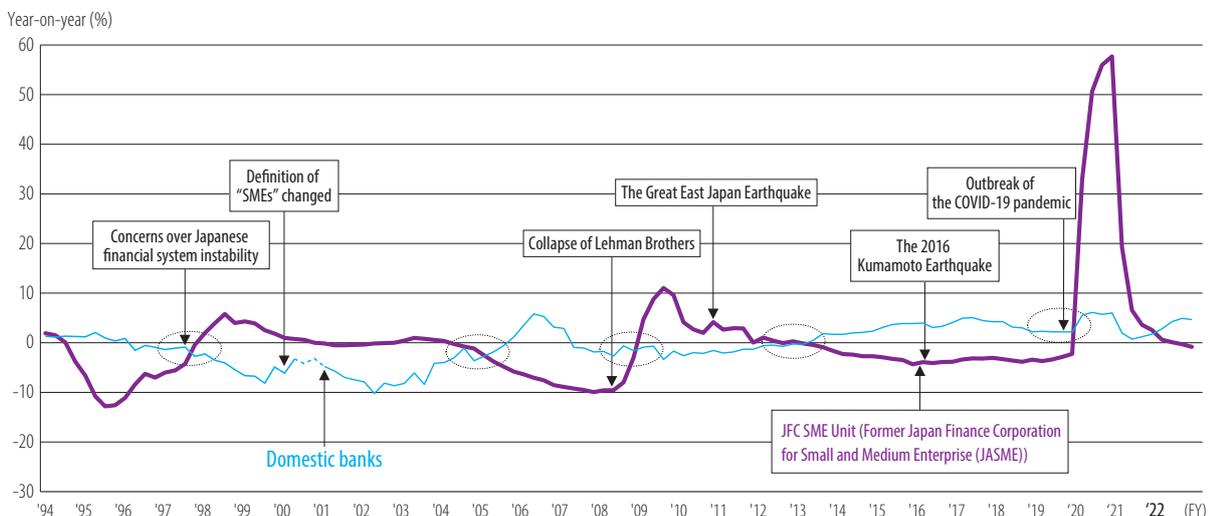
Note: Data are for fixed interest rate loans only.

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

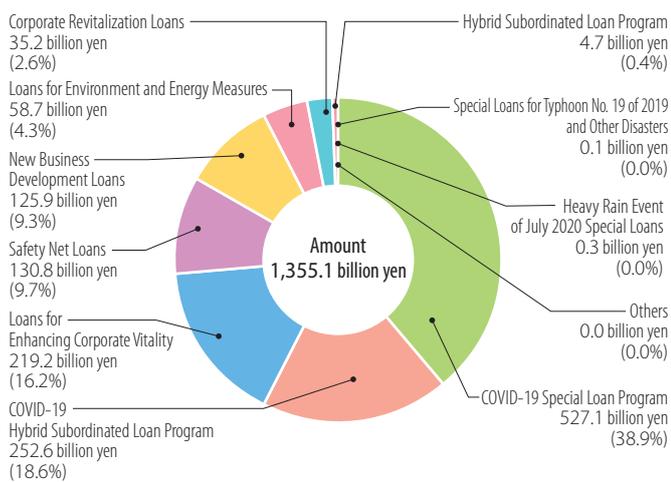
Promoting policy-based special-purpose loans in response to demands of the times

Promoting Policy-based Special-purpose Loans

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

During FY2022, the SME unit took concerted steps to fully exercise its safety function and made every effort to support SMEs, which were affected by the situation in Ukraine and the sharp rise in oil prices, etc. and continued to experience increasingly difficult cash flow conditions brought on by the deteriorating operating environment due to the impact of the COVID-19 pandemic.

Breakdown of Loans (FY2022)



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 (Note) — |
|--|---|
| 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 April 1, 2023.

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.

Roles and Characteristics of the SME Unit

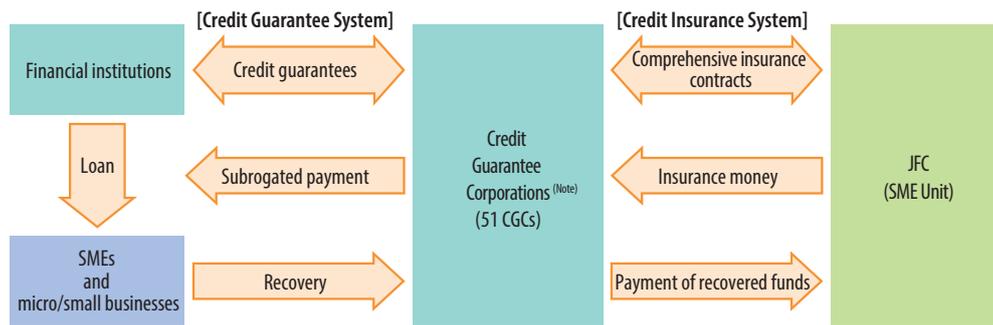
Demonstrating Credit Supplementation Function

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^(Note) 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.

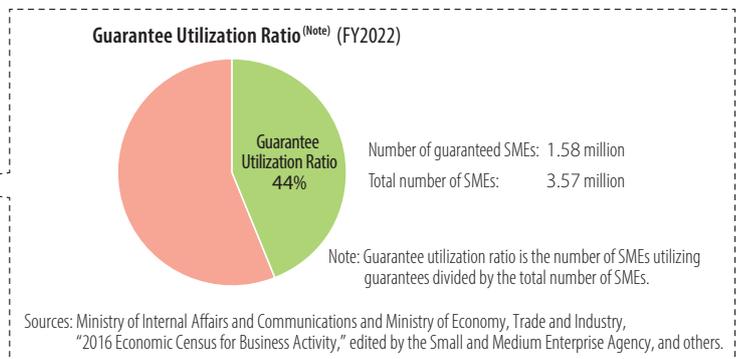
44% of SMEs Utilize the Credit Supplementation System

As of March 31, 2023, the portion of outstanding loans to SMEs guaranteed by CGCs (outstanding guaranteed liabilities) amounted to 40 trillion yen, accounting for 12% of all loans to SMEs.

Moreover, 1.58 million SMEs and micro/small businesses, accounting for 44% 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



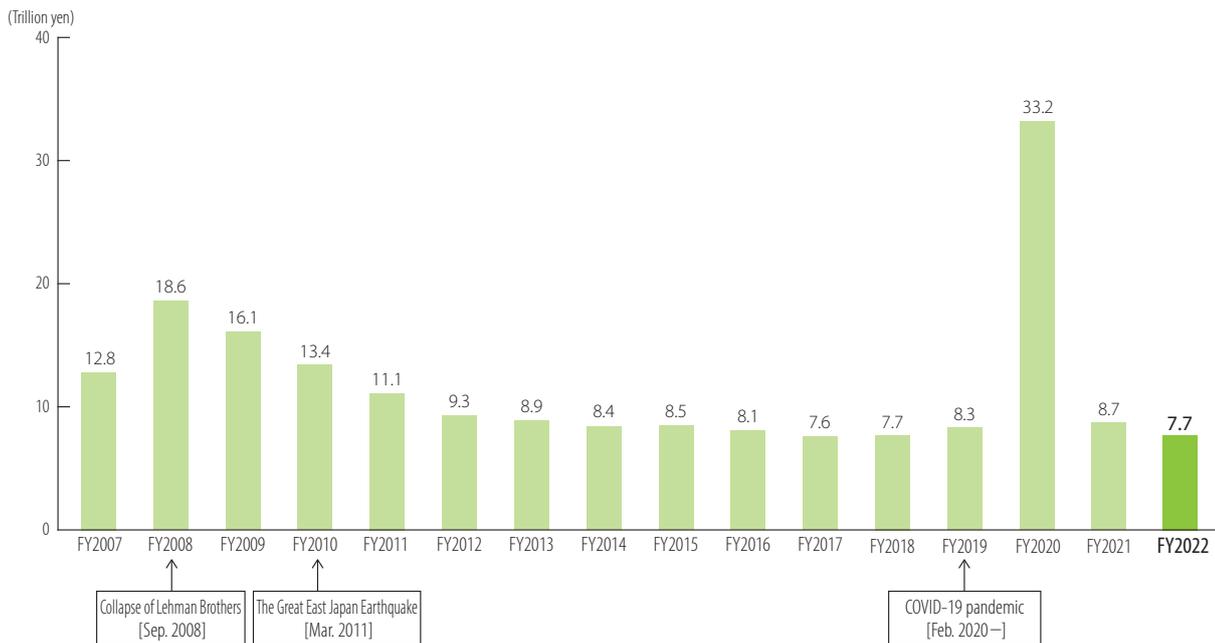
A powerful tool for promoting the government's economic policy

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

The SME Unit helped in raising funds for SMEs and micro/small businesses that were facing difficulties in financing due to changes in the business environment caused by natural disasters, the outbreak of an infectious disease, and economic conditions, etc. by underwriting insurance for Safety-net Guarantees and the Great East Japan Earthquake Recovery Emergency Guarantee Program provided by CGCs throughout Japan.

In response to the COVID-19 pandemic and price hikes, in particular, we support the fund raising of SMEs and micro/small businesses by accepting insurance on Safety-net Guarantee Program and Supportive Assistance-Type Special Guarantee Program, etc.

Changes in the Amounts of Insurance Acceptance

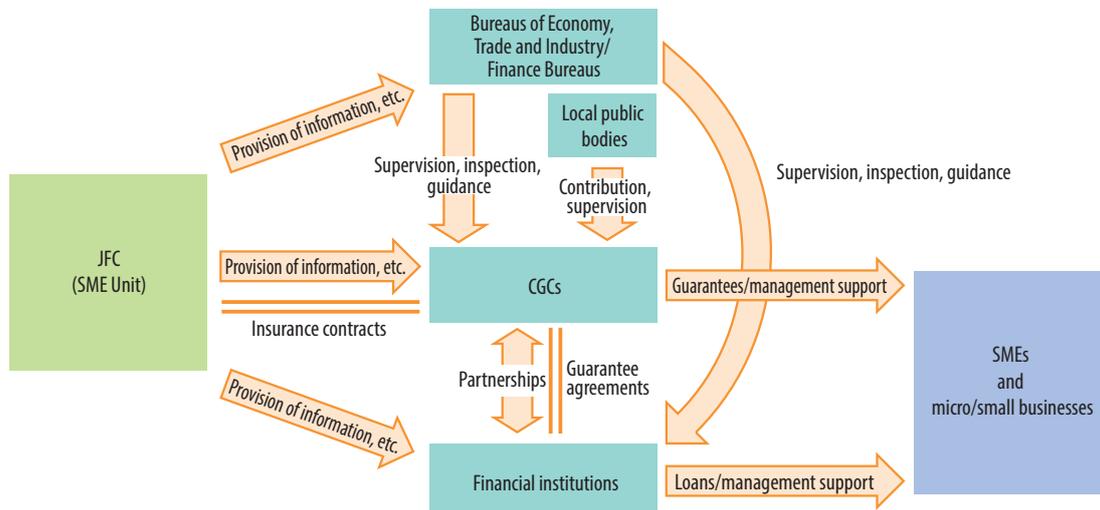


Roles and Characteristics of the SME Unit

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.

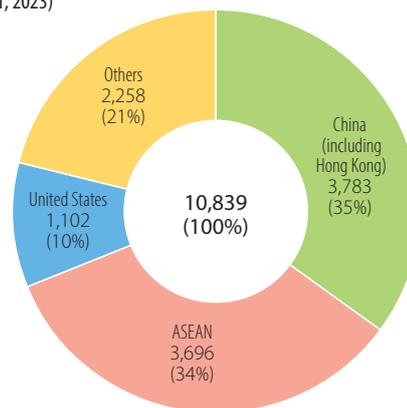


Approach to Internationalization

Support for Overseas Expansion Initiatives

Client companies of the SME Unit have 10,839 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 36 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, 2023)



Overseas Business Development Related Programs

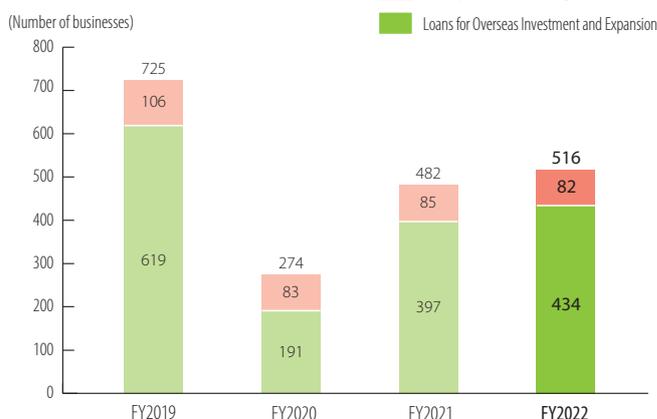
● Status of use of Loans for Overseas Investment and Expansion

In FY2022, the SME Unit provided Loans for Overseas Investment and Expansion to 434 SMEs with a total value of 40.5 billion yen. Among these loans, we provided a total of 94 cross-border loans (direct loans to overseas subsidiaries), worth a total of 7.6 billion yen.

● Status of use of Standby Letter of Credit Program

In FY2022, the Standby Letter of Credit Program was utilized by 82 businesses. Letters of Credit were issued to the affiliated financial institutions in Thailand, China, Republic of Korea, Indonesia, Vietnam, Mexico, Singapore, Malaysia, and Taiwan.

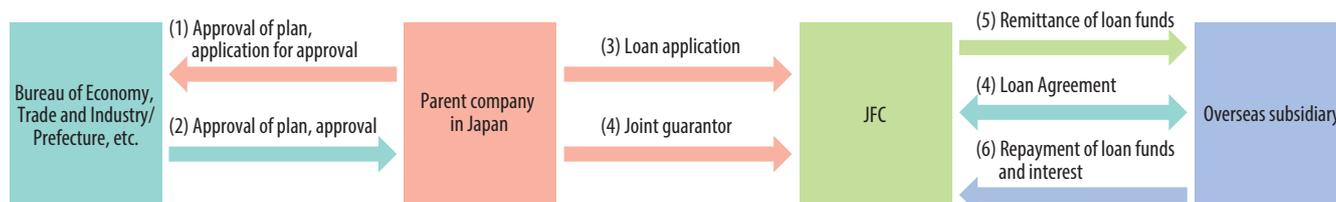
Changes in Overseas Business Development Related Programs



Cross-Border Loans

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, Vietnam, Hong Kong, Singapore, and the Philippines.

Cross-border Loan Schematic Chart



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

The Abeno Branch SME Unit provided a cross-border loan to Soltec Vietnam Company, a Vietnamese subsidiary of Soltec Industries Co., Ltd., which is involved in fabricating and installing various plant facilities.

Founded in 2010, the company has steadily expanded its business through its ability to provide integrated services from design to manufacturing and installation, along with thorough quality control and on-time delivery in accordance with Japanese quality standards in Vietnam, leading to the acquisition of major local customers and the fabrication of plant equipment for the Japanese market.

The SME Unit worked in collaboration with its main bank, The Nanto Bank, Ltd., to provide a cooperative loan to the local subsidiary for use as operating funds for business expansion.

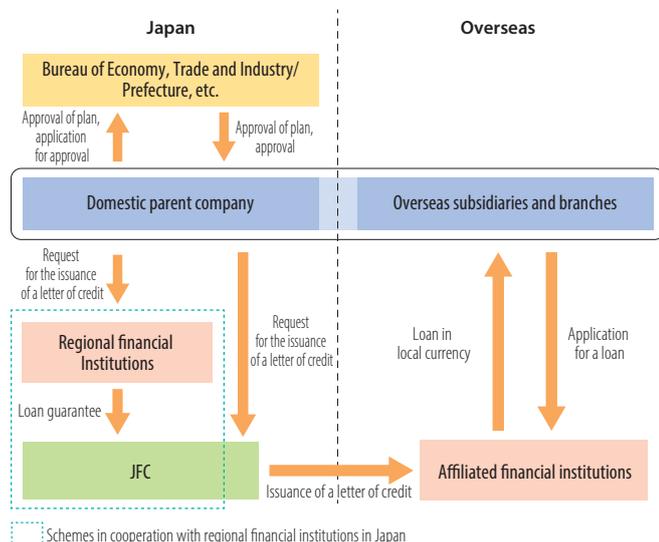
Furthermore, the introduction of cross-border loans is expected to have the effect of streamlining the balance sheet of the parent company in Japan and stabilizing the cash flow of the local subsidiary through the procurement of long-term, stable funds.



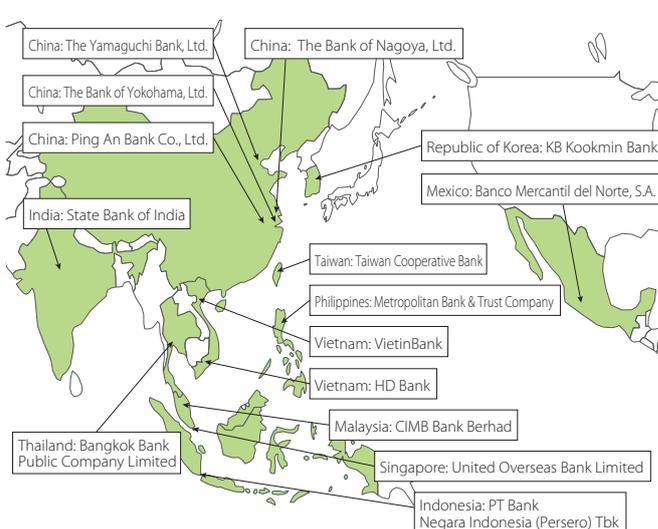
Standby Letter of Credit Program

The Standby Letter of Credit Program supports SMEs and micro/small businesses' overseas subsidiaries and branches working with their domestic parent companies (SMEs and others) to improve management capabilities, implement management innovations, and revitalize local economies. This program facilitates 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, 2023, 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, 2023)



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, 2023, JFC has business partnerships with 61 regional financial institutions in Japan, and since the start of the program, letters of credit were issued to a total of 58 businesses through this partnership scheme.

Partnering Regional Financial Institutions (Japanese alphabetical order as of March 31, 2023)

- | | | | |
|-------------------------------|---------------------------------|-----------------------------------|------------------------------|
| • The Aichi Bank, Ltd. | • The Kyoto Shinkin Bank | • The Tajima Bank, Ltd. | • The Hyakujushi Bank, Ltd. |
| • The Akita 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. | • San ju San Bank, Ltd. | • The Tochigi Bank, Ltd. | • Fujinomiya Shinkin Bank |
| • Ogakiseino Shinkin Bank | • The Sanjo Shinkin Bank | • The Tottori Bank, Ltd. | • The Hekikai Shinkin Bank |
| • The Osaka City Shinkin Bank | • Shizuoka Yaizu Shinkin Bank | • Tomato Bank, Ltd. | • The Mishima Shinkin Bank |
| • Osaka Shinkin Bank | • Shimada Kakegawa Shinkin Bank | • Toyama Shinkin Bank | • The Minato Bank, Ltd. |
| • The Kagawa Bank, Ltd. | • The Shimane Bank, Ltd. | • The Nagano Bank, Ltd. | • The Yamagata Bank, Ltd. |
| • Kansai Mirai Bank, Ltd. | • The Juhachi-Shinwa Bank, Ltd. | • The Nagano-ken Shinkumi Bank | • The Bank of Yokohama, Ltd. |
| • Kitaiseueno Shinkin Bank | • The Seishin Shinkin Bank | • The Nagano Shinkin Bank | • The Yokohama Shinkin Bank |
| • The Kita-Nippon Bank, Ltd. | • The Seto Shinkin Bank | • The Bank of Nagoya, Ltd. | |
| • The Gifu Shinkin Bank | • The Taiko Bank, Ltd. | • Numazu Shinkin Bank | |
| • The Kiyo Bank, Ltd. | • Daishi Hokuetsu Bank, Ltd. | • The Himeji Shinkin Bank | |

Business Expansion in Thailand Supported through Standby Letter of Credit Program

Pronics Co., Ltd. engages in the plastic processing of precision parts, among others. In response to the overseas expansion of its major clients, it has established local subsidiaries in Thailand and Vietnam to supply low-cost, high-quality products to local Japanese companies, including their local subsidiaries.

The Thailand subsidiary has expanded its business to plastic processing operations by introducing an injection molding machine in addition to its existing mold manufacturing operations, thereby diversifying its product lineup.

The SME Unit collaborated with The Kyoto Shinkin Bank to issue a letter of credit to Bangkok Bank Public Company Limited, under the Standby Letter of Credit Program to assist the Thailand subsidiary in procuring funds in Thai Baht.



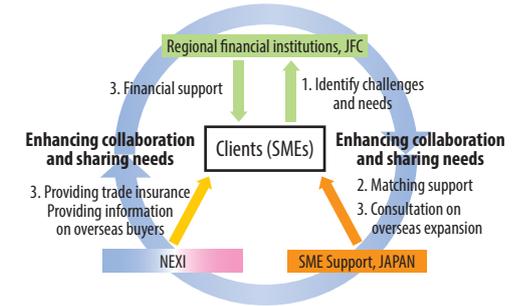
Overseas Business Support Package

In December 2022, to provide seamless support to SMEs seeking to develop and expand overseas sales channels, the “Overseas Business Support Package” was established with Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (SME Support, JAPAN) and Nippon Export and Investment Insurance (NEXI).

For SMEs facing challenges related to overseas expansion, three institutions are collaborating to provide support for enhancing overseas sales through business matching and other means, as well as financial support.

In addition, initiatives to have regional financial institutions participate in this scheme are being promoted to support the overseas expansion of more SMEs in each region.

Diagram of the Overseas Business Support Package



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 14th Japan-Thai Business Matching Meeting

In May 2022, the SME Unit held its 14th 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), and the Japan External Trade Organization (JETRO), along with the cooperation of 45 Japanese financial institutions and leading local financial institutions, the event was one of the largest business matching meetings in Thailand participated by 264 companies (216 Japanese companies and 48 local Thai companies). The event, which was held for the first time in more than two years after the COVID-19 pandemic, attracted nearly 1,300 business negotiations, providing valuable face-to-face opportunities 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 (Thai Wako Paper Co., Ltd.: Support for Expanding Sales Channels)

Thai Wako Paper Co., Ltd. manufactures and sells paper towels for manufacturing sites and non-woven cleaning cloths for use in restaurants and offices, among others, in Thailand. However, due to the decrease in orders caused by the COVID-19 pandemic, the company urgently required new business partners. Under such circumstances, JFC's representative office in Bangkok suggested participating in the Japan-Thai Business Matching Meeting and arranged several negotiation meetings, including one with a trading company headquartered outside of Thailand. As a result, the company succeeded in receiving new orders and developed sales channels in other ASEAN countries.

● The China Business Matching Event (online)

In December 2022, we co-hosted the China Business Matching Event (online) with 13 regional financial institutions, etc. over four days, targeting local corporations throughout China for the first time. A total of 117 companies, including local subsidiaries of both JFC's clients and major Japanese companies in a wide range of fields, such as industrial and food sectors (37 buyers and 80 suppliers), participated, and 164 different business meetings were held. Participants gave us positive feedbacks, such as “It was a great opportunity to have business meetings with buyers we would not normally have contact with, as it is difficult to conduct new sales activities due to the COVID-19 pandemic.” It was a very satisfactory business meeting.



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.

In November 2022, the ACSIC conference was held in Daegu, Republic of Korea by Korea Credit Guarantee Fund, on the topic of “How to Enhance SME Financing for Resilient and Sustainable Growth.”



The 34th ACSIC Conference (Republic of Korea)

Demonstration of Policy-based Nature

Exercise of Safety Net Functions

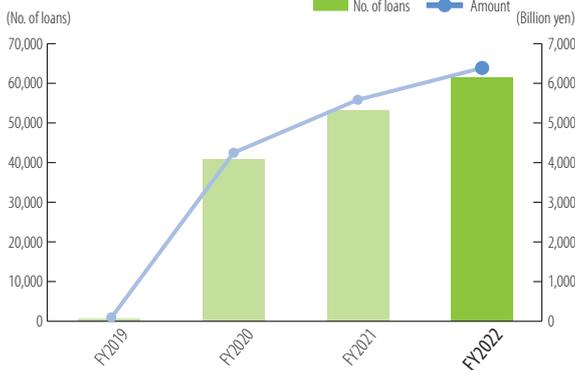
■ The SME Unit supports the financing of SMEs in response to changes in the management, financial, and other environments

COVID-19 Related Loan Results

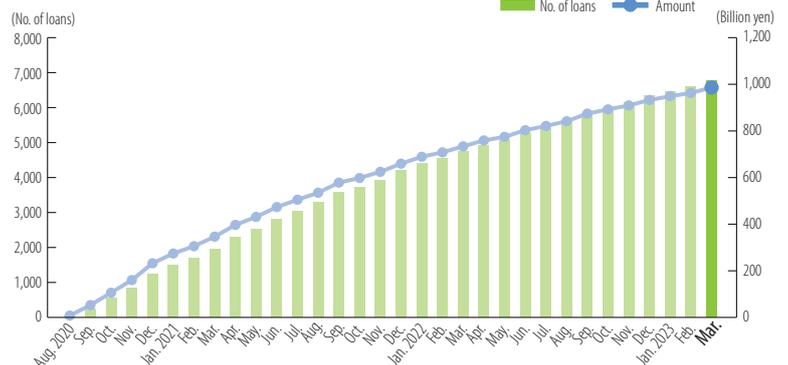
A total of 61,441 loans amounting to 6,386.7 billion yen have been disbursed to borrowers affected by COVID-19 through March 31, 2023.

Of these loans, through March 31, 2023, the number of loans for COVID-19 Hybrid Subordinated Loan Program was 6,787 with a total value of 986.2 billion yen.

COVID-19 Related Loan Results



COVID-19 Hybrid Subordinated Loan Results



COVID-19 Special Loan Program ^(Note)

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 the effects of the COVID-19 pandemic.

| Eligibility | Maximum amount | Loan period (grace period) | Interest rate |
|---|-----------------|---|--|
| Business that falls under either of the following (1) or (2) and also under (3) due to the effects of the COVID-19 pandemic. (1) Business whose sales revenues in the most recent month 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 five years or experienced similar circumstances. (2) There is a heavy debt burden. (3) There is a likelihood that business conditions will recover and the business will develop over the medium to long term. | 600 million yen | Facility funds: maximum 20 years (up to 5 years) Operating funds: maximum 20 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 400 million yen; the standard rate applies from the fourth year. |

Note: An overview of the program as of April 1, 2023

COVID-19 Hybrid Subordinated Loan Program ^(Note 1)

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 Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (SME Support, JAPAN) invested; (2) Businesses that are performing business revitalization through participation in the Small and Medium Enterprises Revitalization Council (including former Small and Medium Enterprises Revitalization Support Council) or an investment limited liability partnership funded by Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (SME Support, JAPAN); (3) Businesses 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 ^(Note 2) . | 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 April 1, 2023.

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 support agencies for business innovation.

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 | FY2020 | FY2021 | FY2022 |
|----------------------|--------|--------|--------|
| No. of businesses | 348 | 195 | 349 |
| Amount (billion yen) | 49.0 | 28.0 | 38.0 |

Capital Subordinated Loans (revitalization-type)

| Fiscal year | FY2020 | FY2021 | FY2022 |
|----------------------|--------|--------|--------|
| No. of businesses | 63 | 17 | 21 |
| Amount (billion yen) | 5.1 | 2.2 | 2.8 |

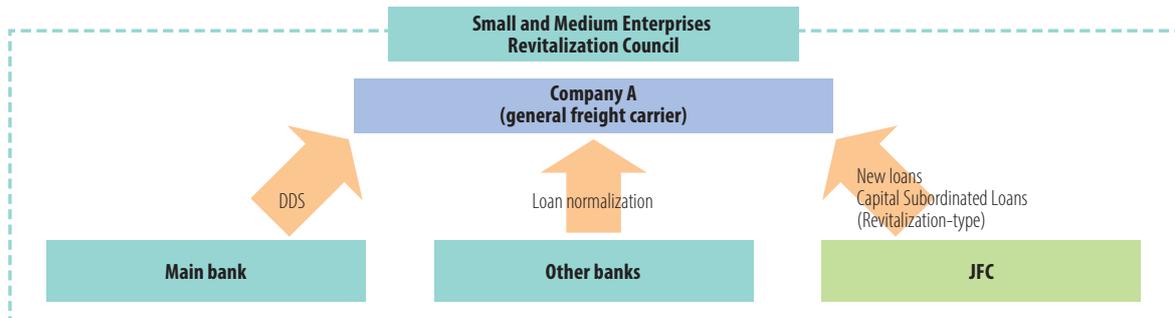
Cooperation with Public Revitalization Support Institutions

By the end of December 2022, Small and Medium Enterprises Revitalization Councils had provided revitalization planning support to 22,764 businesses nationwide. The SME Unit participated in the provision of support to over 20% (5,628 businesses) of these businesses (cumulative total as of December 31, 2022).

| No. of revitalization planning support cases completed by Small and Medium Enterprises Revitalization Council (cumulative total) | No. of cases where the SME Unit of JFC participated in the provision of support (cumulative total) FY2022 |
|--|---|
| 22,764 businesses | 5,628 (24.7%) |

Note: As of December 31, 2022

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 Council.

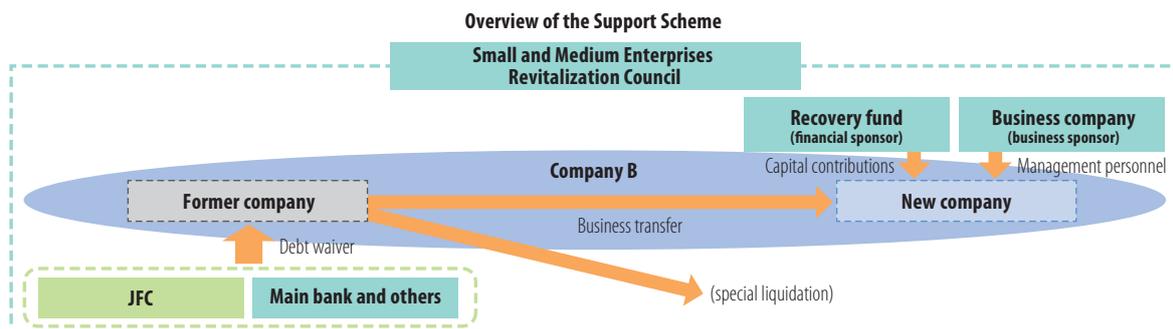
For this project, the SME Unit extended new financing in the form of Capital Subordinated Loan as necessary fund for implementation of revitalization plans to a reorganizing company that had no business with the SME Unit in the past, at the time when main bank supported drastic revitalization of the 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 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.

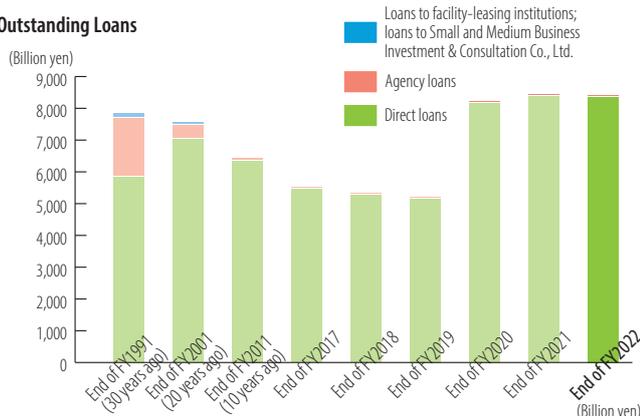
For this project, the company's main bank and JFC established the recovery scheme by sounding out financial sponsors (recovery funds) regarding capital contribution to the company and actively participating in the screening of business sponsor candidates, leading to the formulation of a comprehensive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



State of the SME Unit's Operations

State of Loan Programs

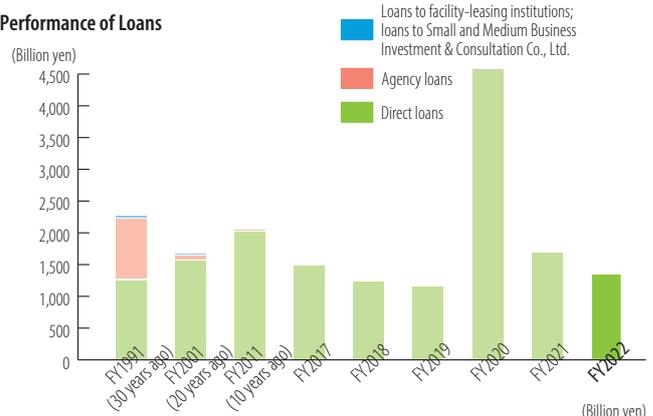
Outstanding Loans



| | End of FY1991 (30 years ago) | End of FY2001 (20 years ago) | End of FY2011 (10 years ago) | End of FY2017 | End of FY2018 | End of FY2019 | End of FY2020 | End of FY2021 | End of FY2022 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Direct loans | 5,868.1 | 7,054.8 | 6,399.9 | 5,507.1 | 5,321.5 | 5,203.7 | 8,214.5 | 8,429.6 | 8,363.1 |
| Agency loans | 1,886.9 | 454.7 | 32.3 | 6.2 | 4.9 | 4.1 | 3.4 | 3.0 | 2.5 |
| Loans to facility-leasing institutions; loans to Small and Medium Business Investment & Consultation Co., Ltd. | 94.3 | 61.6 | 7.4 | 0.8 | 0.4 | 0.2 | 0.0 | 0.0 | 0.0 |

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

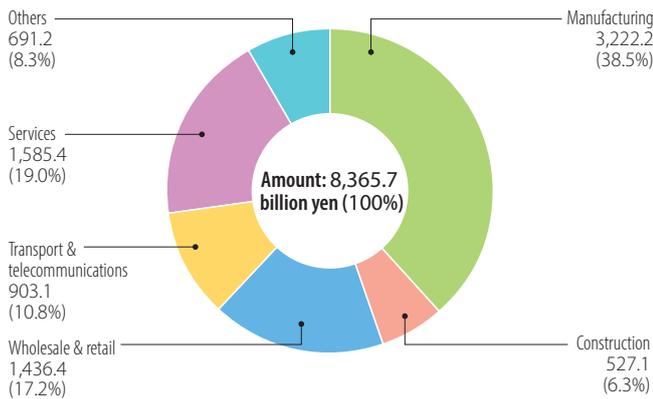
Performance of Loans



| | FY1991 (30 years ago) | FY2001 (20 years ago) | FY2011 (10 years ago) | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 |
|--|--------------------------|--------------------------|--------------------------|---------|---------|---------|---------|---------|---------|
| Direct loans | 1,285.3 | 1,616.1 | 2,044.9 | 1,485.0 | 1,233.1 | 1,147.4 | 4,564.8 | 1,687.3 | 1,355.1 |
| Agency loans | 949.2 | 47.6 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans to facility-leasing institutions; loans to Small and Medium Business Investment & Consultation Co., Ltd. | 30.5 | 6.8 | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

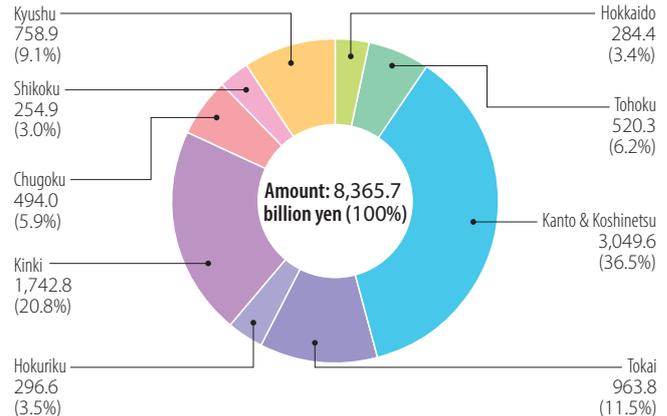
Note: From FY2001, the outstanding amount of direct loans includes the balance of corporate bonds underwritten

Outstanding Loans by Industry (FY2022 year-end) (Billion yen)



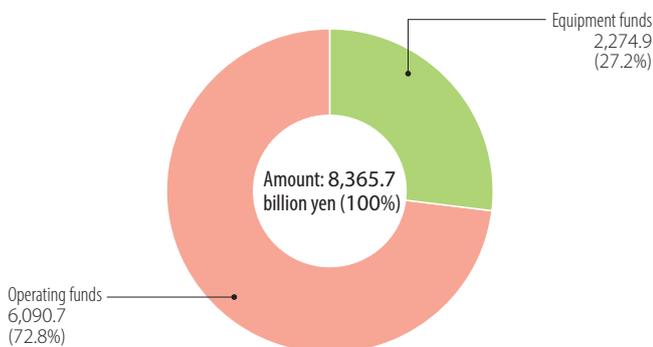
(Outstanding loans include corporate bonds. Breakdowns are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.)

Outstanding Loans by Region (FY2022 year-end) (Billion yen)



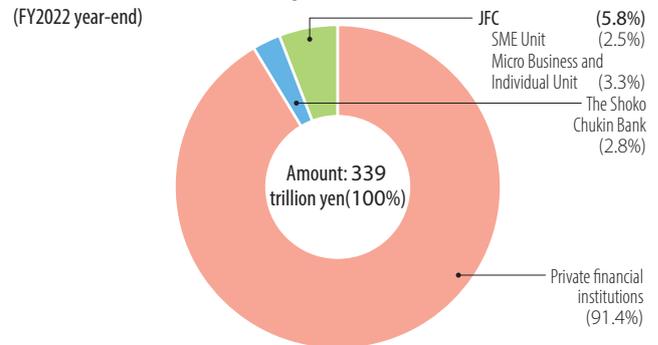
(Outstanding loans include corporate bonds. Breakdowns are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.)

Breakdown of Loans by Facility and Operating Funds (FY2022 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.)

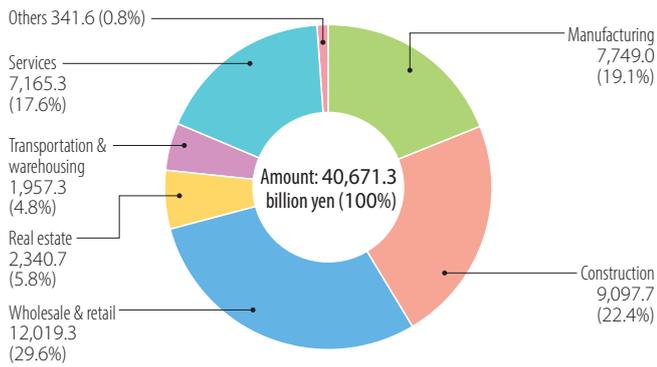
(Reference) JFC's Share of Outstanding Loans to SMEs



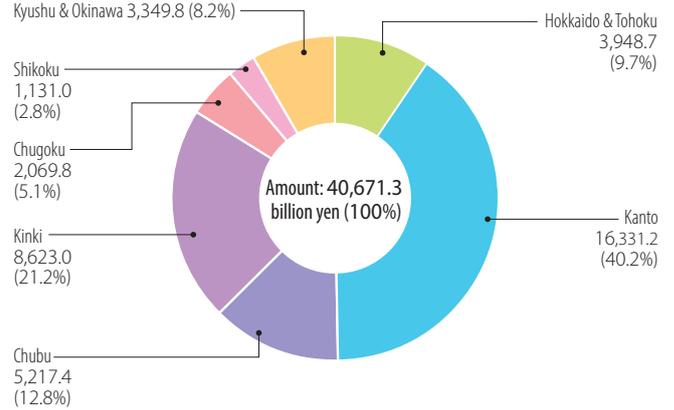
Notes: 1. The SME Unit's outstanding loans are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.
2. The figure for the Micro Business and Individual Unit's outstanding loans is the 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)

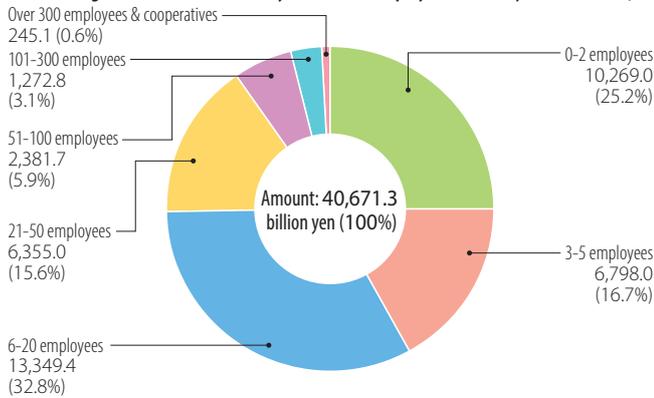
Outstanding Amounts of Insurance by Industry (FY2022 year-end) (Billion yen)



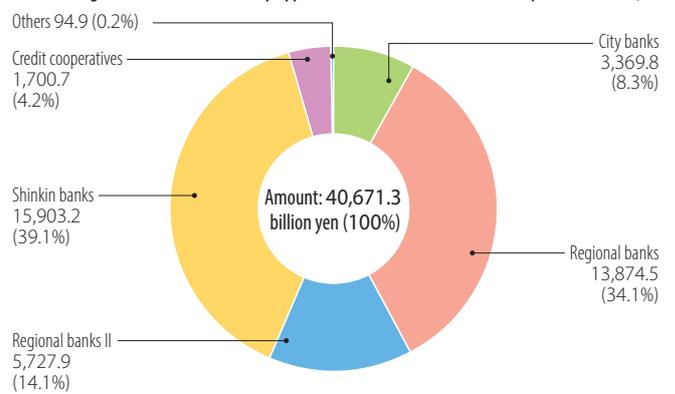
Outstanding Amounts of Insurance by Region (FY2022 year-end) (Billion yen)



Outstanding Amounts of Insurance by Number of Employees (FY2022 year-end) (Billion yen)

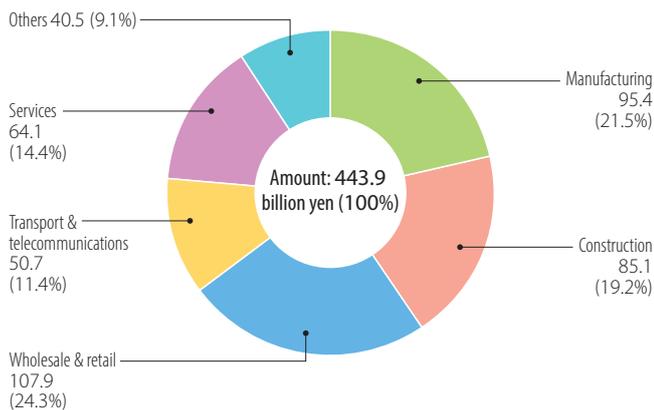


Outstanding Amounts of Insurance by Type of Financial Institution (FY2022 year-end) (Billion yen)

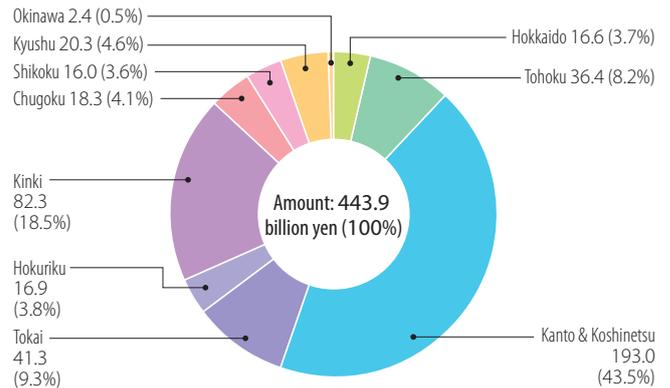


State of Securitization Support Programs (Purchase-type and Guarantee-type)

Provision of Funds by Industry (cumulative results (FY2004-2022)) (Billion yen)



Provision of Funds by Region (cumulative results (FY2004-2022)) (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

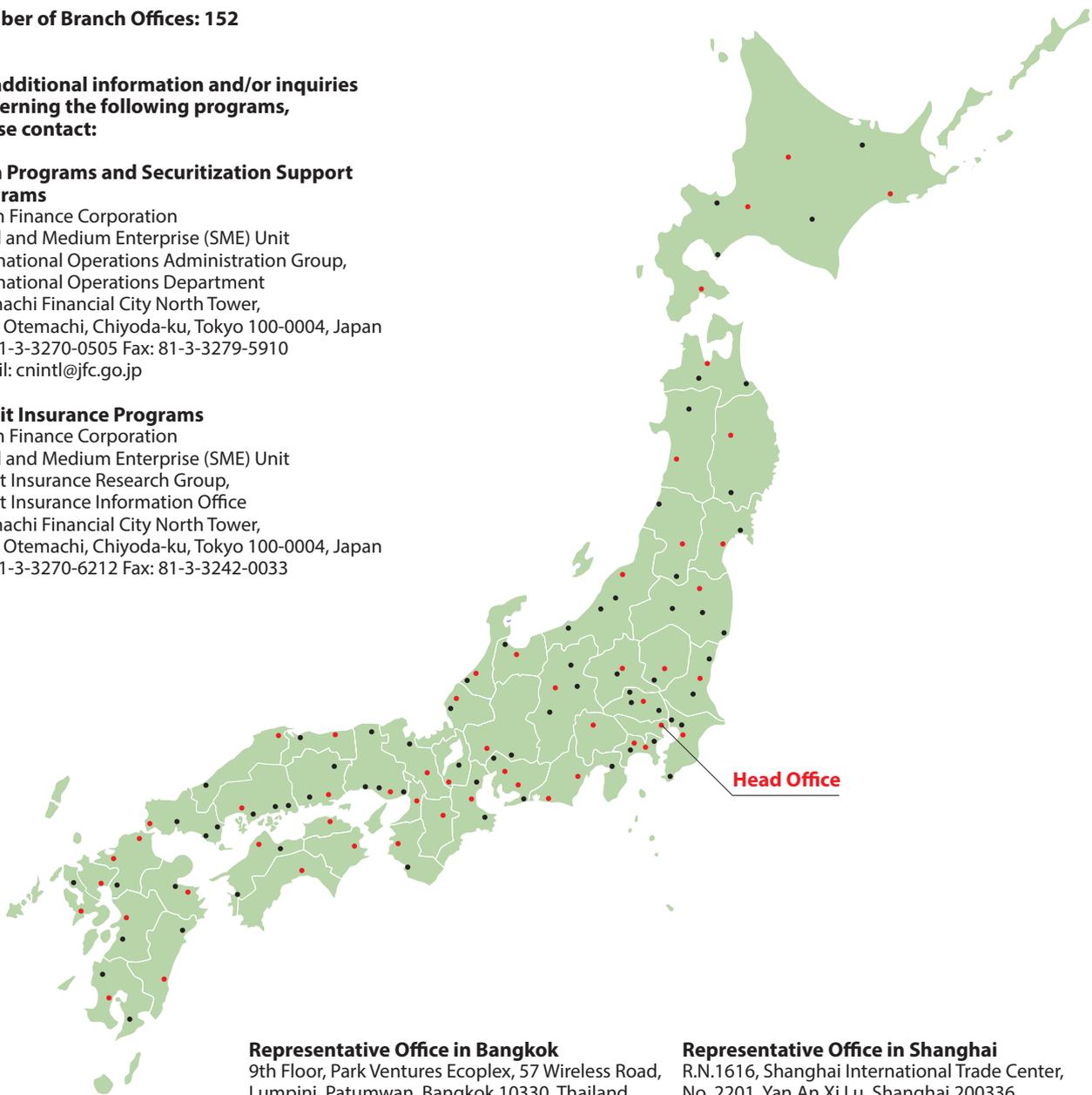
For additional information and/or inquiries concerning the following programs, please contact:

Loan Programs and Securitization Support Programs

Japan Finance Corporation
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International Operations Administration Group,
International Operations Department
Otemachi Financial City North Tower,
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E-mail: cnintl@jfc.go.jp

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People's Republic of China
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* Red dots indicate JFC branches that have specialist SME Unit staff assigned to them (as of September, 2023).

