# Japan Finance Corporation

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





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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 through both our loan programs and credit insurance programs.

In FY2023, we actively visited customers constrained by the COVID-19 pandemic, and listened to the comments of managers concerning their management issues.

Although economic activity is returning to normal, management issues, such as price hikes and labor shortages, have become increasingly severe, and the 2024 Noto Peninsula Earthquake and various other events occurred. Under this changing regional economic and social environment, we made it a top priority to provide financial support to customers through our Loan Programs. As repayment of COVID-19 related loans ramped up, we listened carefully to the circumstances of each customer and supported SMEs by applying Capital Subordinated Loans to reinforce financial foundations, providing supportive assistance through the SME Revitalization Package as a mechanism for helping customers improve management, and collaborating with private financial institutions.

In response to the 2024 Noto Peninsula Earthquake, we quickly established a special consultation desk, performed consultations on holidays, dispatched support personnel to branches, and took other measures through the collaborative efforts of the head office and branches to respond to various inquiries including those about loans, repayment, and other matters.

Our responses concerning growth fields, etc. including actively providing funds and other support to help SMEs overcome their challenges and solve their management issues.

Specifically, support for new businesses and start-ups included active responses to the need for capital necessary for growth by raising the loan ceiling for the Start-up Loan Program multiple times based on the government's Startup Development Five-year Plan. We also took action to support sales channel development and improve awareness by holding events that provide opportunities to start-ups to engage in business discussions with customers and inviting start-ups to events organized by private financial institutions and local governments.

To promote overseas business expansion, we established a structure that supports the resolution of customer management issues, such as by securing the participation of 110 regional financial institutions in the Overseas Business Support Package that we established with the Organization for Small & Medium Enterprises and Regional Innovation, Japan and Nippon Export Investment Insurance. We also provided highly detailed support to meet the funding needs of SMEs by providing a wide range of loans, such as Cross-Border Loans, the Standby Letter of Credit Program, and Loans in Foreign Currencies. In addition, we opened our third overseas representative office, located in Ho Chi Minh City, Vietnam, to enhance our readiness to support business expansion by SMEs and micro/small businesses' overseas subsidiaries.

For SMEs working on business revitalization, the number of consultations from customers struggling with increasing debt is growing, and as a policy-based financial institution, we play a leading role in coordinating among the relevant parties including SMEs and private financial institutions and have supported the revitalization of customers who are working to improve management by taking matters such as relaxing lending conditions to facilitate cash flow and collaborating with external organizations including the Small and Medium Enterprises Revitalization Council.

To ensure smooth business succession by SMEs, we actively supported the formulation of business succession plans by customers 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 1.1 trillion yen in FY2023, and the outstanding loan amount as of the fiscal yearend was 7.8 trillion yen.



Through our Credit Insurance Programs, in addition to responding to the increased demand for debt refinancing due to the impact of the COVID-19 pandemic, we offered financial support to SMEs facing harsh business environments by appropriately accepting insurance on Safety-net Guarantees in order to facilitate the smooth flow of funds to cope with price hikes and the 2024 Noto Peninsula Earthquake, etc.

We also started underwriting insurance for credit guarantee programs that provide customers with the option to not provide a management guarantee, supporting active business development. 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.

As a result of these efforts, insurance acceptance for credit guarantees totaled 9.5 trillion yen in FY2023, and the outstanding insurance amount as of the fiscal year-end was 36.6 trillion yen.

The COVID-19 pandemic is showing signs of subsiding, but our customers' business environments are constantly changing, and management issues are becoming increasingly diverse and complex. Additionally, the occurrence of natural disasters is unpredictable. Under the circumstances, we will continue to provide prompt and accurate support needed by customers to solve their management issues including development of sales channels and dealing with DX by attentively responding to their inquiries and supplying funds.

The SME Unit began using electronic contract in November 2023, and already, approximately 90% of our new contracts are concluded online. Electronic contracts increase customer convenience and improve customer service, and are also an effective means of providing necessary funds in the event of a disaster, when in-person delivery can be difficult. As a policy-based financial institution, it is necessary that JFC closely monitor changes in the times and technology, such as DX and digitalization so that it can always provide optimal services at the optimal time. Going forward, we will continue to provide reliable policy-based financing that supports customer peace of mind and solutions to their challenges based on the principle of "knowing our customer."

#### 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, 2024)

• Name:	Japan Finance Corporation (JF	C)
<ul> <li>Establishment:</li> <li>Statutory Law:</li> <li>Head Office:</li> </ul>	October 1, 2008 The Japan Finance Corporation Otemachi Financial City North 1-9-4, Otemachi, Chiyoda-ku, T	Tower,
<ul><li>Governor &amp; CEO:</li><li>Capital, etc.:</li></ul>	TANAKA Kazuho Capital: 11,768.4 billion yen Reserve fund: 5,284.1 billion ye	en
Branch Offices:	Branch Offices in Japan: 152 Overseas representative offices	s: 3
Employees:	7,423 (budgetary fixed number	r for FY2024)
	ns: nd Individual Unit: stry, Fisheries and Food Busines	26,140.4 billion yer 11,212.0 billion yer s Unit:
Small and Mediu	m Enterprise (SME) Unit (Financ	3,685.2 billion yer e Operations): 7,886.3 billion yer
	cilitate Crisis Responses: cilitate Specific Businesses Prom	3,275.6 billion yer notion, etc.:
	ounts of Insurance:	81.0 billion yer
-	n Enterprise (SME) Unit (Credit Insu	(urance Programs)
		36.627.6 billion ver

### **Major Business Operations of JFC**

#### **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.





Micro Business and Individual Unit Operations aimed at micro/small businesses and individuals

#### cope of operations

- Small loans for micro/small businesses
   Support for business foundation and start-ups, business revitalization, business succession, social business, and overseas expansion
  - Educational loans and loans secured by government pensions, etc.
- Agriculture, Forestry, Fisheries and Food Business Unit Operations aimed at agriculture, forestry, fisheries, and food business

#### Scope of operations

 Loans for agriculture, forestry, fisheries, and food business that foster and support principal farmers
 Loans for food industry that support food safety and security and close collaboration between agriculture and food industry
 Management support services such as consulting and business matchmaking services



Supporting revitalization of local and regional economies Supporting business growth of customers

Supporting the globalization of SMEs Small and Medium Enterprise (SME) Unit Operations aimed at SMEs Scope of operations

- Long-term business loans for SMEs
   Support for new businesses and start-ups, business revitalization, business succession, and overseas expansion
- Securitization support
   Acceptance of insurance on Credit Guarantee
   Corporations (CGCs) guaranteed liabilities
- Support for the resolution of business challenges, including business matching support

#### 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, etc.

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# **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 FY2023

Performance for FY2023

Credit Insurance Programs

No record of loans to CGCs and

No record of loans to CGCs

Amounts of insurance acceptance and loans

Special Insurance for Mid-size Enterprises

Outstanding amounts of insurance and loans

renormance for r rzozz	
► Loan Programs	
Loans	1,182.0 billion yen
Direct loans	···· 1,182.0 billion yen
Agency loans	
Loans to Small and Medium Business Inves	stment &
Consultation Co., Ltd.	
Outstanding loans	7,886.3 billion yen
Direct loans	7,884.3 billion yen
Agency loans	······ 2.0 billion yen
Loans to facility-leasing institutions, loans to Sma	ll and Medium
Business Investment & Consultation Co., Ltd.	
Securitization Support Programs	
Financing support amount	
Purchase-type	······· 45.4 billion yen
Financing support balance	
Purchase-type	102.9 billion yen
Outstanding holdings such as asset backed s	ecurities
Purchase-type	20.2 billion yen
Outstanding guaranteed liabilities such as as	set backed securities
Purchase-type	22.5 billion yen
Outstanding guaranteed liabilities of loan cla	aims
Outstanding guaranteed liabilities of loan cla Guaranteed-type	

Small Business Credit Insurance 9,555.1 billion yen

Small Business Credit Insurance 36,627.6 billion yen

Special Insurance for Mid-size Enterprises ...... 0.0 billion yen

No record of the acceptance of Machinery Credit Insurance

#### **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.

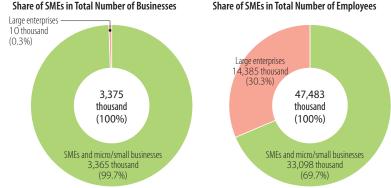
- Insurance on CGCs guaranteed liabilities involving loans to SMEs and micro/small businesses
- Loans to CGCs
- Special Insurance Programs for Mid-size Enterprises
- Transitional Operation of the Machinery Credit Insurance Programs (Note)

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).

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.



Guide to the Operations of the Small and Mediu

Sources: Small and Medium Enterprise Agency, "2024 White Paper on Small and Medium Enterprises in Japan" Note: Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry, "2021 Economic Census for Business Activity," edited by the Small and Medium Enterprise Agency.

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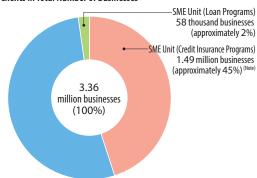
e (SME) Unit 203

# **SME Unit's Clients**

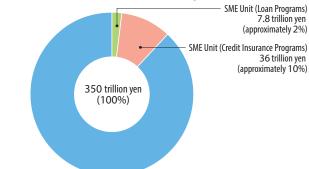
SMEs and micro/small businesses account for 99% of all businesses in Japan, and are both the source of Japanese economic vitality as well as the primary force underpinning regional economies. The size and conditions of each SME and micro/small business differ, such as companies that sustain the regional 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



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

The SME Unit facilitates funds to approximately 1.54 million SMEs and micro/small businesses (approximately 46%) and accounts for approximately 13% of outstanding loans to SMEs and micro/small businesses.

#### Characteristics of SME Unit's Clients

Note: Number of businesses utilizing the Credit Guarantee System

#### Loan Programs (Direct Loans)

Sources: Small and Medium Enterprise Agency, "2024 White Paper on Small and Medium Enterprises in Japan"

Note: Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry, "2021 Economic Census for Business Activity," edited by the Small and Medium Enterprise Agency.

- Average loan amount per business
   97 million yen

   Average term of loan
   9 years and 5 months

   Average amount of capital per business
   41 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 90% 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 FY2023)

#### **Credit Insurance Programs**

- - Average amount of insurance acceptance per business21 million yenAverage term of insurance6 years and 3 monthsAverage number of employees per business7
- Approximately 75% of outstanding amounts of insurance are insurance to businesses with 20 employees or less, and approximately 73% 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, 2024.

The SME Unit also helps to maintain employment, with the number of employees at the 58 thousand businesses receiving support (direct loans) rising to approximately 3.56 million persons (as of March 31, 2024).

Outstanding Loans by Type of Industry (Loan Programs) (as of the end of FY2023)

			Construction 6.2%	%		
Manufacturing 38.7%	Wholesale & retail 16.8%	Services 19.0%	•	•	Others 8.2%	
Transport & telecommunications 11.2%						

#### Outstanding Amounts of Insurance by Type of Industry (Credit Insurance Programs) (as of the end of FY2023)

				Real estate 6.	1% –
Manufacturing 18.5%	Wholesale & retail 29.4%	Services 17.8%	•	Construction 22.4%	· .
	Tra	nsportation & warehousing 4.9%	6	Othe	rs 0.9% —

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# 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

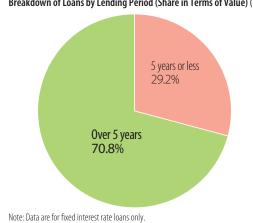
## **Dedicated to Long-term Funding**

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.



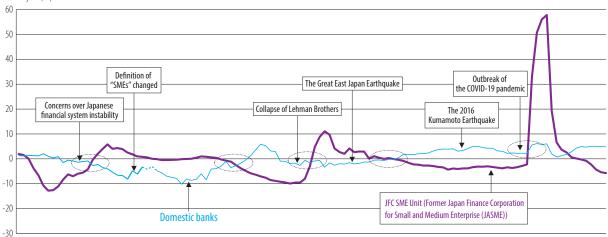
Breakdown of Loans by Lending Period (Share in Terms of Value) (FY2023)

### **Stable Supply of Business Funds**

Year-on-year (%)

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 the aspect of supplementing private financial institutions.



#### Growth Rate Changes in Outstanding Loans to SMEs (Year-on-year changes)

'11 '23 (FY) '94 '95 '96 '97 '98 '99 '00' '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22

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

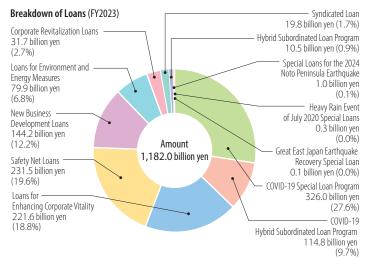
# **Promotion of Policy-based Special-purpose Loans**

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.

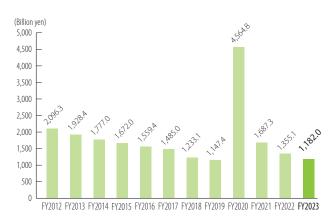
During FY2023, the SME unit took concerted steps to fully exercise its safety function and made every effort to support SMEs, which were affected by the situation in Ukraine and the sharp rise in oil prices, etc. and continued to experience increasingly difficult cash flow conditions brought on by the deteriorating operating environment due to the impact of the COVID-19 pandemic.



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.

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

#### 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		<b>Roles Played by the SME Unit</b> — 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
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
1995 Catastrophic Great Hanshin-Awaji Earthquake strikes 1997 Hokkaido Takushoku Bank and Yamaichi Securities collapse	1990-	Loans for Disaster Recovery
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

Note: The names of the loans listed above are as of their scheme termination dates, or, for active schemes, as of April 1, 2024.

# 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.

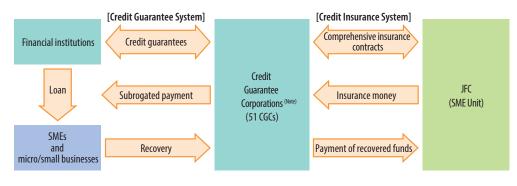
# **Demonstrating Credit Supplementation Function**

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 (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)

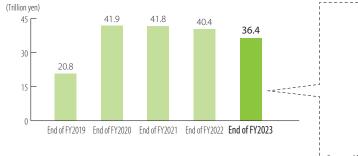
Special public corporations established under the CGC Law. Numbering 51 across Japan, CGCs guarantee loans from financial institutions to SMEs, make subrogated payments against defaults by SMEs, and subsequently recover funds from the SMEs in question. They are supervised by central and local governments,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

# 45% of SMEs Utilize the Credit Supplementation System

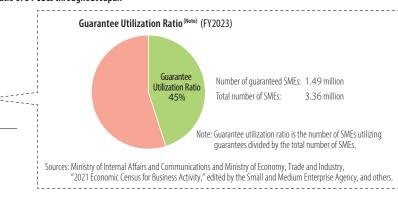
As of March 31, 2024, the portion of outstanding loans to SMEs guaranteed by CGCs (outstanding guaranteed liabilities) amounted to 36 trillion yen, accounting for 10% of all loans to SMEs.

Moreover, 1.49 million SMEs and micro/small businesses, accounting for 45% 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



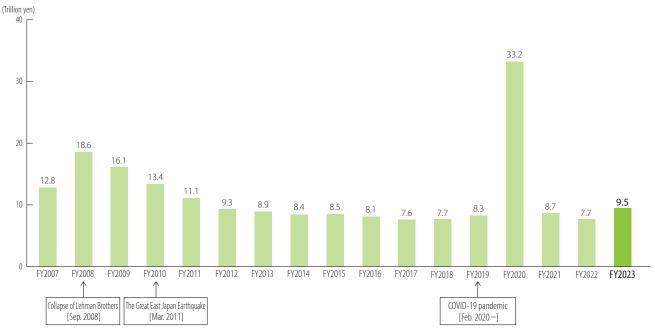
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#### A powerful tool for promoting the government's economic policy

## 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.

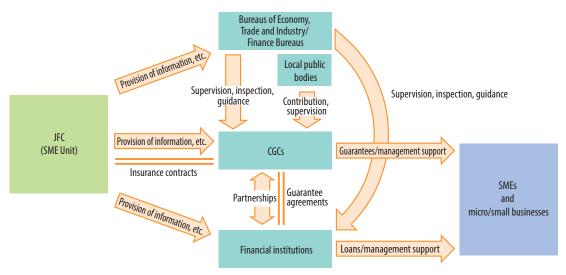
#### Changes in the Amounts of Insurance Acceptance



# 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.



# Support for Companies expanding overseas

# **Support for Overseas Expansion Initiatives**

Client companies of the SME Unit have 10,151 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.

# **Overseas Business Development Related Programs**

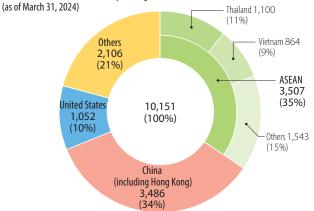
#### Status of use of Loans for Overseas Investment and Expansion

In FY2023, the SME Unit provided Loans for Overseas Investment and Expansion to 570 SMEs with a total value of 48.6 billion yen. Among these loans, we provided a total of 93 cross-border loans (direct loans to overseas subsidiaries), worth a total of 6.8 billion yen.

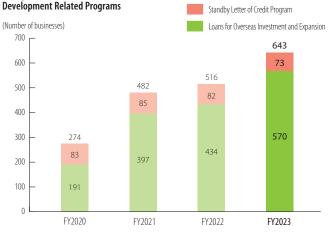
#### Status of use of Standby Letter of Credit Program

In FY2023, the Standby Letter of Credit Program was utilized by 73 businesses. Letters of Credit were issued to the affiliated financial institutions in Thailand, China, Republic of Korea, Indonesia, Taiwan, the Philippines, and Vietnam.





Changes in Overseas Business



### **Cross-Border Loans**

The cross-border loans are programs 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 in the economy. 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.

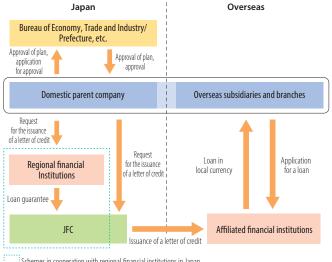
Furthermore, the introduction of cross-border loans is expected to have the effect of streamlining the balance sheet of the parent company in Japan and stabilizing the cash flow of the local subsidiary through the procurement of long-term, stable funds.

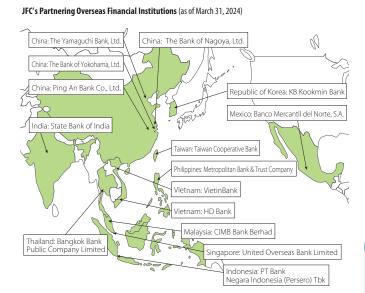


### **Standby Letter of Credit Program**

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, 2024, the number of affiliated financial institutions, mainly in Asia, was 15 institutions.

#### Standby Letter of Credit Program Schematic Chart





Schemes in cooperation with regional financial institutions in Japan

#### 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, 2024, JFC has business partnerships with 62 regional financial institutions in Japan, and since the start of the program, letters of credit were issued to a total of 62 businesses through this partnership scheme.

Partnering Regional Financial Institutions (Japanese alphabetical order as of March 31, 2024)

• The Aichi Bank, Ltd.	• The Kiyo Bank, Ltd.	• Daishi Hokuetsu Bank, Ltd	• The Himeji Shinkin Bank
• The Akita Bank, Ltd.	• The Kyoto Shinkin Bank	• The Tajima Bank, Ltd.	• The Hyakujushi Bank, Ltd.
• The Awa Bank, Ltd.	• The Kyoto Chuo Shinkin Bank	• The Chukyo Bank, Ltd.	• The Fukui Bank, Ltd.
• The Iyo Bank, Ltd.	• Kiraboshi Bank, Ltd.	• Tsukuba Bank, Ltd.	• Fukui Shinkin Bank
• The Ehime Bank, Ltd.	• Kuwanamie Shinkin Bank	• Tono Shinkin Bank	• The Bank of Fukuoka, Ltd.
• The Enshu Shinkin Bank	• The Saikyo Bank, Ltd.	• The Towa Bank, Ltd.	• The Fukushima Bank, Ltd.
• The Oita Bank, Ltd.	• The Bank of Saga, Ltd.	• The Tokushima Taisho Bank, Ltd.	• The Fuji Shinkin Bank
• Ogaki Kyoritsu Bank	• 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	

#### 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**

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.

Also, 110 regional financial institutions throughout Japan were participating in this scheme as of the end of March 2024, supporting overseas expansion by SMEs in each region.

### **Support by Overseas Representative Offices**

The SME Unit holds business networking meetings and business matching meetings for the overseas subsidiaries of SMEs as a forum for management problem-solving support and networking. We also opened an overseas representative office in Ho Chi Minh City, Vietnam in November 2023 for the purpose of reinforcing overseas business development support and information gathering in ASEAN.

#### • Opening Ceremony for the Representative Office in Ho Chi Minh City

We conducted an opening ceremony for the representative office in Ho Chi Minh City, Vietnam in January 2024. The event was attended by approximately 150 persons from local customers, Japaneseaffiliated organizations including the Embassy of Japan in Vietnam, and Japanese financial institutions, enabling us to widely publicize the opening of this overseas representative office.



#### Diagram of the Overseas Business Support Package



#### Business areas of overseas representative offices

Office	Date of establishment	Business areas
Representative Office in Shanghai	September 2011	China (including Hong Kong, Macao, and Taiwan), Korea, and Mongolia
Representative Office in Bangkok	October 2008	Thailand, Malaysia, Singapore, Myanmar, Brunei, India, and Bangladesh
Representative Office in Ho Chi Minh City	November 2023	Vietnam, Indonesia, the Philippines, Cambodia, and Laos



Opening ceremony (lecture)

The building where the Ho Chi Minh City Representative Office is located

#### The 15th Japan-Thai Business Matching Meeting

In November 2023, the SME Unit held the 15th Japan-Thai Business Matching Meeting in Bangkok, Thailand to expand business between Japanese companies and local companies in Thailand. The event was jointly hosted with the Japanese Chamber of Commerce, Bangkok and

held with cooperation of 38 Japanese regional financial institutions and others. A total of 172 companies (146 Japanese and 26 local firms) participated in the meeting and 266 business meetings were conducted. Feedback from the participants included comments such as, "We were able to meet with buyers that we would not have the opportunity to meet through normal sales activities. We received a positive response and hope to follow up with them." The event provided participants opportunities to expand their sales channels.



Japan-Thai Business Matching Meeting

#### The Online China Business Matching Event

We co-hosted the Online China Business Matching Event with 14 financial institutions including Japanese regional financial institutions for Japanese-affiliated companies located throughout China over four days in January 2024. A total of 81 companies (25 buyers and 56 suppliers) participated in the event, and 102 business meetings were conducted. One participant commented, "There were no local firms that we could do business with, but at this matching event, we were able to engage in discussions with multiple companies over a wide area and find potential trading partners." The business meetings were highly satisfactory for the participants.

#### **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 August 2023, the ACSIC conference was held in Ulaanbaatar, Mongolia by Credit Guarantee Fund of Mongolia (CGFM), on the topic of "Looking Ahead: Fostering Green Financing for Sustainable Development."



The 35th ACSIC Conference (Mongolia)

# **Exercise of Safety Net Functions**

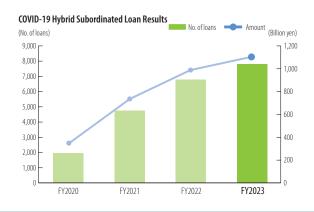
The SME Unit supports the financing of SMEs in response to changes in the management, financial, and other environments

# **COVID-19 Related Loan Results**

A total of 65,997 loans amounting to 6,846.1 billion yen have been disbursed to borrowers affected by COVID-19 through March 31, 2024.

Of these loans, through March 31, 2024, the number of loans for COVID-19 Hybrid Subordinated Loan Program was 7,781 with a total value of 1,101.2 billion yen.





# 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
<ul> <li>under (3) due to the effects of the COVID-19 pandemic.</li> <li>(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 six years or experienced similar circumstances.</li> <li>(2) There is a heavy debt burden.</li> <li>(3) There is a likelihood that business conditions will recover and the</li> </ul>	600 million yen	(up to 5 years) Operating funds: maximum 20 years	However, the standard rate is reduced by 0.5% through the third year after loan disbursement for amounts up to 400 million yen;

# 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 ra	te		
<ul> <li>SMEs affected by COVID-19. However, limited to those who fall under any of the followings:</li> <li>(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 &amp; Medium Enterprises and Regional Innovation, JAPAN (SME Support, JAPAN) invested;</li> <li>(2) Businesses that are performing business revitalization through participation in the Small and Medium Enterprises Revitalization Council (including former Small and Medium Enterprises</li> </ul>	1,500 million yen	<ul> <li>illion yen</li> <li>5 years and 1 month, 7 years, 10 years, 15 years, or 20 years (lump-sum repayment upon</li> </ul>	ories of intere recent settleme is at least ze og the expected ant year is less	est rate apply ent period. ro yen, if the amount of the than zero yen,			
Revitalization Support Council) or an investment limited liability partnership funded by Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (SME Support, JAPAN);		maturity)	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	
(3) Businesses that do not fall under (1) or (2) above and have				0 yen or more	2.60%	2.70%	2.95%
formulated a business plan and have built a support system such as receiving support from a private financial institution <sup>(Note 2)</sup> .			Less than 0 yen	0.50%	0.50%	0.50%	

Notes: 1. An overview of the program as of April 1, 2024.

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 ye	ar	FY2021	FY2022	FY2023
No. of busin	esses	195	349	497
Amount (billio	n yen)	28.0	38.0	45.2

#### Capital Subordinated Loans (revitalization-type)

Fiscal year	FY2021	FY2022	FY2023
No. of businesses	17	21	50
Amount (billion yen)	2.2	2.8	4.2

### **Cooperation with Public Revitalization Support Institutions**

By the end of December 2023, Small and Medium Enterprises Revitalization Councils had provided revitalization planning support to 25,330 businesses nationwide. The SME Unit participated in the provision of support to over 20% (6,089 businesses) of these businesses (cumulative total as of December 31, 2023).

No. of revitalization planning support by Small and Medium Enterprises Revi (cumulative total)		No. of cases where the SME Unit of JFC participated in the provision of support (cumulative total) FY2023				
25,330 businesses	;	6,089 (24.0%)				
Note: As of December 31, 2023						

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.

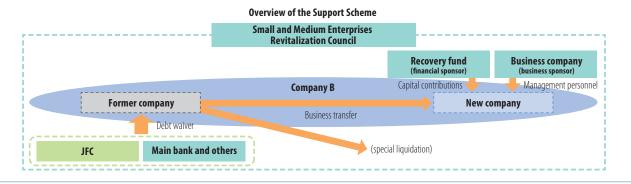
For this project, the SME Unit extended new financing in the form of Capital Subordinated Loan as necessary fund for implementation of revitalization plans to a reorganizing company that had no business with the SME Unit in the past, at the time when main bank supported drastic revitalization of the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



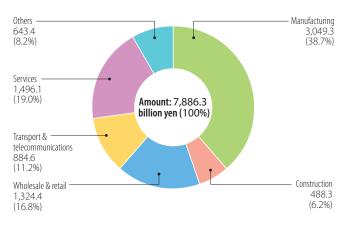
# State of the SME Unit's Operations

#### State of Loan Programs

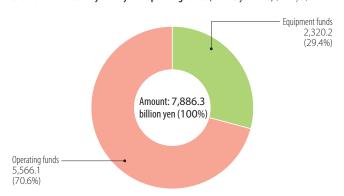


Direct loans	5,321.5	5,203.7	8,214.5	8,429.6	8,363.1	7,884.3
Agency loans	4.9	4.1	3.4	3.0	2.5	2.0
Loans to facility-leasing institutions; loans to Small and Medium Business Investment & Consultation Co., Ltd.	0.4	0.2	0.0	0.0	0.0	0.0

Outstanding Loans by Industry (FY2023 year-end) (Billion yen)

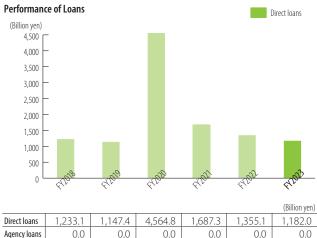


(Outstanding loans include corporate bonds. Breakdowns are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.)



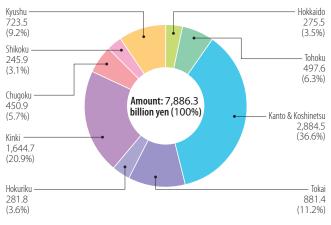
Breakdown of Loans by Facility and Operating Funds (FY2023 year-end) (Billion yen)

(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.)



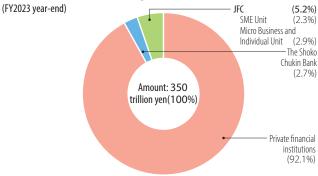
Direct loans	1,233.1	1,147.4	4,564.8	1,687.3	1,355.1	1,182.0
Agency loans	0.0	0.0	0.0	0.0	0.0	0.0
Loans to facility-leasing institutions; loans to Small and Medium Business Investment & Consultation Co., Ltd.	0.0	0.0	0.0	0.0	0.0	0.0

#### Outstanding Loans by Region (FY2023 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

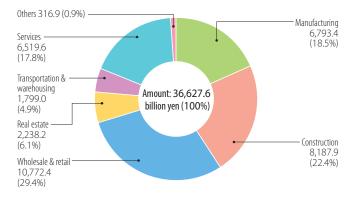


- Notes: 1. The SME Unit's outstanding loans are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.
  - The figure for the Micro Business and Individual Unit's outstanding loans is the total of General Loans and Environmental Health Business Loans.
     The Shoko Chukin Bank's outstanding loans do not include loans related to offshore accounts and
  - 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. User Bank of bana "Denotity Null Carb and Loans and Bills Discusted" or constraints.

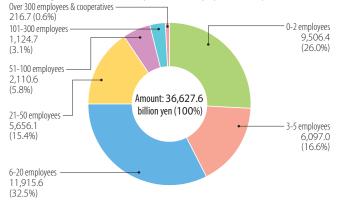
Source: Bank of Japan, "Deposits, Vault Cash, and Loans and Bills Discounted," etc.

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

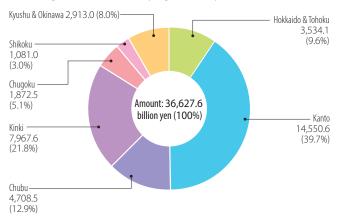
Outstanding Amounts of Insurance by Industry (FY2023 year-end) (Billion yen)



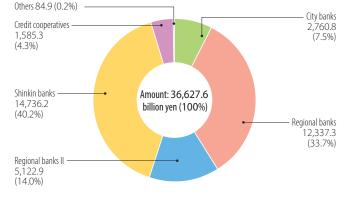
Outstanding Amounts of Insurance by Number of Employees (FY2023 year-end) (Billion yen)



Outstanding Amounts of Insurance by Region (FY2023 year-end) (Billion yen)

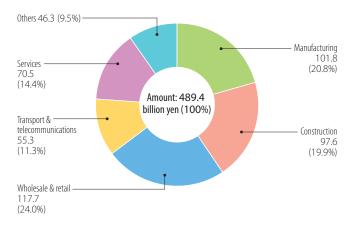


Outstanding Amounts of Insurance by Type of Financial Institution (FY2023 year-end) (Billion yen)

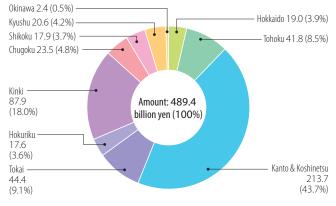


State of Securitization Support Programs (Purchase-type and Guarantee-type)

Provision of Funds by Industry (cumulative results (FY2004-2023)) (Billion yen)



Provision of Funds by Region (cumulative results (FY2004-2023) (Billion yen)



# Offices

#### **Head Office**

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#### Number of Branch Offices: 152

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

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\* Red dots indicate JFC branches that have specialist SME Unit staff assigned to them (as of September, 2024).

Offices





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