

Japan Finance Corporation

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

2014



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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 items 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.

Acting under the strong economic policies of the government enacted to deal with the economic crisis following the Lehman Brothers collapse as well as the Great East Japan Earthquake and other natural disasters, the Small and Medium Enterprise (SME) Unit of the Japan Finance Corporation (JFC) serves as a safety net to give full support to the fund-raising needs of SMEs and micro businesses through its Loan Programs and Credit Insurance Programs. In FY2013, we provided approximately 11 trillion yen of financial support.

In the area of our Loan Programs, we will continue to be actively involved in supporting the reconstruction of disaster-affected areas with our Great East Japan Earthquake Recovery Special Loan and the Safety Net Loan Programs and we will take all possible measures to support fund-raising and become actively involved in the business reconstruction of SMEs in this difficult business environment.

In supporting the overseas expansion of SMEs, besides providing financial support through our Loans for Overseas Investment and Standby Letter of Credit Program (issuance of letters of credit), we have endeavored to provide local managerial assistance through our overseas Representative Offices. Moreover, in order to enhance the use of the Standby Letter of Credit Program to more countries, we have expanded our partnerships with overseas financial institutions to seven institutions to allow SMEs to raise funds from local financial institutions. We have also established a new partnership scheme with 30 regional financial institutions in Japan to target SMEs other than JFC's clients.

Furthermore, in order to enhance our support for SMEs challenging new fields, we have promoted cooperation with venture capital firms and R&D organizations, etc. In addition, we also supported SMEs in their business revitalization efforts through our newly established "DES Program (Loan Securitization Program)" besides our conventional financial assistance schemes.

As a result of these efforts, we provided loans to SMEs totaling 1.9 trillion yen in FY2013.

As for our Credit Insurance Programs, besides continuing to provide support for the recovery of the disaster-hit areas affected by the Great East Japan Earthquake through the Special Treatment of Insurance Related to the Great East Japan Earthquake Recovery Emergency Guarantees, we have also supported the financing of SMEs and micro businesses which are operating in a tough business environment through insurance underwriting of Safety-net Guarantee Program and Refinancing Guarantee Program, etc.

In addition, we have provided business support for establishing new businesses through our Special Treatment of Insurance Related to Start-ups and through insurance underwriting of Management Strengthening Guarantee Program.

As a result of these initiatives, the amount of insurance acceptance for credit guarantees in FY2013 reached 8.9 trillion yen, while the outstanding amounts of insurance is approximately 30 trillion yen.



Going forward, in addition to dealing with the needs arising from the Great East Japan Earthquake, we will continue to provide our utmost support for the efforts of SMEs and micro businesses, which underpin regional economies, in their new business development, overseas expansion, business revitalization, environmental measures, and other areas.

In addition, in order to improve customer service, we will cooperate with the Micro Business and Individual Unit and the Agriculture, Forestry, Fisheries and Food Business Unit to work to improve services such as the implementation of comprehensive financing and the provision of useful information for businesses.

Accounting for 99.7% of all companies in Japan and around 70% of the total workforce, Japan's approximately 3.85 million SMEs and micro businesses represent the bedrock and source of vitality of domestic economic progress. On this basis, the health and well-being of SMEs is essential, not only for regional employment and the creation of added value, but also for the revitalization of the Japanese economy as a whole. Looking ahead, we will endeavor to fulfill our function as a policy-based financial institution and to be appreciated by as many people as possible. We remain dedicated to serving as a finance corporation that can be relied upon.

Atsushi Toyonaga

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 JFC

- 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: Koichi Hosokawa
- Capital, etc.: Capital: 3,709.5 billion yen
Reserve fund: 1,870.2 billion yen
- Branch Offices: Japan: 152
Overseas representative offices: 2
- Employees: 7,364 (budgetary fixed number for FY2014)
- Outstanding Loans: 21,107.7 billion yen
 - Micro Business and Individual Unit 7,175.8 billion yen
 - Agriculture, Forestry, Fisheries and Food Business Unit 2,603.7 billion yen
 - Small and Medium Enterprise (SME) Unit (finance operations) 6,354.2 billion yen
 - Operations to Facilitate Crisis Responses 4,911.5 billion yen
 - Operations to Facilitate Specific Businesses Promotion, etc. 62.3 billion yen (as of March 31, 2014)

Basic Philosophy

Focused Policy-based Financing

Under the national policy, JFC will 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.

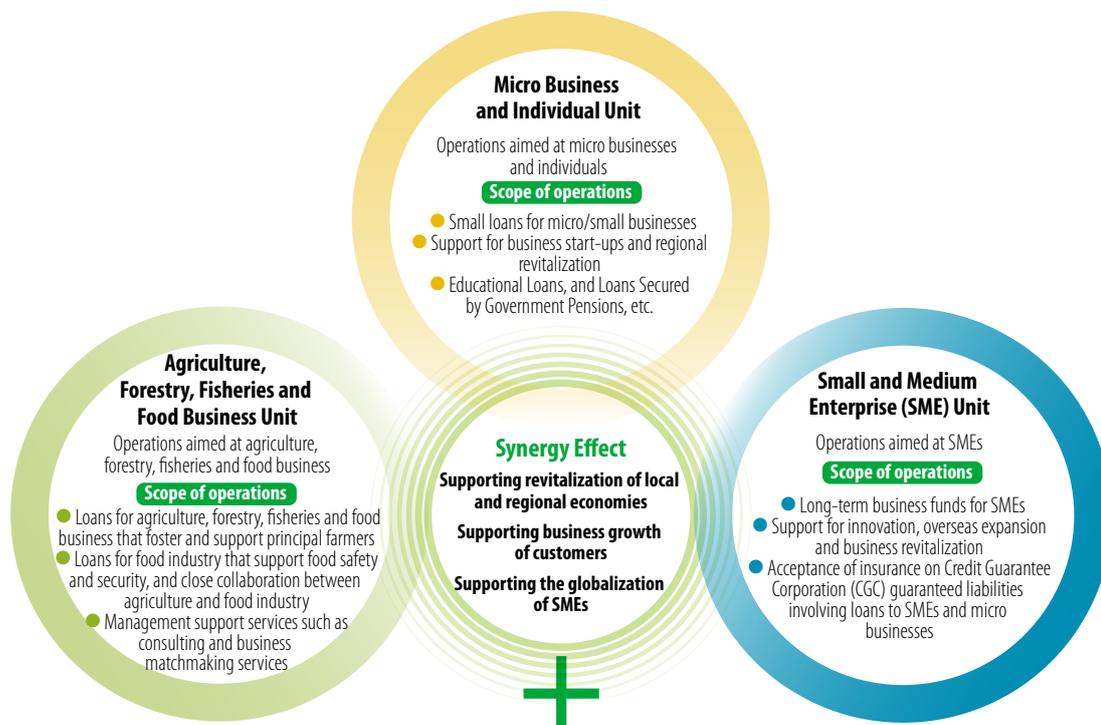
Mainstreaming Governance

JFC will strive to conduct highly transparent and efficient business operations based on a high level of corporate governance and hold itself accountable to the public. Furthermore, JFC is committed to becoming a self-governing organization continuously evaluating and improving its activities.

Total Loans Provided



Major Business Operations of JFC



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

- Providing a certain credit to designated financial institutions at the occurrence of crises certified by the competent ministers, such as domestic or international financial disorder, large-scale natural disasters, and other similar events.
- Providing loans to designated financial institutions based on the Low Carbon Investment Promotion Act.
- Providing loans to designated financial institutions based on the Industrial Competitiveness Enhancement Act.

Profile 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 financially supports the growth and development of SMEs and micro businesses which are the source of vitality behind Japan's 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 but which private financial institutions find it difficult to supply.

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

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 FY2013

▶ Loan Programs

Loans	1,928.9 billion yen
Direct loans	1,927.9 billion yen
Agency loans	0.5 billion yen
Investment & Consultation Co., Ltd.....	0.4 billion yen
Outstanding loans	6,354.2 billion yen
Direct loans	6,331.7 billion yen
Agency loans	17.7 billion yen
Loans to facility-leasing institutions, loans to Small and Medium Business Investment & Consultation Co., Ltd.....	4.7 billion yen

▶ Securitization Support Programs

Total loan principal amount	
No record of purchase-type, guarantee-type or accounts receivable-type securitization	
Outstanding amounts of trust beneficiary rights and guaranteed liabilities	
Guarantee-type (outstanding amount of guaranteed liabilities)	0.1 billion yen
No record of purchase-type (outstanding amount of trust beneficiary rights)	

Credit Insurance Programs

To facilitate the smooth flow of funds to SMEs and micro businesses, these programs focus on the acceptance of insurance on Credit Guarantee Corporation (CGC) guaranteed liabilities associated with loans to SMEs and micro businesses.

- Provision of insurance on CGC guaranteed liabilities associated with loans to SMEs and micro businesses
- Loans to CGCs
- Special Insurance Programs for Midsize Enterprises
- Transitional Operation of the Machinery Credit Insurance Programs^(Note)

Note: Excluding Machinery Credit Insurance that had been accepted up to the end of March 2003, the SME Unit currently pays insurance money and receives recoveries based on the insurance contracts already in force (Transitional Operation of the Machinery Credit Insurance Programs).

Performance for FY2013

▶ Credit Insurance Programs

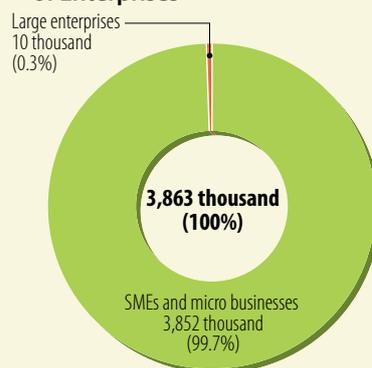
Acceptance of insurance and loans	
Small Business Credit Insurance	8,984.4 billion yen
No record of loans to CGCs and Special Insurance for Midsize Enterprises	
Outstanding amounts of insurance and loans	
Small Business Credit Insurance	30,105.5 billion yen
Special Insurance for Midsize Enterprises	0.0 billion yen
Machinery Credit Insurance ^(Note)	3.1 billion yen
No record of loans to CGCs	

The Position of SMEs and Micro Businesses in Japan

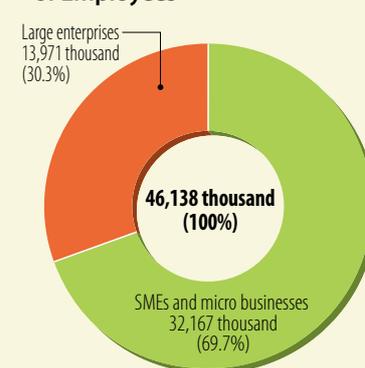
SMEs and micro businesses account for 99% of all businesses and approximately 70% of the total workforce in Japan. These figures attest to the fact that SMEs and micro businesses are the very source of Japanese economic vitality and the primary force underpinning regional economies.

SMEs and micro 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 Enterprises



● Share of SMEs in Total Number of Employees



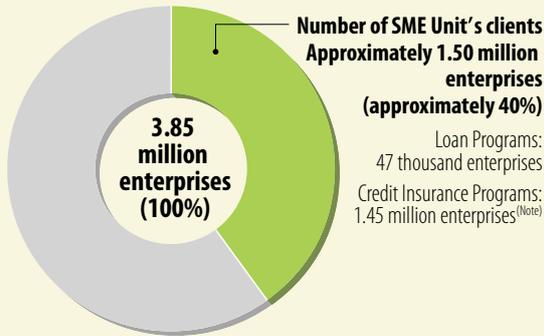
Source: Ministry of Internal Affairs and Communications, "2012 Economic Census for Business Frame," edited by the Small and Medium Enterprise Agency

SME Unit's Clients

SMEs and micro 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 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.

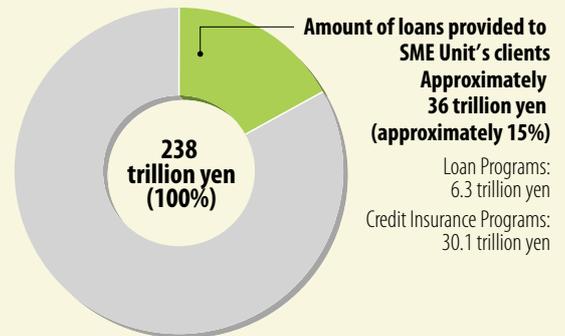
The SME Unit provides a wide range of support to meet the individual needs of each SME through its financial tools, Loan Programs, Credit Insurance Programs and Securitization Support Programs.

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



Note: Number of enterprises utilizing the Credit Guarantee System.
Sources: Ministry of Internal Affairs and Communications, "2012 Economic Census for Business Frame," edited by the Small and Medium Enterprise Agency, and others

Share of SME Unit's Clients in Total Amount of Outstanding Loans to SMEs and Micro Businesses



Sources: Bank of Japan, "Financial and Economic Statistics Monthly," and others

The SME Unit facilitates funds to 1.5 million SMEs and micro businesses (approximately 40%) and accounts for 15% of outstanding loans to SMEs and micro businesses.

Characteristics of SME Unit's Clients

Loan Programs (direct loans)

- Number of clients 47 thousand enterprises
- Average loan for FY2013
 - Average loan amount per client 107 million yen
 - Average term of loan 7 years and 1 month
 - Average amount of capital per client 46 million yen
 - Average number of employees per client 73
- Approximately 80% of outstanding loans are loans to enterprises with more than 20 employees, and approximately 90% have capital of 10 million yen or more.
- Covers a wide range of industries particularly manufacturing (approximately 50% of outstanding loans as of end of FY2013)

Credit Insurance Programs

- Number of clients 1.45 million enterprises^(Note)
- Average insurance for FY2013
 - Average amounts of insurance acceptance per client 17 million yen
 - Average term of insurance 4 years and 9 months
 - Average number of employees per client 8
- Approximately 70% of the outstanding amounts of insurance is insurance to enterprises with fewer than 20 employees, and approximately 65% have capital of 10 million yen or less.
- Covers a wide range of industries

Note: Number of enterprises utilizing the Credit Guarantee System

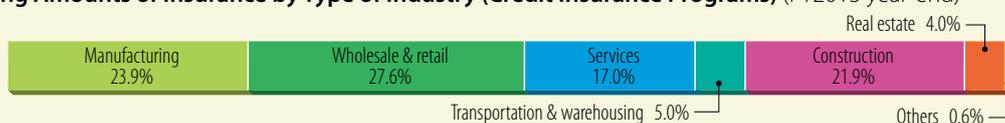
Note: Results are current as of March 31, 2014.

The SME Unit also helps to maintain employment, with the number of employees at the 47 thousand companies receiving support (direct loans) rising to approximately 2.69 million persons (as of March 31, 2014)

Outstanding Loans by Type of Industry (Loan Programs) (FY2013 year-end)



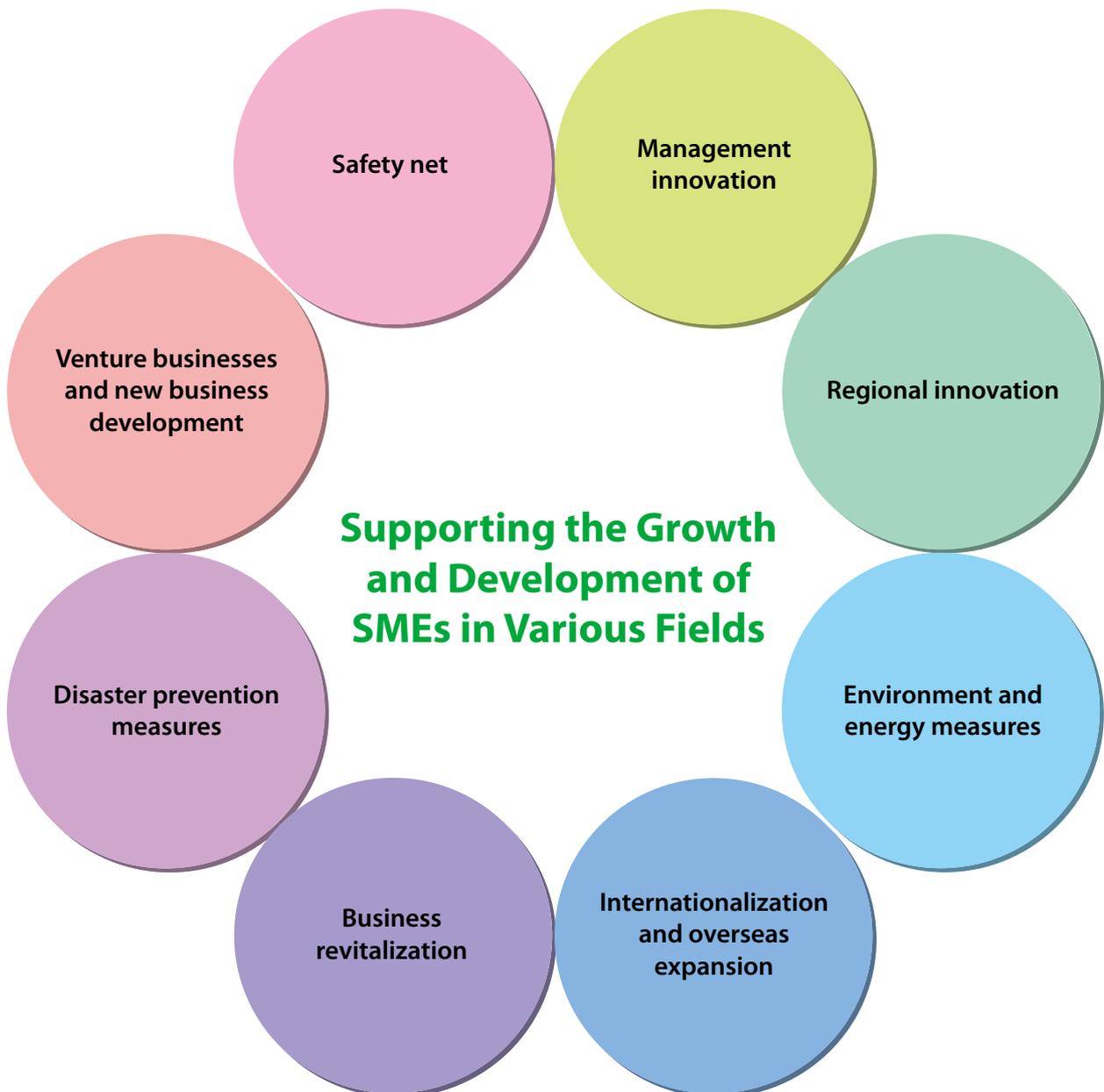
Outstanding Amounts of Insurance by Type of Industry (Credit Insurance Programs) (FY2013 year-end)



The Roles and Scope of the SME Unit as Policy-based Financing

Policy-based financing in Japan involves providing financial support based on the nation's key policies. These fields include new business development, management innovation, business revitalization and overseas development; these areas involve high risk which private financial institutions may have difficulty in supporting. The SME Unit quantitatively supplements the loans provided by private financial institutions whose willingness to lend may be affected by economic stagnation.

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



Supplementing Private Financial Institutions Both in Quality and Quantity with a Stable Supply of Long-term Funds

Dedicated to Long-term Funding

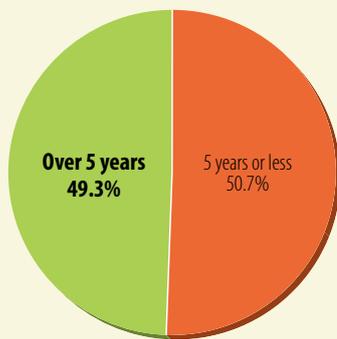
If SMEs are to grow and prosper, they must continually invest capital appropriately and consolidate their financial strength. To do this, they need to be able to raise long-term funds in a stable manner.

However, SMEs are at a disadvantage to larger enterprises in gaining access to funds from capital markets. In addition, private financial institutions tend to prefer short-term loans of one year or less, thus making it difficult for SMEs to raise sufficient long-term funds.

The SME Unit specializes in long-term funds that private financial institutions have difficulty in providing. 50% of the SME Unit's loans have lending periods of longer than five years, with fixed-interest rates that make it easier to map out repayment schedules.

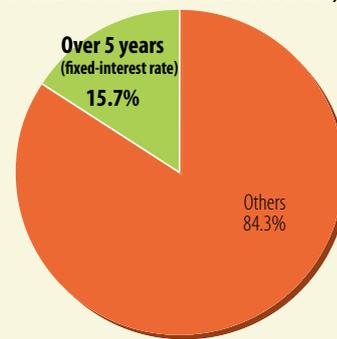
By complementing the activities of private financial institutions, the SME Unit meets the long-term funding needs of SMEs, which are a vital component of the Japanese economy.

● Breakdown of Loans of the SME Unit by Lending Period (share in Terms of Value) (FY2013)



Note: Data are for fixed-interest rate loans only.

● (Reference) Breakdown of Long-term Loans of Private Financial Institutions by Lending Period (share in Terms of Number of Borrowers) (FY2013)



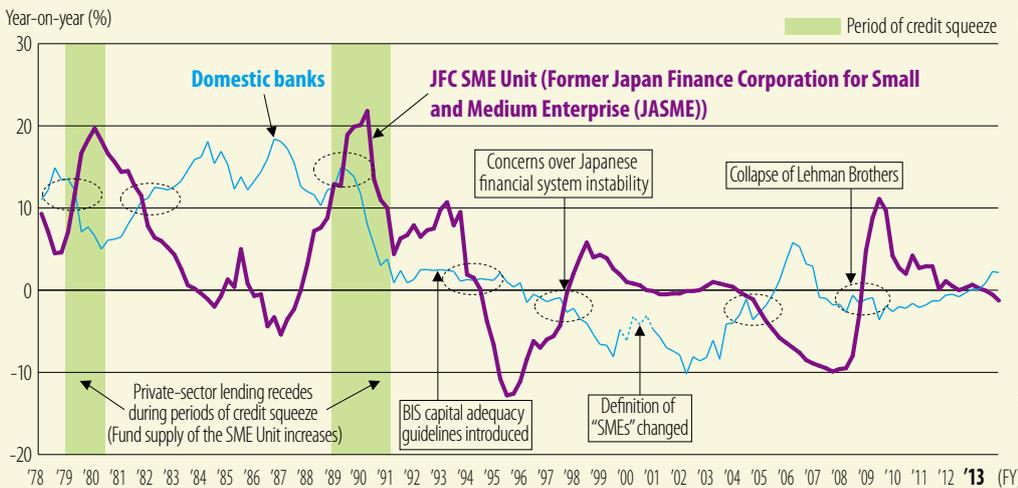
Source: JFC, "Quarterly Survey on SME Trends" (FY2013)

Stable Supply of Business Funds

The SME Unit's lending volume tends to rise sharply during a credit squeeze or when financial institutions are positioned for risk aversion (examples include the post-"Bubble" financial adjustment phase and periods of strategically tight lending) and declines when credit becomes easier to obtain.

Over the years, the SME Unit has provided SMEs with stable, long-term business funds by supplementing private financial institutions whose lending attitudes and activities are subject to impact by changes in prevailing business conditions.

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



Notes:
 1. Domestic bank balances refer to loans to SMEs to cover banking accounts only. From FY1993 forward, overdrafts have been included in the calculation base. Second-tier regional banks have been included in this category since FY1990.
 2. Figures for domestic banks prior to September 1996 refer to those for all Japanese banks.
 3. The definition of "SMEs" was changed in April 2000; the SME Unit has estimated the growth rate for domestic banks in the period from June 2000 to March 2001 based on the ratio between the old and new standards.

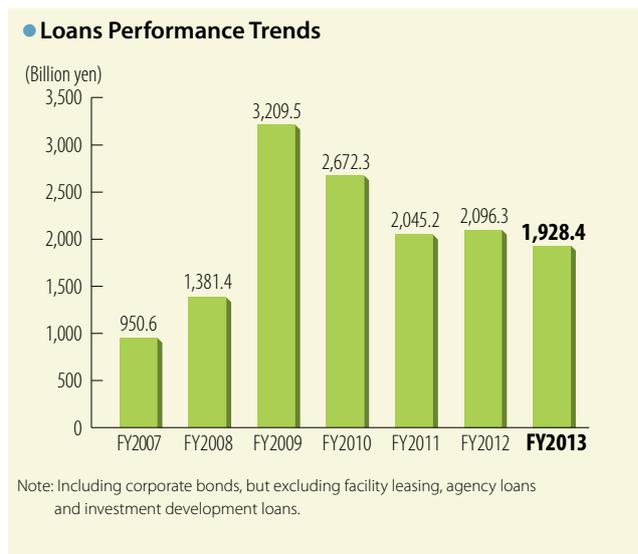
Source: Bank of Japan, "Financial and Economic Statistics Monthly"

Promoting Policy-based Special-purpose Loans in Response to Demands of the Times

Promoting Policy-based Special-purpose Loans

The SME Unit offers a variety of Special-purpose Loans designed to facilitate the government policy guidance by channeling funds into targeted sectors, funding for which remains insufficient when relying on private financial institutions alone. These sectors include venture businesses, business revitalization, overseas expansion, safety nets, regional economic revitalization, environmental measures, countermeasures against natural disasters, and stimulation of capital investment to promote employment, among others.

During FY2013, amid full-scale reconstruction after the Great East Japan Earthquake and the global financial crisis, the SME unit took concerted steps to fully exercise its safety-net function. In this manner, the SME Unit made every effort to support SMEs, which continued to experience increasingly difficult cash flow conditions brought on by a deteriorating operating environment.



Socioeconomic Developments and the SME Unit's Roles

Socioeconomic Developments	Roles Played by the SME Unit of JFC ~ Performance of Special-purpose Loans ^(Note) ~
1964 Tokyo Olympic Games held.	1960— Loans to Export-driven Manufacturers ¥7.7 billion (FY1964)
1970 World EXPO' 70 held in Osaka.	1970— Loans to Promote Modernization ¥35.5 billion (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 (FY1986) Loans to Facilitate Introduction of Consumption Tax ¥332.5 billion (FY1989)
1995 The Great Hanshin-Awaji Earthquake strikes. 1997 Hokkaido Takushoku Bank and Yamaichi Securities collapse.	1990— Loans for Disaster Recovery ¥107.1 billion (FY1995) Loans to Deal with Changes in the Financial Environment. ... ¥336.9 billion (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 (FY2004) Loans for Regional Revitalization and Employment Promotion ¥215.1 billion (FY2005) Loans to Promote New Business Activities ¥125.2 billion (FY2007) Safety Net Loans ¥925.8 billion (FY2008) ¥2,818.6 billion (FY2009)
2011 Catastrophe caused by the Great East Japan Earthquake.	2010— Safety Net Loans ¥2,203.8 billion (FY2010) Great East Japan Earthquake Recovery Special Loans ¥1,215.5 billion (FY2011)

Note: The names of the loans listed above are as of their scheme termination dates, or, for active schemes, as of March 31, 2014.

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

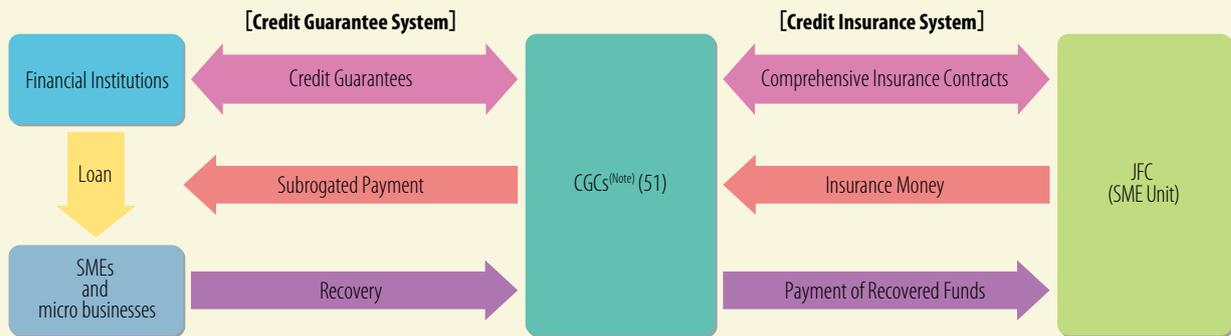
As a policy-based financial institution, the SME Unit has responded flexibly to meet the needs of customers that are experiencing financing difficulties by relaxing the repayment terms for existing loans. Furthermore, we will thoroughly prepare our internal system and make ourselves known to customers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

Facilitating the Smooth Flow of Funds to SMEs and Micro Businesses by Working Together with the Credit Guarantee System

Role of Credit Insurance System

The SME Unit insures guaranteed liabilities (i.e., credit guarantees) provided by CGCs to SMEs and micro 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 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 businesses. This mechanism is known as the Credit Supplementation System and plays a vital role in the Japanese government’s SME finance policy.

• Credit Supplementation System



Note: Credit Guarantee Corporations (CGCs)

Special public corporations established under the CGC Law. Numbering 51 across Japan, these corporations 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.

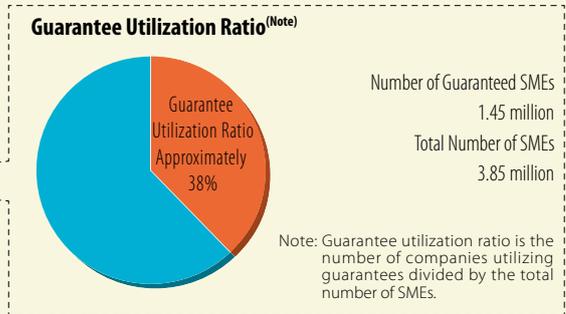
Approximately 38% of SMEs Utilize the Credit Supplementation System

As of the end of March 2014, the portion of outstanding loans to SMEs guaranteed by CGCs (i.e., outstanding guaranteed liabilities) amounted to some 29 trillion yen, accounting for approximately 12% of all loans to SMEs.

Moreover, some 1.45 million SMEs, or approximately 38% 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 businesses, and to their growth and prosperity by facilitating the smooth flow of funds.

• Changes in Outstanding Guaranteed Liabilities and Guarantee Utilization Ratio of 51 CGCs throughout Japan



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

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

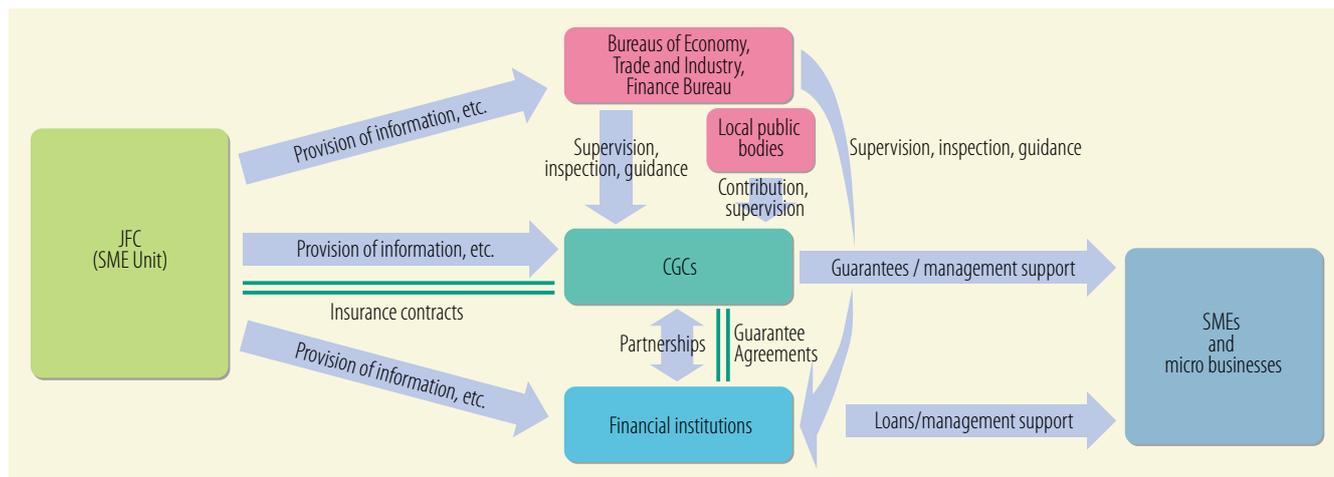
Changes in the Amount of Insurance Acceptance



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.

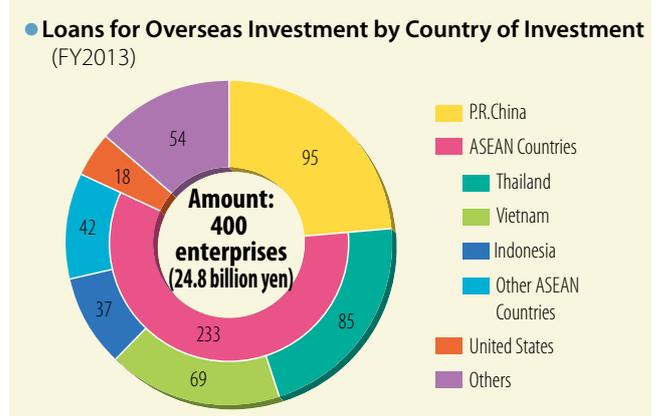
Given the heightened risks of insurance underwriting, the SME Unit will continue to promote partnerships in support of efforts aimed at the operation of sustainable systems.



Proactively Supporting SMEs Dealing with Internationalization by Providing Funds and Information

Loans for Overseas Investment

Client companies of the SME Unit have about 6,100 local subsidiaries actively engaged overseas. The SME Unit actively provides Loans for Overseas Investment that support the overseas expansion of SMEs, and many SMEs have taken advantage of the loans. During FY2013, many SMEs used this program, with loans being provided to 400 companies, totaling 24.8 billion yen.



Supporting Local Funds Procurement Overseas with the Standby Letter of Credit Program

The SME Unit has commenced its operation of the Standby Letter of Credit Program from FY2012 and has built business partnerships with overseas financial institutions.

About the Standby Letter of Credit Program

The Standby Letter of Credit Program supports SMEs and micro businesses' overseas subsidiaries' and branches' smooth procurement of long-term local currency denominated funds from JFC's affiliated overseas financial institutions by using JFC's Standby Letter of Credit as a guarantee. As of end of FY2013, letters of credit have been issued to 46 companies and JFC will continue to support overseas fundraising through this program.

Affiliated Overseas Financial Institutions (Note)

(countries listed in alphabetical order)

Country	Financial institution
Indonesia	Pt Bank Negara Indonesia (Persero) TBK
Republic of Korea	KB Kookmin Bank
Malaysia	CIMB Bank
The Philippines	Metropolitan Bank & Trust Company
Singapore	United Overseas Bank
Thailand	Bangkok Bank
Vietnam	VietinBank

Note: As of March 31, 2014. Affiliated overseas financial institutions are to be expanded.

Smooth fund-raising overseas

JFC's Standby Letter of Credit enables smooth **fundraising from JFC's affiliated overseas financial institutions.** The interest rate will be applied in consideration of JFC's creditability.

Avoid foreign exchange risks

SMEs' overseas subsidiaries can repay their loan in local currency from the money earned through their local business activities. This method **eliminates foreign exchange risks** which occur when SMEs' overseas subsidiaries obtain funds from their parent companies in Japan.

Improve the financial strength of Japanese parent companies

By shifting the funding sources for SMEs' overseas subsidiaries from their parent companies in Japan to overseas financial institutions, **the parent companies in Japan can downsize their balance sheets** and improve their management indexes, such as Return on Assets.

Enhancement of business management structure overseas

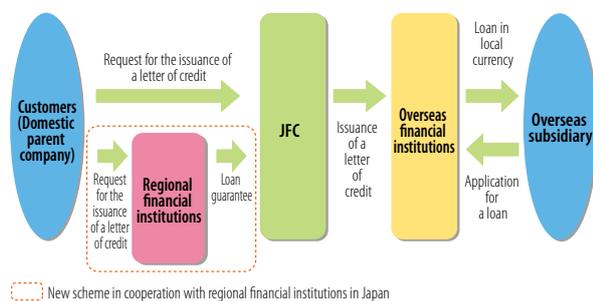
Using this program will enable the establishment and enhancement of direct financial trade with overseas financial institutions and furthermore, **contribute to strengthening fund-raising capacity and information-gathering ability overseas.**

Advantages of the Standby Letter of Credit Program

Business partnership with domestic regional financial institutions in the Standby Letter of Credit Program

Under the "Japan is Back" strategy announced in June 2013, the use of the Standby Letter of Credit Program was cited as one of the measures for the "Support towards SMEs' and micro businesses' overseas development." In order to allow more SMEs to make use of this program, we launched a scheme to partner regional financial institutions in October 2013. As of end of March 2014, we have business partnership with 30 regional financial institutions in Japan, with the first letter of credit issued in January 2014 under this scheme.

Standby Letter of Credit Program Schematic Chart



Local financial institution business partners (in alphabetical order as of end March 2014)

- The Aichi Bank, Ltd. (Aichi)
- The Bank of Nagoya, Ltd. (Aichi)
- The Chukyo Bank, Ltd. (Aichi)
- The Daisan Bank, Ltd. (Mie)
- The Daishi Bank, Ltd. (Niigata)
- The Ehime Bank, Ltd. (Ehime)
- The Eighteenth Bank, Ltd. (Nagasaki)
- The Fukui Bank, Ltd. (Fukui)
- Fukui Shinkin Bank (Fukui)
- The Fukushima Bank, Ltd. (Fukushima)
- The Gifu Shinkin Bank (Gifu)
- The Higashi-Nippon Bank, Ltd. (Tokyo)
- The Hyakujushi Bank, Ltd. (Kagawa)
- The Iyo Bank, Ltd. (Ehime)
- Kitaiseueno Shinkin Bank (Mie)
- The Kita-Nippon Bank, Ltd. (Iwate)
- Kuwana Shinkin Bank (Mie)
- The Kyoto Chuo Shinkin Bank (Kyoto)
- The Nagano Shinkin Bank (Nagano)
- The Ogaki Shinkin Bank (Gifu)
- The Oita Bank, Ltd. (Oita)
- The Osaka City Shinkin Bank (Osaka)
- Osaka Shinkin Bank (Osaka)
- The Saikyo Bank, Ltd. (Yamaguchi)
- The Seto Shinkin Bank (Aichi)
- The Taiko Bank, Ltd. (Niigata)
- The Tajima Bank, Ltd. (Hyogo)
- The Tomato Bank, Ltd. (Okayama)
- The Towata Bank, Ltd. (Gunma)
- Toyama Shinkin Bank (Toyama)

Supporting the expansion of SME's business opportunities abroad by solving business challenges, holding seminars and business negotiation meetings domestically and abroad, utilizing collaborative networks with JFC's overseas representative offices and relevant organizations overseas

Support for Resolving Overseas Management Issues

In cooperation with Representative Offices in Bangkok and Shanghai as well as other relevant organizations overseas, the SME Unit provides support for the solving various business challenges faced by SMEs in expanding their businesses overseas.

Case Example of SME Unit's Support for Solving Business Challenges (Representative Office in Bangkok)

Business Challenge

Upon receiving a request from a trading partner to manufacture and deliver products in Thailand in 10 months' time, Company A had to quickly look into expanding to Thailand. Therefore Company A requested the trading branch of the SME Unit for support to conduct a feasibility study.

Support from the SME Unit

With the suggestion from the trading branch of the SME Unit, Company A visited the Bangkok Representative Office of JFC. Together with JFC staff, Company A met with the management executives of the industrial park and the local subsidiary of Company A's trading partner. During the visit, they gathered specific information having overseas expansion in mind. Putting together the overseas expansion plan, the company decided to set up a factory in Thailand. The SME Unit then provided funds (Loans for Overseas Investment) for Company A to set up the factory concerned.

Holding of Business Network Meetings Overseas

Business Network Meeting in Shenzhen

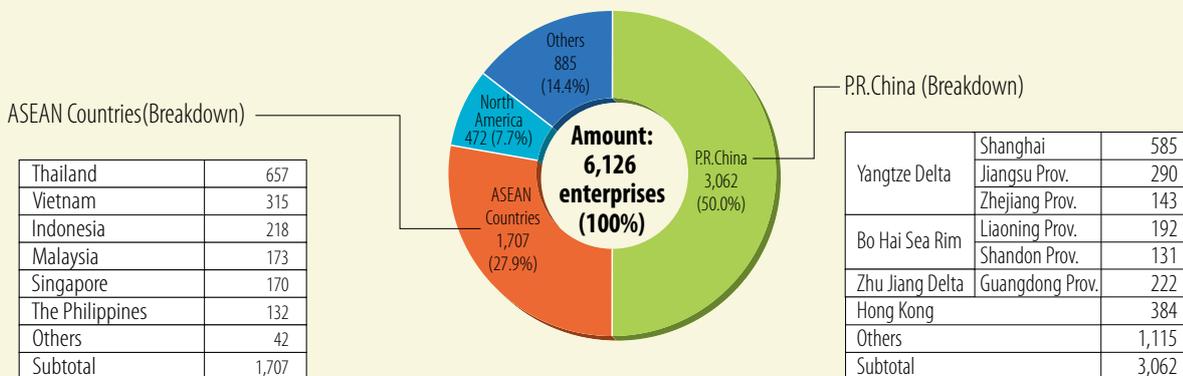
The SME Unit has held Business Network Meetings (seminars and social gatherings) with the local subsidiaries of client companies in various countries/regions to support them to solve managerial issues and to exchange information.

A Business Network Meeting was held in Shenzhen, P.R.China, in March 2014 with the support of the Shenzhen Japanese Chamber of Commerce and Industry. Approximately 70 people participated in the meeting where various experts gave lectures on themes such as "Recent Tax Inquiries and Customs Inspection Points" and "Risk Management in P.R.China (Local Risk Countermeasures, etc.)."



Seminar scene

Number of SME Unit's Clients Operating Overseas (FY2013 year-end)



Holding of Seminars on Overseas Business Expansion in Japan

In November 2013, the Higashiosaka Branch of the SME Unit collaborated with JETRO to hold the Overseas Development Seminar.

At this seminar, JETRO gave a speech regarding the latest economic situation in Thailand and Vietnam and introduced examples of companies which have expanded there.



Higashiosaka Branch Overseas Development Seminar

Cooperation with Overseas Institutions

Cooperation with APEC Financial Institutions Dealing with SMEs

To promote cooperation with SME-related financial institutions within the APEC region, the SME Unit signed an MOU^(Note) with 14 financial institutions in the region, including the China Development Bank (CDB) and the Small and Medium Enterprise Development Bank of Thailand (SME Bank). The SME Unit attends the annual meeting and engages in technical cooperation and information exchange.

Note: Memorandum of Understanding on Cooperation among APEC (Asia-Pacific Economic Cooperation) Financial Institutions Dealing with SMEs.



The 10th Annual Meeting of APEC Financial Institutions Dealing with SMEs (Singapore)

Cooperation with ACSIC Member Institutions

The Asian Credit Supplementation Institution Confederation (ACSIC) comprises 16 institutions including the Korea Credit Guarantee Fund (KODIT), PT. Asuransi Kredit Indonesia (PT. Askrindo) and Thai Credit Guarantee Corporation (TCG). As an ACSIC member, the SME Unit attends the annual conference and actively encourages mutual exchange with institutions engaged in implementing the Credit Supplementation System.



The 26th ACSIC Conference (Republic of Korea)

Providing Financing and Other Support for the Recovery and Business Resumption of SMEs that Have Sustained Damage due to the Disaster

Disaster Recovery Loans

As a measure for SMEs that have sustained damage due to earthquakes, typhoons or other types of natural disasters, as well as establishing the special consultation desk, the SME Unit provides support for recovery and business resumption through the provision of Disaster Recovery Loans.

● Disaster Recovery Loans (total as of March 31, 2014)

Date of disaster		Name of disaster	Main affected areas	Loans granted	
Year	Month			Number of cases	Amount
1995	1	The Great Hanshin-Awaji Earthquake	Osaka, Hyogo	3,906	174.8 billion yen
2004	7	Disaster caused by torrential rain	Fukui	38	0.9 billion yen
	10	Disaster caused by torrential rain and rainstorms	Kyoto, Hyogo	35	0.7 billion yen
	10	The Niigata Chuetsu Earthquake	Niigata	135	3.7 billion yen
2007	7	The Niigata Chuetsu-oki Earthquake	Niigata	25	0.4 billion yen
2011	3	The Great East Japan Earthquake	Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima	23,083	1,591.9 billion yen

Response to the Great East Japan Earthquake

The SME Unit has taken the following responses aimed at recovery support and business resumption of SMEs affected by the Great East Japan Earthquake:

1. Established special consultation services for the Great East Japan Earthquake at branch offices nationwide, and has responded to inquiries about financing and repayments from affected SMEs.
2. Has reduced the interest rate of Disaster Recovery Loans for SMEs that sustained particularly extensive damage as a result of the disaster.
3. Due to concerns of a worsening management environment for SMEs caused by the effects of the planned blackouts arising from the Great East Japan Earthquake or by damage caused by rumors associated with the problems at the nuclear power plant in Fukushima Prefecture, we have taken measures such as reducing interest rates for people who meet certain conditions.
4. As for inquiries about repayments from SMEs affected by this disaster, has strived to respond compassionately and to alleviate the burden, in view of the individual circumstances of the affected SMEs.

The Great East Japan Earthquake Recovery Special Loan

Following approval of the first supplementary budget for FY2011, the Great East Japan Earthquake Recovery Special Loan—a Loan Program directed at SMEs—commenced on May 23, 2011.

This Loan Program was created in response to the Great East Japan Earthquake for those who suffered direct and/or indirect damage and those subject to markedly worsened financing conditions due to rumors.

Eligibility ^(Note 1)	Maximum amount	Loan period (grace period)	Interest rate
<ul style="list-style-type: none"> ◆ People affected directly by the earthquake ◆ People who own business premises within a caution zone, etc., related to the nuclear accidents^(Note 2) 	Special quota of 300 million yen	Facility funds: maximum 20 years (up to 5 years) Operating funds: maximum 15 years (up to 5 years)	People issued with a damage certificate, etc.: ● 0.5% reduction from the standard rate ● For first 3 years of loan, 1.4% reduction from the standard rate for up to 100 million yen
People indirectly affected (people who have a certain degree of business with the eligible people listed above)		Facility funds: maximum 15 years (up to 3 years) Operating funds: maximum 15 years (up to 3 years)	People issued with a damage certificate, etc.: ● Standard rate ● For first 3 years of loan, maximum of 0.9% reduction from the standard rate for up to 30 million yen ● Rate reduction (0.2%, 0.3% or 0.5%) is applicable if certain conditions are satisfied
Other people whose sales, etc., have decreased due to the effects of the earthquake (including effects attributable to damage caused by rumors, etc.)	Special quota of 720 million yen	Facility funds: maximum 15 years (up to 3 years) Operating funds: maximum 8 years (up to 3 years)	● Standard rate ● Rate reduction (0.2%, 0.3% or 0.5%) is applicable if certain conditions are satisfied

Notes: 1. Those with an office in a designated disaster reconstruction zone and conducting business in that area.
 2. Caution zones, planned evacuation zones, emergency evacuation preparation zones.

The SME Unit Actively Supports Initiatives for the Revitalization and Business Succession of SMEs, Utilizing Capital 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, management reconstruction and business succession initiatives.

• Corporate Revitalization Loans

Year	FY2011	FY2012	FY2013
No. of companies	808	948	1,142
Amount (billion yen)	64.6	79.1	113.3

• Subordinated Capital Loans (Recovered Loans)

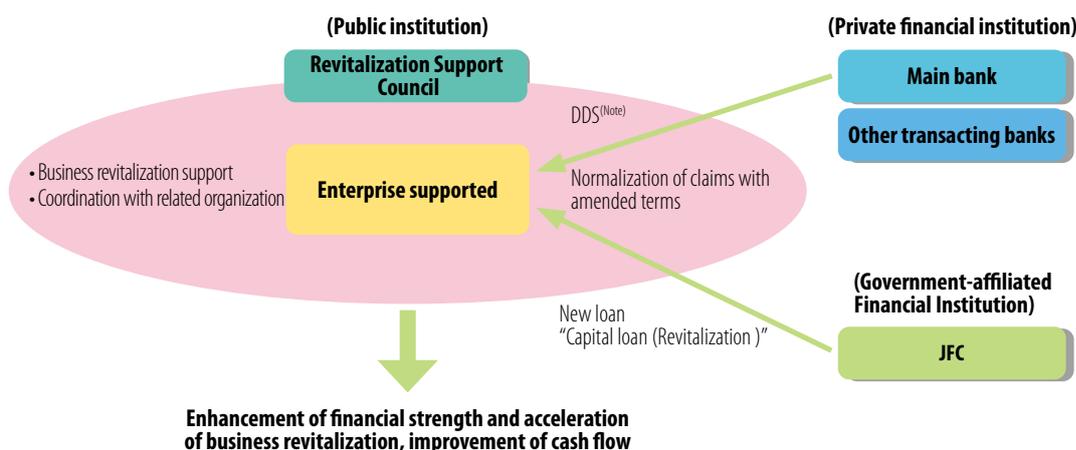
Year	FY2011	FY2012	FY2013
No. of companies	308	405	644
Amount (billion yen)	16.6	27.0	56.0

Cooperation with Public Revitalization Support Institutions

By the end of December 2013, Small and Medium Enterprise Revitalization Support Councils had provided revitalization planning support to 5,920 companies nationwide. The SME Unit participated in the provision of support to about one-third (1,664) of these companies (total as of December 31, 2013).

No. of revitalization planning matters completed by Small and Medium Enterprise Revitalization Support Councils (cumulative total)	No. of cases where the SME Unit of JFC participated in the provision of support (cumulative total)	
		Support through loans
5,920 companies	1,664 companies (28.1%)	227 companies

Implementation of Capital Loan (Revitalization) in Cooperation with Public Revitalization Support Institution and Private Financial Institution



Using a capital loan (revitalization), the Nagoya Branch's SME Unit (currently the Nagoya Support Branch in the West Japan SME Support Office), provided finance to two small and medium manufacturers (group companies) which were supported by the Aichi Prefecture Small and Medium Enterprise Revitalization Support Council in the enactment of their revitalization plans.

In this case, through the implementation of revitalization support using a combination of DDS^(Note) by private financial institutions, normalization of claims with amended terms, and new financing by JFC (capital loan (revitalization)), the financial strength of the company was enhanced, its cash flow was improved, and its revitalization was accelerated by the implementing of support in cooperation with a private financial institution and the Council.

Going forward, the SME Unit will continue to actively support the business revitalization of SMEs.

Note: Financial support technique that aims to eliminate insolvency by converting a part of the debt into a subordinated capital loan that can be deemed as net worth according to the inspection manual for financial institutions.

Addition of DES Feature

To enhance the support provided to SMEs engaged in revitalization, the Japan Finance Corporation Act was amended in June 2013 by the addition of a debt-for-equity swap (DES) feature.

A DES is the exchanging of a company's debt for equity. The transfer of debt to shares in a company with potential for revitalization improves the company's financial condition and promotes the revitalization of its business.

It is expected that companies capable of implementing a DES with the cooperation of private financial institutions or other parties will be the subject of the support, based on equitable procedures including the participation of Small and Medium Enterprise Revitalization Support Councils.

State of Loan Programs

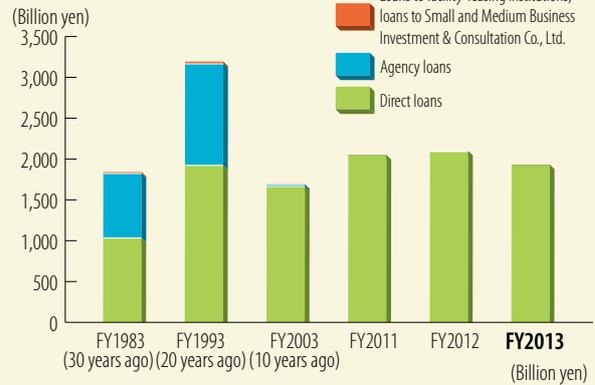
● Outstanding Loans



	(Billion yen)					
Direct loans	3,191.8	6,655.1	7,280.7	6,399.9	6,429.1	6,331.7
Agency loans	1,990.6	2,478.6	276.5	32.3	23.9	17.7
Loans to facility-leasing institutions; loans to Small and Medium Business Investment & Consultation Co., Ltd.	59.5	101.6	36.7	7.4	6.2	4.7

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

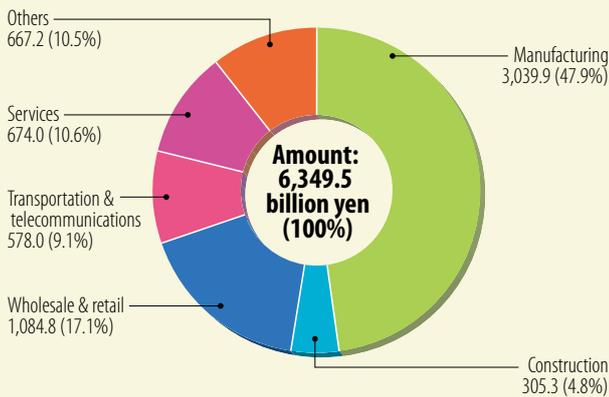
● Performance of Loans



	(Billion yen)					
Direct loans	1,032.7	1,923.1	1,664.4	2,044.9	2,095.7	1,927.9
Agency loans	789.9	1,241.8	23.3	0.2	0.5	0.5
Loans to facility-leasing institutions; loans to Small and Medium Business Investment & Consultation Co., Ltd.	19.0	28.0	5.8	1.7	1.0	0.4

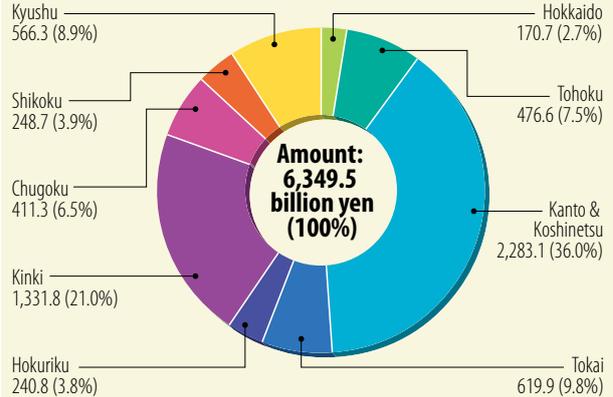
Note: From FY2001, the outstanding amount of direct loans includes the amount underwritten for corporate bonds purchased.

● Outstanding Loans by Industry (FY2013 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 (FY2013 year-end) (Billion yen)



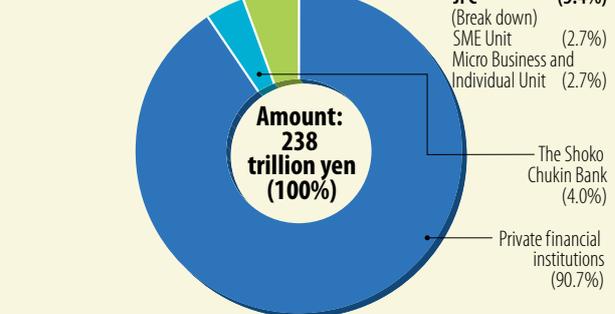
(Outstanding loans include corporate bonds. Breakdowns are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.)

● Breakdown of Loans by Facility and Operating Funds (FY2013 year-end) (Billion yen)



(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 loan amount.)

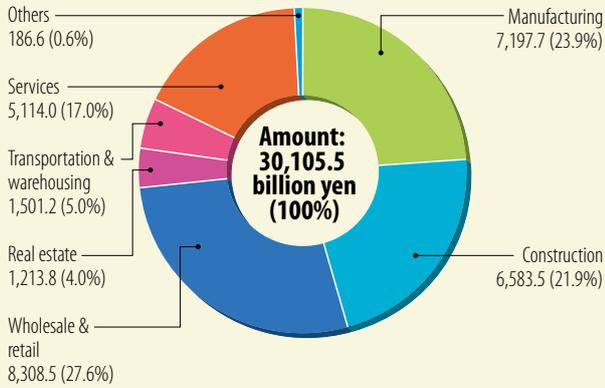
● (Reference) JFC's Share of Outstanding Loans to SMEs (FY2013 year-end)



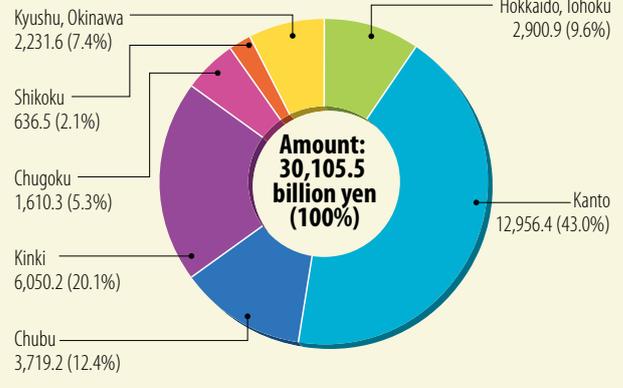
Source: Bank of Japan, "Financial and Economic Statistics Monthly," etc.
 Notes: • The SME Unit's outstanding loans are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.
 • The figure 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 credit cooperative agency loans.
 • The amount of outstanding loans by private financial institutions is the total of loans by city banks, trust banks, regional banks, second-tier regional banks and credit associations, and does not include those of credit cooperatives.

State of Credit Insurance Programs (Small Business Credit Insurance)

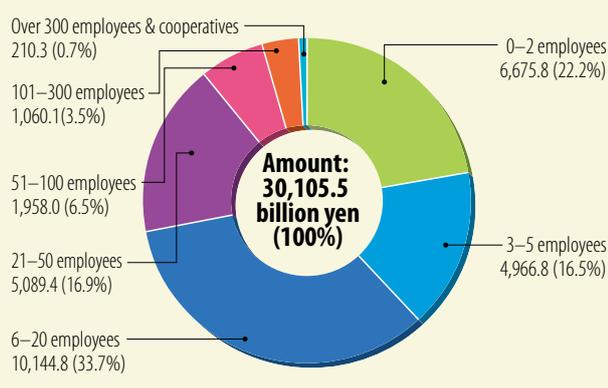
● Outstanding Amounts of Insurance by Industry (FY2013 year-end) (Billion yen)



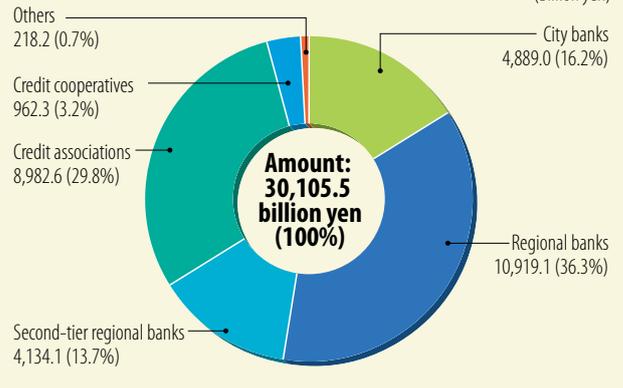
● Outstanding Amounts of Insurance by Region (FY2013 year-end) (Billion yen)



● Outstanding Amounts of Insurance by Number of Employees (FY2013 year-end) (Billion yen)

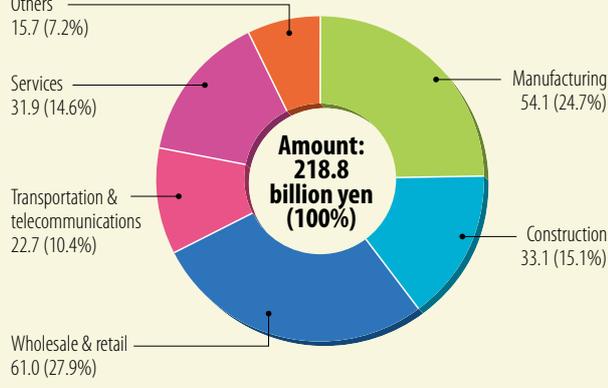


● Outstanding Amounts of Insurance by Type of Financial Institution (FY2013 year-end) (Billion yen)

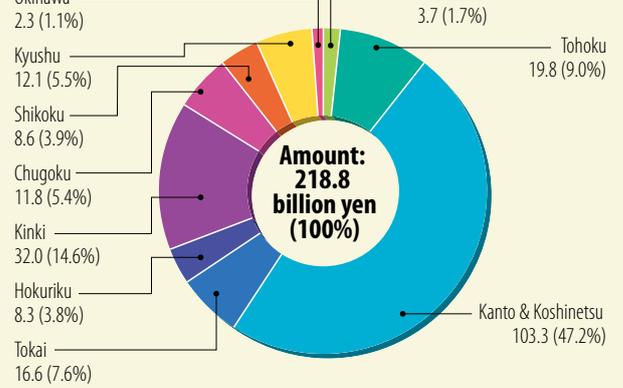


State of Securitization Support Programs (purchase-type and guarantee-type)

● Provision of Funds by Industry (Cumulative results (FY2004–2013)) (Billion yen)



● Provision of Funds by Region (Cumulative results (FY2004–2013)) (Billion yen)



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Number of Loan Offices: 152

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Loan Programs and Securitization Support Programs

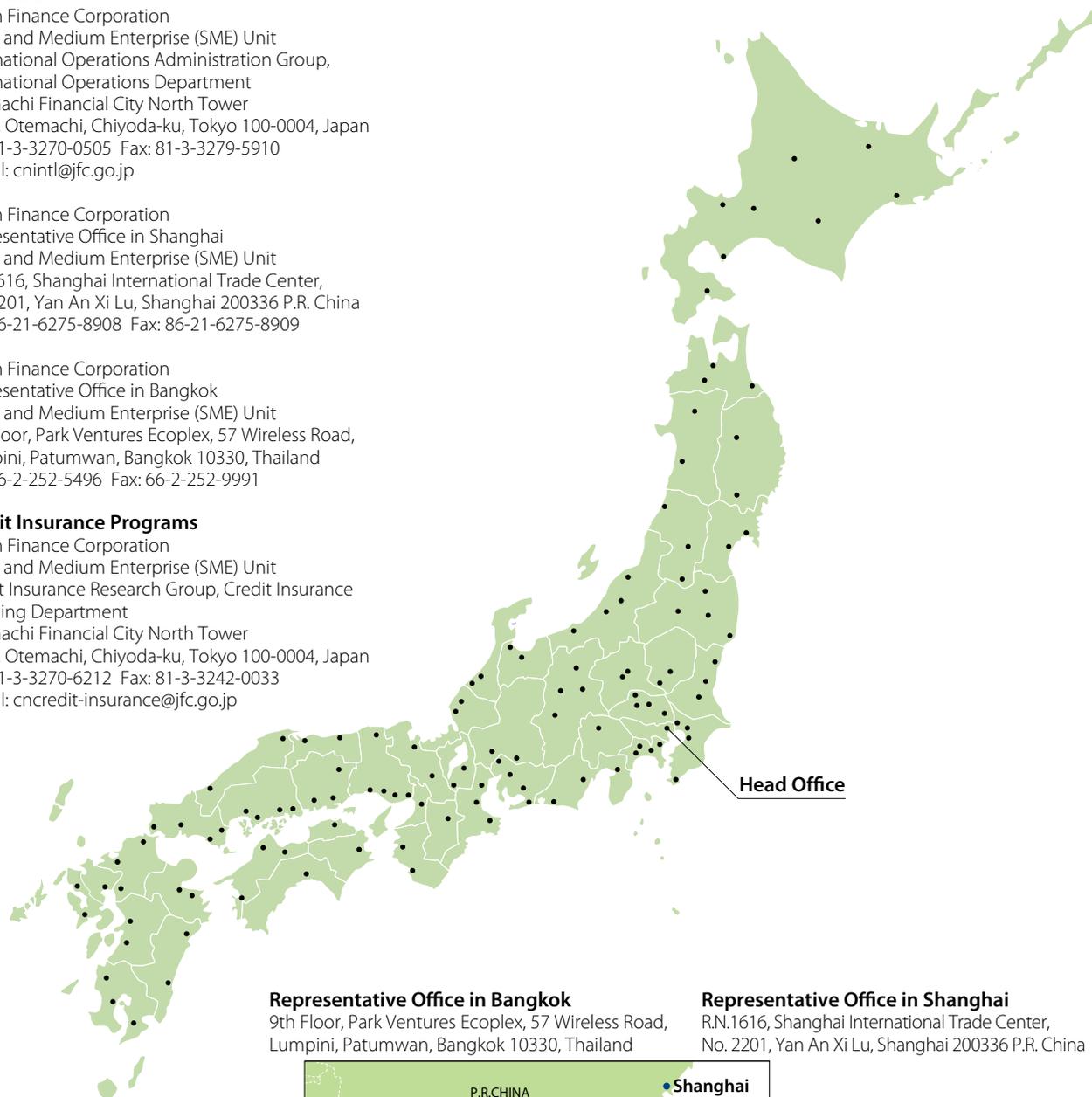
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