

# Japan Finance Corporation

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

# 2017



JAPAN FINANCE CORPORATION

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A note on figures used in this Report:

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

Numbers of 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.

## Message from the General Manager of the SME Unit

First of all, I would like to express my deepest appreciation for the kind understanding and cooperation towards the operations of Japan Finance Corporation's Small and Medium Enterprise (SME) Unit.

Much like the two wheels of a vehicle, by having our Loan Programs and Credit Insurance Programs function together, the SME Unit provides comprehensive assistance from both financial and informational perspectives, working in cooperation with private financial institutions to support the growth and expansion of SMEs and micro businesses that are the driving force behind Japan's economy at both the national and regional levels.

As for 2016, we put our efforts into exercising our safety net functions by providing financial support towards SMEs and micro businesses working to improve business management, along with support towards post-disaster reconstruction from the Kumamoto Earthquake and other natural disasters such as typhoons. In addition, we also focused on financing towards the strategic area of economic growth such as "new businesses", "business revitalization" and "overseas expansion" through appropriate risk-taking.

As a result of these efforts, for FY2016, the amounts of loans to SMEs was 1.5 trillion yen and the amounts of insurance acceptance for credit guarantee was 8.1 trillion yen, therefore providing 9.6 trillion yen worth financial assistance to SMEs in total.

Accordingly, we currently manage our business operations by positioning the following 6 items that are to be prioritized in pursuing our action plans.

### 1) Active action towards safety net demands

JFC will continue to strive to take every appropriate measure to meet the demands for our safety net functions in order to ease and overcome the effects caused by various disasters and economic environmental changes, including support towards post-disaster reconstruction from the Great East Japan Earthquake.

### 2) Appropriate exertion of risk-taking functions

By utilizing tools such as Capital Subordinated Loans, Securitization Support Programs, Standby Letter of Credit Programs and Loans in Foreign Currencies, we will actively support the "aggressive business management" approach of SMEs by focusing on financing towards the abovementioned strategic area of economic growth. At the same time, we will continuously make efforts to minimize guarantor requirements, and actively provide funds accompanied by management improvement support for our clients who face severe business environments.

### 3) Enhancement of consulting functions

To provide one-stop service as a "visiting home doctor" and/or "management concierge", we will strengthen our consulting functions more than ever by further promoting the provision of information such as financial analysis and business matching, etc., and by enhancing partnership with public networks of services.



### 4) Sustainable operation of the Credit Supplementation System and response to systemic revisions

We will continue to operate the Credit Supplementation System appropriately and soundly through our Credit Insurance Programs and work steadily to respond to various systemic revisions under the amendment of the Small and Medium-sized Enterprises Credit Insurance Act, etc. We will also proactively collect information and exchange opinions with the Credit Guarantee Corporations.

Moreover, please allow us to introduce the following 2 items which we promote as our internal approaches.

### 5) Exertion and inheritance of JFC's DNA

We will substantiate and deepen the "Exertion and inheritance of JFC's DNA (① detailed examination of financial documents, ② profound communication with customers, ③ frequent on-site visits)", which are the basis of strengthening relationships with our clients such as the aforementioned risk-taking and consultations, and also endeavor to upgrade in line with the change of the times and operating environments.

### 6) Improvement of operational efficiency and business quality

In order to steadily implement the abovementioned items, we will continue to actively engage in operational efficiency through BPR (business process re-engineering) efforts along with the further improvement of business quality and customer services.

In cooperation with the Micro Business and Individual Unit and the Agriculture, Forestry, Fisheries and Food Business Unit, we will further endeavor to fulfill our function as a policy-based financial institution under the governmental policies and to work closely with SMEs and micro businesses to become a financial institution that can be relied upon. We ask for your continued understanding and cooperation.

**Atsuo Kuroda**

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, 2017)

- 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: 4,061.1 billion yen  
Reserve fund: 1,833.9 billion yen
- Branch Offices: Japan: 152  
Overseas representative offices: 2
- Employees: 7,364 (budgetary fixed number for FY2017)
- Outstanding Loans:
 

Micro Business and Individual Unit	18,391.4 billion yen
Agriculture, Forestry, Fisheries and Food Business Unit	7,059.7 billion yen
Small and Medium Enterprise (SME) Unit	2,753.4 billion yen
(Finance Operations)	5,685.6 billion yen
Operations to Facilitate Crisis Responses	2,824.2 billion yen
Operations to Facilitate Specific Businesses Promotion, etc.	68.2 billion yen

## Basic Philosophy

### ● Focused Policy-based Financing

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

### ● Mainstreaming Governance

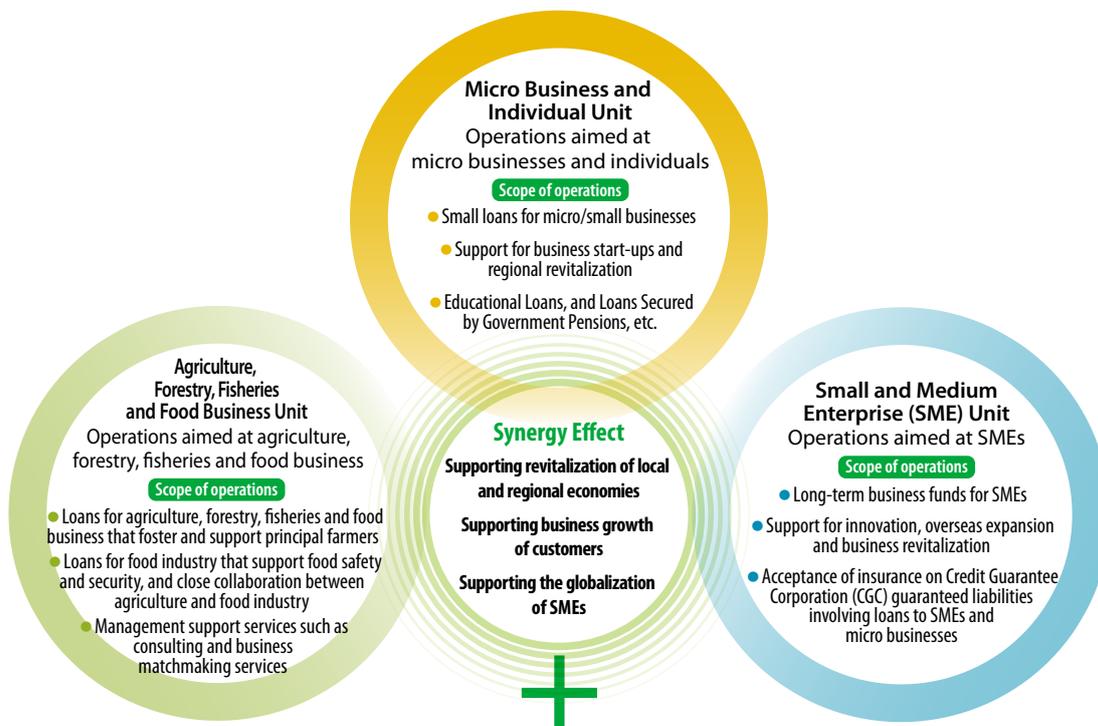
Strive to conduct highly transparent and efficient business operations based on a high level of corporate governance and hold itself accountable to the public.

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

Total Loans Provided



## Major Business Operations of JFC



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

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

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

Note: Loans to facility-leasing institutions has 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 FY2016

##### ▶ Loan Programs

Loans .....	1,559.4 billion yen
Direct loans .....	1,559.4 billion yen
Agency loans .....	0.0 billion yen
Loans to Small and Medium Business Investment & Consultation Co., Ltd. ....	0.0 billion yen
Outstanding loans .....	5,685.6 billion yen
Direct loans .....	5,676.4 billion yen
Agency loans .....	8.0 billion yen
Loans to facility-leasing institutions, loans to Small and Medium Business Investment & Consultation Co., Ltd. ....	1.2 billion yen

##### ▶ Securitization Support Programs

Financing support amount	
Purchase type .....	25.7 billion yen
Financing support balance	
Purchase type .....	33.7 billion yen
Outstanding holdings such as asset backed securities	
Purchase type .....	12.1 billion yen
Outstanding guaranteed liabilities such as asset backed securities	
Purchase type .....	3.7 billion yen
Outstanding guaranteed liabilities of loan claims	
Guaranteed type .....	0.0 billion yen

#### Credit Insurance Programs

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

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

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

#### Performance for FY2016

##### ▶ Credit Insurance Programs

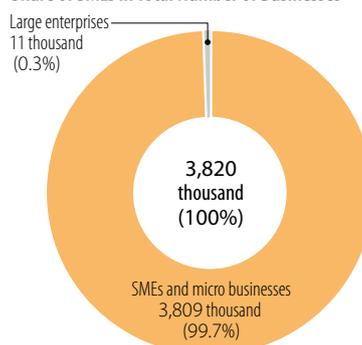
Amounts of insurance acceptance and loans	
Small Business Credit Insurance .....	8,101.1 billion yen
No record of loans to CGCs and Special Insurance for Mid-size Enterprises	
Outstanding amounts of insurance and loans	
Small Business Credit Insurance .....	24,093.6 billion yen
Special Insurance for Mid-size Enterprises .....	0.0 billion yen
Machinery Credit Insurance <sup>(Note)</sup> .....	0.7 billion yen
No record of loans to CGCs	

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

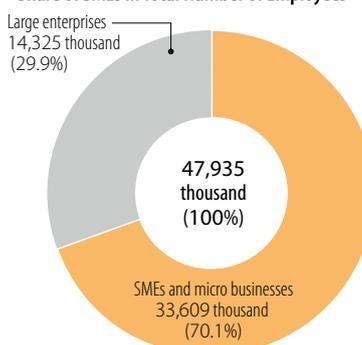
SMEs and micro businesses account for 99% of all businesses and approximately 70% of the total workforce in Japan. These figures attest to the fact that SMEs and micro businesses are the very source of Japanese economic vitality and the primary force underpinning regional economies.

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 Businesses



Share of SMEs in Total Number of Employees



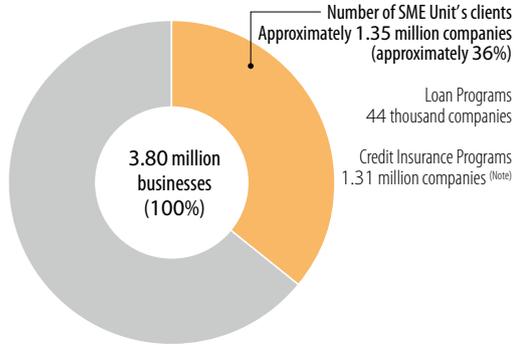
Source: Ministry of Internal Affairs and Communications, "2014 Economic Census for Business Frame," edited by the Small and Medium Enterprise Agency.

## 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 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.

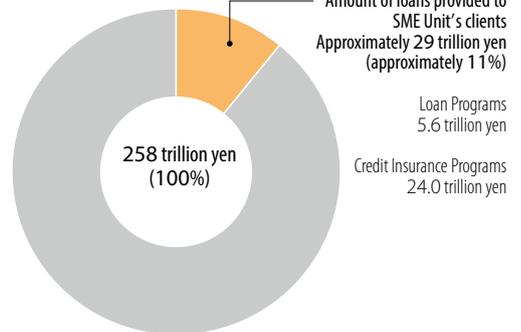
The SME Unit provides a wide range of support to meet the individual needs of each SME and micro business through its financial tools, Loan Programs, Credit Insurance Programs and Securitization Support Programs.

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



Note: Number of companies utilizing the Credit Guarantee System.  
Sources: Ministry of Internal Affairs and Communications, "2014 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



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

The SME Unit facilitates funds to 1.35 million SMEs and micro businesses (approximately 36%) and accounts for 11% of outstanding loans to SMEs and micro businesses.

### Characteristics of SME Unit's Clients

#### Loan Programs (Direct loans)

- Number of clients ..... 44 thousand companies
- Average loan for FY2016
  - Average loan amount per client ..... 102 million yen
  - Average term of loan ..... 7 years and 11 months
  - Average amount of capital per client ..... 44 million yen
  - Average number of employees per client ..... 77
- Approximately 79% of outstanding loans are loans to companies with 20 employees or more, and approximately 94% 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 FY2016)

#### Credit Insurance Programs

- Number of clients ..... 1.31 million companies (Note)
- Average insurance for FY2016
  - Average amount of insurance acceptance per client... 17 million yen
  - Average term of insurance ..... 4 years and 11 months
  - Average number of employees per client ..... 7
- Approximately 74% of the outstanding amounts of insurance is insurance to companies with 20 employees or less, and approximately 68% have capital of 10 million yen or less.
- Covers a wide range of industries

Note: Number of companies utilizing the Credit Guarantee System

Note: Results are current as of March 31, 2017.

The SME Unit also helps to maintain employment, with the number of employees at the 44 thousand companies receiving support (Direct loans) rising to approximately 2.48 million persons (as of March 31, 2017).

Outstanding Loans by Type of Industry (Loan Programs) (FY2016 year-end)



Outstanding Amounts of Insurance by Type of Industry (Credit Insurance Programs) (FY2016 year-end)



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

Policy-based financing in Japan not only provides financial support under the nation's key policies towards certain fields such as new business development, business revitalization and overseas expansion, fields that involve high risks, it also quantitatively supplements the loans provided by private financial institutions whose lending attitudes may be affected by economic stagnations.

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 through its financial tools as well as serving as a safety net functions.



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

Dedicated to Long-term Funding

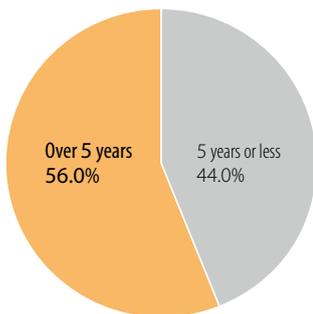
If SMEs are to grow and prosper, they must continually invest capital appropriately and consolidate their financial strength. To do this, they need to be able to raise long-term funds in a stable manner.

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. A little 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.

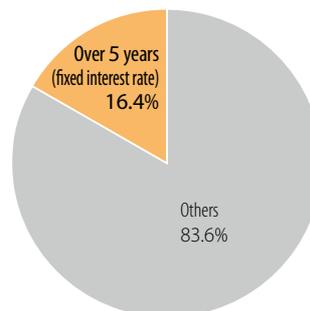
By complementing the activities of private financial institutions, the SME Unit meets the long-term funding needs of SMEs, which are a vital component of the Japanese economy.

Breakdown of Loans by Lending Period (Share in Terms of Value) (FY2016)



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 Loans) (FY2016)



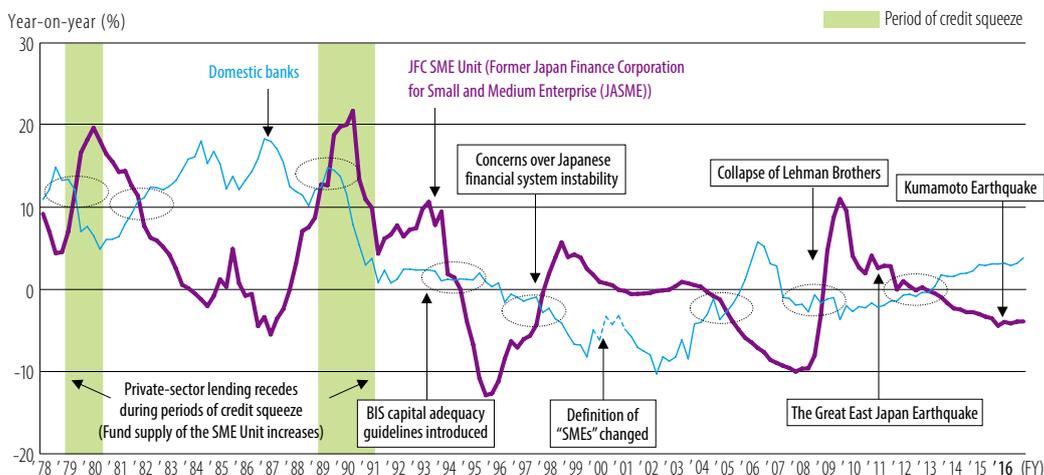
Source: JFC, "Quarterly Survey on SME Trends" (FY2016).

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" and post-Lehman Shock periods of economic stagnation) 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 be impacted by changes in prevailing business conditions, including economic stagnation.

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. Regional banks II 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, "Loans and Bills Discounted by Sector"

# Promotion of Policy-based Special-purpose Loans

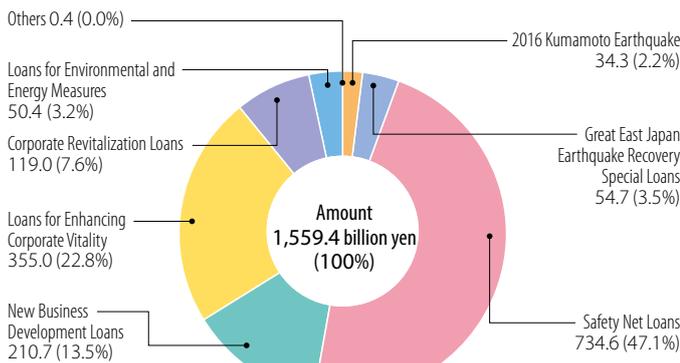
## Promoting Policy-based Special-purpose Loans in Response to Demands of the Times

### Promoting Policy-based Special-purpose Loans

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

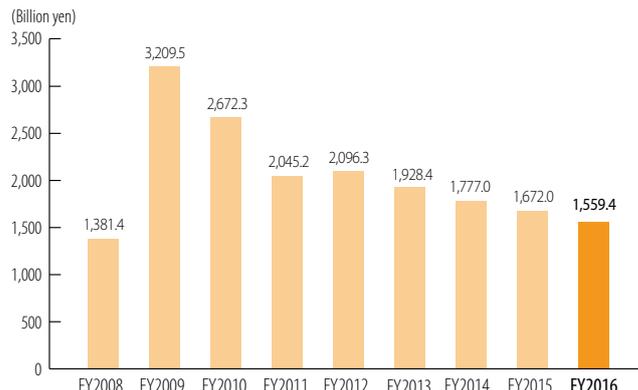
During FY2016, amid full-scale reconstruction after the Great East Japan Earthquake and reconstruction of the disaster region of the Kumamoto Earthquake, the SME Unit took concerted steps to fully exercise its safety net function. In this manner, the SME Unit made every effort to support SMEs, which continued to experience increasingly difficult cash flow conditions brought on by a deteriorating operating environment.

**Breakdown of Loans (FY2016) (Billion yen)**



Note: Loans include corporate bonds, but excluding loans to Small and Medium Business Investment & Consultation Co., Ltd. Performance for respective loan systems is rounded down to the nearest 100 million yen.

**Changes in Loan Performances**



Note: Loans include corporate bonds, but excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd.

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

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

Note: The names of the loans listed above are as of their scheme termination dates, or, for active schemes, as of March 31, 2017.

### 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 our clients 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 while strengthening our cooperation with private financial institutions and thereby work to further promote finance facilitation.

# Demonstrating Credit Supplementation Function

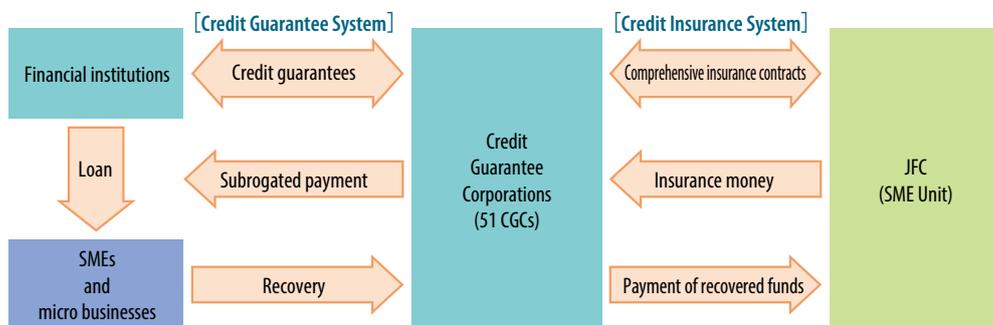
## Facilitating the Smooth Flow of Funds to SMEs and Micro Businesses by Working Together with the Credit Guarantee System

### Role of the Credit Insurance System

The SME Unit insures guaranteed liabilities (credit guarantees) provided by CGCs to SMEs and micro 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.

Also, reviews on the Credit Supplementation System was conducted by the Financial Working Group established within the Small and Medium Enterprise Policy-Making Council. As a result, the paper on "Towards the establishment of a sustainable Credit Supplementation System to support the business expansion of SMEs and micro businesses" was summarized as of December 2016. Based on this paper, legislation for the partial revision of the "Small and Medium-sized Enterprise Credit Insurance Act to Promote Improvements and Developments of SME's Business Management" was enacted in June 2017. The SME Unit will continue to respond appropriately to various systemic revisions by collaborating with relevant institutions.

#### Overview of the 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.

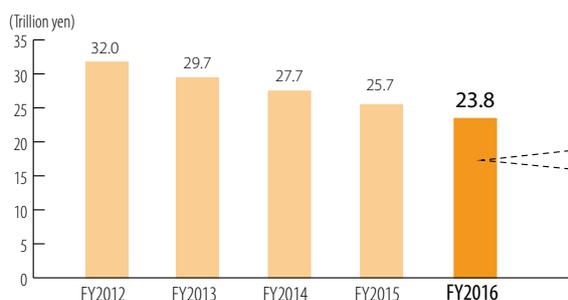
### 34% of SMEs Utilize the Credit Supplementation System

As of the end of March 2017, the portion of outstanding loans to SMEs guaranteed by CGCs (outstanding guaranteed liabilities) amounted to 23 trillion yen, accounting for 9% of all loans to SMEs.

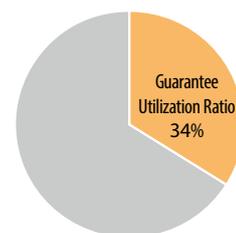
Moreover, 1.31 million SMEs and micro businesses, accounting for 34% of all SMEs in Japan, were raising funds with the support of the Credit Guarantee System.

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 smooth flow of funds.

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



#### Guarantee Utilization Ratio<sup>(Note)</sup> (FY2016)



Number of guaranteed SMEs: 1.31 million  
Total number of SMEs: 3.8 million

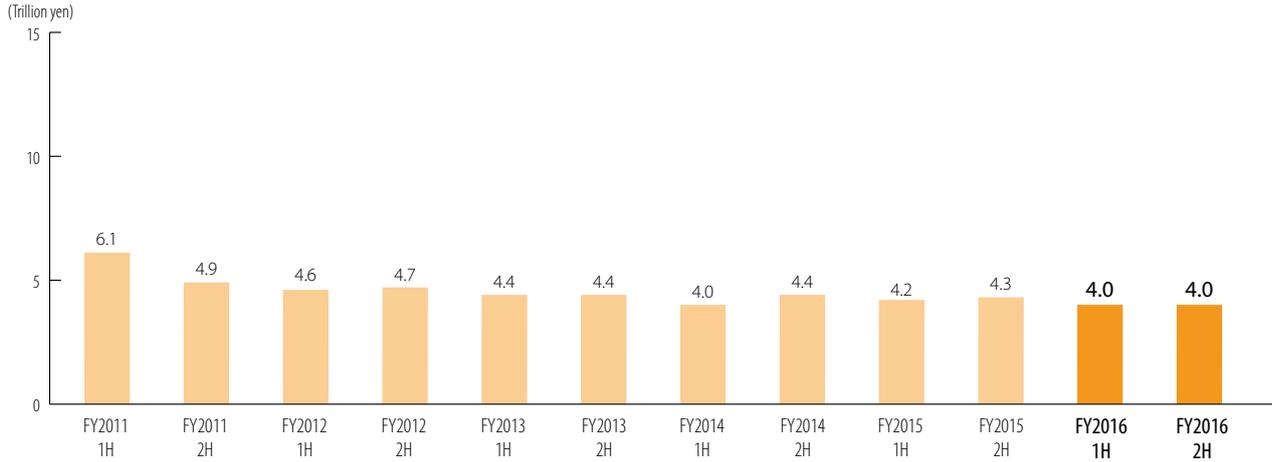
Note: Guarantee utilization ratio is the number of companies utilizing guarantees divided by the total number of SMEs.

## A Powerful Tool for Promoting the Government's Economic Policy

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

CGCs throughout Japan have implemented Safety Net Guarantees in light of recent economic and financial conditions. They have also implemented the Great East Japan Earthquake Recovery Emergency Guarantee Program based on the Special Financial Support Act for the Great East Japan Earthquake (Act No. 40 of 2011). By underwriting the insurance for these guarantees, the SME Unit helped in raising funds for SMEs and micro 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.

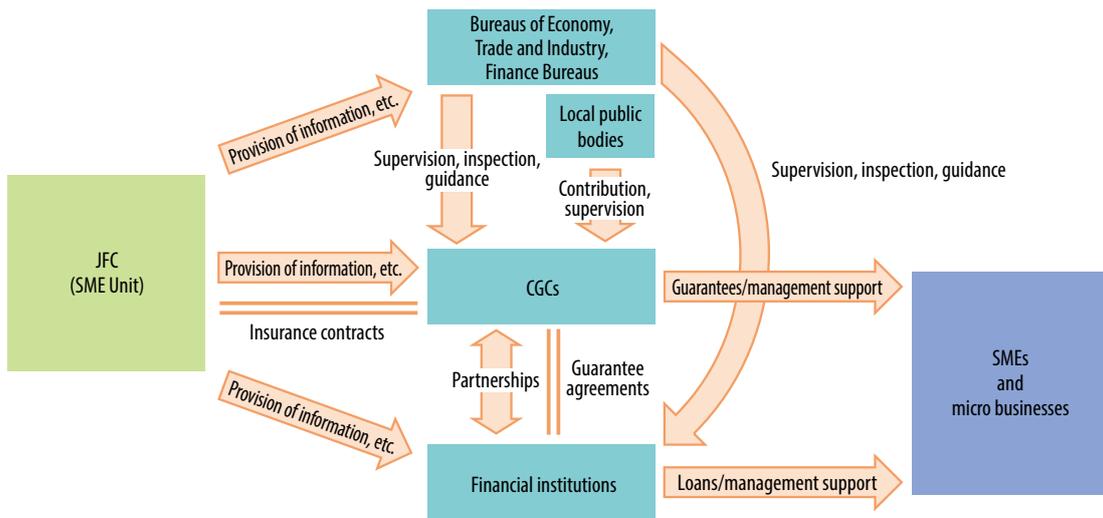
Changes in the Amounts of Insurance Acceptance



### 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.



Roles and Characteristics of the SME Unit

# Approach to Internationalization

## Proactively Supporting SMEs Dealing with Internationalization by Providing Funds and Information

### Loans for Overseas Investment and Expansion

Our client companies of the Small and Medium Enterprise (SME) Unit have 6,769 local subsidiaries actively engaged overseas and the SME Unit provides Loans for Overseas Investment and Expansion in a proactive manner to support the overseas expansion of SMEs. During FY 2016, many SMEs took advantage of this program, with loans being provided to 501 companies, totaling 27.2 billion yen (including loans in foreign currency).

In addition, the SME Unit expanded the Loans for Overseas Investment and Expansion in FY 2015 to provide loans in foreign currency (US dollars).

As for FY 2016, loans in foreign currency were widely utilized in regions such as Asia (China, Viet Nam, and Thailand) and the United States, being provided to 99 companies, totaling 46.24 million US dollars (equivalent to 4.9 billion yen).

Breakdown of business target countries and regions utilizing Loans for Overseas and Investment (FY2016)



### 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.

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 partnering overseas financial institutions by using JFC's standby letter of credit as a guarantee. In FY2016, partnerships with Ping An Bank of China and State Bank of India were initiated, and the number of affiliated overseas financial institutions expanded to 11 institutions, with cumulative usage (as of the end of March, 2017) of this program reaching 317 companies since its start in FY2012. JFC will continue in its efforts to support SMEs and micro businesses' overseas fundraising through this program.

Affiliated Overseas Financial Institutions<sup>(Note)</sup>  
(countries and regions listed in alphabetical order)

Country and region	Financial institution
China	Ping An Bank Co., Ltd.
India	State Bank of India
Indonesia	PT Bank Negara Indonesia (Persero) Tbk
Republic of Korea	KB Kookmin Bank
Malaysia	CIMB Bank Berhad
Mexico	Banco Mercantil del Norte, S.A.
Philippines	Metropolitan Bank & Trust Company
Singapore	United Overseas Bank Limited
Taiwan	Taiwan Cooperative Bank
Thailand	Bangkok Bank Public Company Limited
Viet Nam	VietinBank

Note: As of the end of March 2017.

#### Smooth fundraising 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.**

#### 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.

#### 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.

#### 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 fundraising capacity and information-gathering ability overseas.**

#### Advantages of the Standby Letter of Credit Program

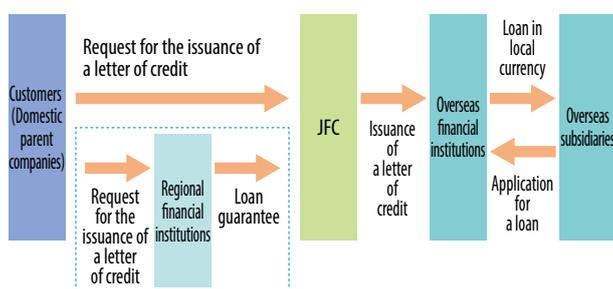
### Business partnerships with domestic regional financial institutions through the Standby Letter of Credit Program

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 the end of March 2017, we have business partnerships with 59 regional financial institutions in Japan, and letters of credit were issued to a total of 19 companies through this partnership scheme.

Partnering regional financial institutions (in alphabetical order as of the end of March 2017)

- The Aichi Bank, Ltd. (Aichi)
- The Awa Bank, Ltd. (Tokushima)
- The Bank of Fukuoka, Ltd. (Fukuoka)
- The Bank of Nagoya, Ltd. (Aichi)
- The Bank of Saga, Ltd. (Saga)
- 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 Enshu Shinkin Bank (Shizuoka)
- The Fuji Shinkin Bank (Shizuoka)
- Fujinomiya Shinkin Bank (Shizuoka)
- 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 Himeji Shinkin Bank (Hyogo)
- The Hokuetsu Bank, Ltd. (Niigata)
- The Hyakujushi Bank, Ltd. (Kagawa)
- The Iyo Bank, Ltd. (Ehime)
- The Kagawa Bank, Ltd. (Kagawa)
- Kansai Urban Banking Corporation (Osaka)
- Kitaseueno Shinkin Bank (Mie)
- The Kita-Nippon Bank, Ltd. (Iwate)
- The Kiyo Bank, Ltd. (Wakayama)
- Kuwana Shinkin Bank (Mie)
- The Kyoto Chuo Shinkin Bank (Kyoto)
- The Minato Bank, Ltd. (Hyogo)
- The Mishima Shinkin Bank (Shizuoka)
- The Nagano Bank, Ltd. (Nagano)
- The Nagano-ken Shinkumi Bank (Nagano)
- The Nagano Shinkin Bank (Nagano)
- Numazu Shinkin Bank (Shizuoka)
- Ogakiseino Shinkin Bank (Gifu)
- The Oita Bank, Ltd. (Oita)
- The Osaka City Shinkin Bank (Osaka)
- Osaka Shinkin Bank (Osaka)
- The Saikyo Bank, Ltd. (Yamaguchi)
- The Sanjo Shinkin Bank (Niigata)
- The Seishin Shinkin Bank (Shizuoka)
- The Seto Shinkin Bank (Aichi)
- Shimada Shinkin Bank (Shizuoka)
- The Shimane Bank, Ltd. (Shimane)
- The Shizuoka Shinkin Bank (Shizuoka)
- The Taiko Bank, Ltd. (Niigata)
- The Tajima Bank, Ltd. (Hyogo)
- The Tochigi Bank, Ltd. (Tochigi)
- The Tokushima Bank, Ltd. (Tokushima)
- The Tokyo Tomin Bank, Ltd. (Tokyo)
- Tomato Bank, Ltd. (Okayama)
- Tono Shinkin Bank (Gifu)
- The Tottori Bank, Ltd. (Tottori)
- The Towa Bank, Ltd. (Gunma)
- Toyama Shinkin Bank (Toyama)
- Yaizu Shinkin Bank (Shizuoka)
- The Yamagata Bank, Ltd. (Yamagata)
- The Yokohama Shinkin Bank (Kanagawa)

#### Standby Letter of Credit Program Schematic Chart



--- Scheme in cooperation with regional financial institutions in Japan

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

## Support for Resolving Overseas Management Issues

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

### Case Example of SME Unit's Support for Solving Business Challenges

#### ● Representative Office in Bangkok

##### Business Challenge

Despite Company A's Thai launch to follow a customer's expansion into this market, orders did not meet initial expectations due to factors such as the delayed launch of the customer's local subsidiary. In this context, support for the cultivation of local clients in Thailand was requested by Company A.

##### Support from the SME Unit

The SME Unit provided loans for expansion and local information through the Representative Office in Bangkok during the Thai launch of Company A. Through such support, the SME Unit was able to understand the distinguishing features and strengths of this company. To complement the search for candidate local subsidiary clients among JFC clients at the Representative Office in Bangkok, the SME Unit recommended their participation in the Japan-Thai Business Matching Meeting held annually in Bangkok. Following the arrangement of business talks by the Representative Office in Bangkok, Company A entered talks with a new client at this business meeting and was able to get through their launch. Subsequently, in addition to their continued participation in this meeting, Company A also participated in the JFC-hosted Business Network Meeting regularly held in Thailand, and are expanding their network locally.

#### ● Representative Office in Shanghai

##### Business Challenge

In the context of environmental regulations and increased urbanization, Company B received a plant relocation demand from a Chinese regional authority, and were obliged to consider relocating their plant. Company B requested the SME Unit for necessary information during investigations for relocation.

##### Support from the SME Unit

The Representative Office in Shanghai held hearing investigations with corporations, development zones and consulting companies which had experienced similar issues. From these, the necessary information for investigations into suitable candidate regions for the relocation was provided, including the relocation process, economic securities mechanisms, attendant costs and market information. Company B examined a number of relocation proposals and decided on the location for their move, by referring to the information provided by the Representative Office in Shanghai.

## Holding of Business Network Meetings Overseas, etc.

The SME Unit has been conducting Business Network Meetings (seminars and social gatherings) and Business Matching Meeting to support the local subsidiaries of client companies in resolving management issues and to provide opportunities for social and information exchange.

#### ● The 10th Japan-Thai Business Matching Meeting

In February 2017, Japan-Thai Business Matching Meeting was held in Bangkok, Thailand. This year's business matching meeting, being the 10th meeting since its start in 2006, was held jointly with The Board of Investment Thailand (BOI) and the Japanese Chamber of Commerce, Bangkok with the support and cooperation of the Japanese embassy, Japan External Trade Organization (JETRO), Japanese regional financial institutions in Thailand, local major financial institutions and Thai government institutions, etc. The business matching meeting had the participation of over 40 Japanese large enterprises (local subsidiaries) as buyers based on the cooperative structure of Japan-Thailand public and private institutions. With a record number of 296 companies participating, over 1,300 business negotiations took place on that day, creating opportunities for the local subsidiaries of client companies to cultivate sales channels to local Thai companies and Japanese large enterprises, etc.



The 10th Japan-Thai Business Matching Meeting

#### ● Business Network Meeting in Shenzhen

In March 2017, a Business Network Meeting was held in Shenzhen, China. Experts gave lectures on the respective themes of "Latest Trends in Wage and Employment" and "Important Points and Administrative Penalties for Customs Control and Customs Surveys," with around 120 participants.



Business Network Meeting (seminar)

## Holding of Seminars on Overseas Business Expansion in Japan

### ● Yamagata Branch Overseas Business Expansion Seminar

The Yamagata Branch, in collaboration with the Japan External Trade Organization (JETRO) and the Yamagata Public Interest Foundation for the Development of Industry, held 8 Overseas Business Expansion Seminars, with the aim of expanding exports of prefectural products, etc. Lectures were given at the seminar on the theme of such as “Trends in the ASEAN Food Markets,” and a total of around 210 people, mainly food businesses aiming to expand their business overseas, participated.

Also, in order to have these businesses more specifically consider “export” as a management strategy, the Yamagata Branch supported the implementation of the “Site Tours Mission for Promotion of Foodstuffs and Services Exports to Thailand.” This initiative aimed to observe consumption trends and purchasing status of Japanese food products. In collaboration with JETRO, 14 clients visited 11 locations including local retailers and logistics businesses. In addition to creating recognition of the demand for Japanese food products and services in Thailand, opportunities for business negotiations towards cultivating sales were generated, which also led to the conclusion of negotiations.



Yamagata Branch Overseas Business Expansion Seminar

### ● Kobe Branch Overseas Business Expansion Seminar

The Kobe Branch is building collaborative relationships with local authorities, regional financial institutions, and others. This includes partnering with Hyogo Prefecture and Kobe City, the Minato Bank, Ltd. and the Japan External Trade Organization (JETRO) to hold the “Overseas Business Expansion Seminar,” which aims to facilitate an understanding of the business climate in respective countries and regions. Specifically, seminars were conducted on 6 occasions with various targets including the United States, Mexico, Russia and Southeast Asia, to meet the diverse overseas expansion needs of clients. Lectures were given by experts on respective areas of specialization such as local commercial practices, regulations, and current economic circumstances, with a total of around 310 participants.



Kobe Branch Overseas Business Expansion Seminar

At the Russia Business Seminar conducted in July 2016, a speaker was invited from a major general trading company and gave explanations on the Russian business environment and characteristics of trade, based on a collaboration with Hyogo Prefecture, which has friendly ties with the Khabarovsk region of Russia. Approximately 50 people participated.

## Cooperation with Overseas Institutions

### ● Cooperation with ACSIC Member Institutions

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

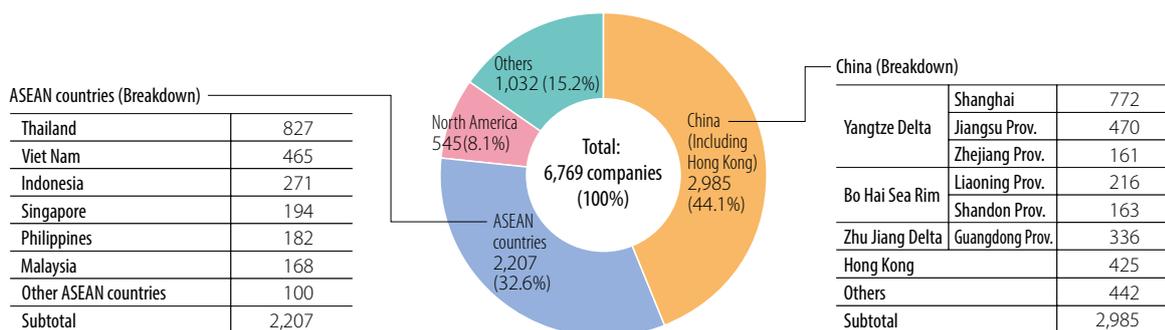


The 29th ACSIC Conference (Thailand)

## Support for Overseas Expansion Initiatives

The SME Unit established Coordinators for the Promotion of Overseas Business Expansion in 30 branches throughout Japan, based on the fact that SMEs were expanding overseas, with its 6,769 actively-engaged local subsidiaries. Centered on these coordinators, the SME Unit will actively promote support to all SMEs tackling overseas expansion, by enhancing partnerships with external organizations such as regional financial institutions and the Chamber of Commerce and Industry.

Number of SME Unit's Clients Operating Overseas (As of the end of March 2017)(Companies)



## Providing Financing and Other Support for the Recovery and Business Resumption of SMEs that have Sustained Damage due to 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 special consultation desks, 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, 2017)

Date of disaster		Name of disaster	Main affected areas	Loans granted	
Year	Month			Number of cases	Amount (billion yen)
1995	1	The Great Hanshin-Awaji Earthquake	Osaka, Hyogo	3,906	174.8
2004	10	The Niigata Chuetsu Earthquake	Niigata	135	3.7
2011	3	The Great East Japan Earthquake	Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima	25,728	1,749.0
2016	4	The Kumamoto Earthquake <sup>(Note)</sup>	Kumamoto, Oita	579	34.7

Note: Kumamoto Earthquake loans include Disaster Recovery Loans (related to the Kumamoto Earthquake)

### Support for Reconstruction from Earthquakes

#### 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 <sup>(Note 1)</sup>	Maximum amount	Loan period (grace period)	Interest rate
<ul style="list-style-type: none"> <li>◆ People affected directly by the earthquake</li> <li>◆ People who own business premises within a caution zone, etc., related to the nuclear accident <sup>(Note 2)</sup></li> </ul>	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.: <ul style="list-style-type: none"> <li>● 0.5% reduction from the standard rate</li> <li>● For first 3 years of loan, 1.4% reduction from the standard rate for up to 100 million yen</li> </ul>
People indirectly affected (people who have a certain degree of business with the eligible people listed above)		Facility funds: maximum 20 years (up to 3 years) Operating funds: maximum 15 years (up to 3 years)	People issued with a damage certificate, etc.: <ul style="list-style-type: none"> <li>● Standard rate</li> <li>● For first 3 years of loan, maximum of 0.9% reduction from the standard rate for up to 30 million yen</li> <li>● Rate reduction (0.2%, 0.3% or 0.5%) is applicable if certain conditions are satisfied</li> </ul>
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)	<ul style="list-style-type: none"> <li>● Standard rate</li> <li>● Rate reduction (0.2%, 0.3% or 0.5%) is applicable if certain conditions are satisfied</li> </ul>

Note 1: Those with an office in a designated disaster reconstruction zone and conducting business in that area.

2: Caution zones, planned evacuation zones and emergency evacuation preparation zones.

#### 2016 Kumamoto Earthquake Recovery Special Loan

The 2016 Kumamoto Earthquake Recovery Special Loans—a Loan Program directed at SMEs—commenced on June 1, 2016.

This Loan Program was created in response to the 2016 Kumamoto Earthquake for those who suffered direct and/or indirect damage and those subject to markedly worsened financing conditions due to rumors.

Eligibility	Maximum amount	Loan period (grace period)	Interest rate
People affected directly by the earthquake	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.: <ul style="list-style-type: none"> <li>● 0.5% reduction from the standard rate</li> <li>● For first 3 years of loan, 0.9% reduction from the standard rate for up to 100 million yen</li> </ul>
People indirectly affected (people who have a certain degree of business with the eligible people listed above)		Facility funds: maximum 20 years (up to 3 years) Operating funds: maximum 15 years (up to 3 years)	People issued with a damage certificate, etc.: <ul style="list-style-type: none"> <li>● Standard rate</li> <li>● For first 3 years of loan, maximum of 0.5% reduction from the standard rate for up to 30 million yen</li> <li>● 0.3% reduction from the standard rate for loans exceeding 30 million yen up to 300 million yen</li> </ul>
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)	<ul style="list-style-type: none"> <li>● Standard rate</li> <li>● 0.3% reduction from the standard rate if certain conditions are satisfied</li> </ul>

# 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 Loan

	FY2014	FY2015	FY2016
No. of companies	1,131	1,092	1,275
Amount (billion yen)	108.8	96.8	119.0

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

	FY2014	FY2015	FY2016
No. of companies	526	509	510
Amount (billion yen)	41.0	35.3	35.2

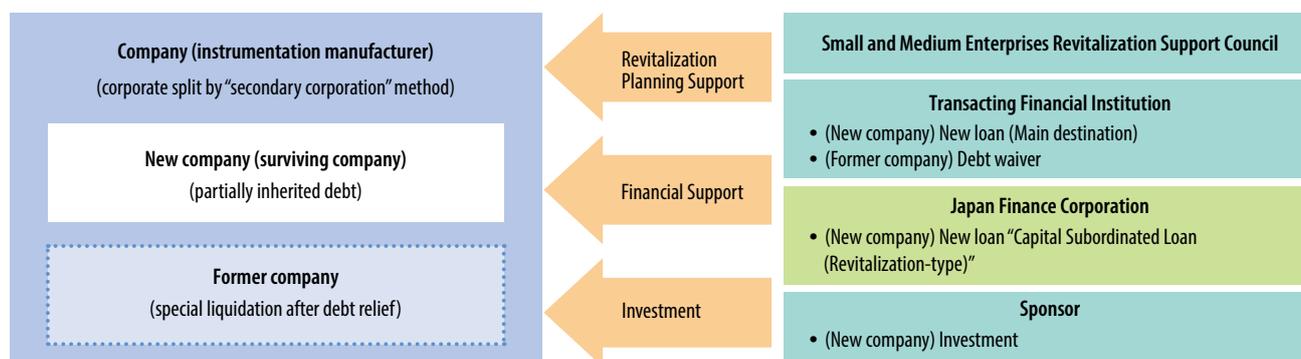
### Cooperation with Public Revitalization Support Institutions

By the end of December 2016, Small and Medium Enterprise Revitalization Support Councils had provided revitalization planning support to 11,618 companies nationwide. The SME Unit participated in the provision of support to over 20% (2,568) of these companies (total as of December 31, 2016).

No. of revitalization planning support cases 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
11,618 companies	2,568 companies (22.1%)	267 companies

Note: As of end of December 2016

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



Using Capital Subordinated Loan (revitalization-type), the West Japan SME Support Office provided finance to an SME receiving revitalization planning support from the Shiga Prefecture Small and Medium Enterprise Revitalization Support Council.

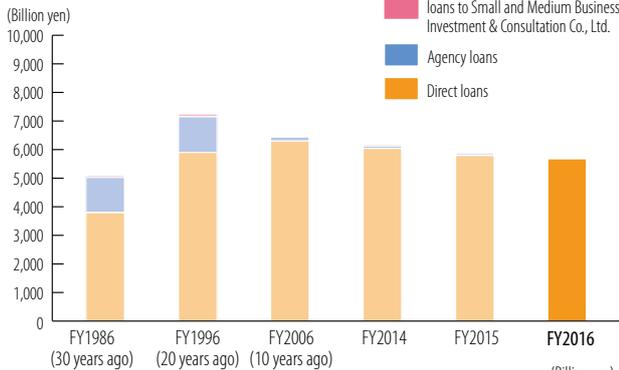
Further, this case saw new JFC loans "Capital Subordinated Loans (Revitalization-type)" achieve credit supplementation functions from strengthening of personal capital, and pump-priming effects were demonstrated after the support of sponsors indispensable to revitalization was attracted. Its revitalization will be further accelerated under the support taken place in cooperation with private financial institutions and the Small and Medium Enterprise Revitalization Support Council.

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

# State of the SME Unit's Operations

## State of Loan Programs

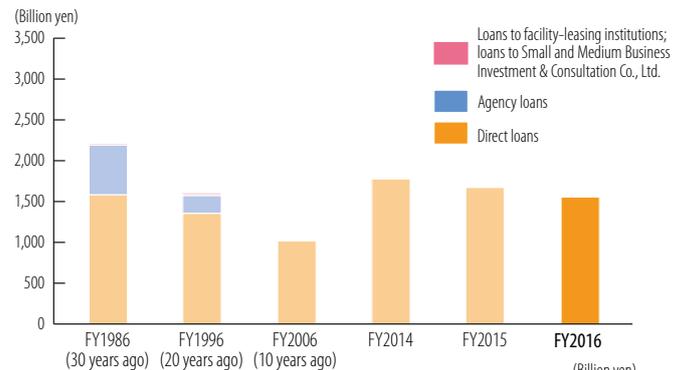
### Outstanding Loans



	(Billion yen)					
Direct loans	3,792.8	5,898.1	6,298.5	6,164.8	5,899.7	5,676.4
Agency loans	1,222.1	1,248.1	140.0	13.9	10.8	8.0
Loans to facility-leasing institutions; loans to Small and Medium Business Investment & Consultation Co., Ltd.	66.0	102.5	17.0	3.2	2.0	1.2

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

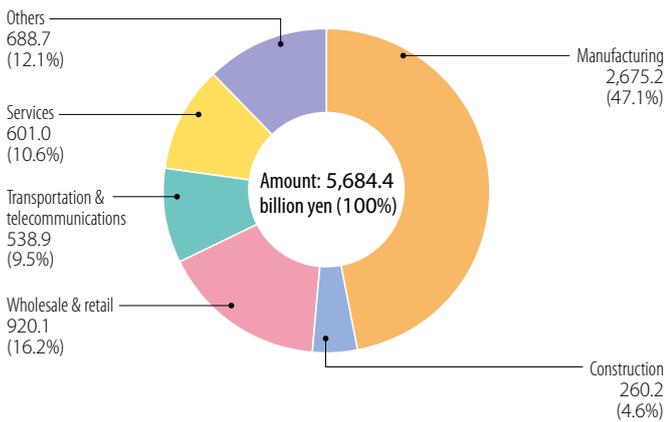
### Performance of Loans



	(Billion yen)					
Direct loans	1,585.4	1,357.9	1,020.7	1,776.4	1,671.8	1,559.4
Agency loans	611.0	218.0	4.6	0.6	0.1	0.0
Loans to facility-leasing institutions; loans to Small and Medium Business Investment & Consultation Co., Ltd.	21.8	25.8	3.4	0.7	0.0	0.0

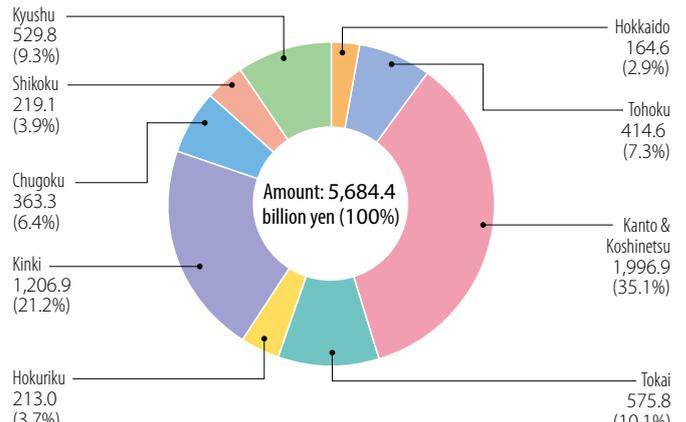
Note: From FY2001, the outstanding amount of direct loans includes the amount underwritten for corporate bonds purchased.

### Outstanding Loans by Industry (FY2016 year-end)(Billion yen)



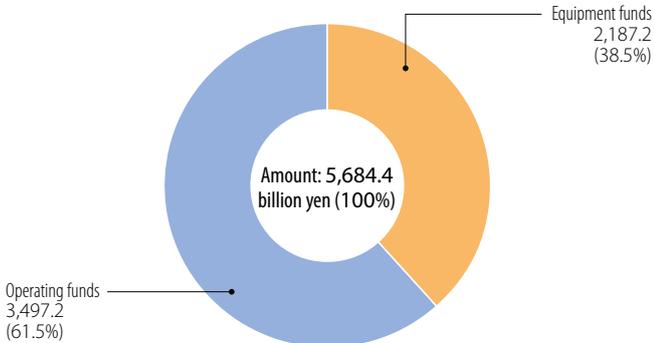
(Outstanding loans include corporate bonds. Breakdowns are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.)

### Outstanding Loans by Region (FY2016 year-end)(Billion yen)



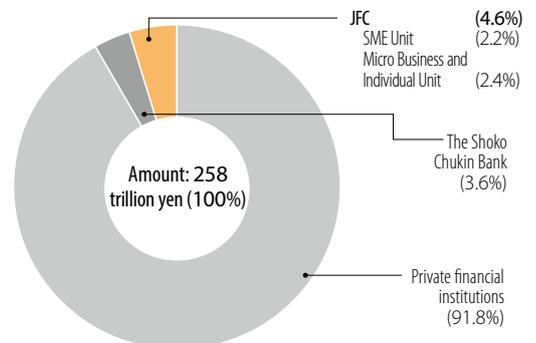
(Outstanding loans include corporate bonds. Breakdowns are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.)

### Breakdown of Loans by Facility and Operating Funds (FY2016 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 (FY2016 year-end)

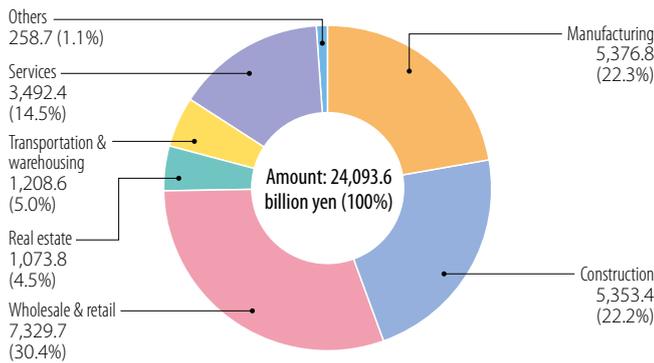


- Notes:
- The SME Unit's outstanding loans are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.
  - The figure for the Micro Business and Individual Unit's outstanding loans is 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, regional banks II and shinkin banks, and does not include those of credit cooperatives.

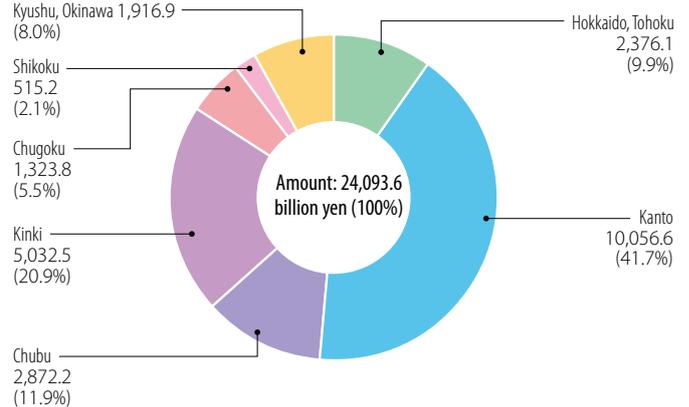
Source: Bank of Japan, "Financial and Economic Statistics Monthly," etc.

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

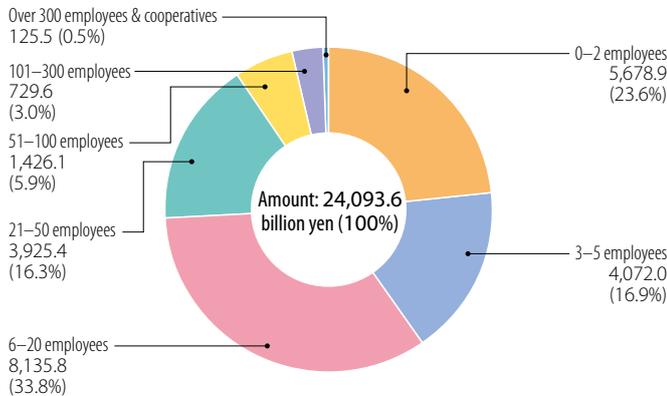
**Outstanding Amounts of Insurance by Industry (FY2016 year-end)**(Billion yen)



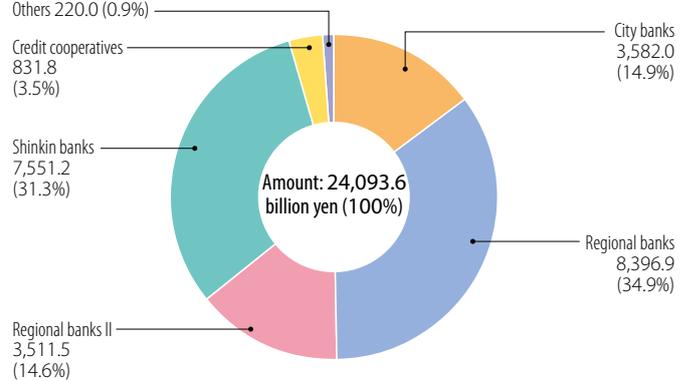
**Outstanding Amounts of Insurance by Region (FY2016 year-end)**(Billion yen)



**Outstanding Amounts of Insurance by Number of Employees (FY2016 year-end)** (Billion yen)

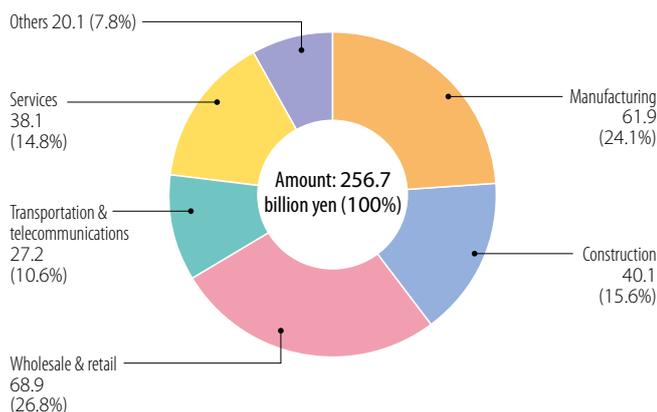


**Outstanding Amounts of Insurance by Type of Financial Institution (FY2016 year-end)**(Billion yen)

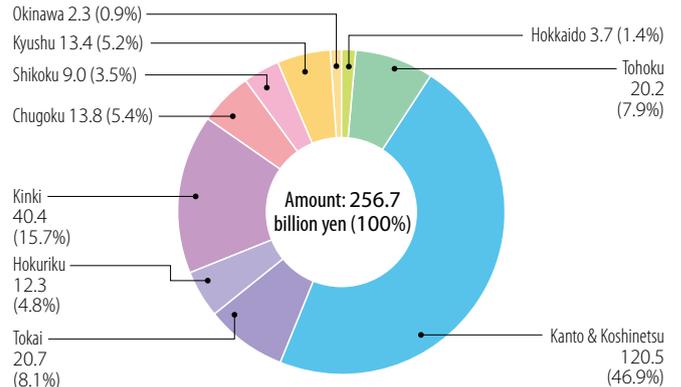


## State of Securitization Support Programs (Purchase-type and Guarantee-type)

**Provision of Funds by Industry (Cumulative results (FY2004-2016))**(Billion yen)



**Provision of Funds by Region (Cumulative results (FY2004-2016))**(Billion yen)



# Offices

## Head Office

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

**Number of Branch Offices: 152**

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

### Loan Programs and Securitization Support Programs

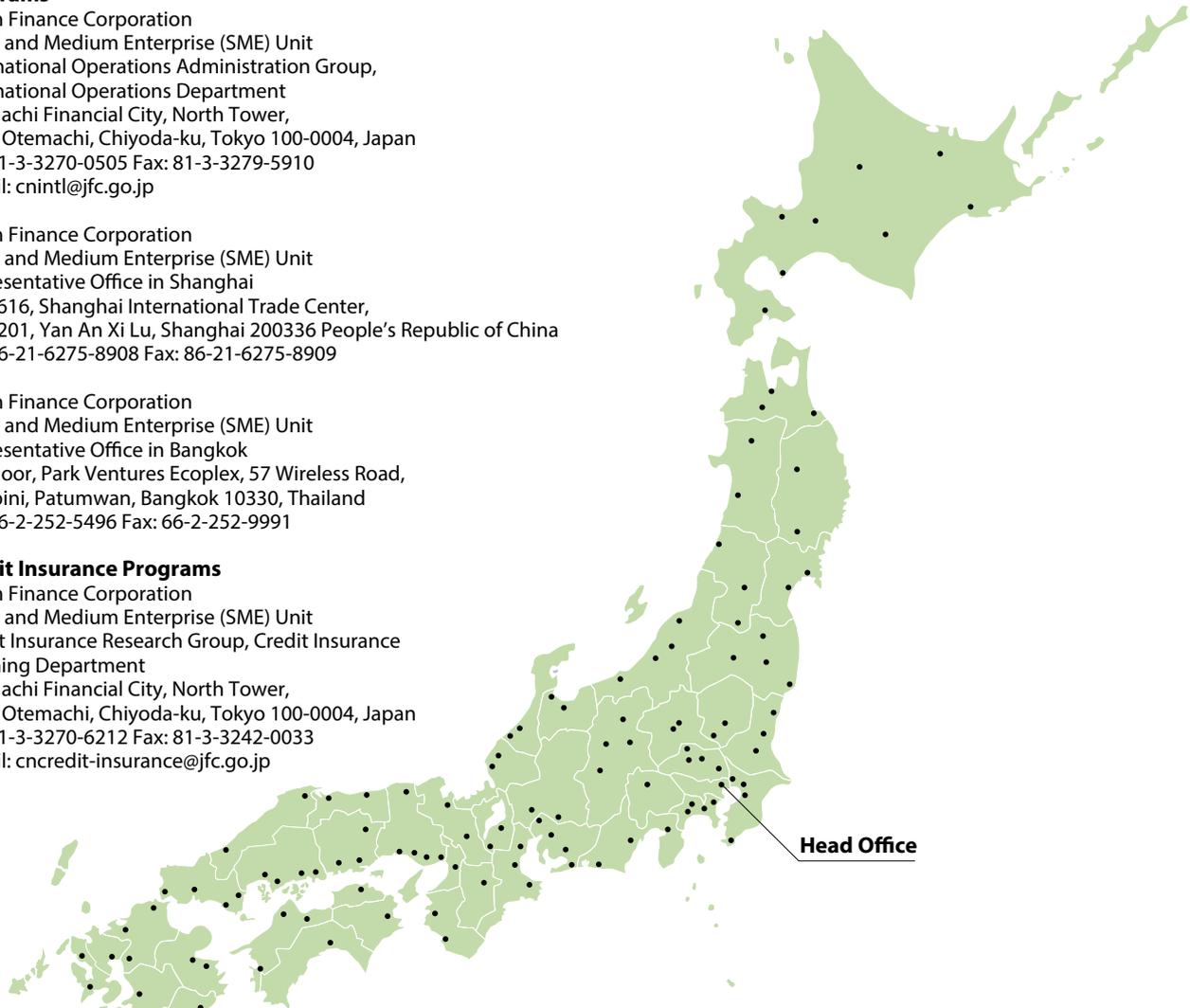
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### Credit Insurance Programs

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September 2017

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This publication has been printed using vegetable oil ink.