

Japan Finance Corporation

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

2018



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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 with the operations of Japan Finance Corporation's Small and Medium Enterprise (SME) Unit.

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

In 2017, we put our efforts into exercising our safety net functions by providing financial support to SMEs and micro businesses working to improve their business management, along with support towards post-disaster reconstruction from natural disasters such as typhoons and heavy rains. In addition, we also focused on financing in strategic areas of economic growth such as "new businesses", "business revitalization and succession" and "overseas expansion" through appropriate risk-taking.

As a result of these efforts, in FY2017, the amount of loans to SMEs was 1.4 trillion yen and the amount of insurance acceptance for credit guarantees was 7.6 trillion yen, thereby providing 9.1 trillion yen worth financial assistance to SMEs in total.

Accordingly, we currently manage our business operations by positioning the following seven items as "the Mission Statement" that are to be prioritized in pursuing our action plans.

1) Appropriate action towards safety net demands

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

2) Appropriate performance of risk-taking functions

We will actively support the "aggressive business management" challenges of SMEs by focusing on financing towards the abovementioned strategic areas of economic growth. At the same time, we will make efforts to minimize guarantor requirements, and further perform our function to "connect policies to companies" through our support for productivity innovation, regional vitalization, business succession, etc.

3) Promotion of collaboration with private financial institutions

Under our basic philosophy to complement private financial institutions, by utilizing diversified tools such as Syndicate Loans, Capital Subordinated Loans, Standby Letter of Credit Program in cooperation with regional financial institution and Securitization Support Programs, we will make further efforts to collaborate with private financial institutions through co-financing, etc.

4) Enhancement of consulting functions

By improving the abilities of each and every employee as a "visiting home doctor," we will actively support our clients in solving their business management issues by strengthening our consulting services, such as financial analysis and business matchings, etc.



5) Sustainable operation of the Credit Supplementation System

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 and operational revisions under the amendment of the Small and Medium-sized Enterprises Credit Insurance Act. We will also proactively collect information and exchange opinions with the Credit Guarantee Corporations located throughout Japan.

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

6) Exertion and inheritance of JFC's DNA

We will disseminate and firmly instill in each employees' mind the approach of "Exertion and Inheritance of JFC's DNA (① detailed examination of financial documents, ② profound communication with customers, ③ frequent on-site visits)", which is the basis of strengthening relationships with our clients such as the aforementioned risk-taking and consultations, and also endeavor to further refine our DNA in line with changes in the times.

7) Improvement of operational efficiency and business quality

In order to steadily implement the abovementioned items, we will continue to actively engage in operational efficiency by utilizing proposals from the frontlines of our operations 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 in JFC, we will work closely with private financial institutions to fulfill our function as a policy-based financial institution under governmental policies. Our executives and employees will continue to work hard to become a reliable financial institution that is always there for SMEs and micro businesses, and therefore, 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, 2018)

- 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: Kazuho Tanaka
- Capital, etc.: Capital: 4,124.9 billion yen
Reserve fund: 1,887.9 billion yen
- Branch Offices: Branch Offices in Japan: 152
Overseas representative offices: 2
- Employees: 7,364 (budgetary fixed number for FY2018)
- Outstanding Loans: 18,029.0 billion yen
 - Micro Business and Individual Unit: 7,128.9 billion yen
 - Agriculture, Forestry, Fisheries and Food Business Unit: 2,945.7 billion yen
 - Small and Medium Enterprise (SME) Unit: 5,514.1 billion yen (Finance Operations)
 - Operations to Facilitate Crisis Responses: 2,383.2 billion yen
 - Operations to Facilitate Specific Businesses Promotion, etc.: 56.8 billion yen

Basic Philosophy

● Focused Policy-based Financing

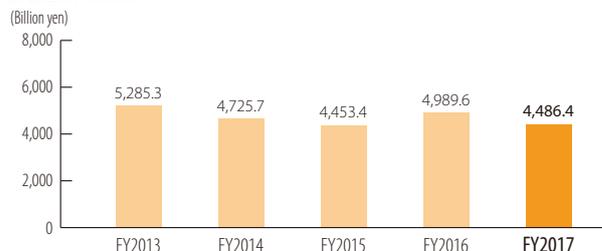
Following the national policy, provide flexible policy-based financing by utilizing a variety of financing programs and schemes to meet the needs of society, while complementing the activities of private financial institutions.

● Mainstreaming Governance

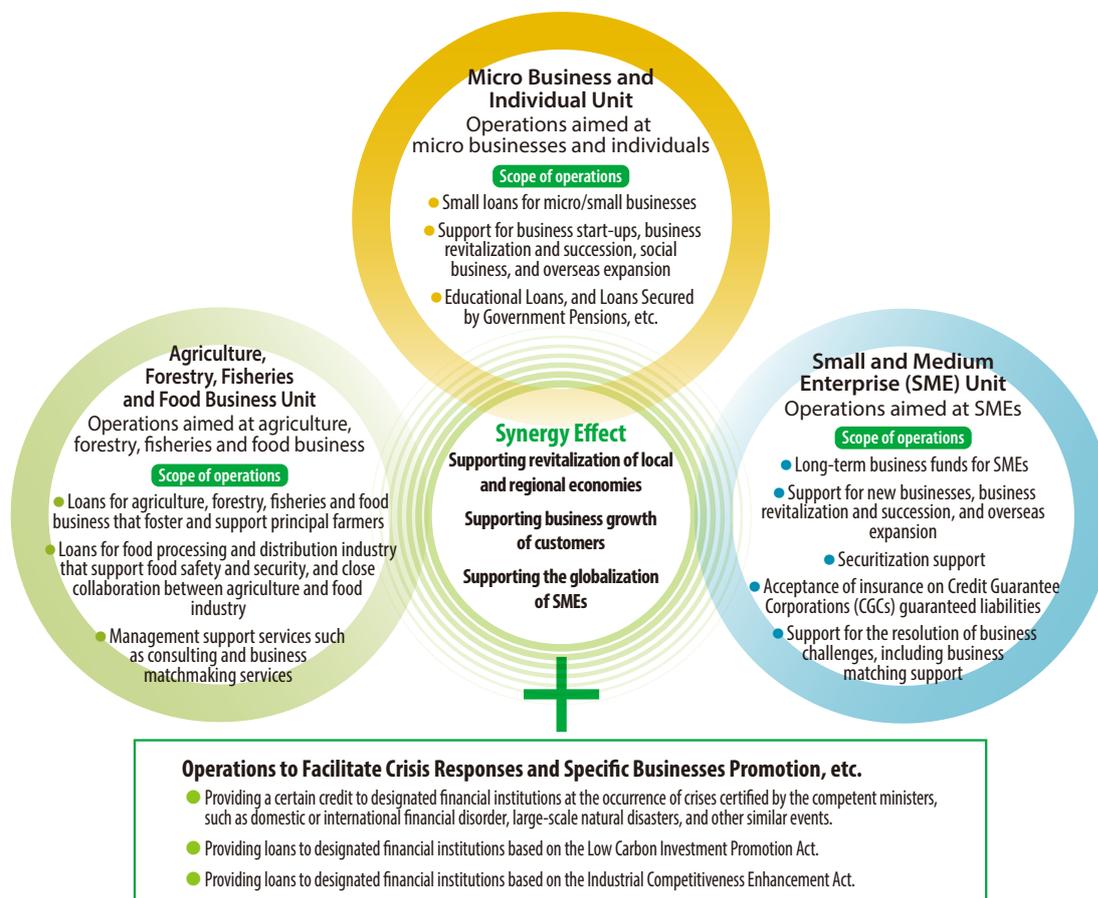
Strive to conduct highly transparent and efficient business operations based on a high level of corporate governance and hold itself accountable to the public.

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

Total Loans Provided



Major Business Operations of JFC



Overview of the SME Unit

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

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

Scope of Business

Loan Programs

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

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

Note: Loans to facility-leasing institutions 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 FY2017

▶ Loan Programs

Loans	1,485.0 billion yen
Direct loans	1,485.0 billion yen
Agency loans	0.0 billion yen
Loans to Small and Medium Business Investment & Consultation Co., Ltd.	0.0 billion yen
Outstanding loans	5,514.1 billion yen
Direct loans	5,507.1 billion yen
Agency loans	6.2 billion yen
Loans to facility-leasing institutions, loans to Small and Medium Business Investment & Consultation Co., Ltd.	0.8 billion yen

▶ Securitization Support Programs

Financing support amount	
Purchase type	27.0 billion yen
Financing support balance	
Purchase type	50.1 billion yen
Outstanding holdings such as asset backed securities	
Purchase type	15.1 billion yen
Outstanding guaranteed liabilities such as asset backed securities	
Purchase type	6.6 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^(Note)

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 FY2017

▶ Credit Insurance Programs

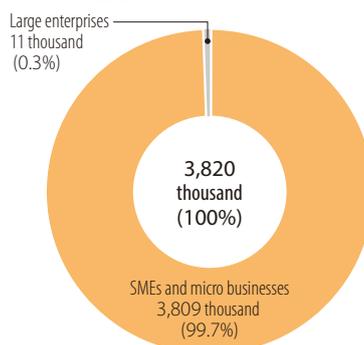
Amounts of insurance acceptance and loans	
Small Business Credit Insurance	7,635.5 billion yen
No record of loans to CGCs and Special Insurance for Mid-size Enterprises	
Outstanding amounts of insurance and loans	
Small Business Credit Insurance	22,401.0 billion yen
Special Insurance for Mid-size Enterprises	0.0 billion yen
Machinery Credit Insurance ^(Note)	0.4 billion yen
No record of loans to CGCs	

● The Position of SMEs and Micro Businesses in Japan

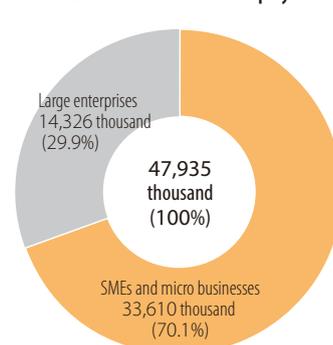
SMEs and micro businesses account for 99% of all businesses and approximately 70% of the total workforce in Japan. These figures attest to the fact that SMEs and micro businesses are the very source of Japanese economic vitality and the primary force underpinning regional economies.

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



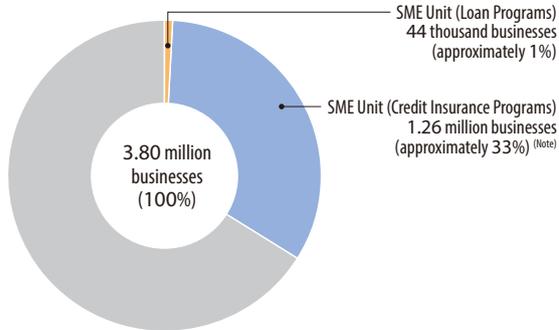
Source: Ministry of Internal Affairs and Communications, "2014 Economic Census for Business Frame," edited by the Small and Medium Enterprise Agency.

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.

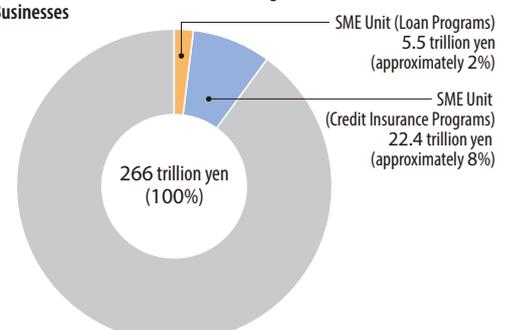
The SME Unit provides a wide range of support to meet the individual needs of each SME and micro business through its financial tools, Loan Programs, Credit Insurance Programs and Securitization Support Programs.

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



Note: Number of businesses 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 1.3 million SMEs and micro businesses (approximately 34%) and accounts for 10% of outstanding loans to SMEs and micro businesses

Characteristics of SME Unit's Clients

Loan Programs (Direct loans)

- Number of clients 44 thousand businesses
- Average loan for FY2017
 - Average loan amount per client 97 million yen
 - Average term of loan 8 years and 1 month
 - Average amount of capital per client 43 million yen
 - Average number of employees per client 73
- Approximately 79% of outstanding loans are loans to businesses with 20 employees or more, and approximately 93% have capital of 10 million yen or more.
- Covers a wide range of industries particularly manufacturing (approximately 50% of outstanding loans as of the end of FY2017)

Credit Insurance Programs

- Number of clients 1.26 million businesses (Note)
- Average insurance for FY2017
 - 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 75% of outstanding amounts of insurance are insurance to businesses with 20 employees or less, and approximately 70% have capital of 10 million yen or less.
- Covers a wide range of industries

Note: Number of businesses utilizing the Credit Guarantee System

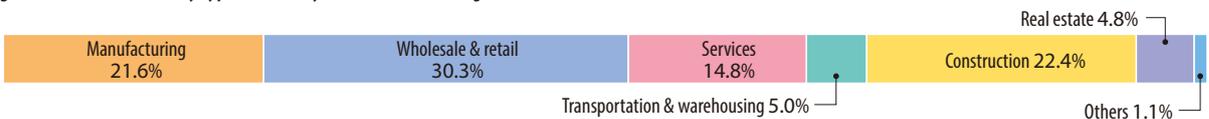
Note: Results are current as of March 31, 2018.

The SME Unit also helps to maintain employment, with the number of employees at the 44 thousand businesses receiving support (Direct loans) rising to approximately 2.66 million persons (as of March 31, 2018)

Outstanding Loans by Type of Industry (Loan Programs) (as of the end of FY2017)



Outstanding Amounts of Insurance by Type of Industry (Credit Insurance Programs) (as of the end of FY2017)



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

Policy-based financing in Japan provides financial support under the nation's key policies towards certain fields that involve high risks, such as new business development, business revitalization and succession, and overseas expansion.

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



Demonstrating a Complementary Function for Private-sector Business Activities

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

Dedicated to Long-term Funding

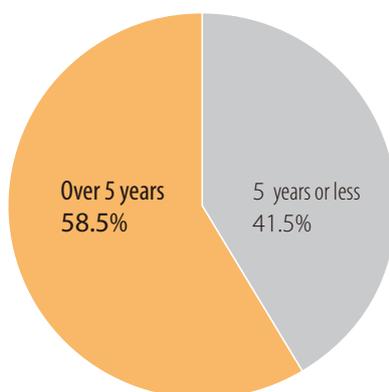
If SMEs are to grow and prosper, they must continually invest capital appropriately and consolidate their financial strength. To do this, they need to be able to raise long-term funds in a stable manner.

However, SMEs are at a disadvantage to larger enterprises in gaining access to funds from capital markets.

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

By complementing 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) (FY2017)



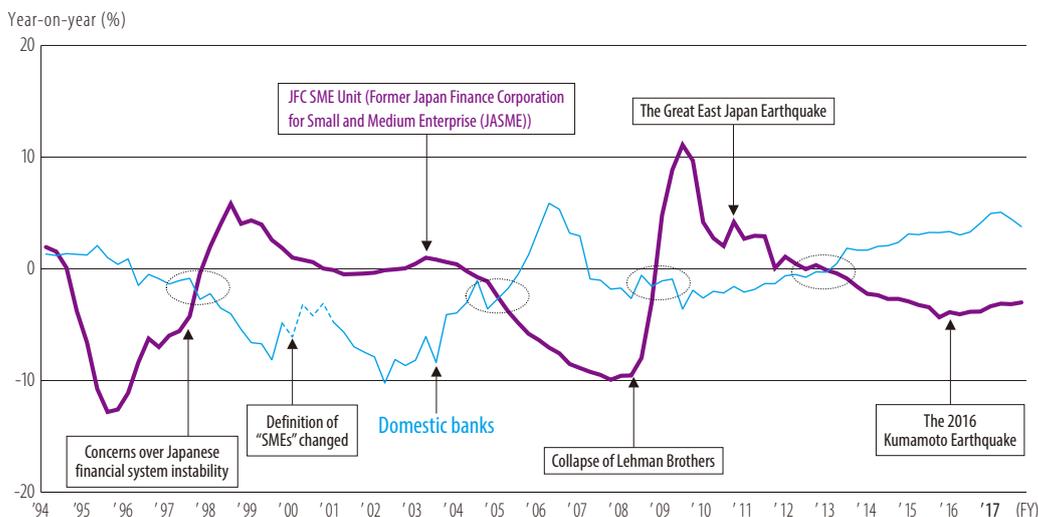
Note: Data are for fixed interest rate loans only.

Stable Supply of Business Funds

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

Over the years, the SME Unit has provided SMEs with stable, long-term business funds by supplementing private financial institutions.

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



Notes: 1. Domestic bank balances refer to loans to SMEs to cover banking accounts only.
 2. The definition of "SMEs" was changed in April 2000; the SME Unit has estimated the growth rate for domestic banks in the period from June 2000 to March 2001 based on the ratio between the old and new standards.

Source: Bank of Japan, "Loans and Bills Discounted by Sector"

Promotion of Policy-based Special-purpose Loans

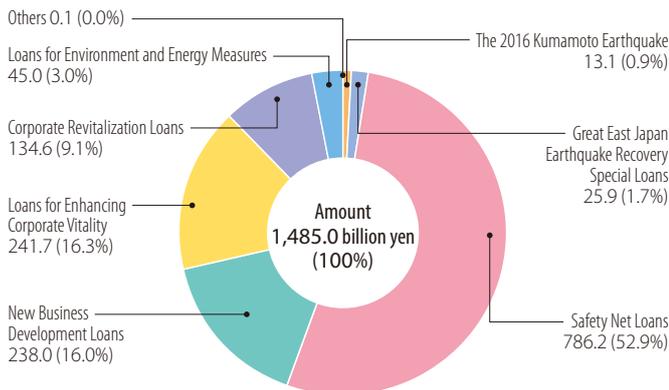
Promoting policy-based special-purpose loans in response to demands of the times

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.

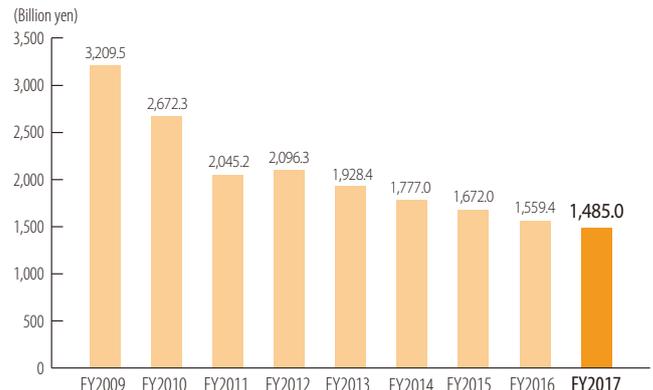
During FY2017, amid full-scale reconstruction after the Great East Japan Earthquake and reconstruction of the disaster region of the Kumamoto Earthquake, the SME Unit continued to take concerted steps to fully exercise its safety net function. In this manner, the SME Unit made every effort to support SMEs, which continued to experience increasingly difficult cash flow conditions brought on by a deteriorating operating environment.

Breakdown of Loans (FY2017) (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 ^(Note) ~
1964 Tokyo Olympic Games held	1960-	Loans to Export-driven Manufacturers 7.7 billion yen (FY1964)
1970 World EXPO '70 held in Osaka	1970-	Loans to Promote Modernization 35.5 billion yen (FY1970)
1985 Plaza Accord reached, triggering sharp appreciation of the yen 1989 Consumption tax introduced	1980-	Special Loans for the Promotion of Application of Businesses to Changes in the World Economy 186.2 billion yen (FY1986) Loans to Facilitate Introduction of Consumption Tax ... 332.5 billion yen (FY1989)
1995 Catastrophic Great Hanshin-Awaji Earthquake strikes 1997 Hokkaido Takushoku Bank and Yamaichi Securities collapse	1990-	Loans for Disaster Recovery 107.1 billion yen (FY1995) Loans to Deal with Changes in the Financial Environment ... 336.9 billion yen (FY1998)
2005 Full introduction of "payoff" system 2006 "Zero interest rate policy" removed 2007 Occurrence of U.S. subprime mortgage crisis 2008 Lehman Brothers files for bankruptcy	2000-	Loans to Promote IT Use 159.3 billion yen (FY2004) Loans for Regional Revitalization and Employment Promotion ... 215.1 billion yen (FY2005) Loans to Promote New Business Activities 125.2 billion yen (FY2007) Safety Net Loans 925.8 billion yen (FY2008) 2,818.6 billion yen (FY2009)
2011 Catastrophic Great East Japan Earthquake strikes	2010-	Safety Net Loans 2,203.8 billion yen (FY2010) Great East Japan Earthquake Recovery Special Loans ... 1,215.5 billion yen (FY2011)

Note: The names of the loans listed above are as of their scheme termination dates, or, for active schemes, as of March 31, 2018.

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

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

Demonstrating Credit Supplementation Function

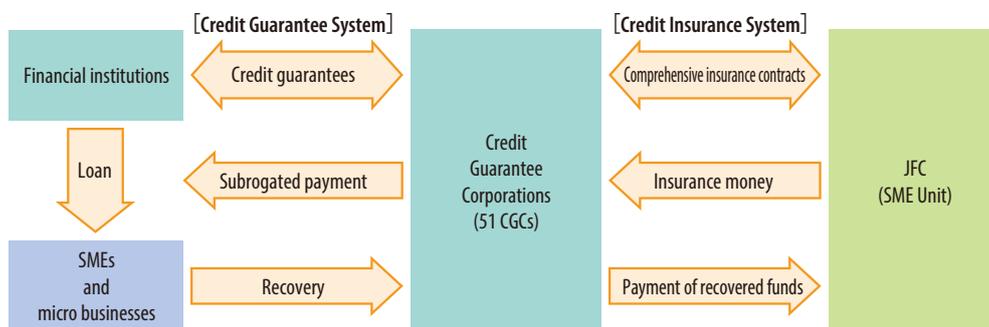
Facilitating the smooth flow of funds to SMEs and micro businesses by working together with the Credit Guarantee System

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, with regard to the Credit Supplementation System, 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 and came into force in April 2018. The SME Unit will continue to steadily carry out its operations under the revised Credit Supplementation System and enhance its efforts by collaborating with relevant institutions to ensure the sustainable operation of the system.

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.

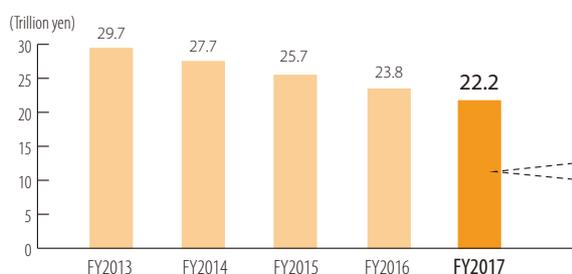
33% of SMEs Utilize the Credit Supplementation System

As of the end of March 2018, the portion of outstanding loans to SMEs guaranteed by CGCs (outstanding guaranteed liabilities) amounted to 22 trillion yen, accounting for 8% of all loans to SMEs.

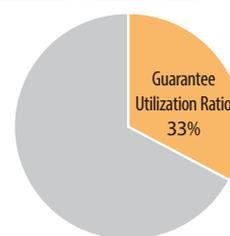
Moreover, 1.26 million SMEs and micro businesses, accounting for 33% of all SMEs in Japan, were raising funds with the support of the Credit Guarantee System.

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^(Note) (FY2017)



Number of guaranteed SMEs: 1.26 million
 Total number of SMEs: 3.8 million

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

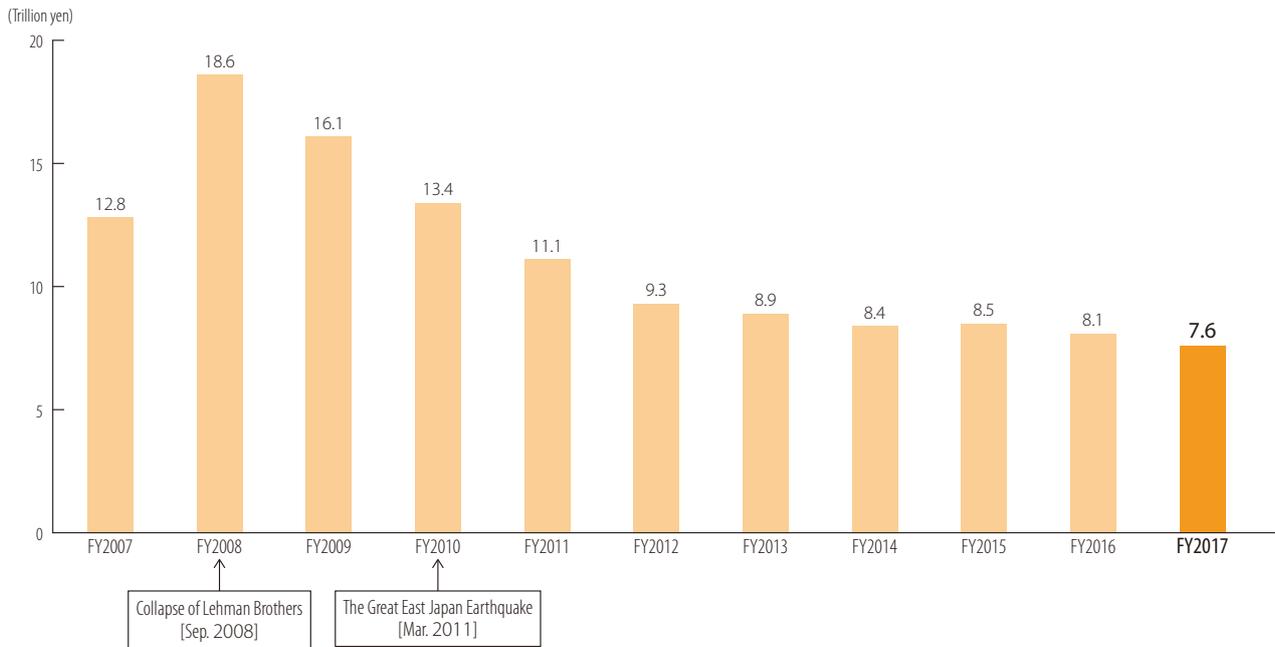
Sources: Ministry of Internal Affairs and Communications, "2014 Economic Census for Business Frame," edited by the Small and Medium Enterprise Agency, and others

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.

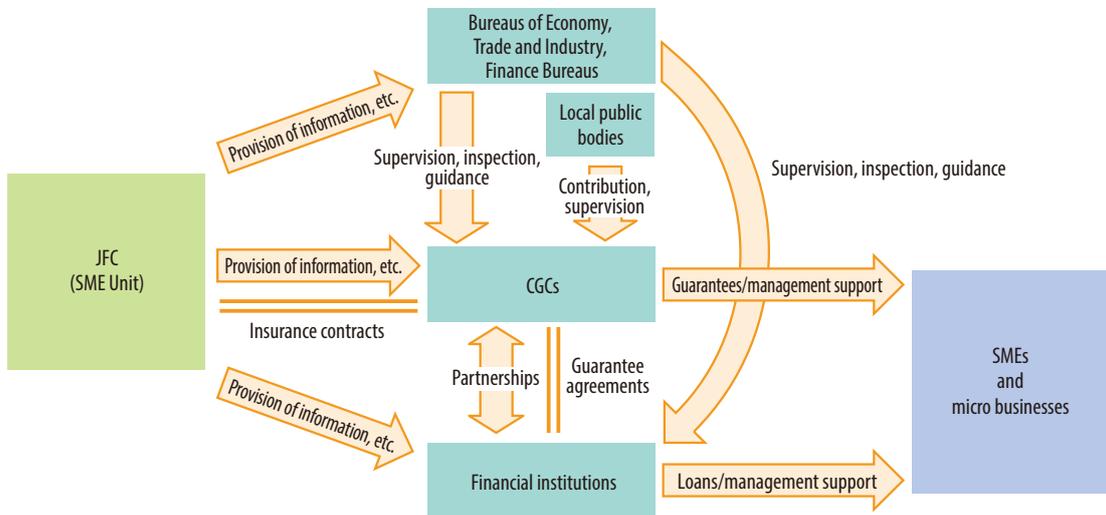
Changes in the Amounts of Insurance Acceptance



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.

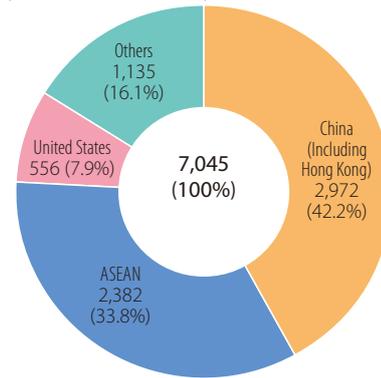


Approach to Internationalization

Support for Overseas Expansion Initiatives

Our client companies of the Small and Medium Enterprise (SME) Unit have 7,045 local subsidiaries actively engaged overseas, and the SME Unit provides Loans for Overseas Investment and Expansion and capital procurement support under our Standby Letter of Credit Program in a proactive manner to support the overseas expansion of SMEs. In FY2017, the SME Unit reinforced support structures at 30 sites nationwide that have many clients that conduct business overseas by establishing "Coordinators for the Promotion of Overseas Business Expansion" and taking other measures. We will continue to proactively support the overseas development of business by SMEs.

Number of SME Unit's Clients Operating Overseas (as of the end of March 2018)



Overseas Business Development Related Program

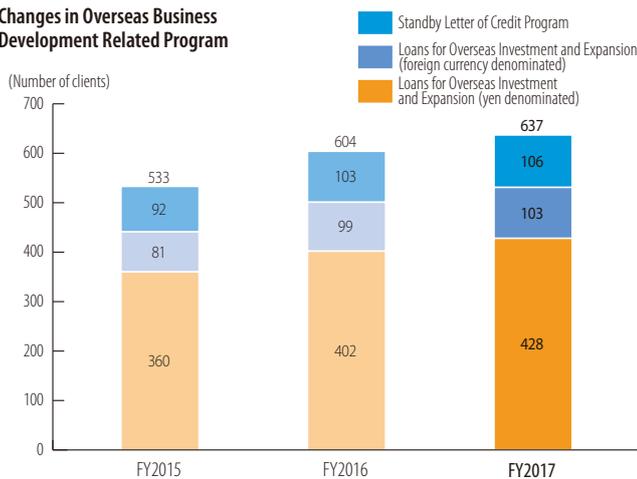
● Status of use of Loans for Overseas Investment and Expansion

In FY2017, the SME Unit provided Loans for Overseas Investment and Expansion to many SMEs as 531 companies, 28 billion yen in total, including the loans provided in foreign currency (US dollars), a program that was launched in FY2015, with 29.07 million US dollars (equivalent to 3.2 billion yen) obtained by 103 companies in a wide range of countries, primarily in China, Viet Nam, and the United States.

● Status of use of Standby Letter of Credit Program

In FY2017, the Standby Letter of Credit Program was utilized by 106 companies. Letters of Credit were issued to the financial institutions in Thailand, China, Republic of Korea, the Philippines, Indonesia, Malaysia, Viet Nam, Hong Kong, Mexico, Singapore and Taiwan.

Changes in Overseas Business Development Related Program



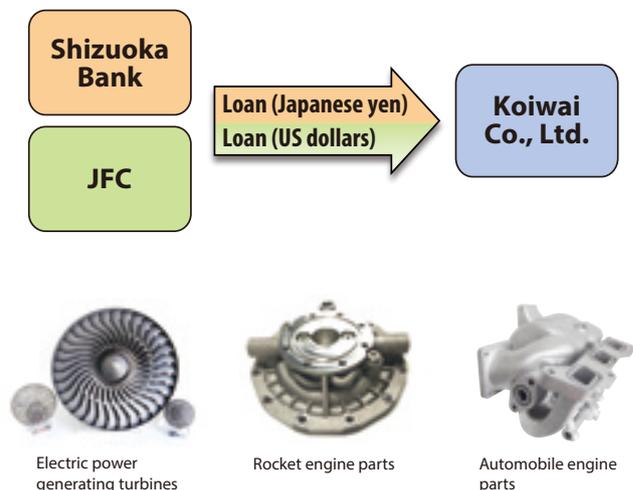
Loans for Overseas Investment and Expansion (by countries and regions)

Fiscal year	FY2015	FY2016	FY2017
	Number of clients	Number of clients	Number of clients
China (including Hong Kong)	108	128	152
ASEAN	217	226	219
Viet Nam	49	60	77
Thailand	74	63	63
Philippines	30	33	23
Other ASEAN countries	64	70	56
United States	42	47	51
Others	74	100	109
Total	441	501	531

Expansion into India Supported by Loans in Foreign Currency (US Dollars)

The Atsugi Branch of the SME Unit extended a foreign currency denominated Loans for Overseas Investment and Expansion to Koiwai Co., Ltd., which borrowed 600,000 US dollars (equivalent to 61 million yen) for equipment funds necessary for construction of a plant in India.

The company is a nonferrous metal foundry manufacturer and established proprietary multilayer sand casting techniques that make it possible to manufacture cast products with complex shapes such as double-walled pipes in short periods using combinations of dies and sand molds. As a result, it has received high praise from major manufacturers. From the perspective of currency exchange risk hedging, Koiwai procured the additional capital funds needed to start full-scale production of engine and other parts for supply to major manufacturers in the form of a US dollar-denominated loan from the JFC Atsugi Branch and a yen denominated loan from the Shizuoka Bank Odawara Branch.

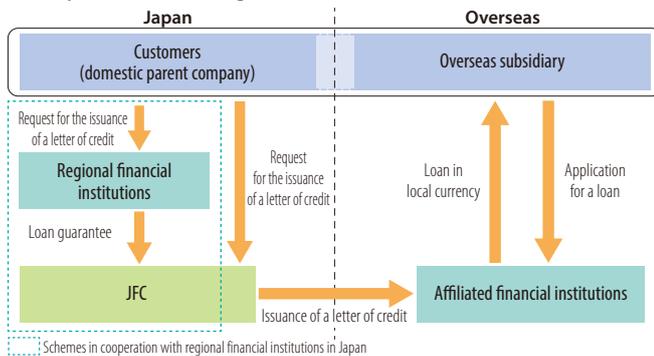


Standby Letter of Credit Program

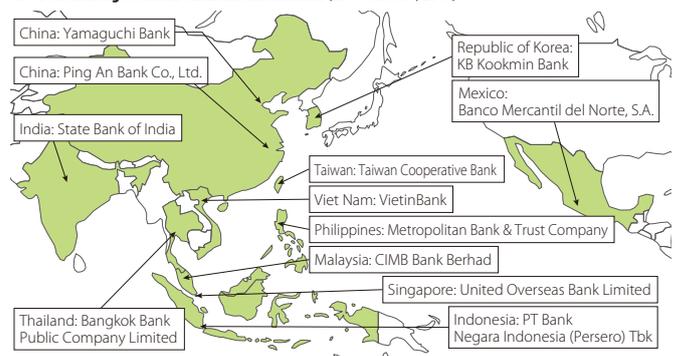
The Standby Letter of Credit Program supports SMEs and micro businesses' overseas subsidiaries' and branches' smooth procurement of long-term local currency denominated funds from JFC's partnering overseas financial institutions by using JFC's standby letter of credit as a guarantee.

In June 2017, JFC established a new partnership with Yamaguchi Bank, which has branches in Qingdao and Dalian, China. This made it possible to provide highly convenient services with a focus on the local subsidiaries of SMEs in these regions. The partnership with Yamaguchi Bank is the first instance of a partnership with a Japanese financial institution for the provision of financing through a Standby Letter of Credit Program. As of the end of March 2018, the number of affiliated financial institutions expanded to 12 institutions.

Standby Letter of Credit Program Schematic Chart



JFC's Partnering Overseas Financial Institutions (as of March 31, 2018)



Cooperation with regional financial institutions in Japan

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

As of the end of March 2018, JFC has business partnerships with 61 regional financial institutions in Japan, and letters of credit were issued to a total of 23 companies through this partnership scheme.

Partnering Regional Financial Institutions (in alphabetical order as of the end of March 2018)

- | | | |
|---------------------------------|------------------------------------|------------------------------|
| · The Aichi Bank, Ltd. | · The Hyakujushi Bank, Ltd. | · The Seishin Shinkin Bank |
| · The Awa Bank, Ltd. | · The Iyo Bank, Ltd. | · The Seto Shinkin Bank |
| · The Bank of Fukuoka, Ltd. | · The Kagawa Bank, Ltd. | · Shimada Shinkin Bank |
| · The Bank of Nagoya, Ltd. | · Kansai Urban Banking Corporation | · The Shimane Bank, Ltd. |
| · The Bank of Saga, Ltd. | · Kitaseueeno Shinkin Bank | · The Shizuoka Shinkin Bank |
| · The Chukyo Bank, Ltd. | · The Kita-Nippon Bank, Ltd. | · The Taiko Bank, Ltd. |
| · The Daisan Bank, Ltd. | · The Kiyo Bank, Ltd. | · The Tajima Bank, Ltd. |
| · The Daishi Bank, Ltd. | · Kuwana Shinkin Bank | · The Tochigi Bank, Ltd. |
| · The Ehime Bank, Ltd. | · The Kyoto Chuo Shinkin Bank | · The Tokushima Bank, Ltd. |
| · The Eighteenth Bank, Ltd. | · The Minato Bank, Ltd. | · The Tokyo Tomin Bank, Ltd. |
| · The Enshu Shinkin Bank | · The Mishima Shinkin Bank | · Tomato Bank, Ltd. |
| · The Fuji Shinkin Bank | · The Nagano Bank, Ltd. | · Tono Shinkin Bank |
| · Fujinomiya Shinkin Bank | · The Nagano-ken Shinkumi Bank | · The Tottori Bank, Ltd. |
| · The Fukui Bank, Ltd. | · The Nagano Shinkin Bank | · The Towa Bank, Ltd. |
| · Fukui Shinkin Bank | · Numazu Shinkin Bank | · Toyama Shinkin Bank |
| · The Fukushima Bank, Ltd. | · Ogakiseino Shinkin Bank | · The Yachiyo Bank, Ltd. |
| · The Gifu Shinkin Bank | · The Oita Bank, Ltd. | · Yaizu Shinkin Bank |
| · Hekikai Shinkin Bank | · The Osaka City Shinkin Bank | · The Yamagata Bank, Ltd. |
| · The Higashi-Nippon Bank, Ltd. | · Osaka Shinkin Bank | · The Yokohama Shinkin Bank |
| · The Himeji Shinkin Bank | · The Saikyo Bank, Ltd. | |
| · The Hokuetsu Bank, Ltd. | · The Sanjo Shinkin Bank | |

Supporting Development of New Production Structures in Thailand by Standby Letter of Credit Program

Mizushima Kiko Co., Ltd. is a manufacturer of automobile engine and drive system components. It established a subsidiary in Thailand in FY2011 to respond proactively to the local procurement needs and requests to reduce costs from automobile makers.

The Thai subsidiary built an automated line that performs integrated production internally without relying on outsourcing and is taking measures to enhance cost competitiveness.

The SME Unit worked with Hyakujushi Bank to issue a letter of credit to Bangkok Bank under the partnership scheme in Standby Letter of Credit Program to support capital procurement in local currency.



Provision of Information in Japan and Overseas and Collaboration with Supporting Organizations

Holding of Seminars on Overseas Business Expansion in Japan

The SME Unit collaborates with the Micro Business and Individual Unit and Agriculture, Forestry, Fisheries and Food Business Unit to conduct overseas business expansion seminars that support overseas business development by SMEs at branches nationwide. In FY2017, seminars were held 132 times throughout Japan, of which 21 seminars were held in cooperation with private financial institutions.

● Sapporo Branch: Russia Seminar

The Sapporo Branch tied-up with Hokkaido Bank, JETRO, and the Sapporo Chamber of Commerce and Industry to hold a Russia Seminar for further understanding of the business environment in Russia. Speakers were invited from the Consulate-General of the Russian Federation in Sapporo and local trading companies, and the seminar was attended by about 30 persons.



The Russia Seminar at the Sapporo Branch

Holding of Business Network Meetings Overseas, etc.

The SME Unit holds local client networking meetings (seminars and information exchange meetings) and business matching meetings as forums for local clients to obtain support for addressing management issues and to build networks.

● The 11th Japan-Thai Business Matching Meeting (Bangkok)

In February 2018, the SME Unit held the 11th Japan-Thai Business Matching Meeting in Bangkok, Thailand in order to expand business between the local subsidiaries of clients and local businesses. The event, held jointly with the Japanese Chamber of Commerce, Bangkok and the Thai Board of Investment with the cooperation of 27 Japanese financial institutions in Thailand and leading local financial institutions, is one of Thailand's largest business matching meetings, and 332 companies (215 Japanese companies and 117 Thai companies) including 45 local subsidiaries of major Japanese companies that are potential buyers attended this year. Talks were held on more than 1,600 deals, and the event provided opportunities for the local subsidiaries of clients to conduct discussions with Thai companies and the local subsidiaries of Japanese companies about developing sales channels and other topics.



The 11th Japan-Thai Business Matching Meeting

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

Company A established business operations in Thailand in response to a request from a major client, but initially did not obtain as many orders as expected, forcing it to develop new sales channels to Thai and Japanese-affiliated retail and other companies. The representative office in Bangkok recommended participation in the Japan-Thai Business Matching Meeting, and at the urging of Company A, arranged for talks with retail and wholesale business operators. As a result, new printing orders were successfully acquired and orders started to come in from some of the clients that it had initially expected to obtain business from when it commenced operations in Thailand. The company's business in Thailand is now on track.

● Yamaguchi Bank-JFC Joint Business Network Meeting (Qingdao)

The Yamaguchi Bank-JFC Joint Business Network Meeting was held in Qingdao, China in March 2018. The Joint meeting was attended by Yamaguchi Bank, which is a JFC partner for the Standby Letter of Credit Program, JFC, and 35 of their local clients. A lecture on labor problems faced by Japanese companies and solutions was presented by a guest speaker. The meeting also served as a forum for interactions among the participants, and the opportunity to exchange opinions made it a significant event.



The Yamaguchi Bank-JFC Joint Business Network Meeting in Qingdao, China

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 30th ACSIC Conference (Taiwan)

Support for Post-disaster Reconstruction

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, 2018)

Date of disaster		Name of disaster	Main affected areas	Loans granted	
Year	Month			Number of loans	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	26,170	1,774.9
2016	4	The Kumamoto Earthquake ^(Note)	Kumamoto, Oita	829	47.8

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 ^(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 accident ^(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.: <ul style="list-style-type: none"> ● 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 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"> ● 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)	<ul style="list-style-type: none"> ● Standard rate ● Rate reduction (0.2%, 0.3% or 0.5%) is applicable if certain conditions are satisfied

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 Loan—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"> ● 0.5% reduction from the standard rate ● For first 3 years of loan, 0.9% 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 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"> ● Standard rate ● For first 3 years of loan, maximum of 0.5% reduction from the standard rate for up to 30 million yen ● 0.3% reduction from the standard rate for loans exceeding 30 million yen up to 300 million yen
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"> ● Standard rate ● 0.3% reduction from the standard rate if certain conditions are satisfied

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

Fiscal year	FY2015	FY2016	FY2017
No. of companies	1,092	1,275	1,385
Amount (billion yen)	96.8	119.0	134.6

Capital Subordinated Loans (revitalization-type)

Fiscal year	FY2015	FY2016	FY2017
No. of companies	509	510	526
Amount (billion yen)	35.3	35.2	36.1

Cooperation with Public Revitalization Support Institutions

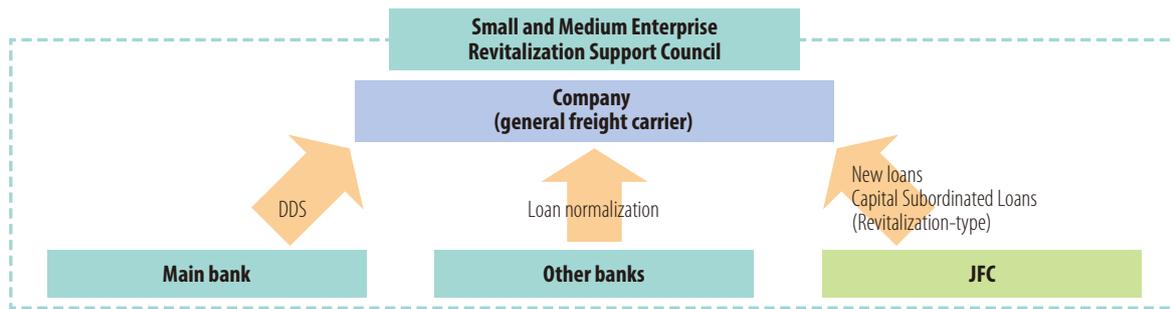
By the end of December 2017, Small and Medium Enterprise Revitalization Support Councils had provided revitalization planning support to 12,687 companies nationwide. The SME Unit participated in the provision of support to over 20% (2,781) of these companies (total as of December 31, 2017).

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	
12,687 companies	2,781 companies (21.9%)	281 companies

Note: As of December 31, 2017

Demonstration of Policy-based Nature

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



The SME Unit applied the capital subordinated loans (revitalization-type) and provided loans to SMEs that received revitalization planning support from the Small and Medium Enterprise Revitalization Support Council.

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

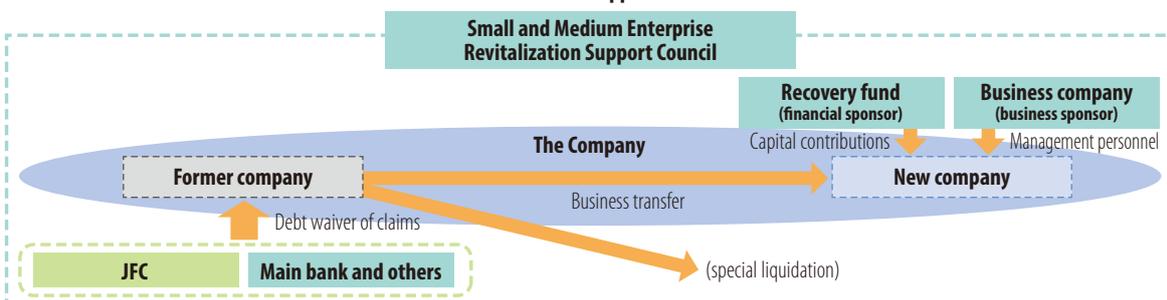
The SME Unit of JFC will continue to actively support the business revitalization of SMEs.

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

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

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

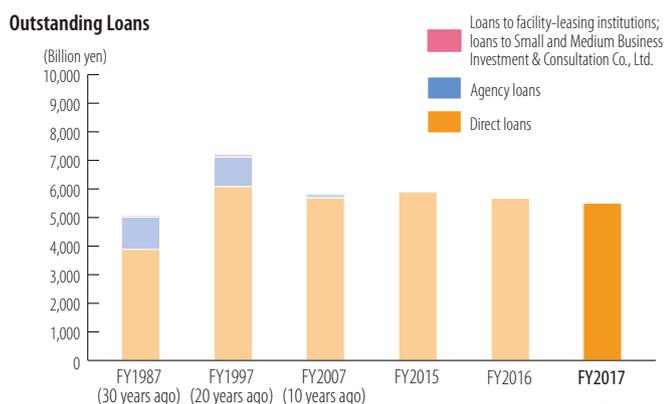
Overview of the Support Scheme



State of the SME Unit's Operations

State of Loan Programs

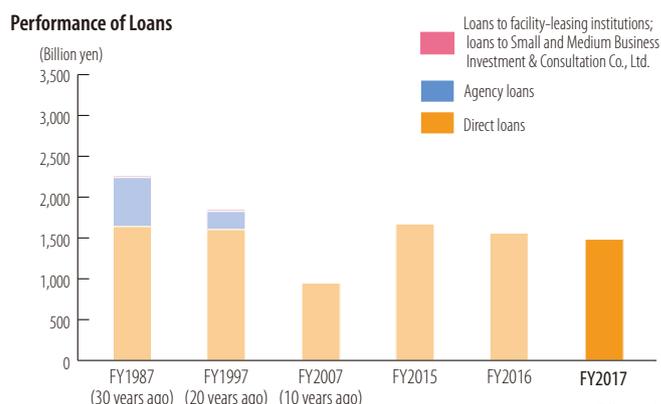
Outstanding Loans



	(Billion yen)					
	FY1987 (30 years ago)	FY1997 (20 years ago)	FY2007 (10 years ago)	FY2015	FY2016	FY2017
Direct loans	3,886.6	6,084.1	5,689.7	5,899.7	5,676.4	5,507.1
Agency loans	1,130.1	1,032.4	109.9	10.8	8.0	6.2
Loans to facility-leasing institutions; loans to Small and Medium Business Investment & Consultation Co., Ltd.	69.0	98.9	14.5	2.0	1.2	0.8

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

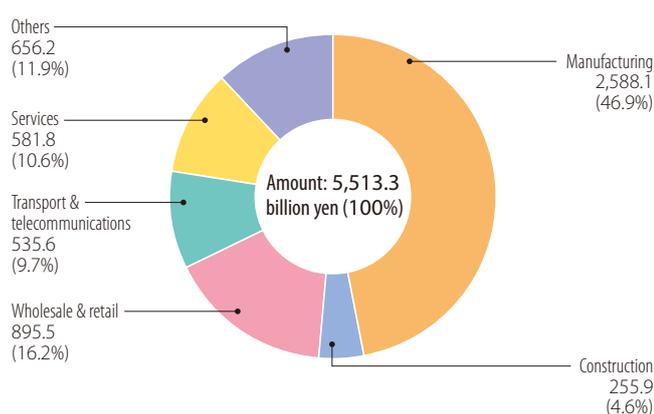
Performance of Loans



	(Billion yen)					
	FY1987 (30 years ago)	FY1997 (20 years ago)	FY2007 (10 years ago)	FY2015	FY2016	FY2017
Direct loans	1,639.7	1,602.8	947.4	1,671.8	1,559.4	1,485.0
Agency loans	599.9	221.8	3.2	0.1	0.0	0.0
Loans to facility-leasing institutions; loans to Small and Medium Business Investment & Consultation Co., Ltd.	23.7	24.4	3.0	0.0	0.0	0.0

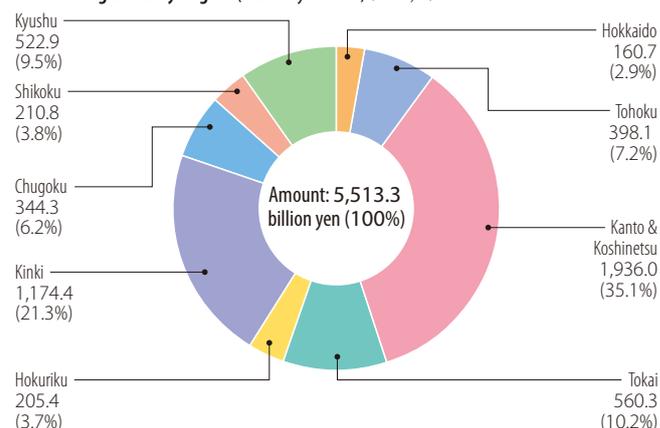
Note: From FY2001, the outstanding amount of direct loans includes the balance of corporate bonds underwritten

Outstanding Loans by Industry (FY2017 year-end) (Billion yen)



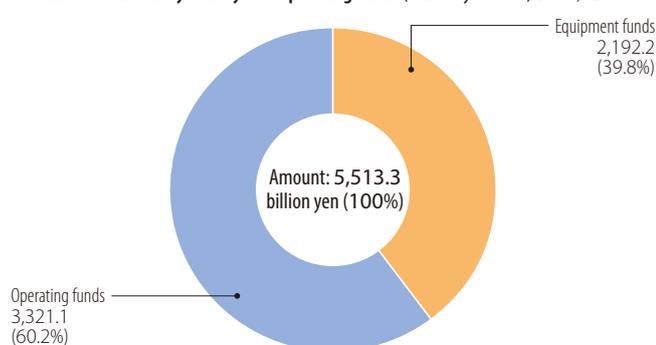
(Outstanding loans include corporate bonds. Breakdowns are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.)

Outstanding Loans by Region (FY2017 year-end) (Billion yen)



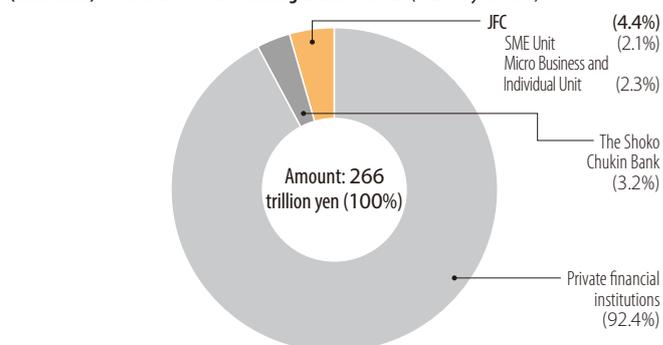
(Outstanding loans include corporate bonds. Breakdowns are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.)

Breakdown of Loans by Facility and Operating funds (FY2017 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 (FY2017 year-end)

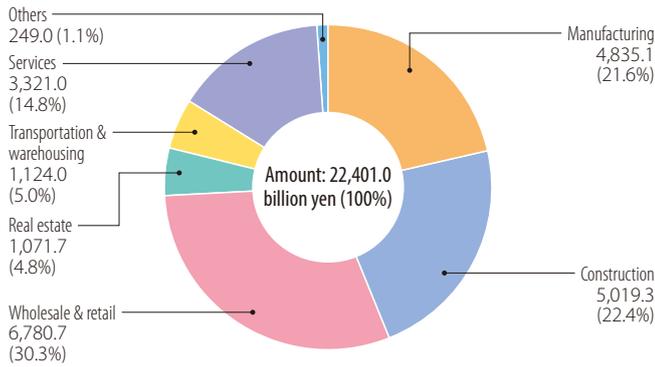


- Notes:
- The SME Unit's outstanding loans are calculated by excluding loans to facility-leasing institutions and loans to Small and Medium Business Investment & Consultation Co., Ltd. from the total outstanding loans.
 - The figure for the Micro Business and Individual Unit's outstanding loans is the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

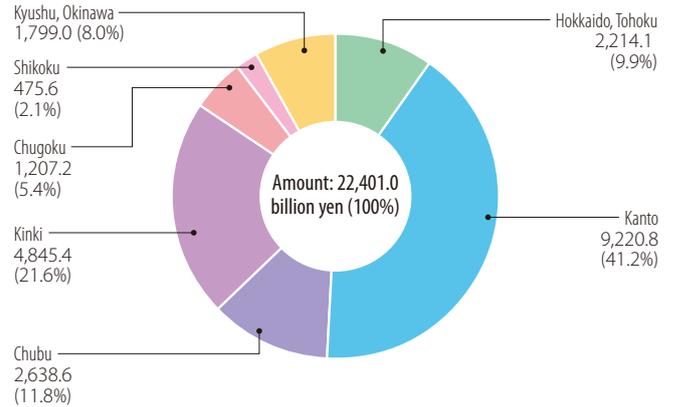
Source: Bank of Japan, "Financial and Economic Statistics Monthly," etc.

State of Credit Insurance Programs (Small Business Credit Insurance)

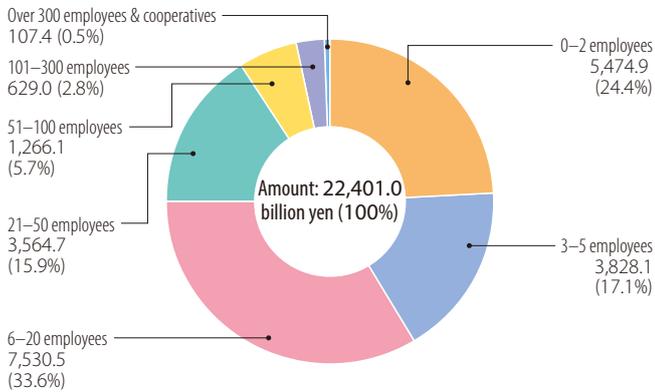
Outstanding Amounts of Insurance by Industry (FY2017 year-end) (Billion yen)



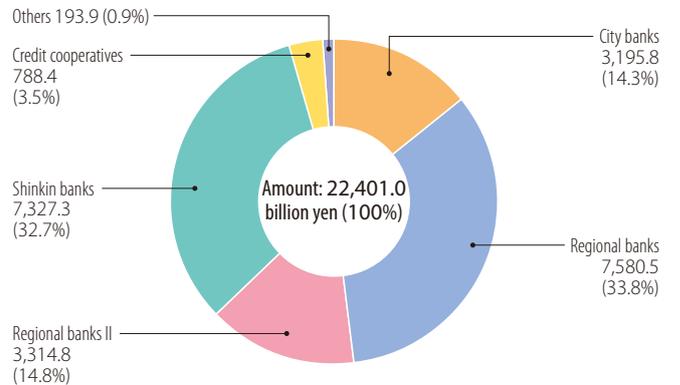
Outstanding Amounts of Insurance by Region (FY2017 year-end) (Billion yen)



Outstanding Amounts of Insurance by Number of Employees (FY2017 year-end) (Billion yen)

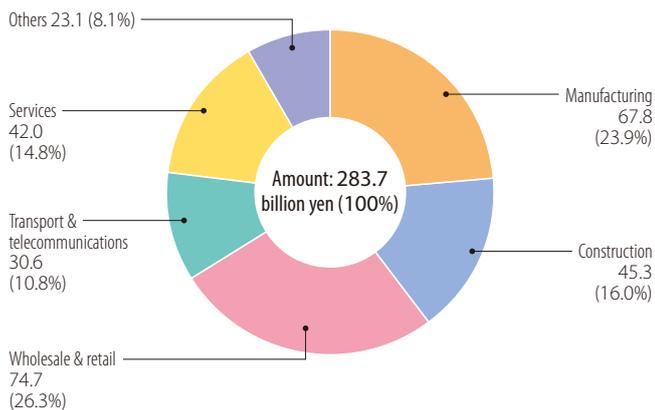


Outstanding Amounts of Insurance by Type of Financial Institution (FY2017 year-end) (Billion yen)

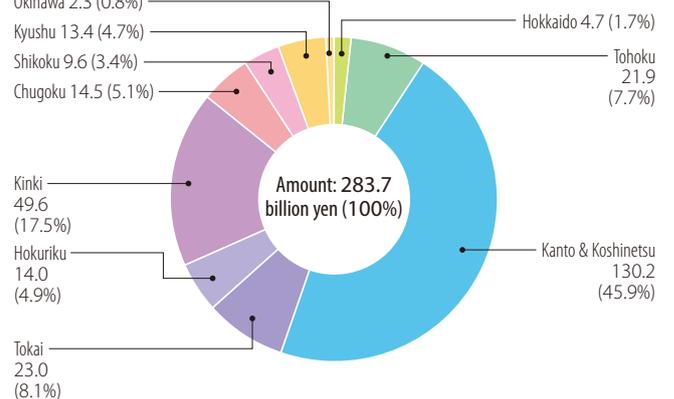


State of Securitization Support Programs (Purchase-type and Guarantee-type)

Provision of Funds by Industry (cumulative results (FY2004-2017)) (Billion yen)



Provision of Funds by Region (cumulative results (FY2004-2017)) (Billion yen)



Offices

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Number of Branch Offices: 152

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

Loan Programs and Securitization Support Programs

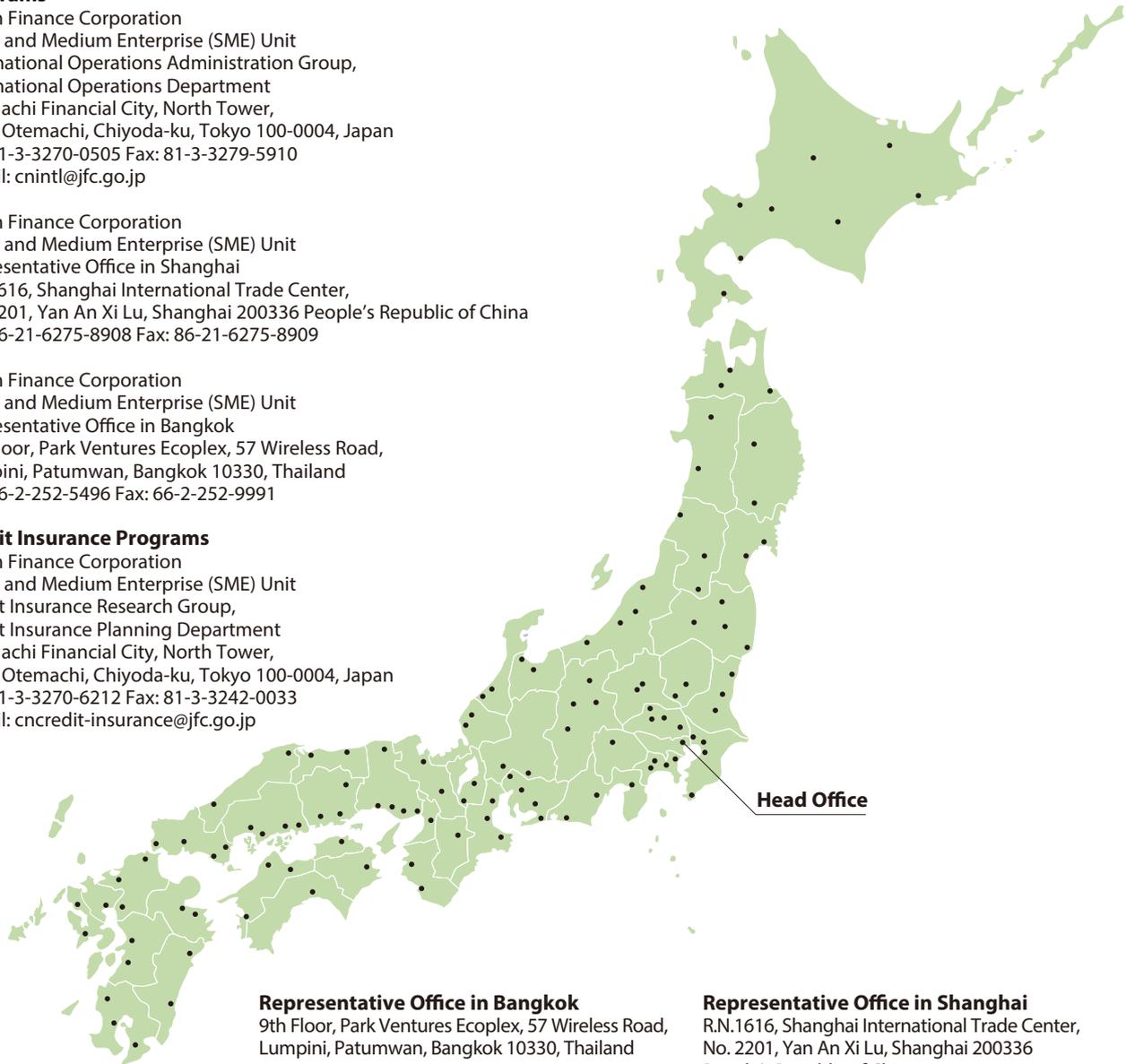
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International Operations Administration Group,
International Operations Department
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Tel: 81-3-3270-0505 Fax: 81-3-3279-5910
E-mail: cnintl@jfc.go.jp

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Credit Insurance Programs

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