

2009

Japan Finance Corporation
Annual Report



2009

Japan Finance Corporation Annual Report 2009

Contents

1	Overview of Japan Finance Corporation	1
1	Message from the Governor & CEO	2
2	Profile	4
3	Main Business Activities	5
4	Management Philosophy	6
5	Business Management Plan (FY2009 – 2011)	7
2	JFC Activities	9
1	Responses to Financial Crisis	10
2	Efforts to Maximize Integration Effects (Match-making for Business Collaboration)	13
3	Overview of Operations in FY2008 (Oct. – Mar.), and Outline of Financial Statements	15
3	Overview of Operations	17
1	Micro Business and Individual Unit	18
2	Agriculture, Forestry, and Fisheries and Food Business Unit	24
3	Small and Medium Enterprise (SME) Unit	30
4	Japan Bank for International Cooperation (JBIC)	36
5	Crisis Response Operations	42
6	Research Institute	44
4	Systems for Operational Management	47
1	Governance	48
2	Funding	59
5	Organization and History	61
1	Organization	62
2	Office Locations	63
3	History of JFC	72
Data		75
1	Operational Performances	76
2	Financial Statements and Notes	92
3	Reference Information	149

Presentation of quantities and amounts in this report

1. Quantities and amounts less than one standard unit

Quantities, numbers of items, monetary amounts and other numerical figures presented in this report are, in principle, truncated (rounded down) to the nearest standard unit of presentation (however, for the Japan Bank for International Cooperation, monetary amounts presented for fiscal years ended on or before March 31, 2008, are rounded up or down to the nearest whole unit). Percentages are rounded up or down to the nearest decimal place presented. Consequently, some totals presented differ slightly from the sum of the component figures presented.

2. Method of presentation

In cases where quantities, numbers of items, monetary amounts and other numerical figures are less than one standard unit of presentation, such figures are presented as zero (0). In cases where there is no applicable amount, a hyphen (-) is shown.

1

Overview of Japan Finance Corporation

1	Message from the Governor & CEO	2
2	Profile	4
3	Main Business Activities	5
4	Management Philosophy	6
5	Business Management Plan (FY2009 – 2011)	7

Message from the Governor & CEO



Establishment of Japan Finance Corporation and Response to Economic Crisis

Japan Finance Corporation (JFC) was established on October 1, 2008, with the merger of National Life Finance Corporation (NLFC), Agriculture, Forestry and Fisheries Finance Corporation (AFC), Japan Finance Corporation for Small and Medium Enterprise (JASME) and the International Financial Operations (IFOs) of the Japan Bank for International Cooperation (JBIC).

In response to the global-scale financial crisis that has persisted since autumn 2008, the government has implemented emergency economic policy measures aimed at providing financial assistance together with employment support. As a government-affiliated financial institution, JFC is also committed to carrying out the government's policies and directives. In this context, both management and staff are united in their efforts to achieve this goal.

Specifically, under the catchphrase "Turn this challenge into an opportunity, consult with JFC!," we are working as one body to use our total organizational powers to assist the financing of small and medium enterprises (SMEs), micro businesses, and agricultural, forestry, and fishery enterprises. As a result of those measures, in the second half of FY2008, Safety Net Loans—loan programs created to support those struggling with cash flows—grew 2.1 times over the previous year. The number of businesses taking advantage of Safety Net Loans continues to rise in FY2009, growing

4.5 times for the April - June period compared to the same period last year.

JFC is also instrumental in facilitating the funding operations of SMEs and micro businesses by underwriting and backing guarantees for the Emergency Guarantee Program carried out by Credit Guarantee Corporations (CGCs) throughout Japan.

The Japan Bank for International Cooperation (JBIC), the international wing of JFC, has also responded to the turmoil in international financing in cooperation with international organizations such as the World Bank and International Finance Corporation, apart from its financing operations to secure a stable resource supply to Japan. Specifically, JBIC has launched financing initiatives and facilities aimed at stabilizing the international financial system and supporting trade finance in fighting the global financial crisis. These were in addition to financial support for overseas projects and business operations of Japanese industries, as well as their exports.

On the other hand, JFC has implemented services to facilitate crisis countermeasures after the government acknowledged the financial crisis with the issuance of a paper titled "Matters Concerning Disruption in the International Financial Order." To cope with the financial crisis, JFC grants certain credit accommodations to financial institutions designated by the government to encourage the smooth provision of funds to businesses. Upon receipt from JFC of the aforementioned credit accommodation grants, these government-designated financial institutions provide the necessary funds that enable medium-sized and large enterprises to combat the negative impacts of the crisis.

Amidst an unprecedented economic crisis, JFC—as a government-affiliated financial institution—has performed the full functions inherited from its predecessors for speedy and flexible provision of financing based on government policies.

JFC's Corporate Philosophy

JFC is guided by the basic philosophy of "Focused Policy-based Financing" and "Mainstreaming Governance." Following the national policy, JFC will flexibly provide policy-based financing in the areas where private financial institutions find it difficult to accommodate, thereby

complementing their activities. JFC is a corporation established under its own statutory law and wholly and permanently owned by the government. Therefore, JFC will utilize a corporate framework in striving to conduct highly transparent and efficient business operations and is committed to becoming an autonomous organization continuously evaluating and improving its activities.

JFC has also formulated five business guidelines in conducting operations: "Improving Customer Service," "Contributing to the Development of the Japanese and International Economies," "Contributing to Local and Regional Revitalization," "Addressing Environmental Issues," and "Creating a Self-fulfilling Workplace."

Business Management Plan (FY2009 – 2011)

In FY2009, JFC laid down management policies and drew up a business management plan that embody its corporate philosophy.

Four management policies can be broadly divided into two thematic areas: (1) bolstering daily efforts to capitalize on our capabilities as a government-affiliated financial institution in dealing with the global economic downturn, and (2) strengthening governance and streamlining the organization to further solidify organizational integrity attained through the merger, while ensuring the independence of individual business units.

Under these management policies, the business management plan set out "smooth supply of policy-based funds and provision of substantial customer services," "promoting streamlining and efficiency of the organizational structure and business operations," and "human resources and capacity development." We believe in the importance of steadily putting these plans into action.

Results for the Second Half of FY2008 (Oct. – Mar.)

Ordinary losses for the second half of FY2008 amounted to 664.0 billion yen. Although JBIC earned a profit of 19.9 billion yen, the principal factors causing the overall loss were (1) 427.0 billion yen of insurance money disbursed by credit insurance programs through an increase in amount repaid under guarantees by CGCs, and 358.1 billion yen provided as a reserve for insurance

policy liabilities and included in ordinary expenses, and (2) in loan programs, 87.8 billion yen posted as a provision for loan losses due to a deterioration in loan assets associated with the declining performance of business borrowers.

These losses are recognized as necessary costs in implementing government policies. In the current economic climate, there is no change in JFC's stance on resolute implementation of government economic measures. As stated in our corporate philosophy, we will continue to strive toward greater transparency and efficiency in our operations to hold our operations accountable to the Japanese people.

Bringing Out Synergies for Greater Assistance

JFC draws on the professional expertise cultivated by the individual institutions prior to the merger to effect synergies of the merger. Specifically, JFC will apply and share the expertise and information that each operational unit possesses to offer a wide spectrum of services that bring out synergies, including business matching service for assisting in the expansion of marketing channels and supply sources, promotion of collaboration between businesses in agriculture, commerce, and industry, and support for the globalization of businesses.

We also place importance on listening to the voices of our customers, while aiming to contribute to the growth and development of local and regional economies, the Japanese economy, and the international economy.

I would like to ask for your continued understanding and support for JFC.



Shosaku Yasui
Governor & CEO
Japan Finance Corporation

Profile

Name

Japan Finance Corporation (JFC)

Establishment

October 1, 2008

Statutory law

Japan Finance Corporation Law

Head office

1-9-3, Otemachi, Chiyoda-ku, Tokyo, Japan

Governor & CEO

Shosaku Yasui

Capital, other

Capital: 2,452.1 billion yen

Reserve fund, other: 1,472.6 billion yen (as of Mar. 31, 2009)

Branch offices

Japan: 152

Overseas representative offices: 19

Employees

8,107 (positions sanctioned in the FY2009 budget)

Outstanding loans

Micro Business and Individual Unit: 7,539.2 billion yen

Agriculture, Forestry, and Fisheries and

Food Business Unit: 2,758.3 billion yen

Small and Medium Enterprise (SME) Unit: 5,639.3 billion yen

(finance operations)

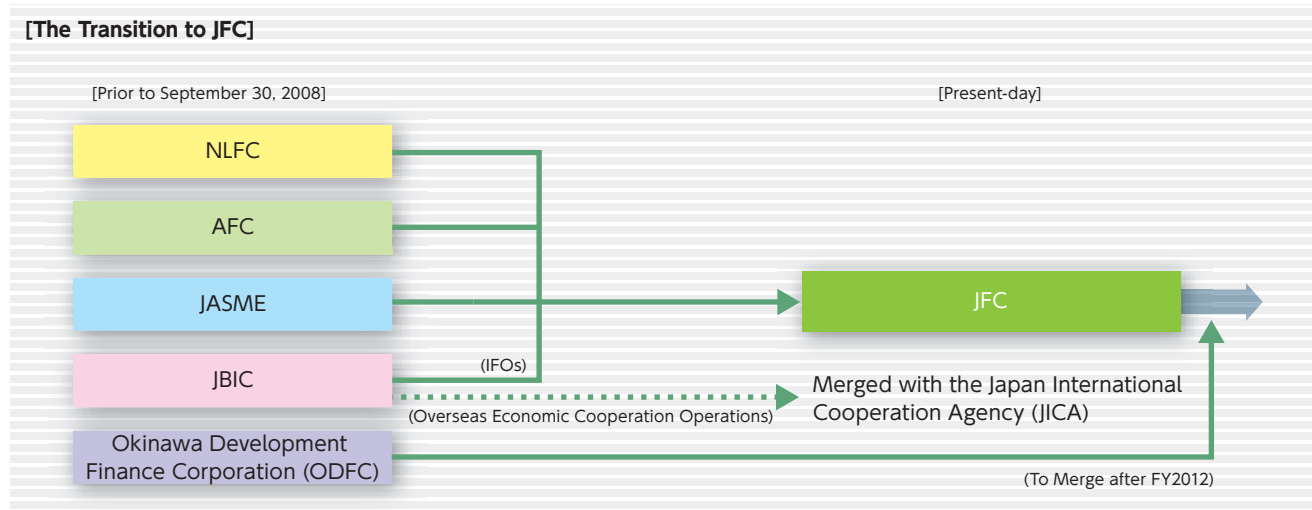
Japan Bank for International Cooperation: 7,280.6 billion yen

(Outstanding Loans and Other Financing)

Crisis Response Operations: 1,430.1 billion yen (as of Mar. 31, 2009)

Establishment of Japan Finance Corporation

JFC was established in October 2008 with integration of the National Life Finance Corporation (NLFC), the Agriculture, Forestry and Fisheries Finance Corporation (AFC), the Japan Finance Corporation for Small and Medium Enterprise (JASME) and the International Financial Operations (IFOs) of the Japan Bank for International Cooperation (JBIC).



Key Points in JFC's Establishment

Creating a highly public corporation

JFC is a highly public corporation established under a special law stipulating that it is wholly and permanently owned by the government.

The purpose of adopting the structure of a corporation is to utilize the governance framework of a corporation in order to conduct highly transparent and efficient business operations.

Inheriting rights and obligations

JFC has inherited any and all rights and obligations of the four merged institutions. Funding being utilized from any of the institutions and profits gained by persons holding securities issued by each will be honored.

Offering a broad range of services

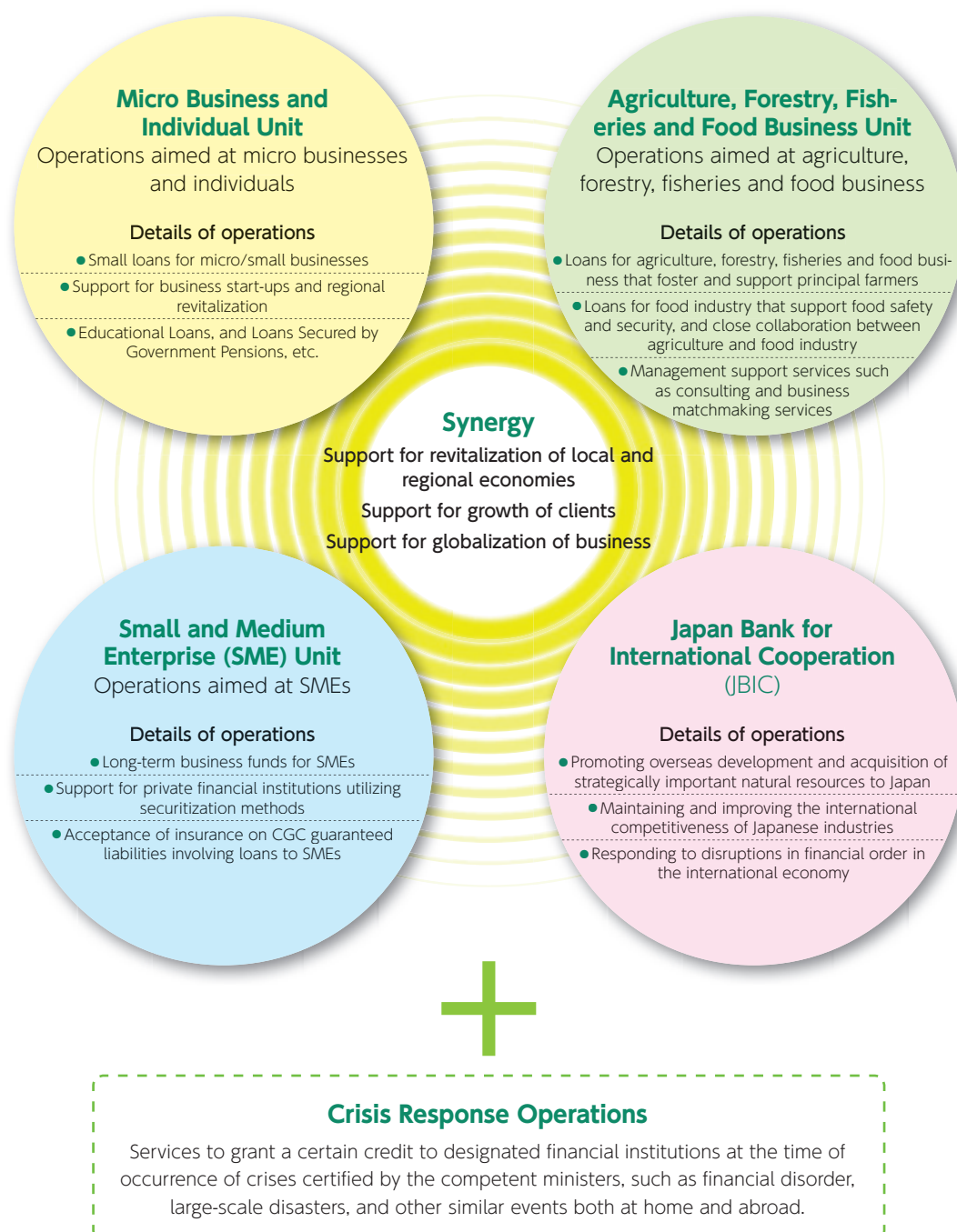
JFC leverages the specialized expertise of each institution and shares know-how in order to offer a wide spectrum of services, such as business matching, promoting collaboration among agriculture, commerce, and industry, and supporting the globalization of businesses.

Main Business Activities

JFC is a government-affiliated financial institution that aims to complement financial activities carried out by general financial institutions and to contribute to the sound development of the Japanese and international economies and societies and to the improvement of the quality of national life.

- We execute financial functions (domestic financial operations) for supporting financing for the general public, SMEs, and agricultural, forestry, and fishery businesses.
- We execute financial functions (international financial operations) for promoting overseas development and acquisition of strategically important natural resources to Japan and maintaining and improving the international competitiveness of Japanese industries.
- We offer financial functions (services to facilitate crisis response operations) necessary for coping with damage inflicted by events such as disruption in the domestic and international financial order, large-scale disasters, terrorism, or infectious diseases.

Major Business Operations of JFC



Management Philosophy

Basic Philosophy

● Focused Policy-based Financing

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

● Mainstreaming Governance

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

Furthermore, JFC is committed to becoming an autonomous organization continuously evaluating and improving its activities.

Business Guidelines

Improving Customer Service

- JFC will earn the trust of clients by improving the quality of its products and services and responding promptly and precisely to the needs of a range of clients requiring policy-based financing.
- JFC will create added value through mutual utilization of know-how and information shared among various fields of policy-based financing.

Contributing to the Development of the Japanese and International Economies

- JFC will support better lives for the general public, SMEs and the agriculture, forestry, and fisheries industries.
- JFC will contribute to the sustainable development of Japan and developing countries by securing access to strategically important resources for Japan and maintaining and improving the international competitiveness of Japanese industries.
- JFC will respond to cope with disruptions in financial order or damage caused by major disasters in Japan and overseas.

Contributing to Local and Regional Revitalization

- JFC will contribute to local and regional revitalization, efforts including job retention and creation, through development of community-based programs and integrated utilization of policy-based financing functions in the respective fields.

Addressing Environmental Issues

- JFC will contribute to society by striving to engage in corporate activities that take into account the environment and by providing programs closely associated with environmental issues.

Creating a Self-fulfilling Workplace

- JFC will create a self-fulfilling workplace that enables all the employees to foster their professional expertise for conducting policy-based financing and fulfill their capacities with pride and a sense of mission.

Business Management Plan (FY2009 – 2011)

In line with the management philosophy (basic philosophy, business guidelines) JFC formulated upon its establishment in October 2008, management policies and a business management plan were drawn up for the period FY2009 – 2011 at the board of directors meeting held on March 17, 2009.

Management Policies

- (1) As a policy implementing institution, JFC will implement policy-based financing flexibly and effectively. Particularly in FY2009, JFC will reinforce the financing activities for domestic SMEs, small-scale enterprises/businesses and agriculture, forestry and fisheries enterprises/businesses, in response to the global recession.
- (2) JFC will reinforce the financing activities aiming to secure overseas access to strategically important resources for Japan, to maintain and improve the international competitiveness of Japanese industries, as well as to stabilize international financial order (also exceptionally respond to difficulties of financing by large enterprises, etc.)
- (3) JFC will place emphasis on corporate governance and develop and reinforce its organizational structure.
- (4) JFC will achieve and promote management organization that encompasses the integrity as JFC and the independence of each business unit.

Business Management Plan

- ◆ Following the national policy, JFC will provide flexible policy-based financing while complementing the activities of private-sector financial institutions.
- ◆ JFC will adopt a corporate governance framework in striving to conduct highly transparent and efficient business operations and is committed to becoming an autonomous organization continuously evaluating and improving its activities.

Facilitating the Provision of Policy Funds and Offering Well-developed Customer Services

As a newly established government-affiliated financial institution through the merger of the four government-affiliated financial institutions, JFC will exhibit its comprehensive strengths, and make efforts to smoothly supply policy-based funds and to provide substantial customer services.

Stably supply funds as policy-based financing

- (1) JFC practices policy-based financing that supplies clients with funds in a timely and smooth manner.
- (2) The international division provides prompt and appropriate funding for businesses that develop and acquire natural resources strategically important to Japan, and that maintain and improve the international competitiveness of Japanese industries.

Respond to specific and priority policies in a prompt manner such as a crisis and emergency economic package, and flexibly supply funds

- (1) JFC carries out safety net functions to give total support to clients troubled by cash management amidst a deteriorating economic and financial environment. In addition, JFC responds properly to the funding needs of clients impacted by disaster or other events.
- (2) JFC implements expedient and smooth measures that adapt to the onset of crisis, including measures to combat disruption of the international financial order.

Provide substantial services and information

JFC is constantly striving to understand customer needs and expands services.

- (1) Promoting business matching
JFC has established a collaborative system that allows the application and sharing of know-how and information that each unit/JBIC possesses in order to bring clients together and offer beneficial information.

(2) Expanding business consulting services

JFC works to expand business-consulting services by enhancing educational systems that promote the possession of the advanced insights necessary to respond to client needs.

(3) Services for setting up operations overseas

JFC promotes the introduction of clients from the SME Unit to JBIC, ties with local overseas government-affiliated financial institutions, and promotes information sharing and problem-solving assistance for overseas subsidiaries.

(4) Improving systems to produce new ideas for policies and measures

To contribute toward carrying out effective policies and measures, JFC plans and offers new products and new support tools for responding to customer needs by improving the systems that link each unit/JBIC.

Make efforts to complement private financial institutions

JFC collaborates with private financial institutions and local organizations to offer services to clients.

Promote Streamlining and Efficiency of the Organizational Structure and Business Operations

By promoting streamlining and efficiency of the organizational structure and business operations, JFC will create its organizational setup in order to respond to customer's demand timely and precisely.

JFC streamlines and simplifies work operations using the BPR method to reassess organizations, the execution of operations, and administrative authority and responsibility based on a unified concept

- (1) JFC clarifies administrative authority and responsibility.
- (2) JFC reevaluates the execution of operations to improve efficiency.
- (3) JFC improves transparency and expediency in decision-making.
- (4) JFC promotes unification (centralization) of administration division affairs.

Promote development of a systematic and consistent system

- (1) Puts into order system infrastructure to be shared, such as the integration of groupware.
- (2) Puts into order an operational system to be shared, which includes the sharing of client information.
- (3) Promotes the rationalization and greater efficiency of system division affairs.

Human Resource Development and Capability Development

JFC will cultivate capabilities and motivations of each and every employee, and seeks to become a finance corporation that will earn the trust of customers.

Establishing a human resources and salary framework that incorporates a merit-based and performance-based system

JFC is transitioning to a wage system based on work assignments (responsibilities) and job performance, and adopting a transparent, fair evaluation of capabilities and performance.

Promoting careers for women in the workplace

JFC has established a division to promote careers for women, for which the governor & CEO is chairman and a Committee for Promoting Careers for Women serves as an advisory body. The division is steadily implementing measures that encourage the activities of women in the workforce.