

1. Summary of operations implemented using FILP funds

The Japan Finance Corporation for Small and Medium Enterprise is supporting the small and medium sized enterprises that are expected to contribute to the invigoration of the nation's economy with their ample vitality and that are the chief players of the regional economies by operations including the constant provision of such long-term funds to facilitate the small and medium sized enterprise operators that are difficult to be sufficiently supplied by the private financial institutions.

2. Amount of lending under FY 2011 FILP

(Unit: billion yen)

FY 2011 FILP	Estimated outstanding amount of FILP lending at the end of FY 2010
1,491.5	5,323.8

3. Outcome and social and economic benefits of operations

1) Financing

Total lending (FY2009)

Business funds 43,000 cases ¥3.2108 trillion

Total lending (aggregate amount from FY 1953 to FY2009)

Business funds 2,620,000 cases ¥70.7029 trillion

2) Economic contribution of the corporation's client companies

Total of the corporation's loan customers' corporate tax and the like account for 4% of the entire economy and 10% of small and medium enterprises.

	Entire loan customers (Note 1)	All domestic enterprises All domestic small and medium enterprises (Note 3)	% of Japan's economy % of small and medium enterprises
Corporate tax, etc. (Note 2)	563.6 billion yen	13.5 trillion yen 5.5 trillion yen	4% 10%

Notes: 1. The amount are given by multiplying the average per client approved to be provided with loans in the fiscal year by the number of the direct loan clients, 46,139 companies.

2. Other than corporate tax, this includes prefectural tax, municipal tax and business tax.

3. Small and medium enterprises are those capitalized at less than 100 million yen.

3) Economic effect from capital investment loans

(1) The finance corporation's capital investment loans for FY2009 were 322.2 billion yen. The total of capital investment utilizing these loans amounts to 461.4 billion yen (excluding land).

(2) The measurement of the ripple effect to Japan's economy based on this outcome indicates that it induced 1.0 trillion-yen worth of production and jobs for 56 thousand people within the country.

4) Prevention of loss of employment by safety net loans

Safety net loans were provided to SMEs that suffer temporary setbacks in business conditions due to deterioration in the social or economic environment or other reasons or confront cash flow difficulties due to credit squeeze or the collapse of affiliated companies, contributing to the prevention of the loss of 1,204,000 jobs (equivalent to 36% of the number of unemployed persons).

5) Number of public companies turned out

(1) 597 companies that borrowed funds from the finance corporation, have gone public thus far (one in six public companies).

(2) Specifically, one in four public companies has been a client of the finance corporation since 1989.

	Cumulative total 3,512 companies (100%)	Cumulative total since 1989 1,526 companies (100%)
Number of public companies		
Number of these having past or present dealing with the finance corporation	597 companies (17.0%)	405 companies (26.5%)

Note: As of 31 March 2010, excluding agriculture/fisheries, finance/insurance and foreign companies.

4. Estimated policy (subsidy) cost analysis of the project

Policy (subsidy) cost

(Unit: billion yen)

Category	FY2010	FY2011	Fluctuation
1. Subsidies, etc. from the Government	55.1	61.7	+6.6
2. Money transferred to the Government	-	-	-
Subtotal (1+2)	55.1	61.7	+6.6
3. Opportunity cost of capital investments, etc. from the Government	277.3	275.5	-1.7
Subtotal (1+2+3)	332.4	337.3	+4.9
4. Decrease in retained losses	-232.0	-305.6	-73.6
Total (1+2+3+4=policy cost(A))	100.4	31.6	-68.8
Analysis period (years)	21	21	-

Breakdown of policy cost by the time of the provision of funds

(Unit: billion yen)

Category	FY2010	FY2011	Fluctuation
(A) Policy cost (previously cited)	100.4	31.6	-68.8
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	265.3	263.0	- 2.3
2) Policy cost expected to be newly accrued during the analysis period	-164.9	-231.4	-66.5
Subsidies, etc. from the Government	55.1	61.7	+ 6.6
Money transferred to the Government	-	-	-
Policy cost accrued with a change in surplus funds	-232.0	-305.6	-73.6
Opportunity cost of capital investments, etc.	12.0	12.5	+0.5

Year-to-Year comparison analysis

(Unit: billion yen)

Category	FY2010	FY2011	Fluctuation
(A) Policy cost (previously cited)	100.4	31.6	-68.8
(A') Policy cost obtained by re-calculating (A) using the same assumed interest rate as in the FY2010 analysis	100.4	14.9	-85.5
(B) Policy cost of (A') generated in FY2011 or later	7.5	14.9	+7.4

Policy cost in FY2011 is ¥31.6 billion. The analysis shows an increase of ¥7.4 billion in real policy cost over FY2010 when the effect of change in the assumed interest rate for FY2011 is eliminated and the policy costs that accrue in FY2011 and thereafter are compared.

This increase in real policy cost is considered to be attributable to the following factors:

- Decrease in cost by new loans provided (- ¥74.1 billion), decrease in pre-maturity redemption (- ¥5.2 billion)
- Increase in cost due to the amortization cost (+ ¥37.1 billion) Increase in cost due to determined results in FY2009 and revised estimates in FY2010 (+ ¥0.4 billion) Other factors (including an increase in administrative expenses related to new loans provided in FY2011) (+ ¥49.2 billion)

Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2011 (previously cited)	31.6
1) Prepayments	38.6
2) Defaults	208.6
3) Other (spread, etc.)	-215.5

Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

Changed assumption and extent of change	Policy cost (Fluctuation)	
Interest rates on money loaned and funds raised +1%	Without change in discount factor	With change in discount factor
	25.4 (-6.2)	111.9(+80.3)
Fluctuation in opportunity cost	-6.2	+82.2
10% rise in charge-off	51.9 (+20.3)	
Fluctuation in opportunity cost	+20.4	

(Reference)

Budgeted amount of subsidies and capital investment in FY 2011

Subsidies:	¥14.1 billion
Capital investment:	¥36.5 billion

5. Outline of estimation and project prospect employed in the analysis

- 1) The estimation is made in respect to all projects subject to financing and securitization support.
- 2) The estimation is made on the assumption that financing is implemented based on the FY2011 business plan (¥2,200.0 billion) in addition to existing loan balance of ¥6,365.1 billion (estimated as of the end of FY2010)
- 3) The analysis period is supposed to be 21 years until the complete repayment of all loans made based on the FY2011 operation program as well as existing loans.
- 4) Prepayments are expected to account for 2.53% of outstanding loans at the beginning of the analysis period in and after FY2012. This ratio is the weighted average of the preceding 5 years (FY2005 – FY2009).
- 5) Loan loss provisions are expected to account for 0.69% of the fiscal year-end loan balance in and after FY2012. This ratio is the weighted average of the preceding 5 years (FY2005 – FY2009) (figures based on postulated financial statements in the case of private enterprises).

(Unit:%)

	Result					Estimated	Planned	Assumptions for calculation
FY	2005	2006	2007	2008	2009	2010	2011	2012-2031
Prepayment ratio	3.43	2.64	2.26	2.20	1.98	2.01	1.89	After FY2012 2.53
Loan loss provision ratio	0.41	0.58	0.22	1.66	0.72	0.50	1.08	After FY2012 0.69

(Note) The prepayment ratio in and after FY2008 excludes refinancing.

6. Reasons for granting of subsidies, mechanism and underlying laws

(Reasons)

For the purpose of providing long-term business funds with low and fixed interest rates for small enterprises that find it difficult to receive loans from private financial institutions, financial assistance is received from the general account of the national treasury as compensation for income reduced by reducing the loan interest rate lower than the standard rates.

Moreover, for the purpose of promoting smooth special lending, financial assistance or subsidy is received from the Special Account for Energy Policy and the general account, and subsidy about integration related expenses is received from the general account.

(Underlying laws and regulations)

- a) Subsidies, etc., have no legal base (they are budgetary measures)
- b) The Japan Finance Corporation Law provides for capital investment. (Article 4)
 Article 4 of the Law: (1) The Government may, when it finds it to be necessary, make contributions to JFC within the amount appropriated in the budget.
 (2) When a contribution is made by the Government pursuant to the provisions of the preceding Paragraph, JFC shall, notwithstanding the provisions of Article 445, Paragraph 2 of the Companies Act (Law No. 86 of 2005), be allowed not to record the amount exceeding half of such contribution amount as the capital.
- c) The Japan Finance Corporation Law provides for payment to the national treasury. (Article 47)
 Article 47 of the Law: (1) In the event that the amount of the surplus recorded in the settlement of accounts for each business year exceeds zero in each account related to the operations listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order, among such surplus, until it reaches the amount prescribed by the Cabinet Order, and if there is still a surplus, JFC shall pay the amount of such surplus into the National Treasury within three months after the end of such business year.

7. Special remarks

- 1) Japan Finance Corporation (Account for SME Loan Programs and Securitization Support Programs (Guarantee-type Operations)) was established on 1 October 2008 by “Japan Finance Corporation Law” and it succeeded to all rights and obligations regarding loan account/securitization support guarantee operations account for small and medium enterprises of JASME which was dissolved on the same day except assets to be handed to the Government.
- 2) Changes in policy cost to date indicated below: (Costs up to FY2008 are JASME’s ones (loan account).)

FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
¥98.2 billion	¥88.7 billion	¥76.6 billion	¥233.8 billion	¥274.0 billion	¥275.4 billion	¥343.9 billion	¥314.3 billion	¥308.9 billion	¥147.2 billion	¥100.4 billion	¥31.6 billion

(Reference) Financial Statements

Balance Sheet

(Unit : million yen)

Item	End of FY2009 (Result)	End of FY2010 (Estimated)	End of FY2011 (Planned)	Item	End of FY2009 (Result)	End of FY2010 (Estimated)	End of FY2011 (Planned)
(Assets)				(Liabilities and equity)			
Cash and deposits	64,972	35,056	35,012	Borrowed money			
Cash	2	2	2	Loans payable	3,360,746	3,987,384	4,322,928
Deposits	64,970	35,053	35,009	Bonds payable	2,159,952	1,897,338	1,774,962
Securities	6,529	13,354	18,262	Other liabilities	19,809	19,151	18,667
Bonds	3,979	1,376	1,854	Accrued expenses	13,287	11,343	10,862
Other securities	2,549	11,977	16,407	Advance revenues	7	1,197	1,594
Loans				Derivative	2	-	-
Loan on deeds	5,958,595	6,365,129	6,588,419	Lease obligations	2,983	2,996	2,581
Other assets	6,663	10,689	10,141	Other liabilities	3,528	3,613	3,629
Prepaid expenses	0	2,933	1,995	Reserve for bonuses	998	1,028	1,023
Accrued revenue	5,430	5,852	6,223	Reserve for directors' bonuses	5	5	5
Other assets	1,232	1,903	1,922	Reserve for retirement pensions	40,167	40,130	40,091
Tangible fixed assets	62,839	53,527	53,647	Reserve for directors' retirement benefits	12	21	16
Buildings	4,950	4,998	4,997	Other reserves	-	294	147
Land	56,788	13,488	13,488	Acceptances and guarantees	16,508	24,537	33,408
Lease assets	893	946	1,015	(Total liabilities)	5,598,200	5,969,890	6,191,251
Construction in progress	-	33,827	33,827	Capital	724,285	768,035	804,535
Other tangible fixed assets	207	265	317	Retained earnings			
Intangible fixed assets	4,422	4,393	3,737	Other retained earnings			
Software	680	2,391	1,744	Earned surplus brought forward	-352,492	-345,588	-371,241
Lease assets	1,940	1,904	1,445	Total shareholders' equity	371,792	422,446	433,293
Other intangible fixed assets	1,802	98	547	(Total equity)	371,792	422,446	433,293
Customer's liabilities for acceptance and guarantee	16,508	24,537	33,408				
Allowances for bad debts	-150,538	-114,351	-118,084				
Total assets	5,969,993	6,392,336	6,624,545	Total liabilities and equity	5,969,993	6,392,336	6,624,545

Note : Amounts of less than one million yen are rounded down.

Income Statement

(Unit : million yen)

Item	FY2009 (Result)	FY2010 (Estimated)	FY2011 (Planned)	Item	FY2009 (Result)	FY2010 (Estimated)	FY2011 (Planned)
Ordinary income	125,359	129,321	138,268	Amortization of bond issue expenses	1,019	1,062	814
Revenue from fund management	110,954	114,717	121,930	Other operating expenses	11	304	252
Interest on loans	110,751	114,670	121,574	Business expenses	26,061	30,431	30,217
Interest and dividends on securities	143	41	349	Other ordinary expenses	50,798	33,869	73,595
Interest from repurchase agreements	0	0	0	Loan loss provisions	43,025	32,656	71,627
Interest on deposits	58	5	5	Provision on loans	7,050	-	-
Revenue from service transactions, etc.	172	698	1,833	Provision on stocks	570	482	320
Other service revenue	172	698	1,833	Other ordinary expenses	151	730	1,647
Other operating revenue	1	0	-	Ordinary profit or loss	-10,010	12,041	-25,899
Revenue from Derivative	1	0	-	Extraordinary profits	106	100	247
Revenue from government grants	13,813	13,557	14,134	Gain on sales and retirement of noncurrent assets	0	-	-
Receipt from the general account	13,799	13,543	14,122	Bad debt recovered	105	100	100
Receipt from the special account	13	13	12	Other extraordinary profits	-	-	147
Other ordinary income	418	347	369	Extraordinary loss	346	5,238	-
Other ordinary income	418	347	369	Loss on sales and retirement of noncurrent assets	39	5,238	-
Ordinary expenses	135,369	117,279	164,167	Impairment loss	306	-	-
Financing cost	57,180	51,216	58,453	Net loss	-10,250	6,903	-25,652
Interest on call money	-	209	-				
Interest on borrowed money	28,921	27,950	35,910				
Interest on bonds	28,259	23,056	22,542				
Expenses for service transactions, etc.	219	394	833				
Other service expenses	219	394	833				
Other operating expenses	1,108	1,367	1,067				
Amortization of JGB, etc.	77	-	-				

Note : Amounts of less than one million yen are rounded down.