

**1. Summary of operations implemented using FILP funds**

Japan Finance Corporation, by supporting the efforts that take advantage of securitization model employed by private financial institutions, complements the commercial activities and promotes the supply of unsecured funds contributed by private financial institutions to small and medium enterprises.

**1) Purchase-type scheme**

The Corporation purchases the unsecured credits for the small and medium enterprises from the private financial institutions nationwide, thereby promoting the participation in the securitization scheme by the private financial institutions and other institutions.

**2) Guarantee-type scheme**

Where the private financial institutions securitize (new) unsecured loan claims themselves, the Corporation purchases the portion of securitized products to support further securitization.

**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
0.2	25.0

**3. Outcome and social and economic benefits of operations**
**1) Results**

- Financing in FY2005 1,736 companies/ 43.4 billion yen  
 [Purchase-type] 1,152 companies/ 27.6 billion yen  
 [Guarantee-type] 584 companies/ 15.8 billion yen
- Financing in FY2006 1,813 companies/ 50.0 billion yen  
 [Purchase-type] 1,572 companies/ 38.8 billion yen  
 [Guarantee-type] 241 companies/ 11.2 billion yen
- Financing in FY2007 1,798 companies/ 44.9 billion yen  
 [Purchase-type] 1,702 companies/ 41.8 billion yen  
 [Guarantee-type] 96 companies/ 3.1 billion yen

- 2) The total amount of CLO for small and medium enterprises by the Corporation's securitization operation (including purchase-type, guarantee-type and self-originate-type) amounts to about 279.2 billion yen accumulated since FY2004, which is about 25% of the total amount issued for CLO for small and medium enterprises (about 1.2 trillion yen, which is grasped by the Corporation from FY2004 to FY2009). This operation is thus contributing to the revitalization of the securitization market.

**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	-	-	-
2. Money transferred to the Government	-0.6	-0.5	+0.1
Subtotal (1+2)	-0.6	-0.5	+0.1
3. Opportunity cost of capital investments, etc. from the Government	0.3	0.2	- 0.1
Subtotal (1+2+3)	-0.3	-0.3	+0.0
4. Decrease in retained losses	-1.2	-1.2	+0.0
Total (1+2+3+4=policy cost(A))	-1.5	-1.5	+0.0
Analysis period ( years )	4	4	-

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

(Unit: billion yen)

Category	FY2010	FY2011	Fluctuation
(A) Policy cost (previously cited)	-1.5	-1.5	+0.0
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	0.3	0.3	-0.0
2) Policy cost expected to be newly accrued during the analysis period	-1.8	-1.7	+0.1
Subsidies, etc. from the Government	-	-	-
Money transferred to the Government	-0.6	-0.5	+0.1
Policy cost accrued with a change in surplus funds	-1.2	-1.2	-0.0
Opportunity cost of capital investments, etc.	0.0	0.0	-0.0

Year-to-Year comparison analysis

(Unit: billion yen)

Category	FY2010	FY2011	Fluctuation
(A) Policy cost (previously cited)	-1.5	-1.5	+0.0
(A') Policy cost obtained by re-calculating (A) using the same assumed interest rate as in the FY2010 analysis	-1.5	-1.7	-0.1
(B) Policy cost of (A') generated in FY2011 or later	-1.2	-1.7	-0.4

Policy cost in FY2011 is - ¥1.5 billion. The analysis shows a decrease of ¥0.4 billion in real policy cost over FY2010 when the effect of change in the assumed interest rate for FY2010 and 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 on new operations conducted in FY2011 (- ¥0.4 billion), increase in cost on fixation of FY2009 results and revision of FY2010 projections (+ ¥0.4 billion), decrease in cost on delay in implementation of new operations in FY2010 (- ¥0.4 billion)

Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2011 (previously cited)	-1.5
1) Prepayments	-
2) Loan losses	0.3
3) Others (including profit spread)	-1.8

Sensitivity analysis (cases where assumptions have changed)

(Unit: billion yen)

Changed assumption and extent of change	Policy cost (Fluctuation)	
	Without change in discount factor	With change in discount factor
Interest rates on money loaned and funds raised +1%	-1.5 (-0.0)	-0.7 (+0.7)
Fluctuation in opportunity cost	+0.0	+0.8
10% rise in charge-off	-1.4(+0.0)	
Fluctuation in opportunity cost	+0.0	

**(Reference)**

Budgeted amount of subsidies and capital investment in FY 2011

Subsidies: —  
 Capital investment: ¥0.2 billion

\*Components in each column may not add up to the total because of rounding.

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

- 1) The estimation is made in respect to securitization support programs (purchase-type).
- 2) The estimation is made on the assumption that securitization support programs (purchase-type) is implemented based on the FY2011 operation program (¥25.1 billion: ¥5.0 billion for factoring, ¥0.1 billion for purchasing of asset backed securities, ¥20.0 billion for credit default swap).
- 3) The analysis period covers four years where all the subordinated beneficiary rights and asset-backed securities of the Corporation are reimbursed.
- 4) Loan loss provisions cover 4.0% of the fiscal year-end subordinated debt loan balance in and after FY2012. This ratio is the weighted average of the preceding 4 years (FY2004 – FY2007) (figures based on postulated financial statements in the case of private enterprises).
- 5) The purchasing operation for the promotion of securitization was designed without any assumed prepayments.

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

### (Reasons)

- 1) Currently, there seems to be a certain level of progress in the disposal of bad loans by private financial institutions but financing for small and medium enterprises remains insufficient. The response for financing without collateral in particular remains passive except for some financial institutions.  
On the other hand, small and medium enterprise operators need unsecured loans more than ever, because their borrowing capacity has deteriorated due to the devaluation of collateral.
- 2) In order to increase unsecured funding for small and medium enterprise operators, financial institutions as lender have to transfer credit risk they hold to the market (investors). One of the possible means is securitization. However, this approach has not been sufficiently utilized for the purpose of financing for small and medium enterprises. Given the current status, the Corporation will be required to assist securitization, and capital investment that has to be made by the Industrial Investment Special Account to secure the necessary fund.
- 3) The Corporation aims to facilitate the supply of unsecured loans from private financial institutions by helping them to securitize loan claims. This will effectively promote business activities of small and medium enterprise operators and complies with the objective of the FILP Special Account “Development of industries and promotion of trade.”

### (Underlying laws and regulations)

- Capital investment is stipulated by the Japan Finance Corporation Law (Article 4)  
Article 4: 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.
- The payment to the national treasury is governed by The Japan Finance Corporation Law (Article 47)  
Article 47: 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 Securitization Support Programs (Purchase-type Operation)) was established on 1 October 2008 by “Japan Finance Corporation Law” and it succeeded to all rights and obligations regarding securitization support purchase 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 (securitization support purchase operations account for small and medium enterprises)):

FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
-¥1.5 billion	-¥1.3 billion	-¥2.3 billion	-¥3.0 billion	-¥1.4 billion	-¥0.7 billion	-¥1.5 billion	-¥1.5 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)
<b>(Assets)</b>				<b>(Liabilities and equity)</b>			
Cash and deposits	637	1,443	1,800	Bonds payable	1,299	15,500	25,400
Cash	0	0	0	Other liabilities	9	130	203
Deposits	637	1,443	1,800	Accrued expenses	8	23	15
Securities	23,958	38,203	48,533	Deferred revenues	-	106	187
JGB	21,134	21,112	21,091	Other liabilities	0	0	0
Bonds	2,131	14,500	22,900	Reserve for bonuses	2	2	2
Other securities	692	2,590	4,542	Reserve for directors' bonuses	0	0	0
Other assets	30	346	611	Reserve for retirement pensions	40	40	41
Prepaid expenses	-	106	187	Reserve for directors' retirement benefits	0	0	0
Accrued revenue	30	39	123	Acceptances and guarantees	-	31,900	50,200
Other assets	0	200	300	(Total liabilities)	1,352	47,573	75,847
Customer's liabilities for acceptance and guarantee	-	31,900	50,200	Capital	24,476	24,976	25,176
Allowances for bad debts	-721	-536	-672	Retained earnings			
				Other retained earnings			
				Earned surplus brought forward	-1,924	-1,193	-549
				Total shareholders' equity	22,551	23,782	24,626
				(Total equity)	22,551	23,782	24,626
<b>Total assets</b>	<b>23,904</b>	<b>71,355</b>	<b>100,473</b>	<b>Total liabilities and equity</b>	<b>23,904</b>	<b>71,355</b>	<b>100,473</b>

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	444	1,771	3,422	Other ordinary expenses	514	0	885
Revenue from fund management	401	399	1,098	Provision of allowance for bad debts	445	-	135
Interest and dividends on securities	398	383	1,082	Provision on stocks	68	0	-
Interest from repurchase agreements	0	0	0	Other ordinary expenses	-	-	750
Interest on deposits	1	0	0	Ordinary profit or ordinary loss	-1,186	545	644
Other interest received	-	16	16	Extraordinary profits	-	185	-
Revenue from service transactions, etc.	30	1,354	1,564	Reversed loan loss provisions	-	185	-
Other service revenue	30	1,354	1,564	Net profit or net loss	-1,186	730	644
Other ordinary income	13	17	759				
Other ordinary income	13	17	759				
Ordinary expenses	1,631	1,225	2,778				
Financing cost	24	63	452				
Interest on borrowed money	-	-	97				
Interest on bonds	24	47	339				
Other interest paid	-	16	16				
Expenses for service transactions, etc.	26	32	640				
Other service expenses	26	32	640				
Other operating expenses	977	1,043	712				
Amortization of JGB, etc.	973	99	-				
Amortization of bond issue expenses	0	54	35				
Other operating expenses	4	890	677				
Business expenses	88	85	87				

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