SME Financing in Japan

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Japan Finance Corporation for Small and Medium Enterprise
SMEs as a Foundation of Japanese Industry
- accounting for over 99% of all businesses in Japan
- accounting for over 71% of the total work force in Japan
- exceeding large-sized enterprises in annual value added

Expected Roles of SMEs in Japan
(1) creating new industries
(2) increasing employment opportunities
(3) encouraging competition in the market
(4) vitalizing regional economies
Major Financial Supports for SMEs by Public Sector

Financing
- Japan Finance Corporation for Small and Medium Enterprise (JASME)
- National Life Finance Corporation (NLFC)
- The Shoko Chukin Bank
- Others

Credit Supplementation
- Japan Finance Corporation for Small and Medium Enterprise (JASME)
- Credit Guarantee Corporations (CGCs)

Enhancement of Capital
- Small and Medium Business Investment & Consultation Co. Ltd.
Share of JASME in the SME Financing of Japan (FY 2005)

- **JASME**: 2.9%
- National Life Finance Co.: 3.6%
- The Shoko Chukin Bank: 3.8%
- Private Financial Institutions: 89.7%

[ Total amount of outstanding loans ]

¥246 trillion

※Fiscal Year (FY): April to March
Outline of JASME

【Establishment】 August 20, 1953

【Capital】 ¥ 1,479.1 billion
  - Loan Programs ¥ 464.3 billion
  - Securitization Support Programs ¥ 8.4 billion
  - Credit Insurance Programs ¥ 1,006.3 billion

【Number of Employees】 2,095

【Number of Branches】
  - 61 Loan Offices throughout Japan
  - Overseas Representative Office (Kuala Lumpur, Malaysia)

(As of March 31, 2006)
**Business Programs of JASME**

### Loan Programs
- Loans to SMEs
- Purchase corporate bonds (with subscription rights to newly-issued shares) issued by SMEs
- Securitization of loan claims against and corporate bonds for SMEs (Synthetic CBO Program)

#### [FY 2005 Business Results]
- Loan Amount → ¥ 1,295.3 billion
  (of which ¥19.9 billion for Synthetic CBO Program)
- Loan Outstanding → ¥ 7,058.4 billion

### Securitization Support Programs
- Support for private financial institutions in using securitization methods
  1. The business of securitizing loan claims, etc., taken over from private financial institutions.
  2. The business of guaranteeing part of the loan claims of private financial institutions, or partially purchasing/guaranteeing asset-backed securities.

#### [FY 2005 Business Results]
- Purchase-type
  Total loan principal amount → ¥ 27.6 billion
- Guarantee-type
  Total loan principal amount → ¥ 15.8 billion

### Credit Insurance Programs
- Provide insurance for the guaranteed liabilities of Credit Guarantee Corporations (CGCs)
  - Coverage Ratio: 70%, 80% or 90%
  - Comprehensive Insurance
  - 52 CGCs throughout Japan
- Loans to CGCs.

#### [FY 2005 Business Results]
- Amount of Small Business Credit Insurance Acceptance → ¥ 12,552.4 billion
- Loan Amount to CGCs → ¥ 476.4 billion
Loan Programs

Promoting Policy-oriented Special-purpose Loans

- Corporate Revitalization Loans
- Loans for Environment and Energy Measures
- New Business Development Loans
- Loans for Enhancing Corporate Vitality
- Safety Net Loans
- Oversea Production Marketing Loans
## No-collateral provision

<table>
<thead>
<tr>
<th>Eligible applicants</th>
<th>SMEs or individuals using Special-purpose Loans as direct loans, which are recognized from their financial positions as posing relatively little credit risk.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum amount</td>
<td>¥ 80 million per company</td>
</tr>
<tr>
<td>Interest rate</td>
<td>A prescribed interest rate is added according to the loan period and credit risk.</td>
</tr>
<tr>
<td>Loan period</td>
<td>Maximum 5 years</td>
</tr>
</tbody>
</table>

## Partially collateralized provision

<table>
<thead>
<tr>
<th>Eligible applicants</th>
<th>SMEs or individuals using Special-purpose Loans as direct loans.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum amount</td>
<td>Up to 75% of the loan amount (maximum ¥ 120 million) under each Special-purpose Loan scheme</td>
</tr>
<tr>
<td>Interest rate</td>
<td>A prescribed interest rate is added according to the loan period and credit risk for the portion of the loan subject to the partially collateralized provision.</td>
</tr>
<tr>
<td>Loan period</td>
<td>The loan period stipulated for each Special-purpose Loan.</td>
</tr>
</tbody>
</table>
**No-guarantor provision**

<table>
<thead>
<tr>
<th>Eligible applicants</th>
<th>SMEs or individuals using direct loans.</th>
</tr>
</thead>
<tbody>
<tr>
<td>No-guarantor exceptions</td>
<td>CEOs or senior managers are exempted from providing personal guarantees for loans.</td>
</tr>
<tr>
<td>Interest rate</td>
<td>An extra 0.3% is added for loans to which the no-guarantor loan program applies.</td>
</tr>
</tbody>
</table>
Consulting Services

Supporting Management with Effective and Useful Information and Face-to-face Dialog

Enhanced business management expertise

SMEs

Dialogue

Dialogue

Dialogue

<Consulting Services>
- Management analysis
- Offering successful examples
- Business matching
- Management improvement proposals, etc.

Database utilizing JASME’s client data
Number of records: Approximately 50,000
Number of items: Approximately 500
Relationship Banking

1. MOU and other cooperation frameworks (FY 2005)

<table>
<thead>
<tr>
<th></th>
<th>Number of Banks</th>
<th>Of which Number of MOU Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional banks</td>
<td>109</td>
<td>104</td>
</tr>
<tr>
<td>Credit associations</td>
<td>291</td>
<td>231</td>
</tr>
<tr>
<td>Credit cooperatives</td>
<td>173</td>
<td>27</td>
</tr>
</tbody>
</table>

2. Co-financing with other banks (FY 2005)

<table>
<thead>
<tr>
<th>Size of project</th>
<th>¥ 100-300 million</th>
<th>Over ¥ 300 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,698</td>
<td>913</td>
</tr>
<tr>
<td>(co-financed)</td>
<td>(1,091)</td>
<td>(898)</td>
</tr>
<tr>
<td>Share of co-financed</td>
<td>64%</td>
<td>98%</td>
</tr>
<tr>
<td>[FY2004 (April-March)]</td>
<td>[ 30% ]</td>
<td>[ 72% ]</td>
</tr>
</tbody>
</table>
Securitization Support Programs

Supporting Private Financial Institutions in Using Securitization Methods to Promote the Smooth Supply of Unsecured Funds

Guarantee-type

JASME partially guarantees unsecured loan claims that private financial institutions have extended to SMEs on condition of securitization, and purchases a portion of the securitized product as well.

Purchase-type

JASME accepts and securitizes no-collateral loan claims that multiple private financial institutions have extended to SMEs on condition of securitization.
## Funding Results for Securitization Support Programs (July 2004 - December 2006)

<table>
<thead>
<tr>
<th>Type</th>
<th>Date</th>
<th>Number of SMEs</th>
<th>Amount (¥ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purchase type</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No.1</td>
<td>Sep.2004</td>
<td>(3)</td>
<td>58</td>
</tr>
<tr>
<td>No.2</td>
<td>Mar.2005</td>
<td>(14)</td>
<td>507</td>
</tr>
<tr>
<td>No.3</td>
<td>Dec.2005</td>
<td>(31)</td>
<td>832</td>
</tr>
<tr>
<td>No.4</td>
<td>Mar.2006</td>
<td>(13)</td>
<td>320</td>
</tr>
<tr>
<td>No. 5( *)</td>
<td>Sep.2006</td>
<td>(8)</td>
<td>338</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>Sep.2006</td>
<td>(69)</td>
<td>2,055</td>
</tr>
<tr>
<td><strong>Guarantee type</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No.1</td>
<td>Dec.2004</td>
<td></td>
<td>752</td>
</tr>
<tr>
<td>No.2</td>
<td>Mar.2005</td>
<td></td>
<td>635</td>
</tr>
<tr>
<td>No.3</td>
<td>Nov.2005</td>
<td></td>
<td>403</td>
</tr>
<tr>
<td>No.4</td>
<td>Mar.2006</td>
<td></td>
<td>181</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>1,971</td>
</tr>
<tr>
<td><strong>Synthetic CBO</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No.1</td>
<td>Sep.2004</td>
<td></td>
<td>372</td>
</tr>
<tr>
<td>No.2</td>
<td>Jun. 2005</td>
<td></td>
<td>322</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>694</td>
</tr>
<tr>
<td><strong>[Total]</strong></td>
<td></td>
<td></td>
<td>[4,720]</td>
</tr>
</tbody>
</table>

* : Joint composition with Synthetic CBO program.
Credit Insurance Programs

Central Government
- Supervision
- Contribution

Local Government
- Supervision
- Contribution

JASME
- Credit Insurance Contract

CGCs (52)
- Credit Guarantee Contract

Private Financial Institutions
- Loan

SMEs

Credit Insurance System

Credit Guarantee System
1. Introducing New Guarantee Fee/Insurance Premium Rate Structure with Consideration for Credit Risks as of April 1, 2006.

[Insurance Premium Rate]
Before March 31, 2006 : 0.87% p.a. (flat)

After April 1, 2006 : 0.15～1.59% p.a. (flexible)

2. Introduction of a Responsibility-sharing System by way of Partial Guarantees, etc.
(Scheduled to be implemented from October 2007)
**Policy-based Finance Reform in Japan**

<table>
<thead>
<tr>
<th>Present</th>
<th>Reorganization in FY 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Life Finance Corporation (NLFC)</td>
<td></td>
</tr>
<tr>
<td><strong>Japan Finance Corporation for Small and Medium Enterprise (JASME)</strong></td>
<td></td>
</tr>
<tr>
<td>Agriculture Forestry and Fisheries Finance Corporation (AFC)</td>
<td></td>
</tr>
<tr>
<td>The Okinawa Development Finance Corporation (ODFC)</td>
<td></td>
</tr>
<tr>
<td>Japan Finance Corporation for Municipal Enterprises (JFM)</td>
<td></td>
</tr>
<tr>
<td>Development Bank of Japan (DBJ)</td>
<td>Transfer to Local Governments</td>
</tr>
<tr>
<td>The Shoko Chukin Bank</td>
<td>Privatization</td>
</tr>
</tbody>
</table>

*Operation of ODA loans by JBIC would be merged to Japan International Cooperation Agency (JICA).*
Cabinet Decision on Important Policy of Administrative Reform

● Policy-based finance will be limited to the three functions below, and all others will be withdrawn.
  → • Assistance for fund procurement to SMEs and individuals
  • Finance essential for securing resources abroad and Japan’s international competitiveness vital for its national policies.
  • Yen loans (having both policy-based finance and development assistance functions)

● JASME
  → General-purpose loans are to be withdrawn from policy-based finance, however, special-purpose loans will continue to be provided for the limited purpose of policy guidance as it has been clearly indicated in the national policy for SMEs.

*Provisional translation by Council on Economic and Fiscal Policy (CEFP)
Thank you!

Japan Finance Corporation
for
Small and Medium Enterprise (JASME)
www.jasme.go.jp/indexe