

SME Financing in Japan

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JASME

✠ 中小企業金融公庫

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SMEs in the Japanese Economy

SMEs as a Foundation of Japanese Industry

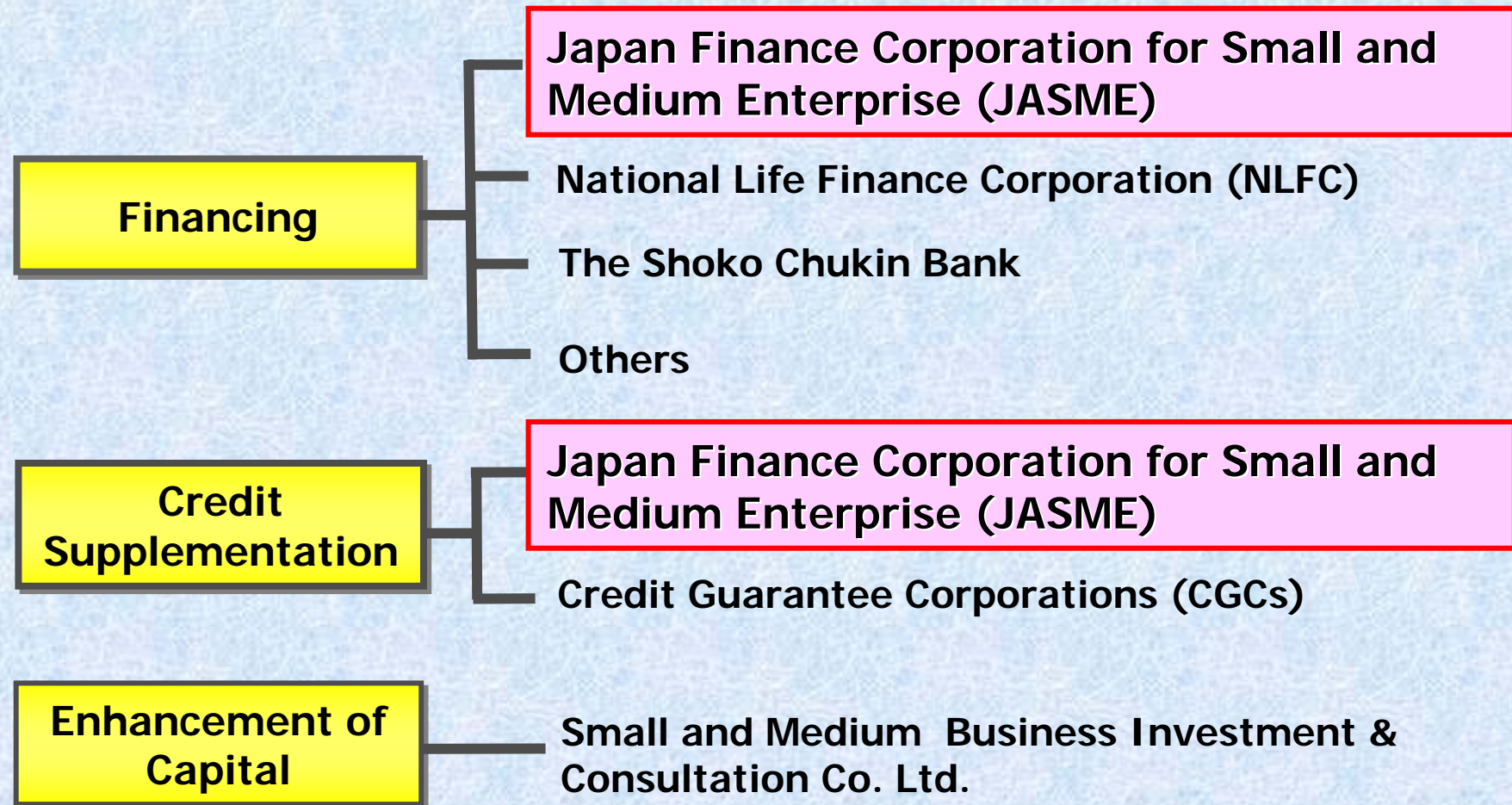
- accounting for over 99% of all businesses in Japan
- accounting for over 71% of the total work force in Japan
- exceeding large-sized enterprises in annual value added



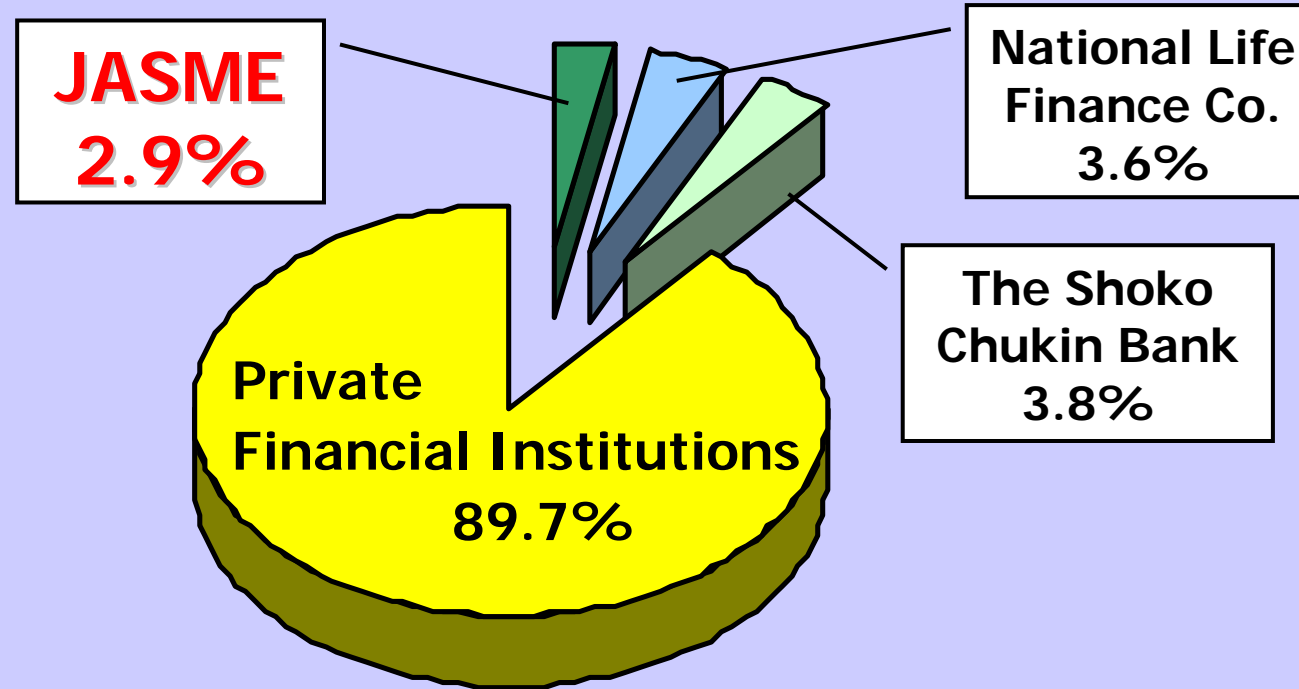
Expected Roles of SMEs in Japan

- (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



Share of JASME in the SME Financing of Japan (FY 2005)



[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

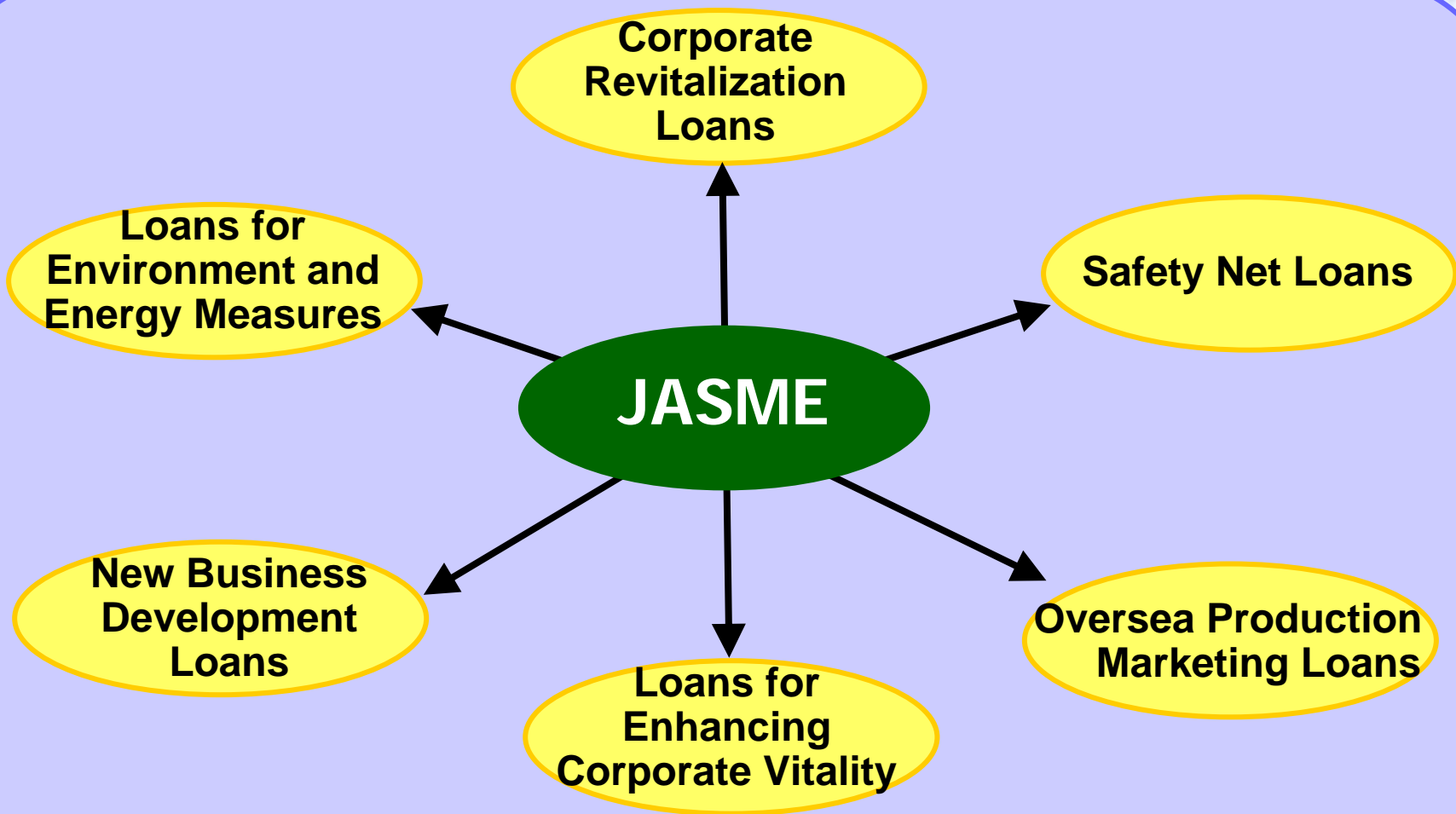
- Provide insurance for the guaranteed liabilities of Credit Guarantee Corporations (CGCs)
 - Coverage Ratio: 70%, 80% or 90%
 - Comprehensive Insurance
 - 52 CGCs throughout Japan
- Loans to CGCs.

[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



Providing Loans that do not Depend on Real Estate Collateral or Guarantors

No-collateral provision

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

Partially collateralized provision

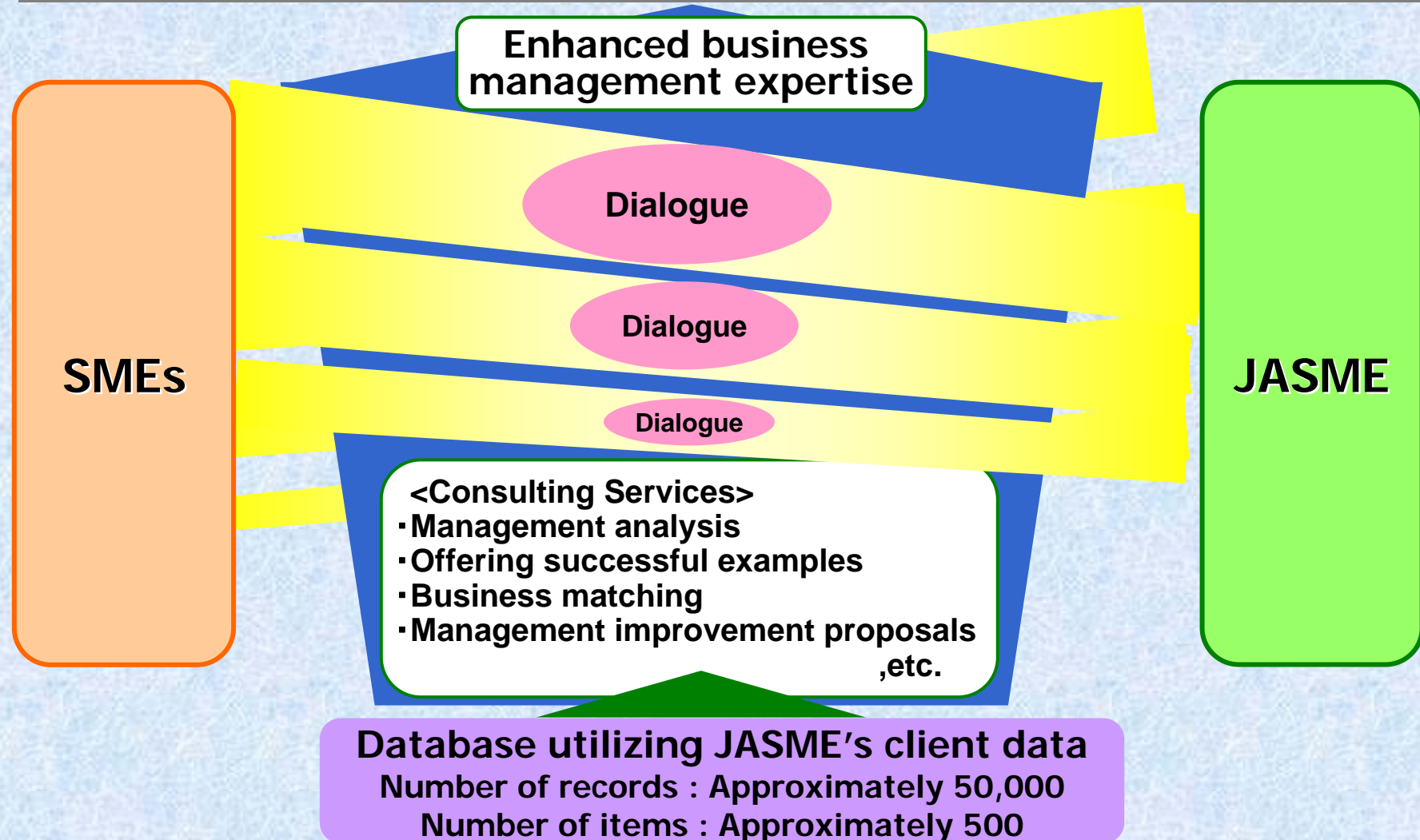
Eligible applicants	SMEs or individuals using Special-purpose Loans as direct loans.
Maximum amount	Up to 75% of the loan amount (maximum ¥ 120 million) under each Special-purpose Loan scheme
Interest rate	A prescribed interest rate is added according to the loan period and credit risk for the portion of the loan subject to the partially collateralized provision.
Loan period	The loan period stipulated for each Special-purpose Loan.

No-guarantor provision

Eligible applicants	SMEs or individuals using direct loans.
No-guarantor exceptions	CEOs or senior managers are exempted from providing personal guarantees for loans.
Interest rate	An extra 0.3% is added for loans to which the no-guarantor loan program applies.

Consulting Services

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



Relationship Banking

1. MOU and other cooperation frameworks (FY 2005)

	Number of Banks	Of which Number of MOU Banks
Regional banks	109	104
Credit associations	291	231
Credit cooperatives	173	27

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

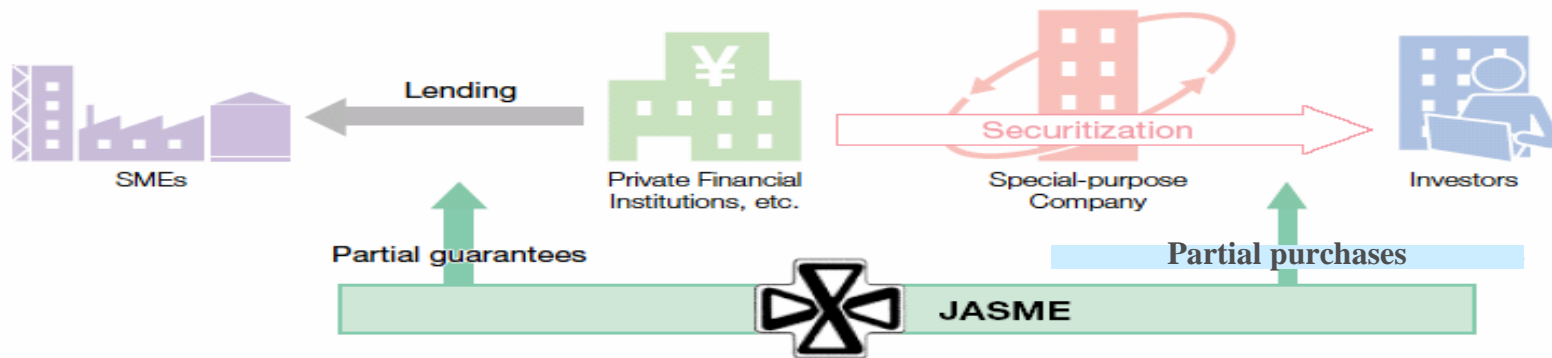
Size of project	¥ 100-300 million	Over ¥ 300 million
Total	1,698	913
(co-financed)	(1,091)	(898)
Share of co-financed	64%	98%
[FY2004 (April-March)]	[30%]	[72%]

Securitization Support Programs

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

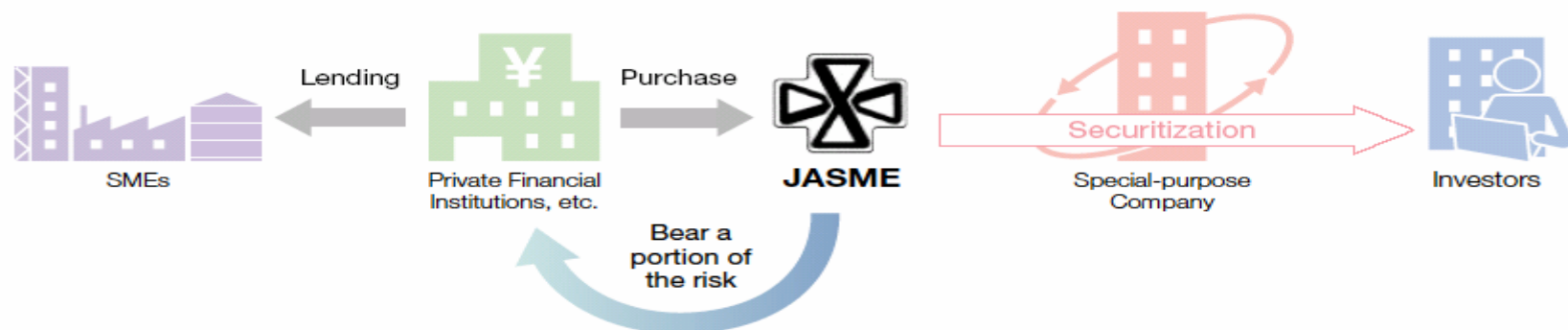
Guarantee-type

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.

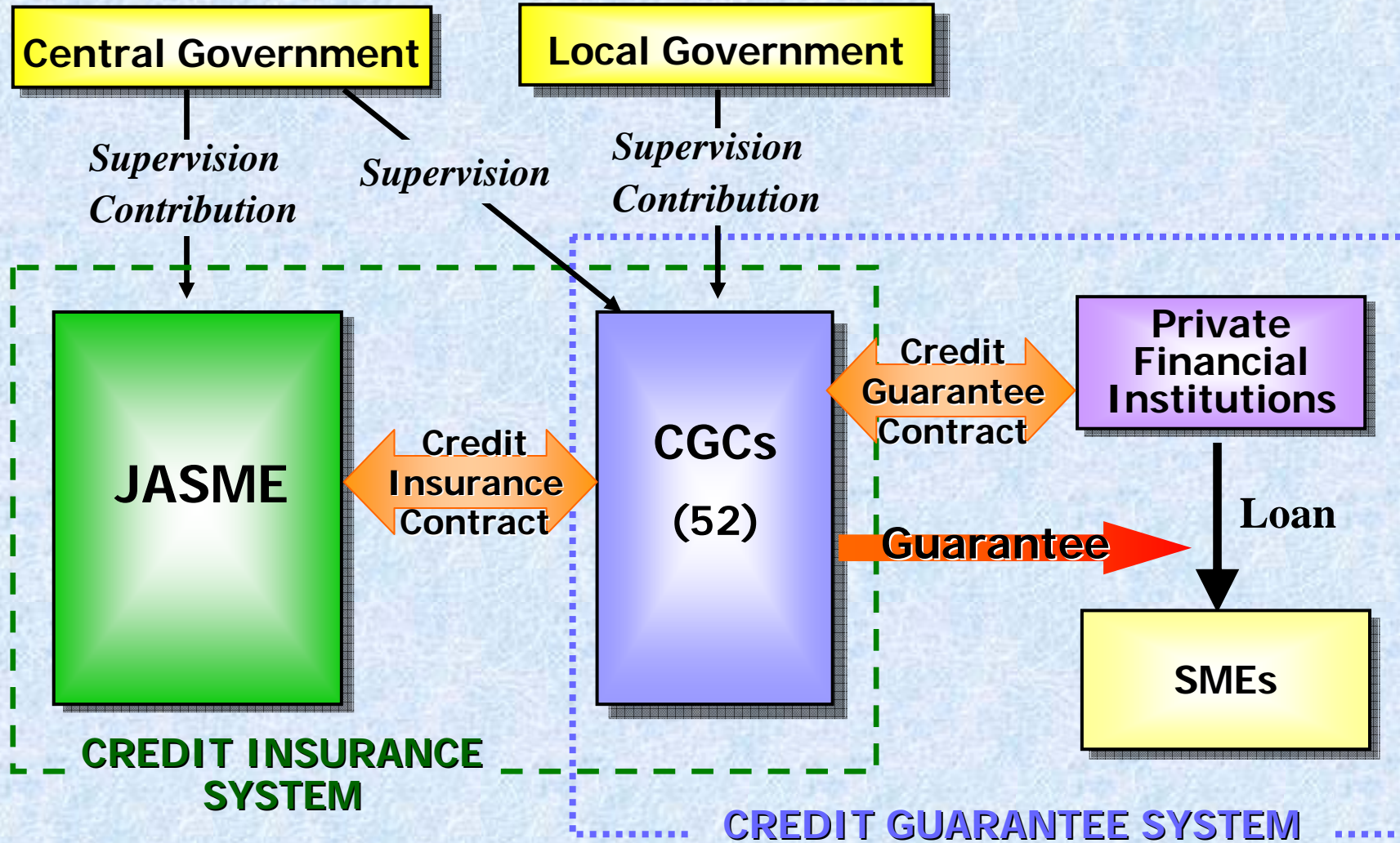


Funding Results for Securitization Support Programs (July 2004 – December 2006)

Type	Date	Number of SMEs	Amount (¥ billion)
Purchase type	(No. of Banks)		
No.1	Sep.2004 (3)	58	2.6
No.2	Mar.2005 (14)	507	10.4
No.3	Dec.2005 (31)	832	20.5
No.4	Mar.2006 (13)	320	7.1
No. 5 (*)	Sep.2006 (8)	338	12.1
Total	(69)	2,055	52.7
Guarantee type			
No.1	Dec.2004	752	44.5
No.2	Mar.2005	635	19.7
No.3	Nov.2005	403	9.4
No.4	Mar.2006	181	6.4
Total		1,971	80.0
Synthetic CBO			
No.1	Sep.2004	372	24.5
No.2	Jun. 2005	322	19.9
Total		694	44.4
[Total]		[4,720]	[177.1]

* : Joint composition with Synthetic CBO program.

Credit Insurance Programs



Reform of the Credit Insurance Programs

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)

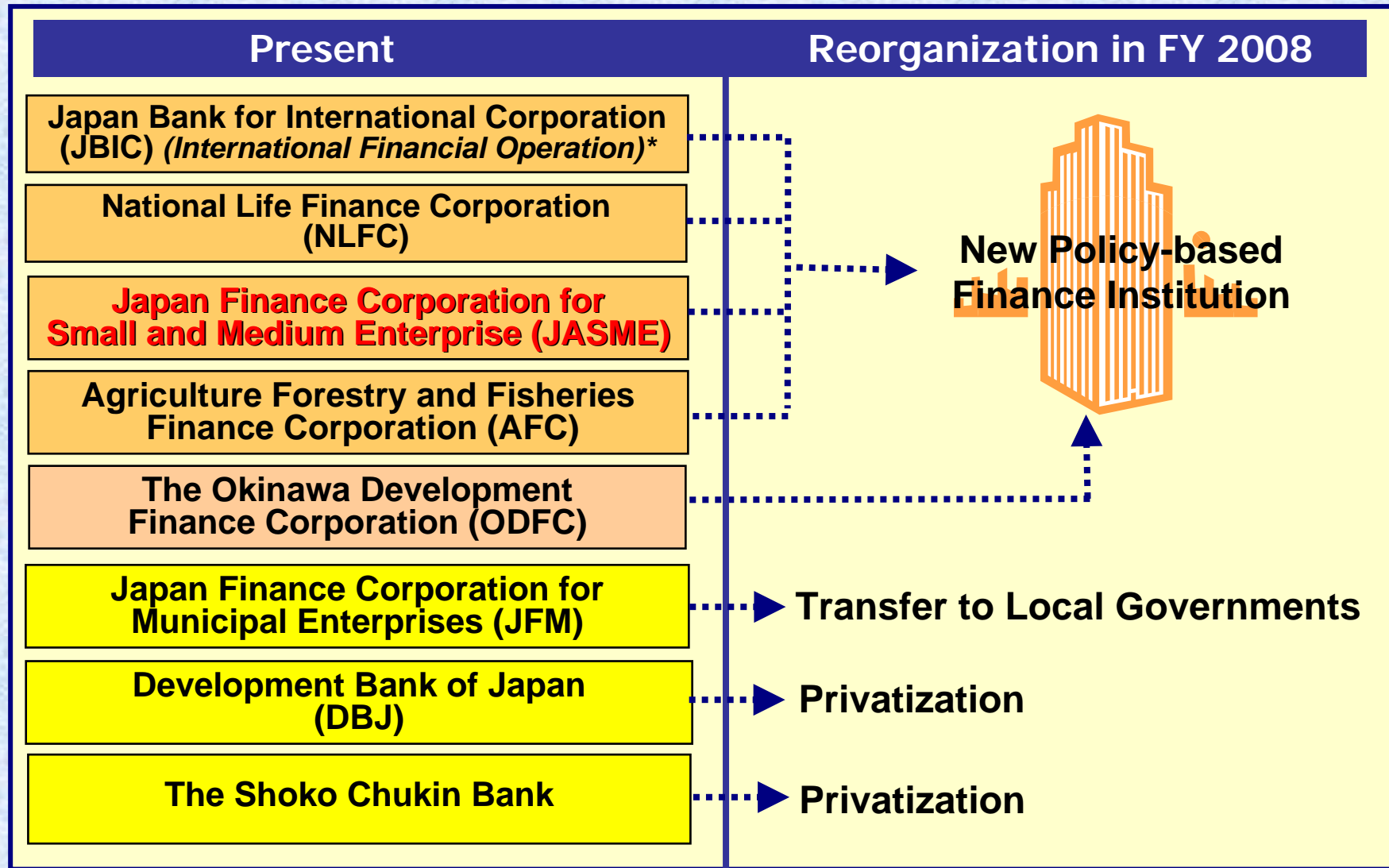


After April 1, 2006 : 0.15~1.59% p.a. (flexible)

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



*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!

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