

Collaboration with Regional Financial Institutions

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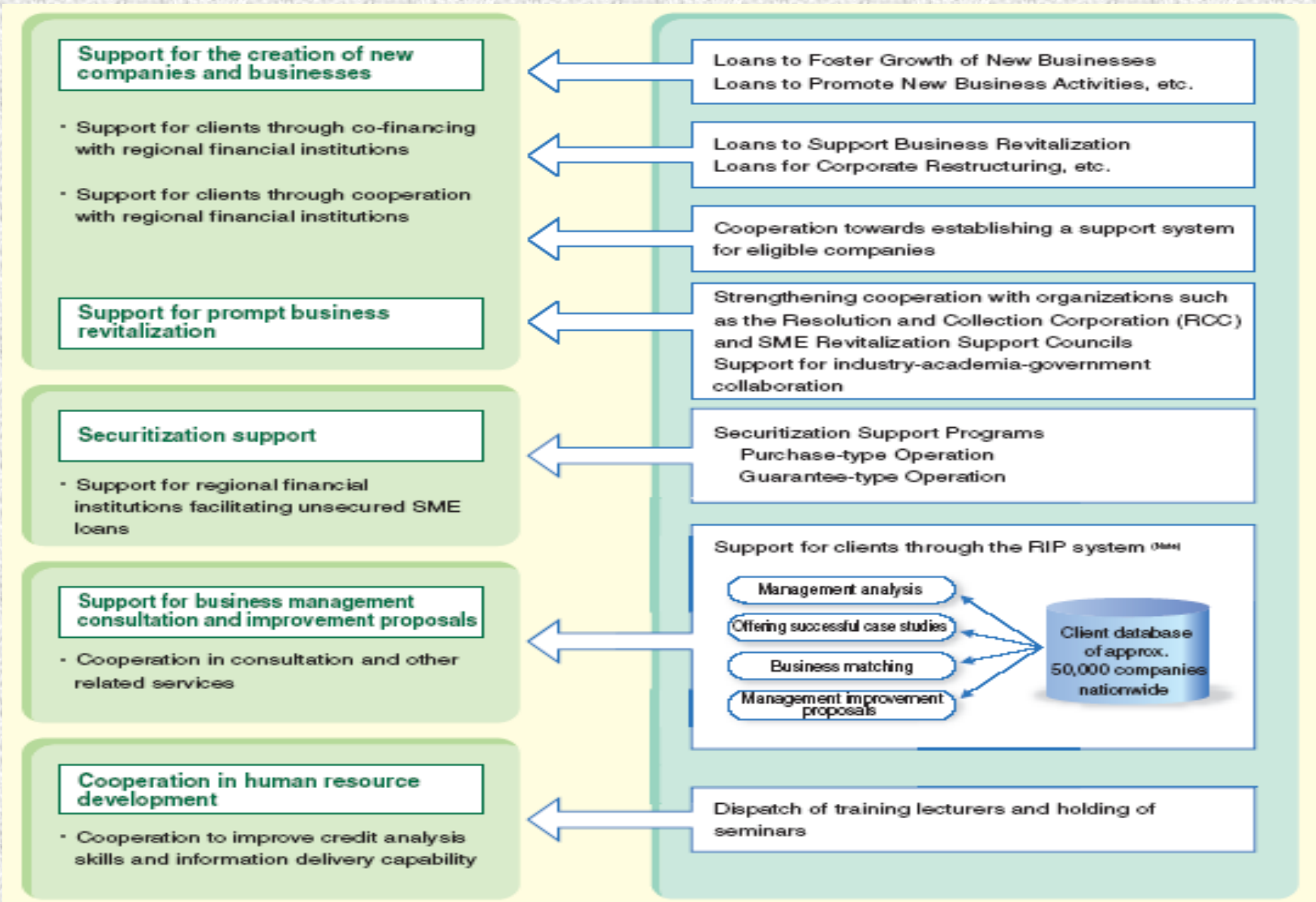
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Japan Finance Corporation for
Small and Medium Enterprise

JASME

✠ 中小企業金融公庫

Collaboration with Regional Financial Institutions



Relationship Banking

1. MOU and other cooperation frameworks (FY 2006)

	Number of Banks	Of which Number of MOU Banks
Regional banks	108	108
Credit associations	289	275
Credit cooperatives	168	75

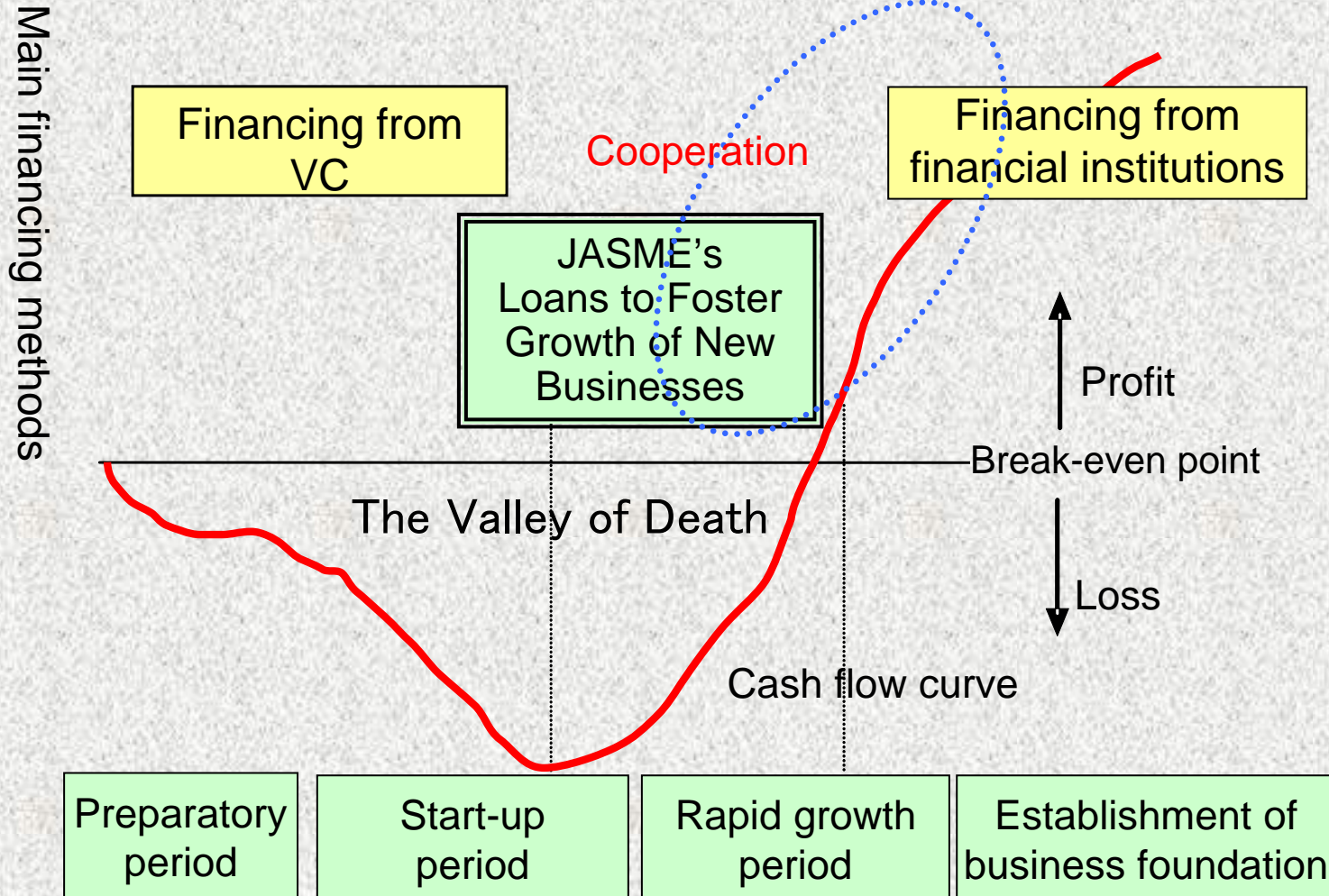
2. Co-financing with other banks (FY 2006)

Size of project	¥ 100-300 million	Over ¥ 300 million
Total	1,289	761
(co-financed)	(1,024)	(756)
Share of co-financed	79%	99%
[FY2005 (April-March)]	[64%]	[98%]

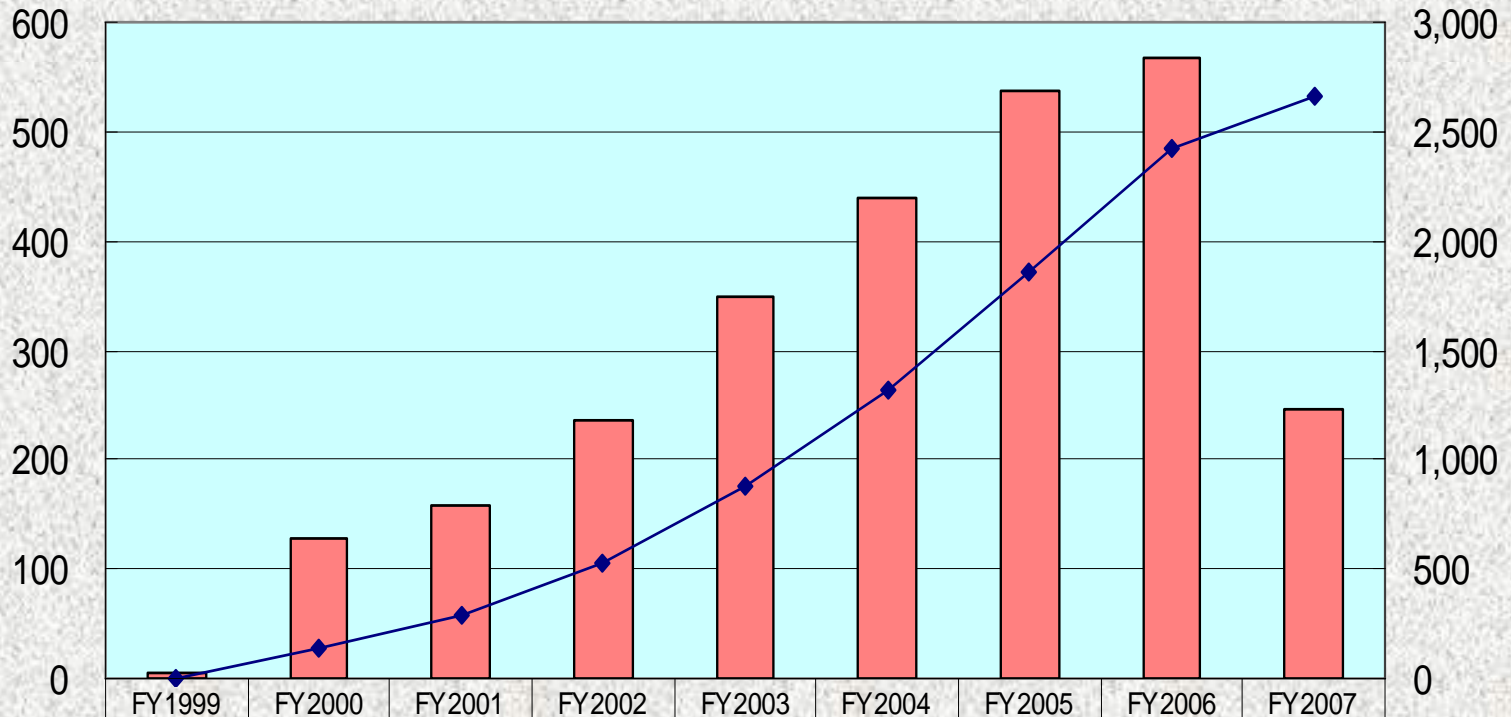
The Role of JASME in Support for the Creation of New Companies



~ Providing Support for the growth of high risk venture businesses and acting as a bridge to private financial institutions ~

Seamless Fund Support for Venture Businesses (Graphic Image)



The Roles of JASME's in Support for the Creation of New Companies



 No. of Companies	4	128	157	236	349	440	538	568	247
 Aggregate No. of Companies	4	132	289	525	874	1,314	1,852	2,420	2,667

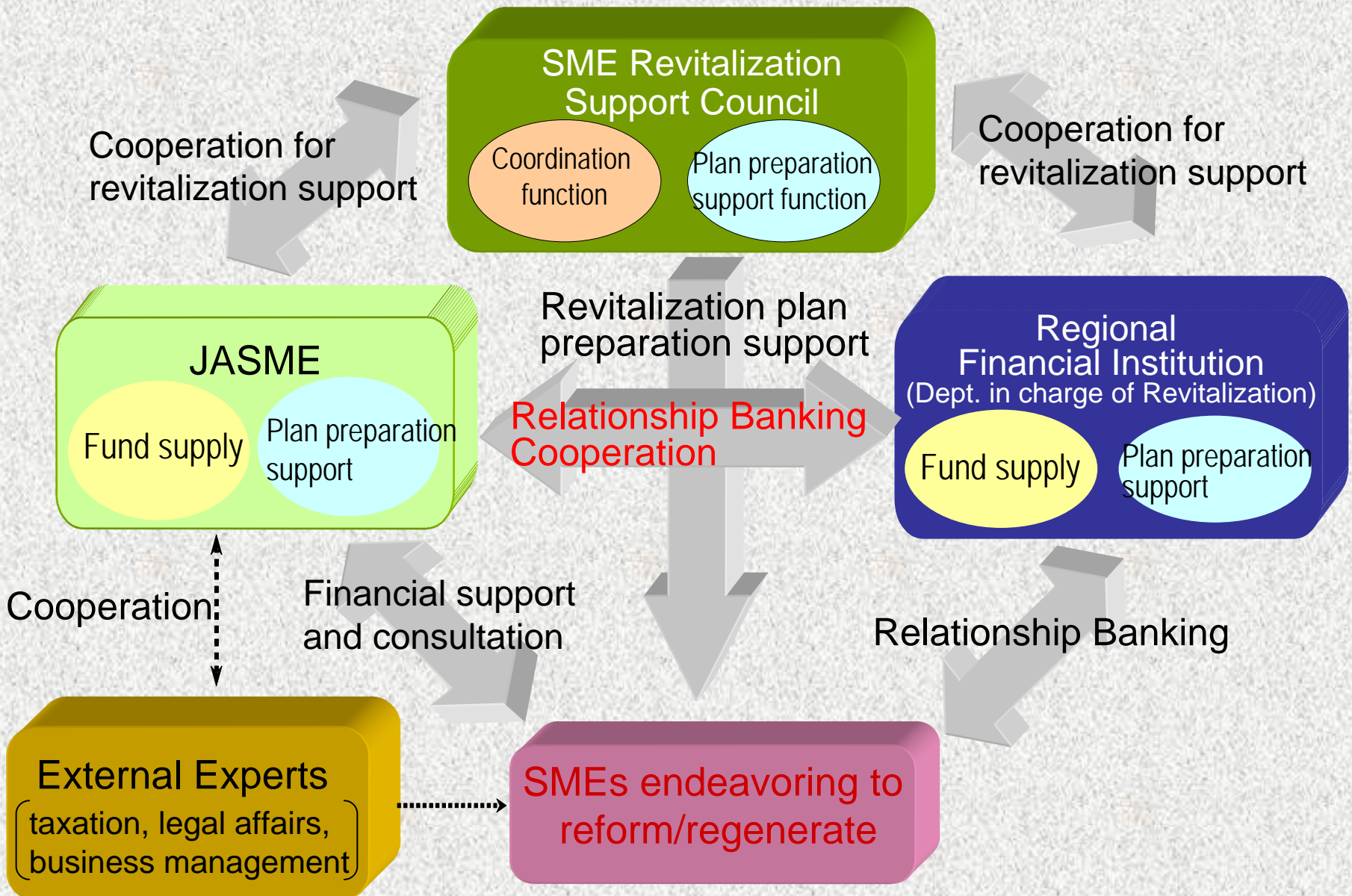
- * The figure for FY 2007 is the aggregate total for the period until September (257 companies for the same period of the previous year)
- * From FY 2005, businesses making use of intellectual property rights were added to the list of businesses eligible for new business development funds (FY 2005: 148 companies; FY 2006: 245 companies; FY 2007 (aggregate total until September): 109 companies)

Unique Efforts

- ◆ New business launching supported through joint financing with regional financial institutions

- Company A, which was launched to recycle biomass derived from garbage, etc., as fertilizer, made plans for the construction of a processing facility in preparation for commercialization and applied to a local credit association for a loan.
- The credit association concerned judged that because it was a new business without a track record, being the only institution financing it would be too risky, and therefore sought to finance it jointly with local banks and JASME.
- JASME, in addition to anticipating the growth potential of a business that was new in character and acknowledging its social significance as a resource recycling type business model, looked favorably upon the point that the new business would contribute to the invigoration of the region.
Consequently, JASME used its Loans to Foster Growth of New Business to execute joint financing along with two local financial institutions, and Company A was therefore able to inaugurate the new business.
- In addition, through introducing the company to customers and other such measures, JASME has been providing support for the launch of the business even after the loan was made.

The Support System of Revitalization Support Institution and JASME



Performance of JASME's Revitalization Support

① Performance of Cooperation with SME Revitalization Support Council (as of the end of September 2007)

SME Revitalization Support Council has completed support for the formation of revitalization plans to 1,566 companies, and JASME have been involved in approximately 30% of these cases.

② Performance of Corporate Revitalization Loans

(Unit: No. of companies, million yen)

	Corporate Revitalization Loans							
	Loans to Support Business Revitalization (DIP Finance)		Corporate Reconstruction and Business Continuation Support Funds				Total	
			Related to Business Continuation		Related to Corporate Reconstruction			
	No. of Companies	Amount	No. of Companies	Amount	No. of Companies	Amount	No. of Companies	Amount
FY 2005	2	100	71	6,693	419	24,128	492	30,921
FY 2006	0	0	63	5,810	445	24,230	508	30,040
FY 2007 (as of Nov. 30)	2	160	34	2,761	197	12,013	233	14,934
Aggregate total since program's inauguration	15	1,209	444	50,866	1,620	103,441	2,079	155,516

③ Performance of Financial Support (as of the end of November 2007)

	Aggregate total since program's inauguration	(For FY 2007)
Debts discharged	63 companies	(7 companies)
DDS	16 companies	(4 companies)
Nonequivalent transfer	5 companies	(4 companies)
Interest reduction and exemption	18 companies	(5 companies)
	102 companies	(20 companies)

Note:

1. The number of companies includes companies that received multiple financial support. (Ex., exemption on principal + interest reduction and exemption)
2. Abandonment of claims includes cases resulting from the transfer of business + special liquidation

Unique Efforts I

◆ Corporate reconstruction supported through joint financing with regional financial institutions

- Company A processes and sells iron and steel products for use in civil engineering and as construction materials. As a result of bad stock investments, etc., during the inflated assets fueled economic bubble, it fell into a state of excessive debt and liabilities in great excess of assets.
- In spite of debt compression having progressed as a result of the selling off of real property and other such measures, mega banks that were the company's main banks sold off claims to foreign-affiliated funds, etc. Fearing the effects on business continuation caused by a state of correspondent banks becoming essentially absent, the preparation of revitalization plans were carried out with the support of the Revitalization Support Council.
- JASME ① expects an improvement of the revenue and expenditure balance through the concentration of business management resources on the company's main business resulting from the consolidation of its affiliates and ② judges that there is a very good possibility that the revitalization plan will be realized, because financial improvement can be expected as a result of the selling off of idle assets and the abandonment of claims.
- Based on the revitalization plan, exit financing for the concerned company's debts, that had been transferred to foreign-affiliated funds, etc., was executed in cooperation with four regional financial institutions, and at present business management reconstruction is progressing according to the revitalization plan.

Unique Efforts II

- ◆ Cooperating with main banks, etc., and supporting the reconstruction of local manufacturers through the use of reformation/regeneration techniques

- The corporate group of Company B, a textile manufacturer, had become essentially insolvent because, in addition to its revenue and expenditure balance continuing to be in the red as a result of factors such as the effects of low-priced imported products, it held assets with huge latent losses. The group decided to seek the support of the Revitalization Support Council, because it could not find a sweeping solution on its own.
- JASME received a request for cooperation from the Council and, judging that the revitalization of the corporate group of Company B, a corporate leader of the region, was essential to the local economy, participated in the preparation of a revitalization plan in cooperation with the Council, main banks, etc.
- The revitalization plan, while on the one hand integrating the group's profitable businesses into a going concern, also reorganizes the companies in the group by liquidating unprofitable businesses. JASME, along with the correspondent financial institutions, responded by converting some debts into capially deferred loans (DDS) and abandoning claims. As a result of this the problem of excessive debt, which had been the bottleneck of corporate reconstruction, was resolved and thereafter business management reconstruction based on the revitalization plan has been progressing.

Securitization Support Programs

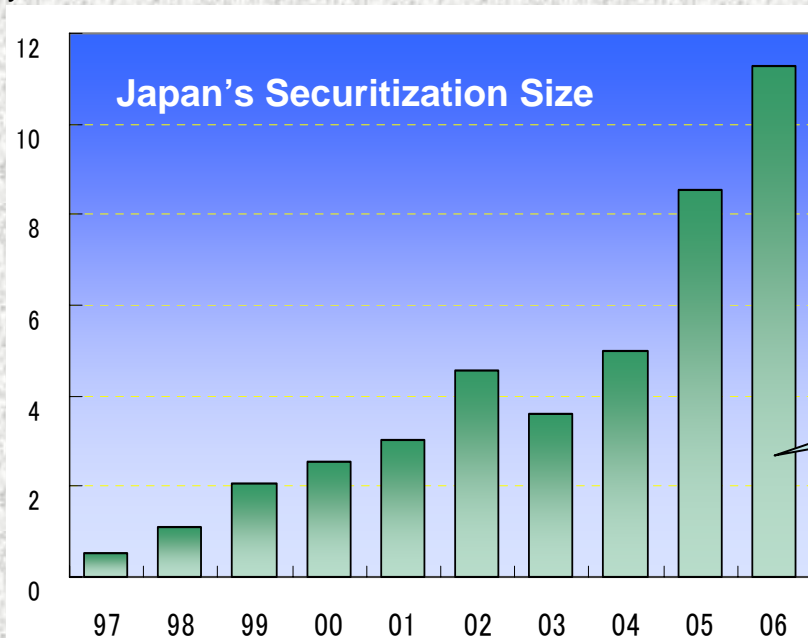
- JASME supports the smooth supply of unsecured funds by private financial institutions in using securitization.

Guarantee-type: Partial guarantee to unsecured loan receivables that private financial institutions have financed SMEs on condition of securitization.

Purchase-type: Purchase and securitization of unsecured loan receivables that multiple financial private institutions have financed SMEs.

Market Trend

Trillion yen



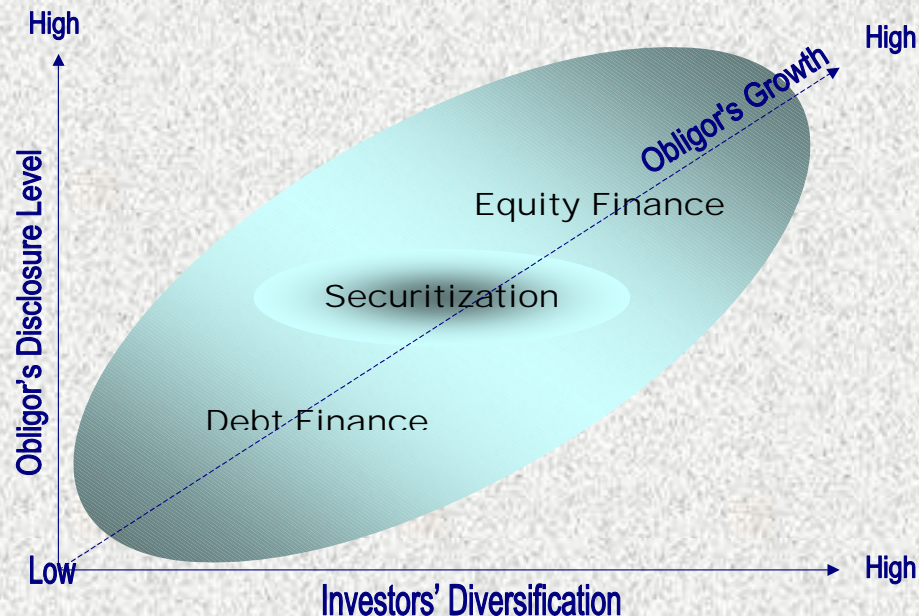
Compared with the rapid growth of total securitization market, the SME CDO market remains stagnant around 0.4 trillion yen in recent years.

SME CDO 0.4 trillion yen

Potential of Securitization

- Both internal and external factors surrounding SMEs significantly affect funding strategies. No single method promises sustainable supply of funding to SMEs, a diversified group consisting of various types of businesses.
- JASME focuses on the potential of securitization as an intermediate funding channel between equity finance and debt finance.

Hypothesis: Funding Channels and Decision Factors



JASME's Objectives

- ✓ Expansion of funding channels for SMEs
- ✓ Establishment of credit assessment method
- ✓ Development of SME funding market

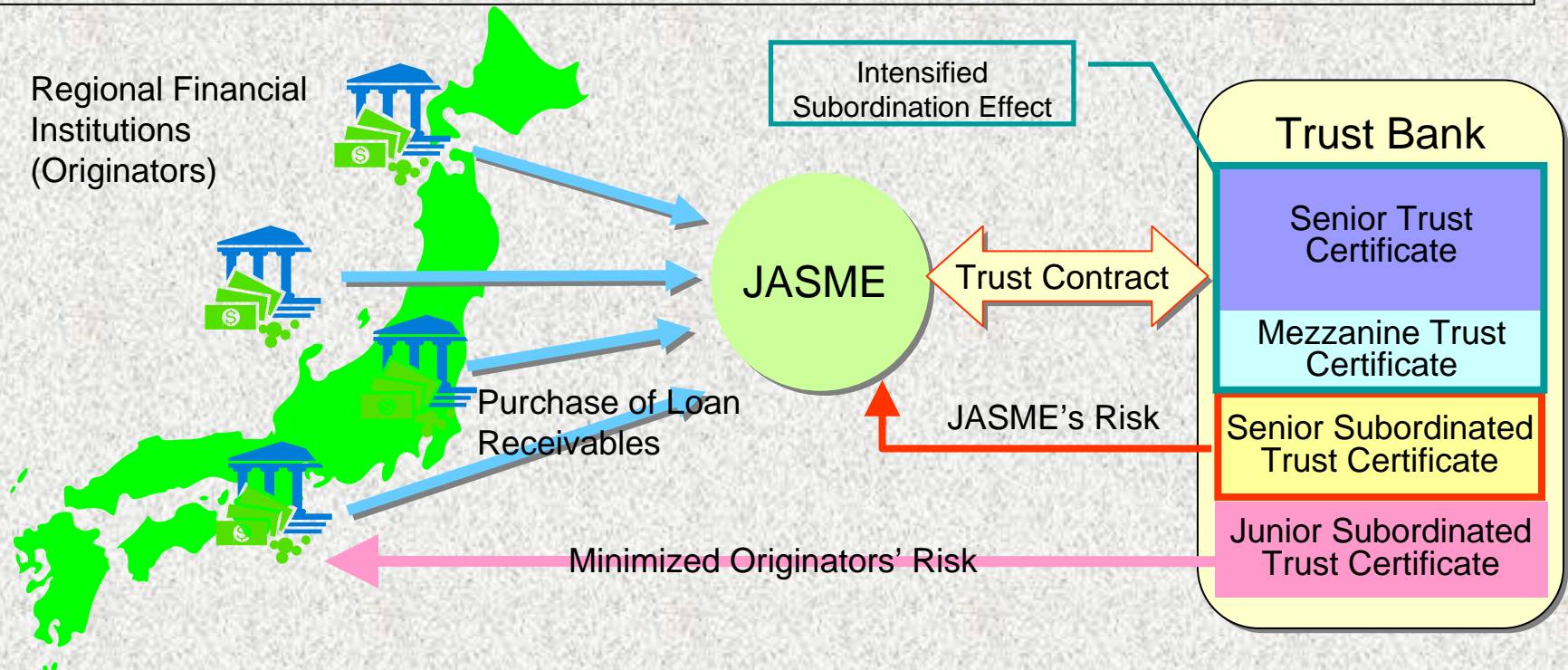
Various Boundaries and Solutions

Boundaries of Market	JASME's Solutions
Asymmetric information	✓ JASME's assessment of borrowers creditworthiness exerts a certain amount of control over creditworthiness.
Originators' adverse selection	✓ Originators' retention of the junior subordinated tranche significantly reduces the risk of adverse selection.
Uncertainty of credit risks	<ul style="list-style-type: none"> ✓ Practical use of various scoring model and introduction of screening criteria into assessment reduce statistical volatility of borrowers' default risks. ✓ Diversification of borrowers stabilizes the probability of default. ✓ Combination of JASME's credit enhancement and subordination effects produces various risk-level tranches.
Insufficient disclosure of SMEs	✓ JASME discloses CLO performance data and contributes to investors' understanding of SME credit risks.
Funding costs	✓ JASME's credit enhancement, arrangement of a big diversified loan pool and subordination effect reduces funding costs.

Boundaries of Originators	JASME's Solutions
Insufficient diversification and finance scale	✓ The concept of multi-originators securitization solves the boundaries of obligors' diversification and finance scale, if program participants are small financial institutions.
Lack of risk takers	<ul style="list-style-type: none"> ✓ The concept of senior subordinated tranche realizes a suitable risk sharing mechanism. ✓ JASME's credit enhancement reduces originators' risks and intensifies the structure.

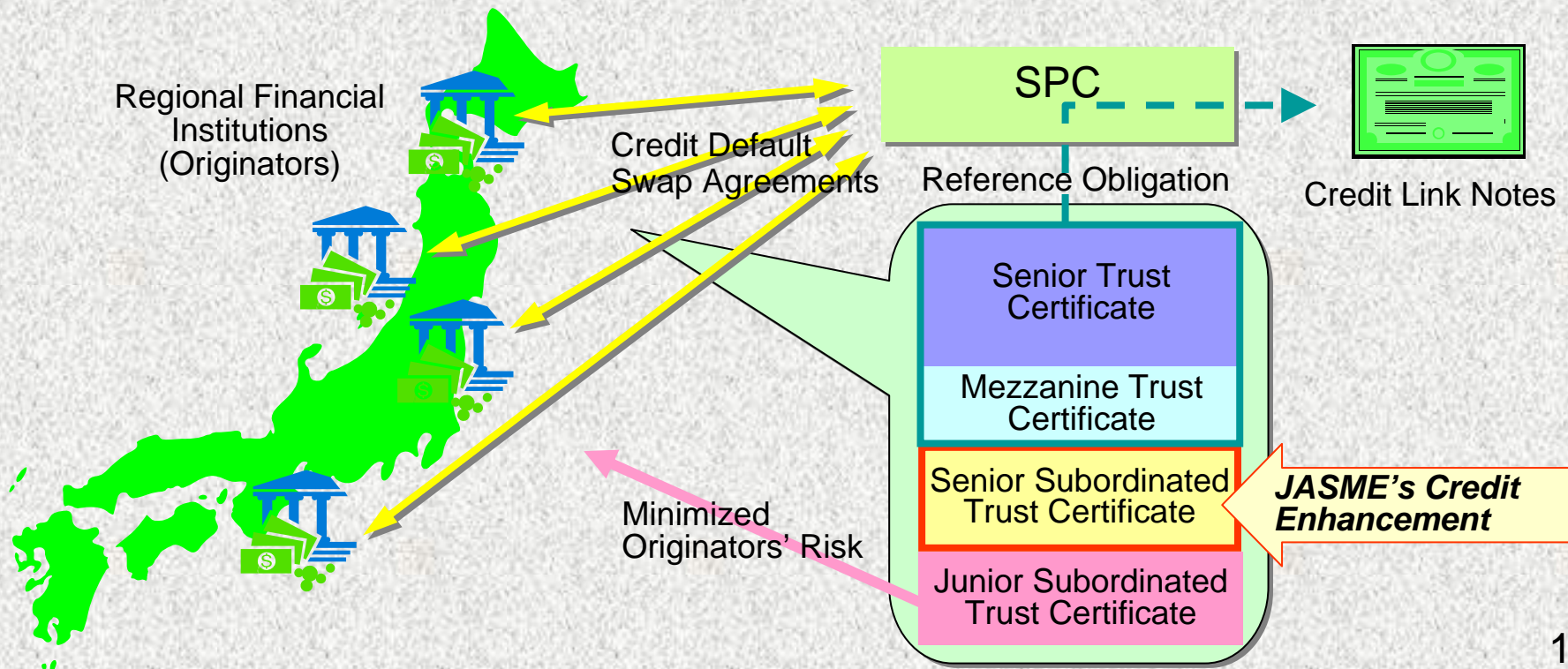
Basic Purchase-type

- JASME purchases loan receivables that financial institutions have financed SMEs and arranges CLO.
- JASME's arrangement provides the program participants, mainly small regional banks, easy access to securitization market regardless to the origination size of each participant. Creation of the senior subordinated tranche also intensifies the securitization structure.



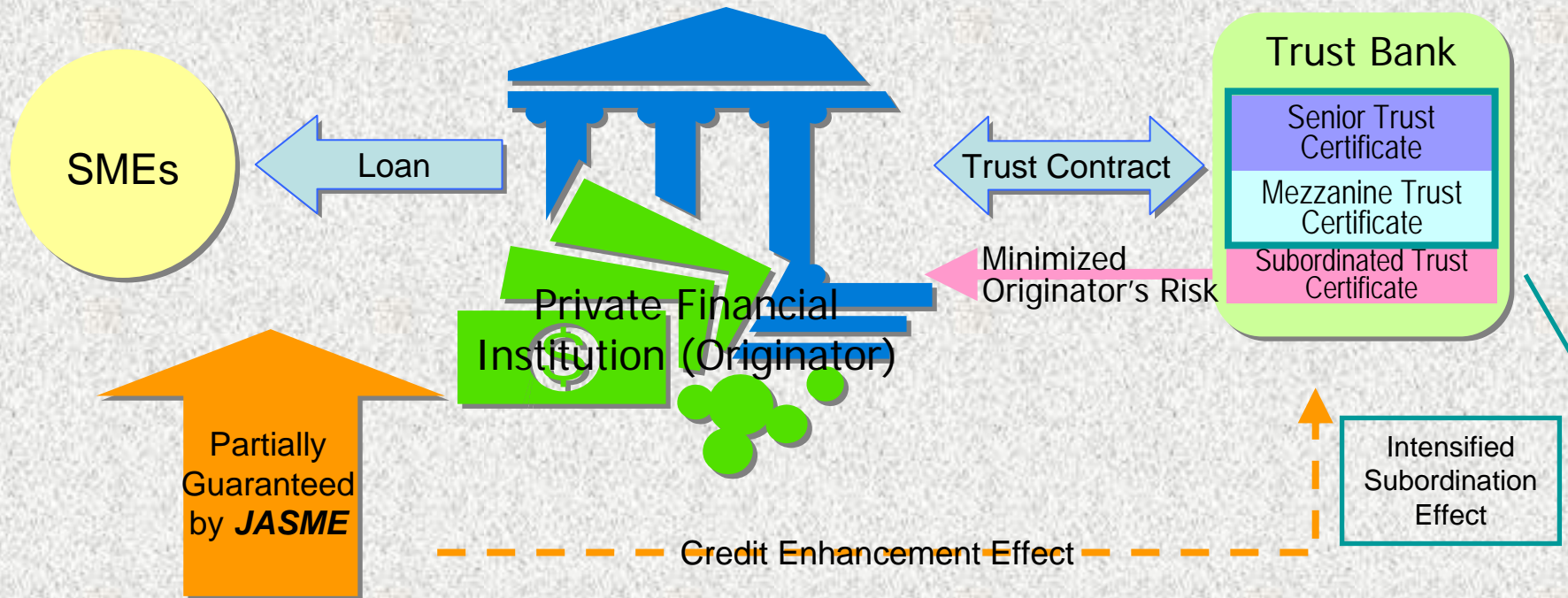
Applied Purchase-type

- JASME arranges synthetic CLO based on credit risks of loan receivables that financial institutions have financed SMEs.
- In addition to the basic purchase-type advantages, the applied method realizes more flexibility of risk control at reasonable cost through credit default swap agreements. Simplified CDS procedures adopted to regional banks' loan business are available.



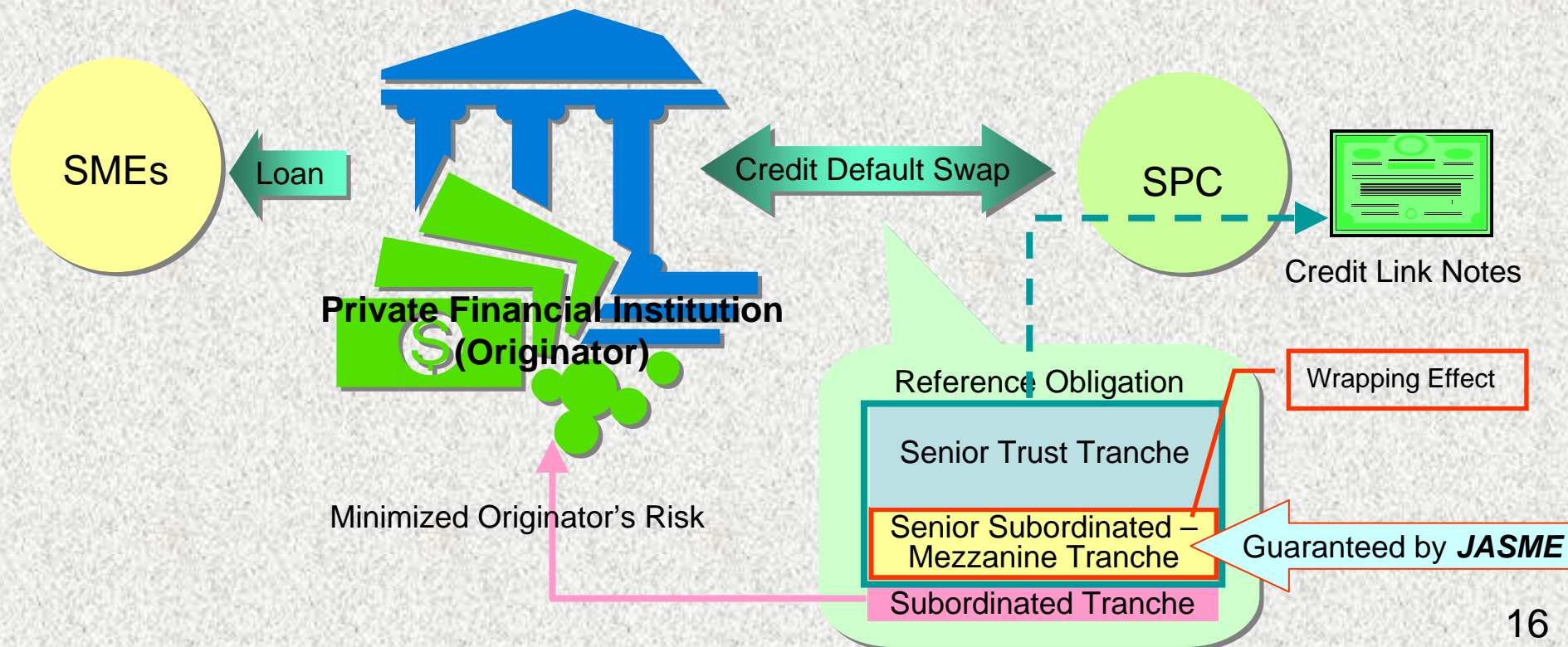
Basic Guarantee-type

- JASME guarantees loan receivables that a private financial institution has financed SMEs on condition of securitization.
- JASME's loan guarantee minimizes substantial credit risks and significantly reduces the subordinated tranche held by the originator reflecting credit enhancement effect to the securitization structure.



Applied Guarantee-type

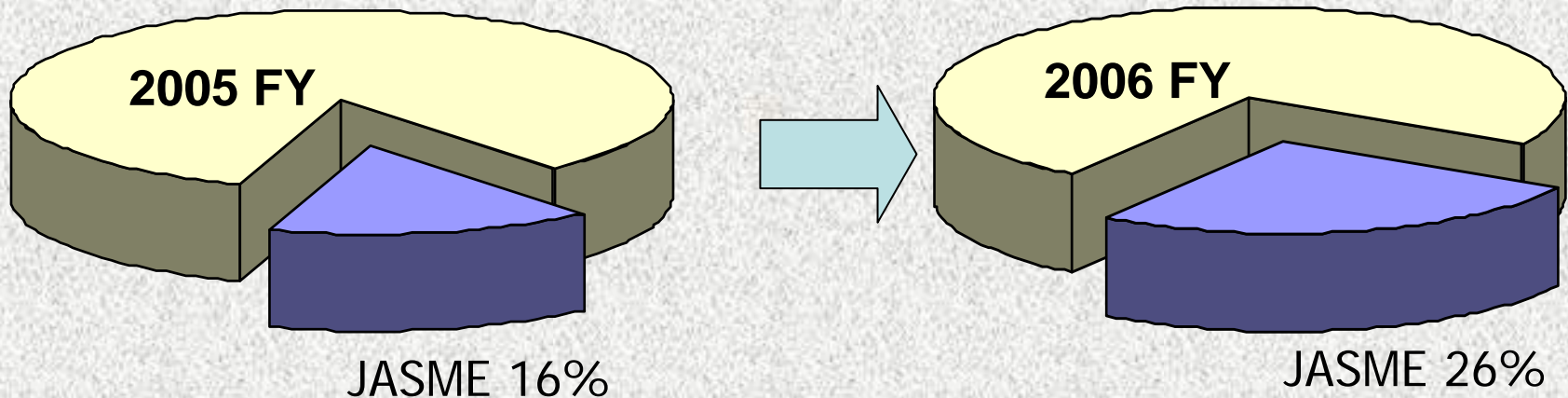
- JASME guarantees credit link notes that a special purpose company issues based on the credit default swap agreement.
- Combination of credit default swap and wrapping effect of JASME's guarantee allows a financial institution to design a flexible securitization structure.



Funding Results

- Guarantee-type: JASME succeeded in diversifying the participating financial institutions.
- Purchase-type: Number of participating financial institutions steadily increased year by year.
- JASME's share of SMEs CDO market increased from 16% to 26%.

SMEs CDO Market Share



Funding Results for Securitization Support Programs (July 2004 – December 2007)

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
No. 6	Feb. 2007 (26)	1,183	30.5
No. 7	Mar. 2007 (16)	270	5.7
No. 8 (*)	Jun. 2007 (1)	355	13.5
No. 9	Sep. 2007 (12)	309	7.4
No.10 (*)	Sep. 2007 (1)	235	10.1
No.11 (*)	Dec. 2007 (1)	241	9.9
Total	(126)	4,648	129.7
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
No. 5	Mar. 2007	241	11.2
No. 6	Dec. 2007	96	3.1
Total		2,308	94.4
Synthetic CBO			
No. 1	Sep. 2004	372	24.5
No. 2	Jun. 2005	322	19.9
Total		694	44.4
[Total]		[7,650]	[268.5]

* : Joint composition with Synthetic CBO program.

Differences between US Sub-prime Loan and Japanese SME CDO

	US Sub-prime Loan	Japanese SME CDO
Assets	<ul style="list-style-type: none"> ✓ Residential mortgage loans 	<ul style="list-style-type: none"> ✓ SME loans ✓ SME-issued bonds
Overall Impressions	<ul style="list-style-type: none"> ✓ The size of Sub-prime loan is more than 1 trillion US dollars (approximately 10% of US GDP). ✓ As of 4th quarter, 2006, actual delinquency ratio reached 13%. The bad performance was fueled by the recent downturn of auto-industry's employment and obligors' lack of understanding of loan features such as 'balloon' and 'hybrid'. <p><i>Source: Based on the report of Mizuho Market Insight, March 14th 2007, Mizuho Research Institute.</i></p>	<ul style="list-style-type: none"> ✓ The domestic SME CDO market is small (about 4 billion US dollars). ✓ Most of CDOs' performances are better than expected reflecting tight credit assessment and prudent ratings.
Risk-sharing Method	<ul style="list-style-type: none"> ✓ Diversified investors share the default risks. 	<ul style="list-style-type: none"> ✓ Lenders and public sectors such as JASME and Credit Guarantee Corps. share the default risks. ✓ Domestic investors basically do not purchase the subordinated tranches without good ratings.
Credit Assessment	<ul style="list-style-type: none"> ✓ Loosened credit criteria behind the market expansion lured borrowers with a decent credit history but without income verification. 	<ul style="list-style-type: none"> ✓ Borrowers must clear the dual credit assessment by lenders and public sectors.

Thank you!

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