

# The Okinawa Development Finance Corporation

http://www.okinawakouko.go.jp/

## 1. Summary of operations implemented using FILP funds

With the purpose of promoting the development of industries in Okinawa, the Okinawa Development Finance Corporation (ODFC) provides longterm funds to supplement and encourage both private financial institutions' financing and private investment. In addition to business funds, the ODFC provides funds to all sectors, including education, housing, and medical treatment facilities, that are rarely provided by private financial institutions. Note: Operations not eligible for FILP include some of the infrastructure improvement funds (known as "NTT-C"), etc.

## 2. Amount of lending under FY2019 FILP

(Unit: billion yen)

FY2019 FILP	Estimated outstanding amount of FILP lending at the end of FY2018
135.2	572.8

## 3. Estimated policy cost analysis of the project

### (1) Policy cost (Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
1. Government expenditure (subsidies, etc.)	3.2	2.7	-0.5
2. Government revenue (payments to the government, etc.)*	-21.2	-20.5	+0.7
3. Opportunity cost of capital investments, etc.	24.3	22.4	-1.9
<b>Total (1+2+3=policy cost(A))</b>	<b>6.4</b>	<b>4.6</b>	<b>-1.8</b>
Analysis period (years)	37 years	37 years	-

### (2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
(A) Policy cost (previously cited)	6.4	4.6	-1.8
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	23.8	21.8	-2.1
2) Policy cost expected to be newly accrued during the analysis period	-17.5	-17.2	+0.3
Government expenditure (subsidies, etc.)	3.2	2.7	-0.5
Government revenue (payments to the government, etc.)*	-21.2	-20.5	+0.7
Opportunity cost of surplus, etc.	-0.0	-0.0	+0.0
Opportunity cost of capital investments, etc.	0.5	0.6	+0.1

### (5) Sensitivity analysis (cases where assumptions change) (Unit: billion yen)

(A) Policy cost (previously cited)	Case for raising lending and fundraising rates by 1 %	Fluctuation	1. Government expenditure (subsidies, etc.)			2. Government revenue (payments to the government, etc.)*			3. Opportunity cost of capital investments, etc.		
4.6	13.5	+9.0		+0.7			-9.4			+17.7	

(A) Policy cost (previously cited)	Case for raising the bad loan write-off by 10 %	Fluctuation	1. Government expenditure (subsidies, etc.)			2. Government revenue (payments to the government, etc.)*			3. Opportunity cost of capital investments, etc.		
4.6	6.3	+1.8		+0.9		+0.9				-	

(Note) Components in each column may not add up to the total because of rounding.

\* Government revenue (payments to the government, etc.) is booked as a negative amount. Example: -10 b. yen for 10 b. yen in payments to government, etc.

### (3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2018	FY2019	Simple fluctuation
		Simple comparison (before adjustment)	6.4	4.6
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2019 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2018)	Real fluctuation (2-1)
		5.7	8.2	+2.5

[Real fluctuation factor analysis]

○ Factors behind policy cost increase

- Increase in interest payments due to changes in fiscal loan terms and conditions, etc. (+12.5 billion yen)

○ Factors behind policy cost decrease

- Decrease in cost due to decrease in loan losses (-6.5 billion yen)  
 - Decrease in cost due to a decrease in advanced redemption (-1.6 billion yen)  
 - Decrease in cost through new loans provided in FY2019 (-1.3 billion yen)  
 - Decrease in cost due to finalization of FY2017 results and revision of FY2018 projections (-0.5 billion yen)

### (4) Breakdown of policy cost by causative factor (Unit: billion yen)

(A) Policy cost in FY2019 (previously cited)	4.6
1) Prepayments	14.3
2) Loan losses	14.9
3) Others (including profit spread)	-24.6

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

- 1) Of investment activities, the estimation covers all but loans solely through non-FILP special funds (part of loans for provision of social overhead capital; NTT-C).
- 2) The estimation is based on the assumption that the ODFC will implement the FY2019 lending plan worth ¥165.1 billion (including ¥163.0 billion in loans and ¥2.1 billion in investment) in addition to the existing loan balance of ¥918.7 billion (planned for the end of FY2018).
- 3) In FY2019, terms and conditions for fiscal loans were changed as follows:  
 [FY2018] Loan term of 19 years (including 2-year grace), loan term of 9 years (including 1-year grace)  
 [FY2019] Loan term of 25 years (including 2-year grace), loan term of 20 years (including 2-year grace), loan term of 15 years (including 2-year grace), loan term of 7 years (including 1-year grace)
- 4) The analysis period is supposed to be 37 years, during which the existing loans as well as the loans made based on the ODFC project plan for FY2019 will be fully paid back.
- 5) Prepayments are estimated to account for certain percentages of loans outstanding at the beginning of the period (10.02% for housing loans and 4.75% for non-housing loans on average for the past five years).
- 6) A certain percentage of outstanding loans at the beginning of the period (0.27% (0.02% for housing loans and 0.35% for non-housing loans) on average for the past five years) is set aside for new loan loss provisions.

(Unit:%)

FY	Result					Estimated	Planned	Assumptions for calculation			
	2013	2014	2015	2016	2017			2018	2019	2020	2021
Prepayment ratio	Housing loans	10.44	8.35	11.45	12.24	7.44	5.33	5.22	10.02	10.02	10.02
	Others	5.06	3.70	5.44	5.66	3.88	2.08	1.75	4.75	4.75	4.75
Loan loss provision ratio		0.31	0.36	0.25	0.25	0.21	0.34	0.41	0.27	0.27	0.27

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

For the purpose of contributing to the development of the Okinawan economy, the ODFC receives financial assistance from the general and special accounts of the national treasury as compensation, etc. , for expenses needed to provide long-term funds with low interest rates that are rarely provided by general financial institutions.

(1) Major subsidies include 1) the “compensation for difference in balance” that receives the deficiency in loss and gain balance calculated on the basis of the ODFC project plans, etc. in the fiscal year from the general account to contribute to the swift and efficient management of operations, 2) the "interest compensation" regarding loans with low interest rates for business expansion of companies that work on employment creation utilizing local characteristics, etc. (i.e. "in addition to what is listed in the preceding items, other services, specified by an Ordinance of the Ministry of Health, Labour and Welfare, which are necessary for promoting the employment of physically disabled persons and others having particular difficulty in finding employment, ..." under Article 62, Paragraph 1. Item 5 of the Employment Insurance Act; "in addition to what is listed in the preceding Item 4, services contributing to employment creation in consensual voluntary employment creation regions" under Article 140, Paragraph 1, Item 5 of the Ordinance for Enforcement of the Employment Insurance Act), 3) “subsidy” received from the special account for electric power development acceleration measures to supplement the difference of interest rate in case of loans with low interest rates for promoting companies to be located in the electric power areas (i.e. “the subsidy related to expenses needed for measures which are intended to promote companies to be located in the areas of municipalities where specific power generation facilities are already established or planned to be established, or in the neighboring municipalities of the said municipalities or otherwise the municipalities adjacent to the said neighboring municipalities, and implemented by the person designated by the Minister of the competent ministry...” under Article 51, Paragraph 1, Item 20 of the Cabinet Order of the Act on Special Accounts for Electric Power Development Acceleration. Measures, where “the person designated by the Minister of the competent ministry under Article 51, Paragraph 1, Item 20 of the Cabinet Order of the Act on Special Accounts shall be as follows;...6) Okinawa Development Finance Corporation...” as is stipulated under the Ministerial Announcement Number 5 of the Ministry of Education, Culture, Sports, Science and Technology and the Ministry of Economy, Trade, and Industry.)...

(2) Investments include 1) 'investments' received from the general account to enhance the management foundation of the ODFC, or to finance business that promote the creation of new business and contribute to the promotion of industries in Okinawa (Article 4, Paragraph 2 of the Okinawa Development Finance Corporation Act: “The Government may make additional investments in the ODFC as long as they do not exceed the budgeted amounts.”) and 2) 'investments' received original capital for investment to private companies from Fiscal Loan Fund Special Account (Investment Account) to invest in those private companies that contribute to the development of local industries (Article 4, Paragraph 2 of the Okinawa Development Finance Corporation Act: same as the above).

(3) Payment to the national treasury is stipulated in the Okinawa Development Finance Corporation Act. (Article 25, Paragraph 1 of the Okinawa Development Finance Corporation Act: When any profit occurs in the loss and gain calculation in each accounting year, the ODFC shall pay it to the national treasury by May 31 of the next accounting year.)

#### 6. Special remarks

In February 2019, the Okinawa Development Finance Corporation released its FY2018 policy finance assessment report.

#### (Reference) Outcome and social and economic benefits of operations

##### 1) Investment and loan performance

i. Financing (FY2017)	7,000 cases	151.2 billion yen
ii. Financing (aggregate amount from FY1972 to FY2017)	450,000 cases	6.4206 trillion yen
• Industrial Development:		1.8688 trillion yen
• Small and Medium-Sized and Other Business:		2.1124 trillion yen
• Housing:		1.9906 trillion yen
• Primary Sector:		218.2 billion yen
• Other items:		230.5 billion yen
iii. Outstanding balance of lending (end of FY2017)	51,000 cases	849.1 billion yen
iv. Capital investment (FY2017)	5 cases	0.3 billion yen
v. Capital investment (aggregate amount from FY1978 to FY2017)	103 cases	8.2 billion yen

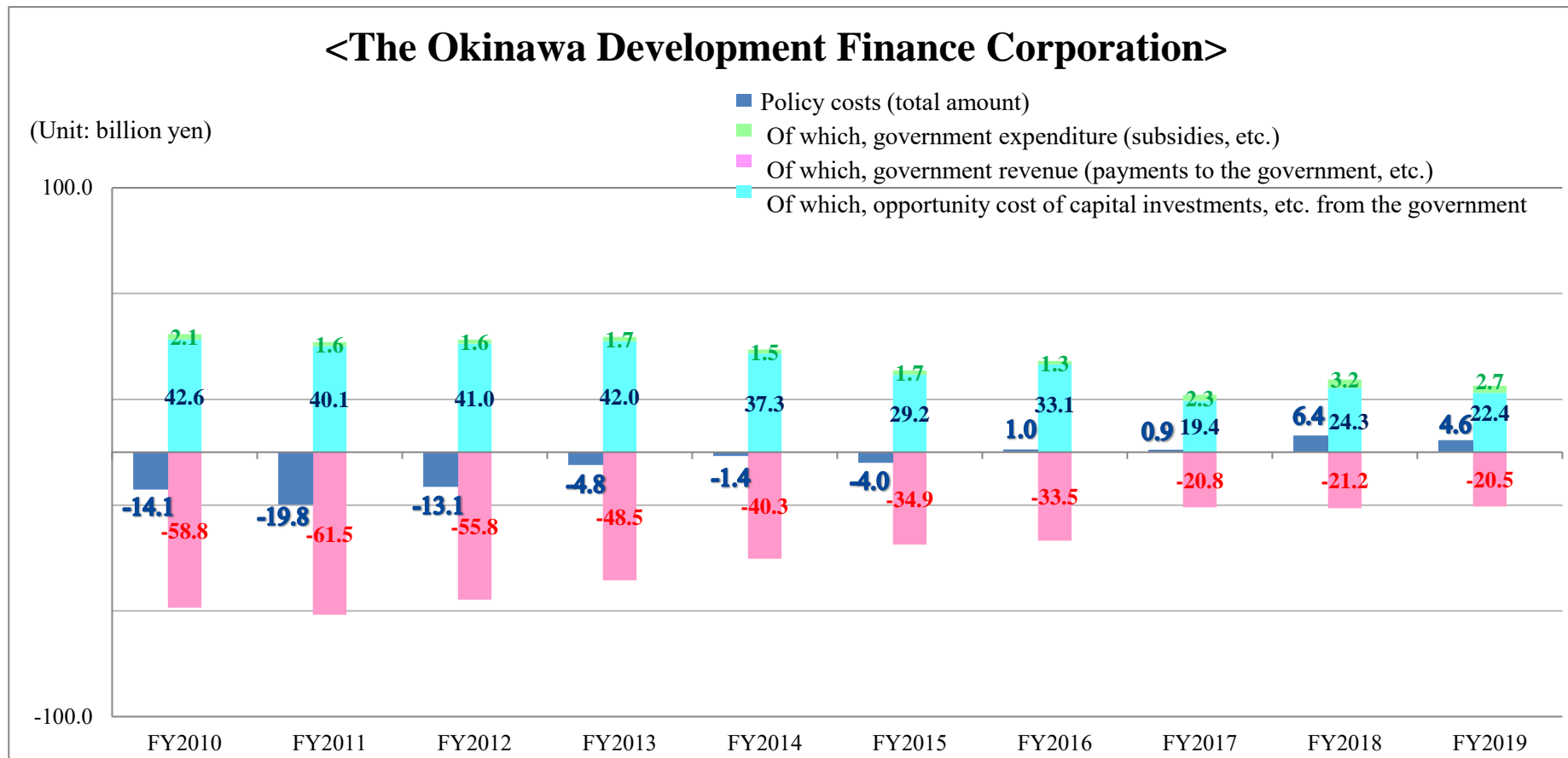
##### 2) A comprehensive financial corporation that is rooted in the community

- As a regional-based policy financial institution, the ODFC conducts the businesses of Japan Finance Corporation, etc. in an integrated and comprehensive manner, and contributes to the promotion of Okinawa by developing and utilizing a unique system in harmony with specific circumstances in Okinawa.
- The ODFC provides policy financial functions that appropriately meet the various financial needs of the prefecture's residents and enterprises through “one-stop” services.
- The ODFC's long-term, fixed-interest loans are used for capital investment, an area in which it takes business operators a long time to recover their investments, while private financial institutions act as the main banks for their business operations and provide them with the funds required for daily operations.  
 [Capital investment funds: ODFC's share in the prefecture at 22%  
 Operating funds: ODFC's share in the prefecture at 10% (end of FY2017)]
- The ODFC contributes and employment stabilization and securement by creating and promoting jobs with Okinawa unique system.  
 [Employment effect by loans for founders support in Okinawa and investments in creating and promoting jobs (FY2017): 841 jobs]

##### 3) Safety net loans to prevent employment loss

These loans function as a safety net to alleviate sudden external damage from typhoons, dramatic social and economic changes, etc. to financially support enterprises and help prevent employment loss.  
 [Preventative effect in employment loss due to safety net loans (FY2017): 5,560 jobs]

# (Reference) Changes in Policy Costs by Component



Note: Policy costs for each fiscal year differ in assumptions including interest rates applied to estimates.

**(Points)**

- Up to FY2011, policy costs were on a downward trend mainly due to an improvement in profit margins and a reduction in clerical costs.
- From FY2012 onward, policy costs have been on an upward trend mainly due to a reduction in loan interest in accordance with a reduction in loan balance.

## (Reference) Financial Statements

## Balance Sheet

(Unit: million yen)

Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)	Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)
(Assets)				(Liabilities and equity)			
Loans	843,341	904,409	958,209	Borrowings	537,382	568,219	628,940
Investments	7,034	8,534	10,634	Funds for fiscal loans	530,184	560,433	621,162
Cash and deposits	26,088	14,914	14,914	Industrial investment	210	156	102
Securities	5,749	5,749	5,749	Loans in the general account	10	7	5
Agency accounts	86	86	86	Loans from the Organization for Workers' Retirement Allowance Mutual Aid	6,978	7,623	7,671
Accrued revenue	749	724	715	Bonds	166,961	176,925	177,191
Accrued interest on loans	748	723	714	Okinawa Development Finance Corporation bonds	165,000	175,000	175,000
Trust fee receivable	1	1	1	Housing and building bond	1,961	1,925	2,191
Accrued interest on securities	0	0	0	Bond issue difference	-2	-1	-1
Miscellaneous accounts	18	17	17	Trust money	-	10	20
Fixed assets	6,420	6,797	6,970	Loan received	92,670	101,708	94,579
Customers' liabilities on guarantee	0	0	-	Accrued expenses	1,218	1,067	1,089
Allowances for bad debts	-9,062	-9,867	-9,760	Accrued interests on borrowing	805	741	713
				Accrued interest on bonds	378	288	327
				Unpaid interest on deposits	-	-	-
				Accrued commissions	15	17	28
				Accrued social premium	20	20	20
				Miscellaneous accounts	86	86	86
				Reserve for bonuses	154	154	154
				Reserves for retirement pensions	2,259	2,259	2,259
				Guaranteed dept	0	0	-
				(Total liabilities)	800,728	850,427	904,318
				Capital	77,837	79,537	81,837
				General account	45,318	45,618	46,018
				Succeeded from the former institutions	21,556	21,556	21,556
				Industrial investment	10,963	12,363	14,263
				Reserve fund			
				Reserve for rice fund and new business establishment promotion	1,470	1,410	1,398
				Unappropriated retained earnings or unappropriated loss for the period (-)	389	-12	-19
				(Total equity)	79,696	80,936	83,217
Total assets	880,424	931,363	987,534	Total liabilities and equity	880,424	931,363	987,534

Note: Components may not add up to the total because of rounding.

## Income Statement

(Unit: million yen)

Item	FY2017 (Result)	FY2018 (Estimated)	FY2019 (Planned)	Item	FY2017 (Result)	FY2018 (Estimated)	FY2019 (Planned)
(Losses)				(Profits)			
Ordinary expenses	20,918	22,374	22,887	Ordinary income	21,307	22,362	22,868
Interest on borrowings	3,707	3,325	4,192	Interest on loans	11,380	12,609	12,421
Interest on bonds	1,718	1,430	1,348	Dividends received	23	36	36
Interest on deposits	-	-	-	Commissions from housing loans and other income	12	14	10
Interest payable on funds money entrusted	-	1	1	Trust fees	6	6	6
Expenses for entrusting business	69	116	156	Receipts from the general account	1	595	495
Administrative expenses	4,356	4,671	4,779	Receipts from the special accounts for energy related measures	7	7	6
Bond issuing expenses	78	127	90	Security income			
Depreciation expenses	1,877	2,687	2,412	Profit on securities	12	13	13
Loans depreciation	1,745	2,544	2,263	Miscellaneous receipts	168	20	13
Fixed assets depreciation expenses	132	143	149	Allowances for bad debts	9,698	9,062	9,867
Loans depreciation	9,062	9,867	9,760	Current loss	-	12	19
Miscellaneous losses	52	-	-				
Reserve fund	-	150	150				
Net profits	389	-	-				
Total	21,307	22,374	22,887	Total	21,307	22,374	22,887

Note: Components may not add up to the total because of rounding.

