

Japan Bank for International Cooperation (Account for Special Operations)

<https://www.jbic.go.jp/ja/>

1. Summary of operations implemented using FILP funds

•Loans that contribute to supporting Japanese companies' overseas expansion for foreign social capital development projects, among those that contribute to promoting overseas development and acquisition of strategically important natural resources, maintaining and improving the international competitiveness of Japanese industries, promoting the overseas projects for preserving the global environment such as preventing global warming and preventing international financial turmoil or dealing with the damage caused thereby.

2. Amount of lending under FY2019 FILP

(Unit: billion yen)

FY2019 FILP	Estimated outstanding amount of FILP lending at the end of FY2018
151.6	223.3

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.)*	-20.9	-19.7	+1.2
3. Opportunity cost of capital investments, etc.	24.8	25.2	+0.5
Total (1+2+3=policy cost(A))	3.8	5.5	+1.7
Analysis period (years)	20 years	20 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)	3.8	5.5	+1.7
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	26.2	29.7	+3.6
2) Policy cost expected to be newly accrued during the analysis period	-22.3	-24.2	-1.9
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)*	-20.9	-19.7	+1.2
Opportunity cost of surplus, etc.	-5.8	-8.8	-3.0
Opportunity cost of capital investments, etc.	4.4	4.3	-0.1

(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)	3.8	5.5
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)
		4.7	5.7	+0.9

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost due to finalization of FY2017 results and revision of FY2018 projections (+34.7 billion yen)
- Others (increase in capital size at the beginning of the analysis period, etc.) (+7.8 billion yen)

○Factors behind policy cost decrease

- Decrease in cost through new loans provided in FY2019 (-35.1 billion yen)
- Decrease in cost due to decrease in loan losses (-6.1 billion yen)
- Decrease in cost due to decrease in advanced redemption (-0.4 billion yen)

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

(A) Policy cost in FY2019 (previously cited)	5.5
1) Prepayments	10.4
2) Loan losses	47.0
3) Others (including profit spread)	-51.8

(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.		
5.5	10.6	+5.0	-	-	-	-24.2	-	-	-	+29.3	
(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.		
5.5	11.4	+5.9	-	-	-	+1.9	-	-	-	+4.0	

(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.

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

- 1) The estimation covers the Special Services Account of the Japan Bank for International Cooperation.
- 2) Scale of account: Outstanding balance of financing at the end of FY2018 is ¥246.9 billion (estimate), and ¥221.6 billion for FY2019.
- 3) The analysis period is 20 years from FY2019 to FY2038, when the longest-term loans will be repaid.
- 4) The new loans are assumed to be collected based on the amortization schedule of the outstanding loans.
- 5) Interest rates for new loans applies the standard interest rates of the JBIC.
- 6) Early prepayments rate based on the past record of JBIC is used for the estimation. Furthermore, regarding prepayment premiums, although there are cases where a set percentage of original principal for prepayment premiums is secured in some projects, this revenue is not estimated in the analysis.
- 7) For the administrative expenses for FY2019, the expense associated with new financing and that associated with the subsequent management of financing are distinguished and the latter is to be decreased according to the transition of the balance in FY2020 and thereafter.
- 8) The estimated charge-off amount in sovereign loan is based on internal country ratings in order to reflect the unique characteristics of the Paris Club and other public organizations as much as possible, while, in the case of non-sovereign loans, it is calculated using external statistical data widely used by private financial institutions. (total amount during analysis period is ¥47.7 billion; however, the estimated amount is strictly a potential amount and will not necessarily be actualized in the future). The loan loss provision ratio for both loans is as given below.

FY	Result		Estimated	Planned	Assumptions for calculation
	2016	2017	2018	2019	2020-2038
Prepayment ratio	-	-	-	-	Each FY: 1.44% ^{Note 1}
Loan loss provision ratio	-	-	-	-	Cumulative total: 11.07% ^{Note 2}

Note 1: Percentage against gross amount of planned repayment in the following fiscal year and thereafter.

2: Percentage of gross amount of estimated bad debts during the analysis term against the balance at the beginning of the FY2020 term.

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

Government funds are accepted as needed in order to reinforce the management base necessary for performing duties as prescribed in the Japan Bank for International Cooperation Act.

(Underlying laws and regulations)

[Capital investment provision]

“Japan Bank for International Cooperation Act”

Article 4: The Government may, when it finds it to be necessary, make contributions to JBIC within the amount appropriated in the budget.

[The national treasury payment provision]

“Japan Bank for International Cooperation Act”

Article 31: 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 26-2 hereof, JBIC 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, JBIC shall pay the amount of such surplus into the National Treasury within three (3) months after the end of such business year.

“Order for Enforcement of the Japan Bank for International Cooperation Act”

Article 6: The amounts calculated according to the standards specified by an ordinance under paragraph 1, Article 31 of the Act shall be equivalent to the amounts provided according to the classification of accounts in the following items:

2 Account for special services (special services as provided in item 1, Article 26-2 of the Act; hereinafter the same shall apply): Amount equivalent to 50/100 of a surplus booked through the settlement of accounts in each business year

Paragraph 2: The amounts specified by an ordinance under paragraph 1, Article 31 of the Act shall be equivalent to the amounts provided according to the classification of accounts in the following items:

2 Account for special services: Amount equivalent to the capital specified in the account for special services

Article 7: In the event that the amount of the surplus recorded in each of the general and special services accounts through the settlement of accounts for each business year exceeds zero, JBIC shall submit to the Minister of Finance by June 20 of the following business year a statement of the payment to the national treasury in such business year calculated under paragraph 1, Article 31 of the Act, attaching thereto a balance sheet as of the end of such business year and an income statement of such business year and other financial documents which clarify the basis for the calculation of such payment to the national treasury.

Article 8: Concerning the payment to the national treasury in each of the general and special services accounts, the amount of the surplus prescribed in paragraph 1, Article 31 of the Act shall be divided depending on the amount of the contribution from the investment account of the General Account or the Special Account for FILP in each statement and returned to the General Account or the investment account of the Special Account for FILP.

Paragraph 2: The amount of the contribution prescribed in the previous clause shall be the amount of the contribution from the General Account for the investment account of the Special Account for FILP on the first day of business year when the amount of the surplus prescribed in the same clause occurred (In the event that the amount of the contribution from the General Account or the investment account of the Special Account for FILP increases/decreases during such business year after that day, the amount obtained by multiplying the number of days from the day of increase/decrease to the end of such business year by such increased/decreased amount of the contribution shall be added/reduced).

6. Special remarks

The policy cost analysis of the Japan Bank for International Cooperation (Account for Special Operations) basically books the payments to the national treasury throughout the analysis period except for a certain period, so that additional fiscal spending is not required.

(Reference) Outcome and social and economic benefits of operations

1) Lending and Equity participation

- Aggregate amount of loan commitments from FY2016-2017: 35.8 billion yen
- Loan commitments in FY2017: ¥3.4 billion
- Loans disbursements in FY2017: 1 billion yen
- Loans outstanding balance at the end of FY2017: 1 billion yen
- Loan, equity participation and guarantee commitment planned for FY2019: ¥221.6 billion (including ¥206.6 billion in loans and ¥15.0 billion in equity participation)

(Note) This account was created on October 1, 2016.

2) Primary types of financing for social and economic benefits

JBIC provides necessary finance in order to support Japanese companies' overseas business expansion in projects for the overseas development of social capital, thereby contributing to the sound development of domestic and international economic societies.

(Reference) Effect on maintenance and improvement of the international competitiveness of Japanese industries

(Survey concerning the effects of export financing on the domestic economy)

In relation to export-related operations financed in FY2016 and FY2017, the production by export corporations and the order placed to domestic suppliers is ¥44.5 billion in total. Of this amount, the order to medium and small business is estimated ¥6.0 billion (Total approved amount is ¥35.8 billion). The estimated employees maintained/hired within the export corporations are about 71 per year. (Japan Bank for International Cooperation survey, FY2018)

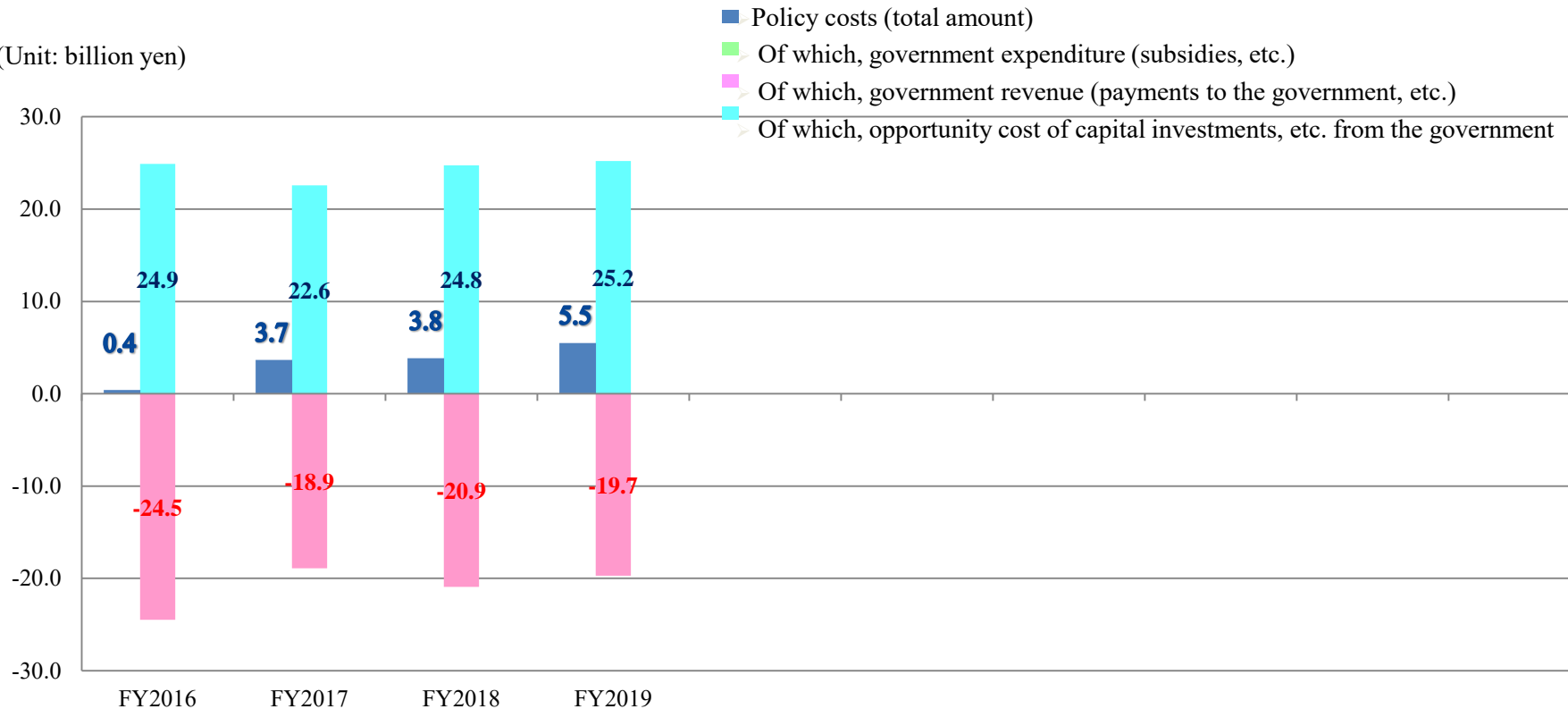
(Survey on the effects on the Japanese economy)

The economic effects expected from the operations receiving financing can be classified into investment demand effect associated with initial capital investment and future production effect associated with future production activities. Of this, the trial calculation was performed, for the investment demand effect arising from the investment (aggregate total of operation funding about 6.7 billion yen, total approved loan: 3.4 billion yen) in operations receiving the export loans approved in FY2017 up to the first induction stage. As a result, the effect on the Japanese economy is estimated to be about 5.0 billion yen when value added is taken into account. (Japan Bank for International Cooperation survey, FY2018)

(Reference) Changes in Policy Costs by Component

<Japan Bank for International Cooperation (Account for Special Operations)>

(Unit: billion yen)



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

(Point)

• Policy cost analysis of Japan Bank for International Cooperation (Account for Special Operations) books the payments to the national treasury throughout the period of analysis except for a certain period, so that additional fiscal spending including subsidies, etc. from the government is not required. However, policy cost is incurred because the profit level does not exceed the opportunity cost of capital investments.

(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)			
Cash and deposits	249,919	41,867	67,554	Borrowings	-	80,000	189,300
Deposits	249,919	41,867	67,554	Loans payable	-	80,000	189,300
Account for sales under agreement to resell	-	91,904	4,669	Other liabilities	210	8,929	21,870
Securities	-	24,000	39,000	Accrued expenses	2	659	939
Other securities	-	24,000	39,000	Advance revenues	0	-	-
Loans	1,023	223,941	430,541	Derivatives	0	8,063	20,723
Loan on deeds	1,023	223,941	430,541	Security money received for financial products, etc.	200	200	200
Other assets	190	3,173	9,739	Other liabilities	8	8	8
Prepaid expenses	5	5	5	Reserve for bonuses	5	6	8
Accrued revenue	7	1,613	8,114	Reserve for directors' bonuses	0	0	0
Derivatives	174	1,551	1,615	Reserves for retirement pensions	7	7	7
Other assets	4	4	4	Reserve for directors' retirement benefits	0	0	0
Customer's liabilities for acceptance and guarantee	-	21,900	46,100	Acceptances and guarantees	-	21,900	46,100
Allowances for bad debts	- 23	- 7,855	- 18,018	(Total liabilities)	222	110,843	257,285
				Capital	251,000	293,300	335,600
				Retained earnings	- 286	653	1,134
				Earned reserve	-	- 286	184
				Other retained earnings	- 286	939	950
				Earned surplus carried forward	- 286	939	950
				Total shareholders' equity	250,714	293,953	336,734
				Deferral hedge profit/loss	174	- 5,866	- 14,434
				Total valuation differences and translation adjustments	174	- 5,866	- 14,434
				(Total equity)	250,888	288,087	322,300
Total assets	251,110	398,929	579,585	Total liabilities and equity	251,110	398,929	579,585

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

Income Statement

(Unit: million yen)

Item	FY2017 (Result)	FY2018 (Estimated)	FY2019 (Planned)
Ordinary income	3	10,516	29,865
Revenue from fund management	1	9,090	27,694
Interest on loans	1	9,090	27,258
Interest on deposits	0	0	436
Other interest received	0	0	-
Revenue from service transactions, etc.	-	1,419	2,171
Other service revenue	-	1,419	2,171
Other ordinary income	1	6	1
Other ordinary income	1	6	1
Ordinary expenses	207	9,577	28,915
Financing cost	1	1,486	18,104
Interest on borrowed money	-	658	3,897
Interest on interest-rate swap	1	829	14,207
Other interest paid	0	0	0
Expenses for service transactions, etc.	14	15	301
Other service expenses	14	15	301
Other operation expenses	-	1	-
Loss on foreign exchange transactions	-	1	-
Business expenses	170	242	348
Other ordinary expenses	23	7,832	10,163
Provision of allowance for bad debts	23	7,832	10,163
Ordinary profit or loss (-)	- 205	939	950
Net profit or loss (-)	- 205	939	950

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