

Development Bank of Japan Inc.

<https://www.dbj.jp/>

1. Summary of operations implemented using FILP funds

The purpose of the operations is to maintain functions of investment and loan on DBJ's long-term business funds and to contribute to the smooth financing and advancement of financing functions by operating a business using a technique of providing investment and loan in an integrated manner and other highly-sophisticated financial techniques.

2. Amount of lending under FY2019 FILP

(Unit: billion yen)

FY2019 FILP	Estimated outstanding amount of FILP lending at the end of FY2018
780.0	9,173.3

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
1. Government expenditure (subsidies, etc.)	0.0	0.0	-0.0
2. Government revenue (payments to the government, etc.)*	-420.8	-692.3	-271.4
3. Opportunity cost of capital investments, etc.	42.3	152.9	+110.6
Total (1+2+3=policy cost(A))	-378.5	-539.4	-160.9
Analysis period (years)	26 years	41 years	+15 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)	-378.5	-539.4	-160.9
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	252.4	452.4	+200.0
2) Policy cost expected to be newly accrued during the analysis period	-630.9	-991.8	-360.9
Government expenditure (subsidies, etc.)	0.0	0.0	-0.0
Government revenue (payments to the government, etc.)*	-420.8	-692.3	-271.4
Opportunity cost of surplus, etc.	-210.1	-299.5	-89.4
Opportunity cost of capital investments, 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)	-378.5	-539.4
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2019 analysis)	-351.8	-386.9	-35.1
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2018)			Real fluctuation (2-1)

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in opportunity cost due to analysis period extension (+42.0 billion yen)

○Factors behind policy cost decrease

- Decrease in cost through new loans provided in FY2019 (-58.2 billion yen)

- Decrease in cost due to decrease in loan losses (-18.9 billion yen)

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

(A) Policy cost in FY2019 (previously cited)	-539.4
1) Prepayments	3.2
2) Loan losses	33.2
3) Others (including profit spread)	-575.9

(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.
			-539.4	410.2	+949.6

(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.
			-539.4	-539.2	+0.2

(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

[Outline of estimation]

- 1) The estimation is made in relation to all FILP operations (excluding crisis responses operations in FY2018, specific businesses promotion operations, and operations to promote restructure businesses).
- 2) The estimation is based on the assumption that DBJ will implement financing, following the FY2019 financing plan (2,610.0 billion yen) in addition to the existing loan balance (as of the end of FY2018).
- 3) The analysis period is for 41 years, until the completion of the government guaranteed bonds redemption.
- 4) For capital and reserves, it is assumed that the government's shareholdings will be disposed of in the final year of the analysis period based on the partial amendment of the Development Bank of Japan Act in May 2015, which no longer clarifies the timing of the disposition of the government's shareholdings (the wording was amended from "approximately 5 to 7 years from April 1, 2015" to "as early as possible").
- 5) Regarding payments to the national treasury and statutory reserves, it is assumed that DBJ will pay the amount equivalent to the corporate tax out of profits before taxes. As dividends, it is assumed that DBJ will pay the amount of 25% of profits after taxes to the government until the final year of the analysis period.
- 6) Because of the settlement of accounting changed to be prepared based on the private-sector accounting standards since the privatization in October 2008, it makes adjustments including the reversal of the balance of allowance for doubtful accounts to the equity part in order to maintain the continuity to the estimation based on the previous accounting of special corporations as far as possible.

[Project prospect]

- 1) Advanced redemption rate is estimated based on the previous results. Compensation for advanced redemption is estimated based on the assumption that full payment will be required except for borrowers that are severely slumping.
- 2) Charge-off for normal loans is calculated with DBJ's past default data used. For loans to borrowers subject to special attention and riskier loans, the possibility of collection, including collateral disposal, is examined individually. Outstanding risk management loans at the end of March 2018 based on the Banking Act totaled 60.3 billion yen. Loan loss provisions at the end of March 2018, based on private-sector accounting standards, stood at 44.9 billion yen.

FY	Result				Estimated	Planned	Assumptions for calculation
	2014	2015	2016	2017	2018	2019	2020-2059
Prepayment ratio	2.52%	3.22%	2.26%	3.33%	0.39%	0.40%	Accumulated total from FY2020 onwards: 2.62%
Loan charge-off ratio	0.02%	0.04%	0.02%	0.00%	0.14%	0.05%	Accumulated total from FY2020 onwards: 0.21%

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

In order to reduce companies' interest burden, DBJ receives subsidies from Special Accounts for Energy Policy as resources of interest subsidies to be paid to the companies through DBJ.

<Corporate Tax>

It is assumed that DBJ will pay corporate tax, etc. based on the estimated result in FY2018 and based on the statutory effective tax ratio from current earnings before tax from FY2019 onwards.

<Dividend>

It is assumed that DBJ will pay dividends based on the estimated result in FY2018 and will pay an amount equivalent to 25% of profits after taxes to the national treasury annually from FY2019.

6. Special remarks

Due to the partial amendment of the Development Bank of Japan Inc. Act in May 2015, the government is obliged to hold one-third or more of its issued shares for the time being in order to carry out crisis response operations and to hold a half or more of its issued shares until the completion of the specified investment operations.

(Reference) Outcome and social and economic benefits of operations

1) Capital investment and loan (based on annual reports)

	Loan amount	Investment amount
• April, 2013 – March 2014:	2,805.1 billion yen	138.2 billion yen
• April, 2014 – March 2015:	2,262.7 billion yen	281.4 billion yen
• April, 2015 – March 2016:	2,861.3 billion yen	166.3 billion yen
• April, 2016 – March 2017:	3,805.8 billion yen	206.7 billion yen
• April, 2017 – March 2018:	2,973.6 billion yen	179.7 billion yen

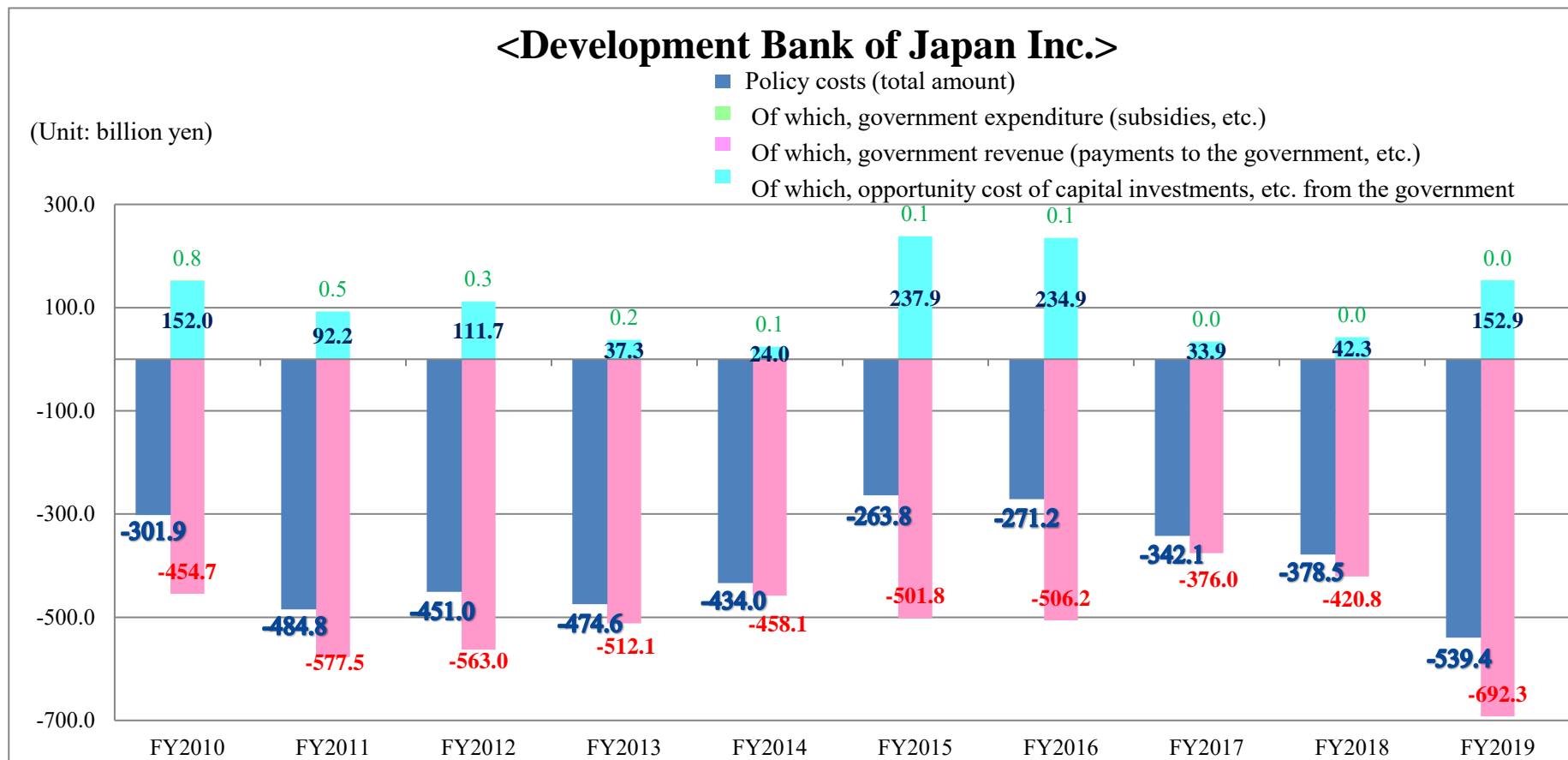
2) Long-term loans with fixed interest rates are provided with an emphasis upon the following points until October 2008 (Former Development Bank of Japan):

- Assistance to regional revitalization: Promotion of the development of regional towns including revitalization of urban areas; promotion of regional infrastructure; promotion of industrial location; promotion of projects that create employment opportunities in regions, etc.
- Enhancement of environment and infrastructure: environmental measures including waste and recycling measures; assistance to environmentally friendly enterprises, disaster prevention measures; measures for welfare and the aging society including the establishment of barrier-free building; establishment and/or improvement of traffic/distribution networks and telecommunications network, etc.
- Technology and economic revitalization: Promotion of investment in deregulated areas, assistance in the restructuring and/or rehabilitation of enterprises, promotion of imports / inward investment, development of new technology, assisting the collaborations in venture business between industries and universities, etc.

3) DBJ carries out operations focusing on the following points from October 2008:

- Toward the realization of full-scale privatization, DBJ, as a designated financial institution responding to crisis, etc., properly carries out operations utilizing management resources in which DBJ cultivated as a policy finance institution as well as maintaining and deeply cultivating DBJ's customer base, focusing on its strongest area, increasing its earning capacity and heighten its corporate value.
- To be a private financial institution which can meet a broad spectrum of needs for highly-sophisticated and diversified financial services in the business activities and local economy, DBJ aims to use accumulated know-how of screening and industrial researches, win customers' trust with business solutions by creative financial activities and realize a prosperous future utilizing neutrality, reliability, fairness, etc. in which DBJ cultivated as a policy finance institution.

(Reference) Changes in Policy Costs by Component



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

(Point)

- Based on the amendment of the Development Bank of Japan Inc. Act in 2015, the timing of the disposition of the government's shareholdings was changed again from "as of the scheduled full privatization" to "as of the completion of the project," and this caused an increase in the opportunity cost of capital investments in FY2015.
- The opportunity cost of capital investments decreased significantly due to the impact of negative interest rates in FY2017 and thereafter.
- In FY2019, each cost amount increases due to an analysis period extension accompanying a FILP fund repayment period extension.

(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 bank deposits	996,991	701,725	635,703	Bonds	3,086,651	3,171,076	3,319,617
Securities	1,905,547	2,263,547	2,723,547	Borrowings	8,429,149	8,340,476	8,294,854
Loans	12,874,274	13,240,979	13,409,085	Bond	1,841,583	2,102,992	2,376,026
Other assets	963,879	963,879	963,879	Other liabilities	323,625	323,625	323,625
				(Total liabilities)	13,681,009	13,938,170	14,314,122
				Capital	1,000,424	1,000,424	1,000,424
				Contingency reserve	206,529	206,529	206,529
				Specified investment reserve	330,000	588,000	848,000
				Specified investment surplus	3,099	4,309	4,309
				Capital surplus	895,466	766,466	636,466
				Retained earnings	548,371	590,440	646,570
				Valuation and translation adjustments	75,792	75,792	75,792
				(Total equity)	3,059,682	3,231,960	3,418,091
Total assets	16,740,690	17,170,130	17,732,213	Total liabilities and equity	16,740,690	17,170,130	17,732,213

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

Income Statement

(Unit: million yen)

Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)
Ordinary income	267,058	256,400	271,700
Ordinary expenses	146,716	161,800	167,700
Ordinary profit	120,341	94,600	104,000
Extraordinary profits	1	-	-
Extraordinary loss	55	-	1,000
Net profit before tax	120,288	94,600	103,000
Corporate tax, residence tax and enterprise tax	33,597	29,200	30,900
Income taxes-deferred	- 3,245	-	-
Net profit	89,936	65,400	72,100

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