

Welfare And Medical Service Agency (Incorporated Administrative Agency) (General Account)

<https://www.wam.go.jp/hp>

1. Summary of operations implemented using FILP funds

For the purpose of improving social welfare and expanding/improving medical services, the Social Welfare and Medical Service Agency (WAM) operates lending businesses, which provide loans for establishing social welfare facilities, including special nursing homes for the elderly, and medical treatment facilities, including hospitals, clinics, and welfare/care facilities for the elderly.

Note: Major operations out of FILP are operations such as the retirement allowance mutual aid business, the insurance business for the rearing of physically and mentally handicapped persons, management diagnosis/guidance and welfare/health information services, and subsidizing business by funds for long-life, childrearing, and handicapped persons. Also operations out of FILP are assistance for social welfare services, pension secured loan and loans secured by accident insurance pensions, etc.

2. Amount of lending under FY2020 FILP

(Unit: billion yen)

FY2020 FILP	Estimated outstanding amount of FILP lending at the end of FY2019
259.4	3,178.6

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
1. Government expenditure (subsidies, etc.)	5.3	4.9	-0.4
2. Government revenue (payments to the government, etc.) ^{*1}	-	-	-
3. Opportunity cost of capital investments, etc.	-40.5	-41.6	-1.1
Total (1+2+3=policy cost(A))	-35.2	-36.7	-1.5
Analysis period (years)	37 years	36 years	-1 year

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

Category	FY2019	FY2020	Fluctuation
(A) Policy cost (previously cited)	-35.2	-36.7	-1.5
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	5.9	3.3	-2.6
2) Policy cost expected to be newly accrued during the analysis period	-41.1	-39.9	+1.2
Government expenditure (subsidies, etc.)	5.3	4.9	-0.4
Government revenue (payments to the government, etc.) ^{*1}	-	-	-
Opportunity cost of surplus, etc.	-46.4	-44.8	+1.6
Opportunity cost of capital investments, etc.	-	-	-

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost	Simple comparison (before adjustment)	FY2019	FY2020	Simple fluctuation
		-35.2	-36.7	-1.5
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2020 analysis)	-40.2	-31.6	+8.6
		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2019)	Real fluctuation (2-1)	

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost due to increase in charge-off (+4.2 billion yen)
- Increase in cost due to decrease in investment income (+2.3 billion yen)
- Increase in cost due to new loans provided in FY2020 (+1.2 billion yen)
- Increase in cost settled results in FY2018 and expected revision in FY2019 (+0.6 billion yen)
- Increase in cost due to rise in projected FILP agency bond issues from FY2021 (+0.4 billion yen)
- Others (Increase in administrative cost due to new financing, etc.) (+0.7 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to rise in losses at the beginning of the analysis period (-0.6 billion yen)
- Decrease in cost due to capital investments at the beginning of the analysis period (-0.2 billion yen)

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

(A) Policy cost in FY2020 (previously cited)	-36.7
1) Prepayments	1.1
2) Loan losses	4.2
3) Others (including profit spread)	-42.0

(5) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

(A) Policy cost (previously cited)	Case before the negative interest rate policy ^{*2}	Fluctuation	1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.) ^{*1}	3. Opportunity cost of capital investments, etc.
			-36.7	-24.8	+11.9

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

^{*1} 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.

^{*2} Assumed interest rates (discount factor and future interest rate) are based on the market yield on Japanese government bonds on January 28, 2016, before the introduction of the negative interest rate policy.

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

[Outline of estimation]

- 1) Of the Agency's operations, the general account recording loan operation is estimated. However, costs for the welfare and medical service management guidance, welfare and healthcare information service and assistance for social welfare services which are included in this account were excluded from the analysis.
- 2) The estimate is made on the assumption that new loans of 302.1 billion yen will be provided for the FY2020 operation plan in addition to the outstanding loan balance of 3,464.3 billion yen (estimated as of the end of FY2019).
- 3) The analysis period is assumed to be 36 years, covering a period in which outstanding loans and new ones to be provided under the FY2020 plan will be repaid completely.
- 4) Administrative expenses are limited to loan control and collection operations in and after FY2022.

[Project prospect]

- 1) The Agency's loan, 282.5 billion yen (FY2020) and 67.7 billion yen (FY2021) respectively, is scheduled to be collected by FY2055. (67.7 billion yen to be loaned in FY2021 will be subsidized to be loaned in association with loans prior to FY2020.)
- 2) For loan applications accepted on October 1, 1998 onward, repayment compensation is to be collected upon voluntary advanced redemption, which means that there are two types of advanced redemption, i.e., that requiring repayment compensation and that not requiring repayment compensation. However, advanced redemption requiring repayment compensation is also applicable to FILP loans and this will not affect the policy cost. Therefore, only advanced redemption not requiring repayment compensation is reflected here. The amount of advanced redemption for FY2020 is recorded as the amount equal to the rough estimate. Amounts of advanced redemption for FY2021 onward are calculated by multiplying the outstanding amount at the beginning of each fiscal year by the advanced redemption rate based on the past performance. As the loan balance not subject to redemption compensation requirements will decrease year by year, the advanced redemption rate is expected to decline accordingly.
- 3) The loan charge-off amount within the analysis period will be limited to the amount of loan loss provisions set aside in the FY2020 budget. The amount is expected to be 23.2 billion yen.
It should be mentioned that the amount of loan charge-off is based on the loan balance of each year. The loan charge-off ratio is indicated below.

(Unit: %)

FY	Result	Estimated	Planned	Assumptions for calculation				
	2018	2019	2020	2021	2022	2023	2024-2048	2049-2055
Prepayment ratio (welfare)	0.48	0.03	0.03	0.03	0.03	0.03	0.03	-
Prepayment ratio (medical)	1.74	0.27	0.21	0.18	0.16	0.13	0.10	-
Loan charge-off ratio	0.008	—	Cumulative total: 0.67%*					

*Note: Ratio of estimated total loan charge-off during the analysis period to the outstanding loan balance at the beginning of FY2020.

- 4) Note the outstanding balance of the risk management loans as at the end of FY2018 amounted to 109.2 billion yen. Loan loss provisions according to private-sector accounting standards at the end of FY2018 amounted to 15.8 billion yen. (Loan loss provisions/Outstanding balance of loans (after the deduction of loan received) = 0.464%)

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

(Reasons for granting of subsidies)

In response to the aging society with fewer children, social welfare facilities and treatment medical facilities that function as a base to provide welfare, health and medical services are social resources that are indispensable for the lives of citizens. To facilitate establishment of these facilities, the Agency provides long-term funds with low interest rates. To this end, the Agency receives subsidies from the general account of the national treasury (Underlying laws and regulations)

- Article 46 of the Act on General Rules for Incorporated Administrative Agencies (Grants for operating expenses)

The government may, within the scope of the budget, deliver to an Incorporated Administrative Agency an amount, equivalent to all or part of the necessary amount of money, to be

- Budget assistance (interest subsidies)

(Underlying law with regard to the contribution to the national treasury)

Welfare and Medical Service Agency Act

Article 16

1. The Agency may, if there is a reserve fund as prescribed by Paragraph 1 of Article 44 of the Act after the deposition as prescribed by Paragraph 1 or 2 of Article 44 of the Act in the last fiscal year of the project in the period of the medium-term target (hereinafter referred to as "medium-term target period") as prescribed by item 1 of Paragraph 2 of Article 29 of the Act, use the amount approved by Minister of Health, Labour and Welfare as revenue for operations as prescribed by Paragraph 1 of Article 12 in the next medium-term target period as specified in the medium-term plan approved as prescribed by Paragraph 1 of Article 30 of the Act concerning next medium-term target period (if any change is approved as prescribed by the same Paragraph, use the plan after the change).

2. If there is still remaining amount after deduction of the amount approved as prescribed by the preceding paragraph from the amount equivalent to the reserve fund as prescribed by the same paragraph in the account for operations in items 1, 4 and 5 of the preceding article, the remaining amount must be paid to the national treasury.

3. (Omitted)

4. Other than the preceding three paragraphs, necessary items in relation to the procedures for the payment to the national treasury and allocation of reserve is governed by the Government Order.

Act on General Rules for Incorporated Administrative Agencies

Article 46-2

(1) An Incorporated Administrative Agency is to make payments to the national treasury in relation to any Unnecessary Property pertaining to contribution or expenditure from the government (other than any property which the contribution is in the form of money) (hereinafter referred to as "Unnecessary Property Pertaining to Government Contribution, etc." in this paragraph) with an authorization of the competent minister, without delay; provided, however, that the Incorporated Administrative Agency is not required to obtain an authorization of the competent minister if it specifies the plan referred to in Article 30, paragraph (2), item (v) for a Medium-term Plan of an Agency Managed under the Medium-term Objectives, the plan referred to in Article 35-5, paragraph (2), item (v) for a Medium to Long-term Plan of a National Research and Development Agency, or the plan referred to in Article 35-10, paragraph (3), item (v) for an Annual Objective Plan of an Agency Engaged in Administrative Execution, and it makes payment to the national treasury in relation to the Unnecessary Property Pertaining to Government Contribution, etc. in accordance with the relevant plan.

(2) An Incorporated Administrative Agency may make a payment to the national treasury in the amount calculated in accordance with the standards specified by the competent minister to the extent of the amount of income derived from the transfer of Unnecessary Property Pertaining to Government Contribution, etc. (other than money; hereinafter the same applies in this paragraph and the following paragraph) with the authorization of the competent minister (other than any amount exceeding the book value of the property (hereinafter referred to as "Amount Exceeding the Book Value" in the following paragraph)), in lieu of making payment to the national treasury in relation to the Unnecessary Property Pertaining to Government Contribution, etc. pursuant to the provisions of the preceding paragraph; provided, however, that the Incorporated Administrative Agency is not required to obtain an authorization of the competent minister if it specifies the plan referred to in Article 30, paragraph (2), item (v) for a Medium-term Plan of an Agency Managed under the Medium-term Objectives, the plan referred to in Article 35-5, paragraph (2), item (v) for a Medium to Long-term Plan of a National Research and Development Agency, or the plan referred to in Article 35-10, paragraph (3), item (v) for an Annual Objective Plan of an Agency Engaged in Administrative Execution, and it pays the amount to the national treasury in accordance with the relevant plan.

(3) In the case referred to in the preceding paragraph, if there is any Amount Exceeding the Book Value derived from the transfer of Unnecessary Property Pertaining to Government Contribution, etc., an Incorporated Administrative Agency is to pay the amount to the national treasury without delay; provided, however, that this does not apply to the amount authorized if the agency obtains an authorization from the competent minister for the exemption of payment of all or part of the amount.

(4) If an Incorporated Administrative Agency makes payment to the national treasury pursuant to the provisions of paragraph (1) or paragraph (2), and the Unnecessary Property Pertaining to Government Contribution, etc. for which the payment made, pertains to the contribution from the government, the amount specified by the competent minister as the portion pertaining to the Unnecessary Property Pertaining to Government Contribution, etc. for which the payment is made, out of the stated capital of the agency, is to be deemed to have not been contributed by the government to the agency, and the agency is to reduce the amount of its stated capital commensurate with such amount.

(5) Beyond what is provided for in the preceding paragraphs, the matters necessary for the disposal of the Unnecessary Property Pertaining to Government Contribution, etc. are specified by Cabinet Order.

6. Special remarks

The policy cost of the Agency's welfare and medical loan operation is incurred due to the government policy of providing long-term funds at low interest rate that are needed to establish and/or improve social and medical facilities including hospitals. This kind of social resources is indispensable to improve the welfare, medical, and nursing services of aging society with fewer children. Through the Agency's loan, efforts are made to establish and improve social welfare and medical facilities, to increase social welfare services, and to expand medical services.

(Reference) Outcome and social and economic benefits of operations

1. Lending activities

	Total lending in FY2018		Aggregate amount of lending up to FY2018		Outstanding balance of loans at the end of FY2018	
	cases	billions of yen	cases	billions of yen	cases	billions of yen
Welfare loans	811	162.4	45,236	5,104.9	17,349	2,101.4
Medical loans	67	49.4	95,929	6,619.3	4,613	1,344.5
Total	878	211.8	141,165	11,724.2	21,962	3,445.9

2. Outcome of lending over the past 10 years (FY2009-2018)

1) Welfare loans led to the establishment of 9,000 private social welfare facilities (capacity: 420,000 persons).

Welfare facilities for the elderly: 167,000 persons (621,000 persons)

Welfare facilities for the disabled: 23,000 persons (136,000 persons)

Welfare facilities for children: 231,000 persons (1,975,000 persons)

2) Medical loans led to the establishment of 600 medical facilities and the expansion/renovation of 800 such facilities.

Institutions providing care and health services for the elderly: 24,000 persons (332,000 persons)

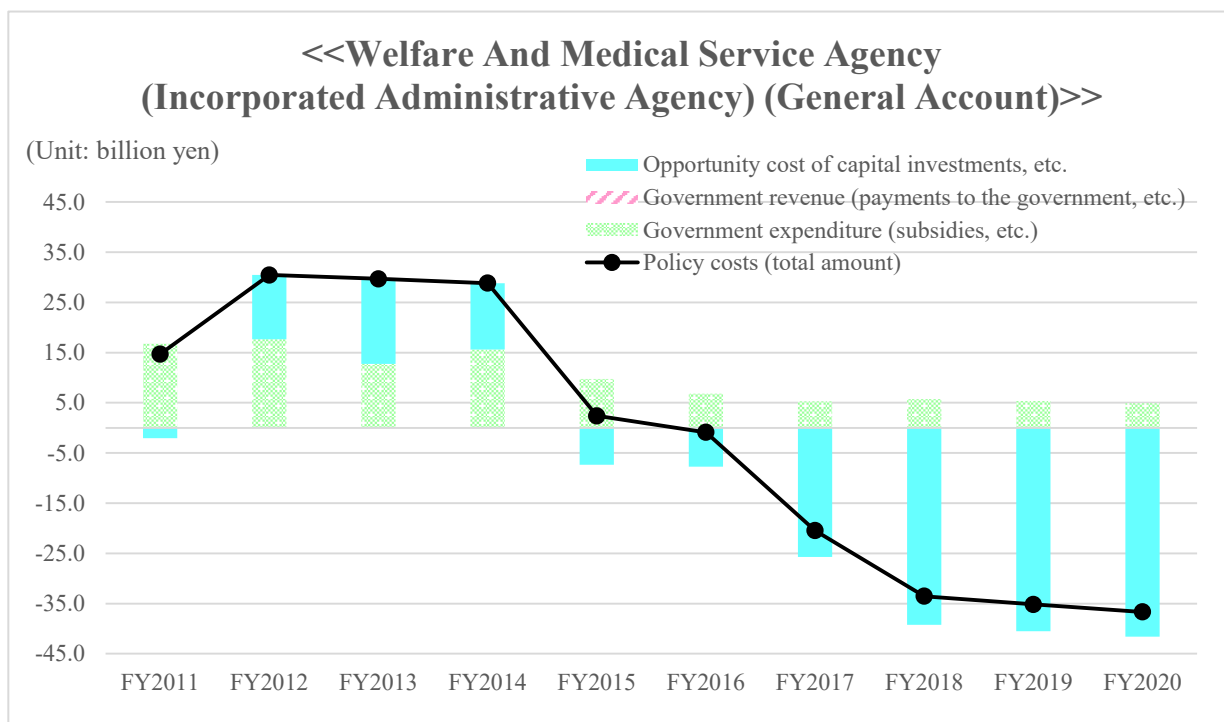
Hospitals: 7,000 beds (1,198,000 beds)

Note: Figures in parentheses indicate the capacities (provisional figures) of the private social welfare facilities as of October 2018.

However, capacities for welfare facilities for the elderly and long-term care health facilities are those as of October 2017.

Overview of policy cost analysis results

[Changes in policy costs]



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

(Unit: billion yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Policy costs (total amount)	14.7	30.4	29.7	28.8	2.4	-0.9	-20.5	-33.5	-35.2	-36.7
Government expenditure (subsidies, etc.)	16.7	17.7	12.7	15.6	9.7	6.8	5.3	5.7	5.3	4.9
Government revenue (payments to the government, etc.)	-	-	-	-	-	-	-	-	-	-
Opportunity cost of capital investments, etc.	-2.0	12.8	16.9	13.2	-7.4	-7.7	-25.7	-39.3	-40.5	-41.6

【Explanation of policy cost trends】

- Opportunity cost of capital investments, etc. from the government increased from FY2012 to FY2014 due to the receipt of capital investments from the government in order to compensate for the difference in interest rates (loss margin) generated by disaster rehabilitation and reconstruction loans (interest-free loans, etc.) after the Great East Japan Earthquake in the FY2011 Supplementary Budgets, and due to the extension of the analysis period in accordance with the extension of the loan period.
- Since FY2015, a decline in the assumed interest rate significantly decreased cost for issuing bonds for raising funds, and increased profits to generate surplus. As a result, opportunity cost of capital investments, etc. from the government becomes negative.

【FILP agency's self-assessment of policy cost analysis results (FY2020)】

- We view the policy cost analysis results as adequately reflecting the interest rate situation and the characteristics of WAM loans and as helpful for considering revisions to lending terms and conditions.
- We analyzed and verified the redemption of borrowings from the Fiscal Loan Fund through a long-term cash flow plan and confirmed that the redemption would be completed by FY2051.
- Given that the sensitivity analysis indicates a cost hike due to interest rate hikes, interest risk management through asset-liability management will continue to be required.

(Reference) Financial Statements

Balance Sheet

(Unit: million yen)

Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)	Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)
(Assets)				(Liabilities and equity)			
Current assets	268,475	265,471	264,745	Current liabilities	272,948	270,171	277,231
Cash and bank deposits	4,782	2,048	1,642	Deposited subsidies, etc.	3,472	-	-
Long-term loan to be recovered within one year	259,856	260,409	260,130	Deposited donations	208	200	200
Accrued income	3,926	3,165	3,124	WAM bonds to be repaid within one year	10,000	20,000	33,000
Accounts receivable	185	-	-	Discount on bond (-)	- 0	-	-
Others	4	-	-	Long-term loans to be repaid within one year	252,785	244,196	238,721
Loan loss provisions	- 278	- 277	- 277	Accrued payments	309	149	149
Reversal of loan loss provisions	-	126	126	Accrued expenses	5,696	5,467	5,026
Fixed assets	3,138,329	3,188,926	3,203,715	Advances received	0	-	-
Tangible fixed assets	105	67	32	Deposit received	13	-	-
Buildings	6	5	4	Provisions	-	126	126
Vehicles and transportation equipment	0	0	0	Provision for bonuses	-	126	126
Tools furniture and fixtures	99	62	27	Others	465	32	8
Intangible fixed assets	1,044	820	500	Fixed liabilities	3,116,933	3,167,607	3,174,856
Software	936	819	499	Asset collateral liabilities	1,060	832	509
Telephone subscription right	1	1	1	Grants for asset collateral operation cost	953	832	509
Software in progress	107	-	-	Grants for software in progress collateral operation cost	107	-	-
Investment and other assets	3,137,180	3,188,038	3,203,184	Long-term contributions received	301	201	101
Long-term loan receivable	3,140,665	3,192,065	3,210,973	WAM bonds	230,000	230,000	217,000
Claims in bankruptcy/ revitalization, doubtful accounts, and other	11,362	11,843	12,324	Discount on bond (-)	- 9	- 8	- 6
Security deposit and guarantee	708	708	708	Long-term loans payable	2,885,544	2,934,447	2,955,126
Loan loss provisions	- 15,555	- 18,691	- 22,934	Provisions	-	2,112	2,112
Return for provision for retirement benefits	-	2,112	2,112	Provision for retirement benefits	-	2,112	2,112
				Others	37	21	13
				(Total liabilities)	3,389,881	3,437,778	3,452,087
Total assets	3,406,804	3,454,396	3,468,460	Capital			
				Financing by the Government	21,788	21,788	21,788
				Capital surplus	- 774	- 775	- 775
				Capital surplus	1,095	1,095	1,095
				Other administrative costs accumulated	- 1,869	- 1,870	- 1,870
				Amount equivalent to accumulated depreciation cost	- 96	- 97	- 97
				(-) Amount equivalent to accumulated net gains or losses on sale or disposal (-)	- 1,773	- 1,773	- 1,773
				Loss carried forward	-	-	-
				Unappropriated loss for the current year	- 4,091	- 4,395	- 4,639
				(of this, gross loss)	(- 2,876)	(- 303)	(- 244)
				(Total equity)	16,923	16,618	16,374
				Total liabilities and equity	3,406,804	3,454,396	3,468,460

Notes 1. The balance sheet includes costs for projects other than those subject to the policy cost analysis.

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

Income Statement

(Unit: million yen)

Item	FY2018 (Result)	FY2019 (Estimated)	FY2020 (Planned)
Ordinary expenses	46,695	39,595	42,539
Cost of administrating welfare and medical loans	43,814	35,914	39,301
Expenses for management consultation operations	402	463	523
Cost of administrating welfare/health information services	628	1,339	840
Cost of administrating assistance for social welfare	947	926	908
General and administrative expenses	876	953	967
Miscellaneous losses	28	0	-
Ordinary income	43,819	39,292	42,294
Operation grant income	1,572	1,442	1,210
Income from welfare and medical loan operations	40,923	32,357	36,002
Income from management services	61	52	61
Income from welfare/health information services	3	4	3
Income from assistance for social welfare services	10	11	-
Income from subsidies, etc.	653	4,674	4,190
Contributions	267	208	200
Reversal of grants for asset collateral operation cost	300	329	323
Income regarding return for provision for bonuses	-	126	126
Income regarding return for provision for retirement benefits	-	85	175
Financial income	0	-	0
Miscellaneous income	30	3	4
Ordinary loss	2,876	303	244
Temporary losses	-	2,257	-
Transfer of provision for bonuses accompanying accounting standard revision	-	145	-
Retirement allowance cost accompanying accounting standard revision	-	2,112	-
Extraordinary profits	-	2,257	-
Income regarding return for provision for bonuses	-	145	-
Income regarding return for provision for retirement benefits	-	2,112	-
Net loss	2,876	303	244
Gross loss	2,876	303	244

Notes 1. The income statement includes costs for projects other than those subject to the policy cost analysis.

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