Japan Finance Corporation (Account for Agriculture, Forestry, Fisheries and Food Business Operations)

1. Summary of operations implemented using FILP funds

For sustainable and sound development of agriculture, forestry and fisheries or businesses contributing to the security of stable food supply, JFC uses FILP funds for supplying long-term loans with low interest rates intended to complement financial services of general financial institutions to persons engaged in agriculture, forestry and fisheries management or in the business of manufacturing foodstuffs.

Note: Operations not eligible for FILP include financing related to interest free loans for forest management specially designed to maintain bio-diversity etc. JFC extends interest free loans using other funds than FILP. Securitization support operations are exempt from the analysis.

2. Amount of lending under FY2019 FILP

| | (Unit: billion yen) |
|-------------|---|
| FY2019 FILP | Estimated outstanding amount of FILP lending at the end of FY2018 |
| 530.0 | 2,401.7 |

3. Estimated policy cost analysis of the project

| Estin | nated policy co | st analysis of th | e project | | | _ | | | | | | |
|----------|--|---------------------------------------|-----------|-------------|-------------------|---|---|---|--|---------------------|--|--|
| (1) F | olicy cost | | | (Unit: ł | oillion yen) | | ear-to-Year com omputing any fl | parison analysis uctuation from previous | year) | (Unit: billion yen | | |
| | Catego | ory | FY2018 | FY2019 | Fluctuation | | | FY2018 | FY2019 | Simple fluctuation | | |
| | overnment expen bsidies, etc.) | diture | 65.5 | 70.4 | +4.9 | | Simple comparison (before adjustment) | 99 | 9.2 97. | 4 -1.8 | | |
| (pa | 2. Government revenue (payments to the government, etc.)* | | -191.3 | -169.4 | +21.9 | Policy cost | Past year comparison | 1) Adjusting initial ye (Analysis results after adju initial year to that for FY2 | isting (Analysis results of re-estimatic | Real fluctuation | | |
| - | oportunity cost o vestments, etc. | f capital | 225.0 | .0 196.5 | -28.6 | Po | (after adjustment) | analysis) | FY2018) 2.2 108. | . , | | |
|] | Гotal (1+2+3=ро | licy cost(A)) | 99.2 | 97.4 | -1.8 | [Rea | 1 fluctuation | factor analysis] | 2.2 108. | 7 +20.3 | | |
| Anal | ysis period (year | s) | 60 years | 60 years | - | <u>OFa</u> | ctors behind | policy cost increas | <u>se</u> loan losses (+16.1 billio | n von) | | |
| | | | | | | - Inc | rease in cost | due to new loans i | n FY2019 (+6.4 billion | yen) | | |
| (2) Br | ÷ • | cost by the time of th | <u>,</u> | | Unit: billion yen | | | | cost due to new financia | ng, etc.) | | |
| | Catego | ory | FY2018 | FY2019 | Fluctuation | (+15 | .7 billion ye | n) | | | | |
| (A) F | Policy cost (previ | | 99.2 | 97.4 | -1.8 | OFa | OFactors behind policy cost decrease | | | | | |
| | Opportunity cost of capital investments, etc. provided before the beginning of the analysis period | | | 195.1 | -28.4 | - Decrease in cost due to increase in advanced redemption (-11.7 billion yen) | | | | | | |
| | Policy cost exp accrued during | ected to be newly the analysis period | -124.3 | -97.7 | +26.6 | | (4) Breakdown of policy cost by causative factor (Unit: billion yen) (A) Policy cost in FY2019 (previously cited) 97.4 | | | | | |
| | Governme (subsidies | ent expenditure , etc.) | 65.5 | 70.4 | +4.9 | | | | | | | |
| | | revenue (payments to | -191.3 | -169.4 | +21.9 | | 1) Prepayments 5.8 | | | | | |
| | Opportunity etc. | cost of surplus, | 1.5 | 1.3 | -0.2 | 2) L | 2) Loan losses 18.3 | | | | | |
| | | cost of capital | 0.0 | 0.0 | -0.0 | 3) (| Others (inclue | ding profit spread) | 73.2 | | | |
| (5) 8 | Sensitivity anal | ysis (cases whe | re assumn | tions chan | ge) | | | | (Unit: billion yen) | | | |
| | | Case for raising le | | | 6-) | | | | (| | | |
| · · |) Policy cost eviously cited) | and fundraising ra | | Fluctuatior | 1 1. Go | vernment exp (subsidies, e | (paym | Government revenue nents to the government, etc.)* | 3. Opportunity cost of capital investments, etc. | | | |
| | 97.4 | 2 | 40.0 | +1 | 42.5 | | +3.2 | +52.8 | +86.5 | | | |
| () |) Policy cost | Case for raising | g the | | | | <u></u> | | | | | |
| · · | eviously cited) | bad loan write-o 10 % | off by | Fluctuatior | 1 1. Go | vernment exp (subsidies, e | benditure (paym | Government revenue nents to the government, etc.)* | 3. Opportunity cost of capital investments, etc. | | | |
| <u> </u> | 97.4 | 1 | 00.4 | | +3.0 | | +2.5 | +0.5 | +0.0 | | | |

(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 is made in respect of all lending operations financed by Fiscal Loan Fund.
- 2) The estimation is made on the assumption that financing is implemented based on the FY2019 operation plan (¥655.5 billion) in addition to the existing loan balance of ¥3,005.4 billion (estimated as of the end of FY2018).
- 3) The analysis period is supposed to be 60 years until the complete repayment of loans made based on the FY2019 operation plan as well as existing loans. (a) The proceeding 5 years
- 4) The prepayment ratio is projected at the average level (of 3.05%) for the preceding 5 years.

5) The loan loss provisions are calculated on the assumption that the end-of-term loan loss provisions are calculated according to the loan loss provision ratio (0.58% under the FY2019 decision) based on the asset assessment after the charge-off (the provision on loans at the average of 0.15% for the preceding 5 years).

6) The administrative cost from FY2020 covers only an expense for the management and collection of loans (calculated according to the relevant personnel share of 49% in August 2018) and is assumed to gradually decrease according to a fall in outstanding loans.

| | Result | | | | | Estimated | Planned | Assumptions for calculation |
|--------------------|--------|-------|-------|-------|-------|-----------|---------|-----------------------------|
| FY | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020-2078 |
| Prepayment ratio | 3.83% | 2.50% | 2.92% | 3.74% | 2.27% | 1.33% | 0.80% | 3.05% |
| Provision on loans | 0.20% | 0.10% | 0.11% | 0.14% | 0.20% | 0.00% | 0.00% | 0.15% |

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

Agriculture, forestry and fisheries are subject to nature. Most managing bodies engaged in these sectors are small, often unstable and barely profitable. Therefore it takes a long time to recover invested capital.

The objective of JFC (Agriculture, Forestry, Fisheries and Food Business Operations) is to provide long-term loans with low interest intended to complement financial services of general financial institutions to persons engaged in agriculture, forestry and fisheries management. JFC receives financial assistance from the general account of the national treasury as compensation for expenses (policy costs) which are not covered by spread.

(Underlying laws and regulations)

•Grants have no legal base (they are budgetary measures).

•Capital fund and payment to the national treasury are stipulated in the Japan Finance Corporation Act.

(Japan Finance Corporation Act)

Article 4: The Government may, when it finds it to be necessary, make contributions to JFC within the amount appropriated in the budget. Article 47: 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 41 hereof, JFC 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, JFC shall pay the amount of such surplus into the National Treasury within three months after the end of such business year.

6. Special remarks

None

(Reference) Outcome and social and economic benefits of operations

| 1) | Aggregate amount of loan commitment from FY1953 to FY2017 Loan commitment in FY2017 Outstanding loan at the end of FY2017 Loan Commitment planned for FY2019 | 3.88 mil. cases 14,000 cases 160,000 cases | 21.1870 trillion yen 551.5 billion yen 2.9458 trillion yen 656.0 billion yen |
|----|---|--|---|
| | Loan Commitment planned for FY 2019 | | 656.0 billion yen |

- 2) Assistance for agricultural sector
 - JFC extends loans to support various highly-motivated farmers' efforts to improve their farm management in accordance with the policy of the "Basic Act and Plan on Food, Agriculture and Rural Areas."
 - a. 14% (34 thousand) of certified farmers (farmers whose plans for improving agricultural management approved by municipal governments) use Super L Loan (Long-term Investment Loan for certified farmers) to realize efficient and stable farm management. The figure increases to 35% for corporate certified farmers alone.
 - b. JFC extended 328.6 billion yen of Super L Loan to 6,955 parties to foster and support certified farmers in FY2017. The borrowers would enjoy the increase of 2.1145 trillion yen of gross production and 153.8 billion yen of agricultural income.
 - c. JFC provided loans to land improvement projects in order to enhance productivity of farmland, etc. Its loan commitment was 26.6 billion yen in FY2017. It is estimated by the existing cases that benefits of entire projects such as crop production effects and saving effects in farming costs will be 113.9 billion yen.
 - d. JFC provided necessary loans for stability and preservation of management to farmers whose businesses temporarily suffer a downturn because of disasters such as earthquakes/typhoons and changes in social and economic environments such as drops in prices of agricultural products. It is estimated that the Corporation contributed to the maintenance of employment opportunities for 1,961 people in FY2017.

3) Assistance for forestry sector

- JFC is assisting improvement of forests and stability and preservation of forestry management to contribute to the maintenance of forests' multiple functions through financing in accordance with the policy development of the "Basic Act on Forests and Forestry" and "Basic Plan for Forests and Forestry."
 - a. JFC provided forestation related loans to 174 forestry management organizations and supported the forestation of 27 thousand hectares in FY2017.
 b. The size of planted forests managed by 1,441 forestry management organizations that have the balance of forestry funds is estimated to be 1.26 million hectares, and, according to the past research, public benefit functions are calculated at about 3.5 trillion yen, that include surface erosion prevention function (1.4201 trillion ven) and water purification function (735.5 billion ven).

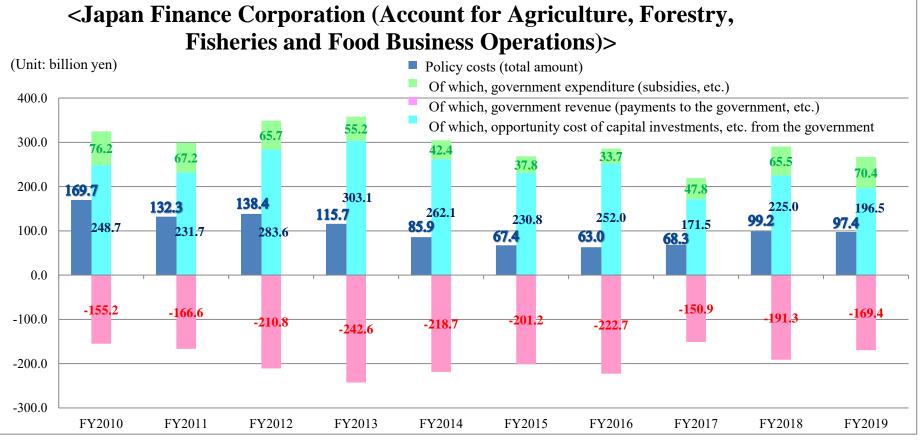
4) Assistance for fishery sector

- JFC is proactively assisting fishermen's efforts for stable supply of fisheries products and sustainable use of fishery resources through financing in accordance with the policy development of the "Basic Act on Fisheries Policy."
 - a. It is estimated that the fishermen financed by JFC loans produce 155.7 billion yen or 1,006,000 tons (31% of domestic production) in FY2017 in marine fishery, the main fishery production in Japan. This contributes to the stable supply of fishery products and creation and maintenance of about 7 thousand job opportunities in fishery areas.
 - b. JFC provided necessary loans for stability and preservation of management to fishermen whose businesses temporarily suffer a downturn because of disasters such as typhoons, and changes in social and economic environments such as drops in the prices of fishery products, in addition to fishermen affected by the Great East Japan Earthquake. It is estimated that the Corporation contributed to the maintenance of employment opportunities for 632 people in FY2017.

5) Support for food industry

- JFC positively supports efforts for cooperation between agriculture, forestry and fisheries and food industries and highly-developed health management for secure and safe stable supply of food through financing to food processors.
- a. The financing was offered to 378 cases (89.5 billion yen) in FY2017. This contributed to the creation of 2,265 job opportunities with such projects.
 b. It is estimated that transaction volume of domestic agricultural, forestry and marine production in such borrowers will increase to about 221,000 tons within 3 to 5 years, and transaction value of domestic agricultural, forestry and marine production by stable transaction contracts with people who engage in agriculture, forestry, and fishery will increase to about 89,000 tons. This contributes to the advancement of domestic agriculture, forestry and fisheries.

(Reference) Changes in Policy Costs by Component



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

(Points)

From FY2012 to FY2016, the payments to the government and the opportunity cost of capital investments, etc. from the government have increased partly due to the extension of the analysis period in accordance with the extension of the loan period as a response to the Great East Japan Earthquake.
In FY2019, policy costs decreased due to factors such as a drop in the opportunity cost of capital investments from the Government.

(Reference) Financial Statements

| Balance Sheet (Account for Agriculture, | | | | auons) | E 1 (EV2017 | | nit: million yen |
|---|------------|------------------------------|----------------------------|--|---------------------------|------------------------------|---------------------------|
| Item | (Result) | End of FY2018 (Estimated) | End of FY2019 (Planned) | Item | End of FY2017 (Result) | End of FY2018 (Estimated) | End of FY201 (Planned) |
| (Assets) | (Result) | (Estimated) | (Fiamed) | (Liabilities and equity) | (Result) | (Estimated) | (Fianneu) |
| Cash and deposits | 44,158 | 40,232 | 36,384 | | | | |
| Cash | 1 | 1 | 1 | Loans payable | 2,183,396 | 2,421,052 | 2,683,78 |
| Deposits | 44,157 | 40,230 | 36,383 | | 229,975 | | 289,98 |
| Pecuniary claims payable Securities | ý <u>—</u> | 363 | 708 | Trust money | 28,726 | | 28,48 |
| Securities | 2,891 | 6,853 | 6,853 | | 12,965 | 5,445 | 5,65 |
| Stocks | 2,030 | 2,030 | 2,030 | Accrued expenses | 4,805 | 4,438 | 4,21 |
| Other securities | 861 | 4,823 | 4,823 | Revenue received in advance | 9 | 13 | 1 |
| Loans | | | | Lease obligations | 110 | 211 | 67 |
| Loan on deeds | 2,791,326 | 3,053,922 | 3,345,877 | Other liabilities | 8,039 | | 75 |
| Other assets | 9,713 | 9,941 | 10,243 | Reserve for bonuses | 608 | 675 | 67 |
| Prepaid expenses | 0 | 0 | 0 | Reserve for directors' bonuses | 7 | 8 | |
| Accrued revenue | 8,895 | 9,123 | 9,425 | Reserves for retirement pensions | 10,816 | , | 10,56 |
| Agency account receivable | 557 | 557 | 557 | Reserve for directors' retirement benefits | 28 | 21 | |
| Other assets | 260 | | 260 | Acceptances and guarantees | 2,910 | | 4,48 |
| Tangible fixed assets | 32,248 | | 33,911 | (Total liabilities) | 2,469,434 | 2,731,007 | 3,023,64 |
| Buildings | 7,084 | 7,349 | 7,672 | 1 | 399,061 | 399,471 | 399,53 |
| Land | 24,934 | 24,934 | 24,934 | 8 | 2,655 | 2,655 | 2,65 |
| Lease assets | 88 | 192 | 617 | Earned reserve | 2,655 | 2,655 | 2,65 |
| Construction in progress | 28 | 180 | 540 | e | | | |
| Other tangible fixed assets | 112 | 133 | 145 | 8 8 | -0 | — | |
| Intangible fixed assets | 1,912 | 3,016 | 4,891 | Total shareholders' equity | 401,717 | 402,127 | 402,18 |
| Software | 1,548 | 1,733 | 1,824 | | | | |
| Lease assets | 8 | 1 | 1 | (Total equity) | 401,717 | 402,127 | 402,18 |
| Other intangible fixed assets | 355 | 1,281 | 3,065 | | | | |
| Guaranty endorsement | 2,910 | , | 4,483 | | | | |
| Allowances for bad debts | -14,009 | -17,794 | -17,523 | | | | |
| Total assets | 2,871,151 | 3,133,134 | 3,425,830 | Total liabilities and equity | 2,871,151 | 3,133,134 | 3,425,82 |

Notes 1. The balance sheet includes costs for projects other than those subject to the policy cost analysis. 2. Amounts of less than one million yen are rounded down.

Income Statement (Account for Agriculture, Forestry, Fisheries and Food Business Operations)

| meenie Statement (7 recount for 7 refreature) | • | () | Unit: million yen) |
|---|---------------|---------------|--------------------|
| Item | End of FY2017 | End of FY2018 | End of FY2019 |
| | (Result) | (Estimated) | (Planned) |
| Ordinary income | 42,028 | 46,978 | 49,570 |
| Revenue from fund management | 30,131 | 28,232 | 30,912 |
| Interest on loans | 30,131 | 28,228 | 30,908 |
| Interest from repurchase agreements | — | 0 | 0 |
| Interest on deposits | 0 | 0 | 0 |
| Other interest received | 0 | 3 | 4 |
| Revenue from service transactions, etc. | 39 | 48 | 60 |
| Other service revenue | 39 | 48 | 60 |
| Revenue from government grants | 8,231 | 16,990 | 16,911 |
| Receipts from the general account | 8,208 | 16,970 | 16,892 |
| Receipts from the special account | 22 | 20 | 18 |
| Other ordinary income | 3,625 | 1,707 | 1,685 |
| Reversal of allowance for bad debts | 2,387 | _ | |
| Recoveries of write-offs | 846 | 1,335 | 1,278 |
| Other ordinary income | 392 | 372 | 406 |
| Ordinary expenses | 41,994 | 46,938 | 49,567 |
| Financing cost | 24,151 | 22,492 | 25,223 |
| Interest on call money | -2 | -0 | ý <u>—</u> |
| Interest on borrowed money | 21,414 | 19,730 | 22,081 |
| Interest on bonds | 2,739 | 2,761 | 3,141 |
| Expenses for service transactions, etc. | 2,566 | 3,118 | 2,820 |
| Other service expenses | 2,566 | 3,118 | 2,820 |
| Other operating expenses | 86 | 156 | 153 |
| Amortization of bond issue expenses | | | 153 |
| Business expenses | 15,053 | | 17,594 |
| Other ordinary expenses | 136 | 3,789 | 3,774 |
| Provision of allowance for bad debts | | 3,784 | 3,774 |
| Loan amortization | 58 | 4 | |
| Other ordinary expenses | 78 | | _ |
| Ordinary profit | 34 | 40 | 3 |
| Extraordinary profit | 54 | | |
| Gain on disposal of fixed assets | 5 | _ | |
| - | 39 | 40 | 3 |
| Extraordinary loss | 39 | 40 40 | 3 |
| Loss on disposal of fixed assets | -0 | 40 | |
| Net profit or loss | -0 | | _ |

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

2. Amounts of less than one million yen are rounded down.