

The Promotion and Mutual Aid Corporation for Private Schools of Japan (Grant Account)

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1. Summary of operations implemented using FILP funds

For the purpose of maintaining and improving educational conditions of private schools diminishing the education-related economic burden on students and promoting sound management of private schools, the Promotion and Mutual Aid Corporation for Private Schools of Japan provides long-term loans with low interest rates needed to expand and improve premises buildings and other facilities of private schools.

Note: Major operations that are outside of FILP are operations such as the granting of subsidies for current expenses of private universities etc., the granting of subsidies, receipt and distribution of contributions, collection and granting of funds, information assistance concerning management and educational conditions, short-term benefits (medical benefits etc.), long-term benefits (pension etc.) and welfare projects etc.

2. Amount of lending under FY2019 FILP

(Unit: billion yen)

FY2019 FILP	Estimated outstanding amount of FILP lending at the end of FY2018
29.1	328.1

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.)*	-21.0	-23.3	-2.3
3. Opportunity cost of capital investments, etc.	18.0	21.8	+3.8
Total (1+2+3=policy cost(A))	-3.0	-1.5	+1.4
Analysis period (years)	26 years	31 years	+5 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)	-3.0	-1.5	+1.4
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	18.9	23.5	+4.6
2) Policy cost expected to be newly accrued during the analysis period	-21.8	-25.0	-3.1
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)*	-21.0	-23.3	-2.3
Opportunity cost of surpluses, etc.	-0.8	-1.7	-0.8
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)	-3.0	-1.5
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2019 analysis)	-3.7	-1.4	+2.3
	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 cost due to increase in administrative cost through analysis period extension (+3.2 billion yen)
 - Others (increase in opportunity cost of capital investments, etc.) (+1.5 billion yen)

○Factors behind policy cost decrease

- Decrease in cost through new loans provided in FY2019 (-2.3 billion yen)
 - Decrease in cost due to decrease in loan losses (-0.1 billion yen)

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

(A) Policy cost in FY2019 (previously cited)	-1.5
1) Prepayments	0.3
2) Loan losses	0.3
3) Others (including profit spread)	-2.1

(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	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*	3. Opportunity cost of capital investments, etc.
-1.5	24.6	+26.2	-	+3.5	+22.6

(A) Policy cost (previously cited)	Case for raising the bad loan write-off by 10 %	Fluctuation	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*	3. Opportunity cost of capital investments, etc.
-1.5	-1.5	+0.1	-	+0.1	-

(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) Subjected to estimation: Lending by the Promotion and Mutual Aid Corporation for Private Schools of Japan (Grant Account)
- 2) Size of operations subjected to estimation: Outstanding loans at the end of FY2017 at 581.8 billion yen, loans planned in FY2018 at 64 billion yen, loans planned in FY2019 at 62.5 billion yen
- 3) Analysis period: 31 years from FY2019 to FY2049 when the collection of longest loans will be completed
- 4) Given that prepayments (without compensation) are planned at ¥0.5 billion for FY2019, those in FY2020 and thereafter are estimated by multiplying the balance of long-term loans at the beginning of each fiscal year by the estimated prepayment ratio of 0.09% for FY2019. Prepayments with compensation (introduced in October 1998) are projected at ¥1.0 billion for each fiscal year, based on past results. Relevant compensation revenues are also taken into account.
- 5) Of loans that were classified as those that could potentially, virtually or actually bankrupt borrowers at the end of FY2017, it is projected that ¥5.6 billion in irrecoverable loans will be charged off in the period from FY2020 through FY2034. In addition, new loans in arrears emerging in FY2020 and thereafter are calculated for each of the years with the annual increase projected at 0.02%, based on annual growth in loans that could potentially, virtually or actually bankrupt borrowers for FY2013-2017. Of the new loans in arrears, it is projected that ¥0.7 billion in irrecoverable loans will be charged off in the period from FY2020 through FY2042. At the end of FY2017, risk management loans stood at ¥7.3 billion and loan loss provisions at ¥6.0 billion (Loan loss provisions/total loans = 1.02%).

FY	Result				Estimated 2018	Planned 2019	Assumptions for calculation 2020 and on
	2014	2015	2016	2017			
Prepayment ratio (without compensation)	0.26	0.15	0.21	0.34	0.09	0.09	After FY2020 0.09%
Loan charge-off ratio	0.04	-	0.04	0.01	-	-	Average charge-off rate at 0.14% for FY2020-2049

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

Subsidies, etc. for projects under the Fiscal Investment and Loan Programs are not recorded in the FY2019 budget. In the past fiscal years, capital investments were applied to make low-interest loans possible to private schools and to cover administrative expenses with its fund management gains. This capital investment becomes capital of the Corporation as well as financial sources for the Corporation's lending business. Capital investments were applied in FY1952 to FY2001, FY2009 (Supplementary Budgets), FY2011 (Supplementary Budgets), FY2012 (Reserve Fund and Supplementary Budgets), and FY2014 (Supplementary Budgets).

(Underlying laws and regulations)

[Regulations for capital investments]

<Act on the Promotion and Mutual Aid Corporation for Private Schools of Japan >

Article 5.2: The government shall be able to provide the Corporation with an additional capital investment within the limit of the amount specified in the budget when it recognizes the necessity.

3: When the capital investment prescribed in the preceding clause is made by the government the Corporation shall be able to increase its capital according to the amount of capital invested.

[Regulations with regard to the contribution to the national treasury]

<Act on the Promotion and Mutual Aid Corporation for Private Schools of Japan >

Article 36: After completing liquidation as provided for in Article 35, Paragraph 1 or Paragraph 2 of the Act on General Rules for Incorporated Administrative Agencies in the last business year of the mid-term target period as provided for in Article 29, Paragraph 2, Item 1 of said Act which is applied mutatis mutandis in Article 26, the Corporation shall contribute to the national treasury the amount equivalent to the surplus in excess of the amount provided for in the orders of the Ministry of Education, Culture, Sports, Science and Technology taking the stability of operation of the subsidized project into account

<Enforcement Regulations for the Act on the Promotion and Mutual Aid Corporation for Private Schools of Japan>

Article 21: The amount provided for in Article 36, Paragraph 1 of the Act which is determined by the orders of the Ministry of Education, Culture, Sports, Science and Technology shall be ¥2.0 billion.

6. Special remarks

- 1) Most of the policy cost of the Corporation is opportunity cost of investment to maintain low interest rates. The Corporation contributes to maintaining educational condition of private schools reducing economic burden on pupils or students of private schools for education and stabilizing management of incorporated schools.
- 2) Based on the Act on the Promotion and Mutual Aid Corporation for Private Schools of Japan, the related provisions of the Act on General Rules for Incorporated Administrative Agencies has been applied to the medium-term target, medium-term plan, plan for the fiscal year, evaluations, etc. as well as the accounting standards for independent administrative corporations in terms of this Grant Account.

(Reference) Outcome and social and economic benefits of operations

1) Financing results

- Financing from FY1952 to FY2017 (aggregate amount) 3,198.5 billion yen (37,697 cases)
- Financing in FY2017 47.0 billion yen (116 cases)
- Outstanding balance of financing in FY2017 581.8 billion yen (2,654 cases)
- Planned financing in FY2019 62.5 billion yen

2) Main policy purposes and social/economic benefits

Approximately 80% of university students 30% of high school students and 80% of kindergarten children go to private schools. Considering the importance of roles that private schools play in our public education the Corporation provides long-term loans with lower interest as a part of expenses for expansions of facilities that temporarily require a great amount of money. This encourages vitalization of rich and unique education and research activities of private schools and greatly contributes to the improvement of school education in our country. This leads to the fostering of human resources on whom our future depends, the development of new technologies, and the creation of new industries, and eventually makes a tremendous contribution to the development of our country.

The Promotion and Mutual Aid Corporation for Private Schools of Japan provides long-term loans with low interest rates not available from private financial institutions to meet the fund needs of school juridical persons. Moreover the Corporation provides loans with favorable conditions to meet government policies or loans to carry out emergent measures including disaster restoration. Thus the Corporation's operations greatly contribute to medium and long term stabilization of the management of school juridical persons who establish private schools and to the improvement and expansion of educational environment.

(1) Percentage of school juridical person loans extended to the Corporation for financing

In regard to the conditions of loans to school juridical persons that established high schools or higher level schools as of the end of FY2017 the ratio of Corporation financing when compared to private sector financial institutions is as indicated below.

- 20-year loan term: 74.7%
- 10-year loan term: 10.6%

(2) Implementation of emergency policy financing, etc.

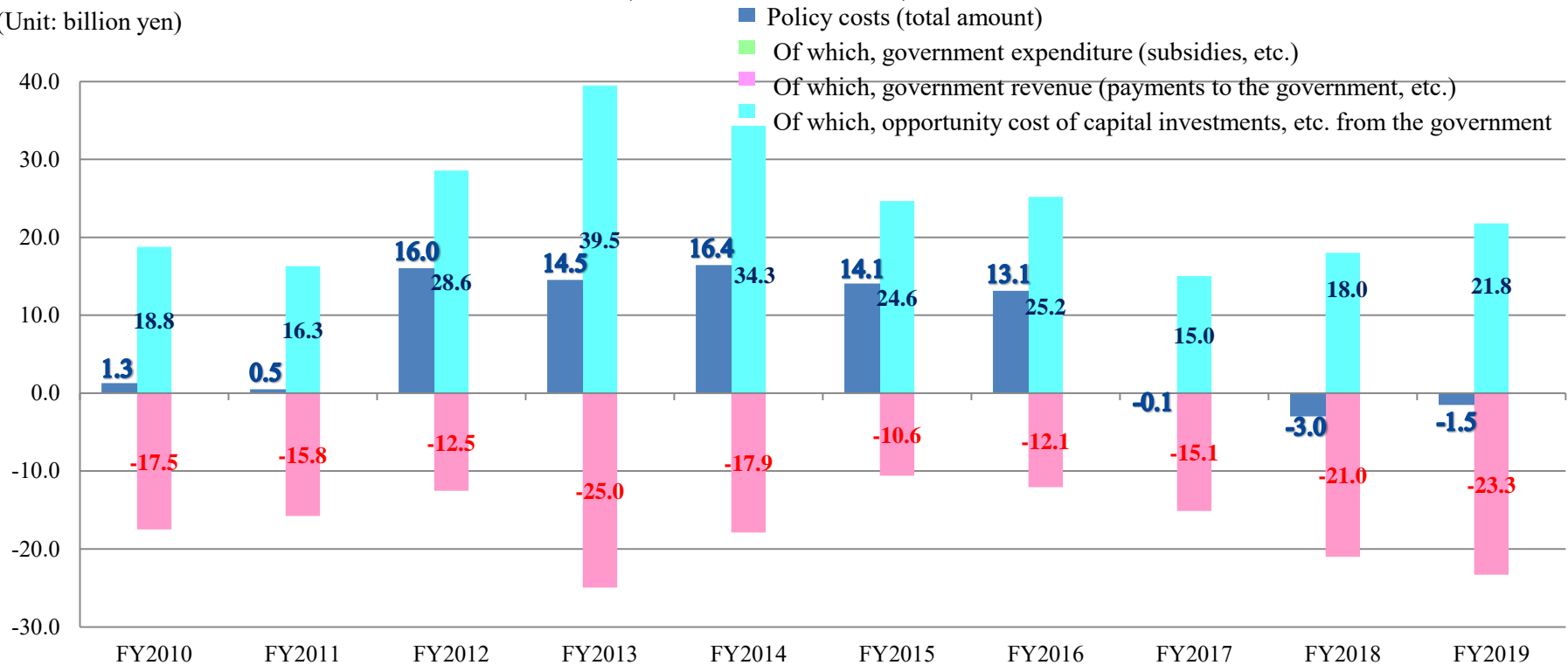
Cumulative totals of financing under favorable loan conditions in addressing policy issues (from FY2013 thorough FY2017) are as follows:

- Promoting the development of the education and research environment: 5.1 billion yen
- Loans to restoration support from the Great East Japan Earthquake and 2016 Kumamoto Earthquakes: 7.7 billion yen
- Seismic strengthening of private schools: 208.9 billion yen

(Reference) Changes in Policy Costs by Component

<The Promotion and Mutual Aid Corporation for Private Schools of Japan (Grant Account)>

(Unit: billion yen)



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

(Point)

- Policy costs (opportunity cost of capital investments, etc. from the government) from FY2012 to FY2016 have increased due to the effects of receiving government subsidies in the FY2011 and FY2012 supplementary budgets and the FY2012 reserve funds and FY2014 supplementary budgets to respond to the disaster and provide long-term, low-interest loans.
- In FY2017, policy costs declined due to the termination of long-term, low-interest loans for the promotion of anti-seismic reinforcement and the government capital investment opportunity cost's drop accompanying a change in the assumed interest rate. Decrease in cost due to new financing in FY2018. Increase in cost due to administrative cost for new financing and decrease in opportunity cost of capital investments through analysis period extension in FY2019.

(Reference) Financial Statements

Balance Sheet (Grant Account)

(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)			
Current assets	603,165	607,480	613,990	Current liabilities	72,332	73,161	68,643
Cash and bank deposits	27,693	27,544	27,371	Contributions received	19,276	19,292	19,292
Loans	578,697	583,197	589,860	Bonds for the promotion of private schools payable within one year	4,000	8,000	8,000
Allowance for possible loan losses	- 3,479	- 3,508	- 3,538	Issuance difference on bonds	- 0	-	-
Accounts receivable	1	1	1	Long-term loans payable within one year	48,780	45,594	41,055
Accrued income	252	246	296	Accrued payments	66	66	66
Allowance for possible loan losses	- 0	- 0	- 0	Accrued expenses	125	121	140
Other current assets	2	2	2	Accrued corporate tax, etc.	0	0	0
Fixed assets	2,573	2,619	2,565	Reserves			
Tangible fixed assets	1,465	1,423	1,371	Reserve for bonuses	73	80	81
Buildings	763	724	676	Other current liabilities	13	8	8
Structures	4	3	3	Fixed liabilities	417,587	421,531	432,599
Vehicles and transportation equipment	2	1	1	Long-term contributions received	762	672	598
Tools furniture and fixtures	33	31	27	Private School Promotion bonds	26,000	18,000	10,000
Land	663	663	663	Long-term loans payable	389,171	401,177	420,321
Intangible fixed assets	198	308	328	Reserves			
Software	198	308	327	Reserve for retirement pensions	1,654	1,683	1,680
Telephone subscription right	0	0	0	(Total liabilities)	489,919	494,692	501,242
Investment and other assets	909	888	867	Capital			
Investment securities	299	299	299	Financing by the Government	108,678	108,678	108,678
Bankruptcy or rehabilitation claims, etc.	3,111	3,111	3,111	Capital surplus			
Loan loss provisions	- 2,500	- 2,522	- 2,543	Private-sector contributions	5,415	5,416	5,417
Others	0	0	0	Retained earnings	1,726	1,314	1,219
				Reserve fund	1,896	1,726	1,314
				Unappropriated loss for the period (of this, gross loss)	- 170 (- 170)	- 412 (- 412)	- 95 (- 95)
				(Total equity)	115,819	115,407	115,313
Total assets	605,738	610,099	616,555	Total liabilities and equity	605,738	610,099	616,555

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 (Grant Account)

(Unit: million yen)

Item	FY2017 (Result)	FY2018 (Estimated)	FY2019 (Planned)
Ordinary expenses	351,677	347,247	345,198
Operating expenses	350,402	344,858	344,547
General and administrative expenses	585	623	651
Miscellaneous losses	690	1,766	-
Ordinary income	351,197	346,835	345,103
Revenues from subsidies, etc.	316,841	317,230	316,620
Interest on loans	6,206	5,724	6,368
Contributions	27,450	22,106	22,105
Financial income	0	0	0
Miscellaneous income	700	1,775	9
Ordinary loss	481	412	95
Extraordinary losses	1	-	-
Loss on retirement of fixed assets	1	-	-
Extraordinary profits	312	-	-
Reversal of allowance for doubtful accounts	309	-	-
Gain on profit and loss adjustment for the previous fiscal year	3	-	-
Net loss before tax	170	412	95
Corporate tax, residence tax and enterprise tax	0	0	0
Net loss	170	412	95
Gross loss	170	412	95

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.