

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 FY2020 FILP

(Unit: billion yen)

FY2020 FILP	Estimated outstanding amount of FILP lending at the end of FY2019
520.0	2,657.0

3. Estimated policy cost analysis of the project

(1) Policy cost

(Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
1. Government expenditure (subsidies, etc.)	70.4	64.4	-5.9
2. Government revenue (payments to the government, etc.) ^{*1}	-169.4	-89.6	+79.8
3. Opportunity cost of capital investments, etc.	196.5	106.6	-89.9
Total (1+2+3=policy cost(A))	97.4	81.4	-16.0
Analysis period (years)	60 years	60 years	-

(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)	97.4	81.4	-16.0
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	195.1	105.8	-89.3
2) Policy cost expected to be newly accrued during the analysis period	-97.7	-24.4	+73.3
Government expenditure (subsidies, etc.)	70.4	64.4	-5.9
Government revenue (payments to the government, etc.) ^{*1}	-169.4	-89.6	+79.8
Opportunity cost of surplus, etc.	1.3	0.7	-0.6
Opportunity cost of capital investments, etc.	0.0	0.0	-0.0

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2019	FY2020	Simple fluctuation
		Simple comparison (before adjustment)	97.4	81.4
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2020 analysis)	80.5	113.3	+32.8
	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 finalization of FY2018 results and revision of FY2019 projections (+13.5 billion yen)
- Increase in cost due to increase in loan losses (+3.4 billion yen)
- Increase in cost due to increase in advanced redemption (+2.9 billion yen)
- Increase in cost due to supplementary FY2019 budgets and FILPs (+0.4 billion yen)
- Others (Increase in administrative cost due to new financing, etc.) (+20.6 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to new loans in FY2020 (-8.0 billion yen)

(4) Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2020 (previously cited)	81.4
1) Prepayments	12.3
2) Loan losses	18.0
3) Others (including profit spread)	51.2

(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.
			81.4	152.0	+70.6

(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

- 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 FY2020 operation plan (645.5 billion yen) in addition to the existing loan balance of 3,268.1 billion yen (estimated as of the end of FY2019).
- 3) The analysis period is supposed to be 60 years until the complete repayment of loans made based on the FY2020 operation plan as well as existing loans
- 4) The prepayment ratio is projected at the average level (of 2.70%) 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 (0.62% under the FY2020 decision) based on the asset assessment after the charge-off (the provision on loans at the average of 0.12% for the preceding 5 years).
- 6) The administrative cost from FY2021 covers only an expense for the management and collection of loans (calculated according to the relevant personnel share of 50% in August 2019) and is assumed to gradually decrease according to a fall in outstanding loans.

FY	Result					Estimated 2019	Planned 2020	Assumptions for calculation 2020-2079
	2014	2015	2016	2017	2018			
Prepayment ratio	2.50%	2.92%	3.74%	2.27%	2.05%	1.14%	1.73%	2.70%
Provision on loans	0.10%	0.11%	0.14%	0.20%	0.06%	0.00%	0.00%	0.12%

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 FY2018

Aggregate amount of loan commitment from FY1953 to FY2018	3.90 mil. cases	21,798.8 billion yen
Loan commitment in FY2018	0.015 mil. cases	558.3 billion yen
Outstanding loan at the end of FY2018	0.16 mil. cases	3,122.9 billion yen
Loan Commitment planned for FY2020		646.0 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 331.0 billion yen of Super L Loans to 6,952 parties to foster and support certified farmers in FY2018. The borrowers would enjoy the increase of 2,424.1 billion yen of gross production and 319.1 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 28.7 billion yen in FY2018. 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 153.4 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 5,015 people in FY2018.
- 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 198 forestry management organizations and supported the forestation of 25 thousand hectares in FY2018.
 - b. The size of planted forests managed by 1,375 forestry management organizations that have the balance of forestry funds is estimated to be 1.24 million hectares, and, according to the past research, public benefit functions are calculated at about 3,500 billion yen, that include surface erosion prevention function (1,406.4 billion yen) and water purification function (728.5 billion yen).
- 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."

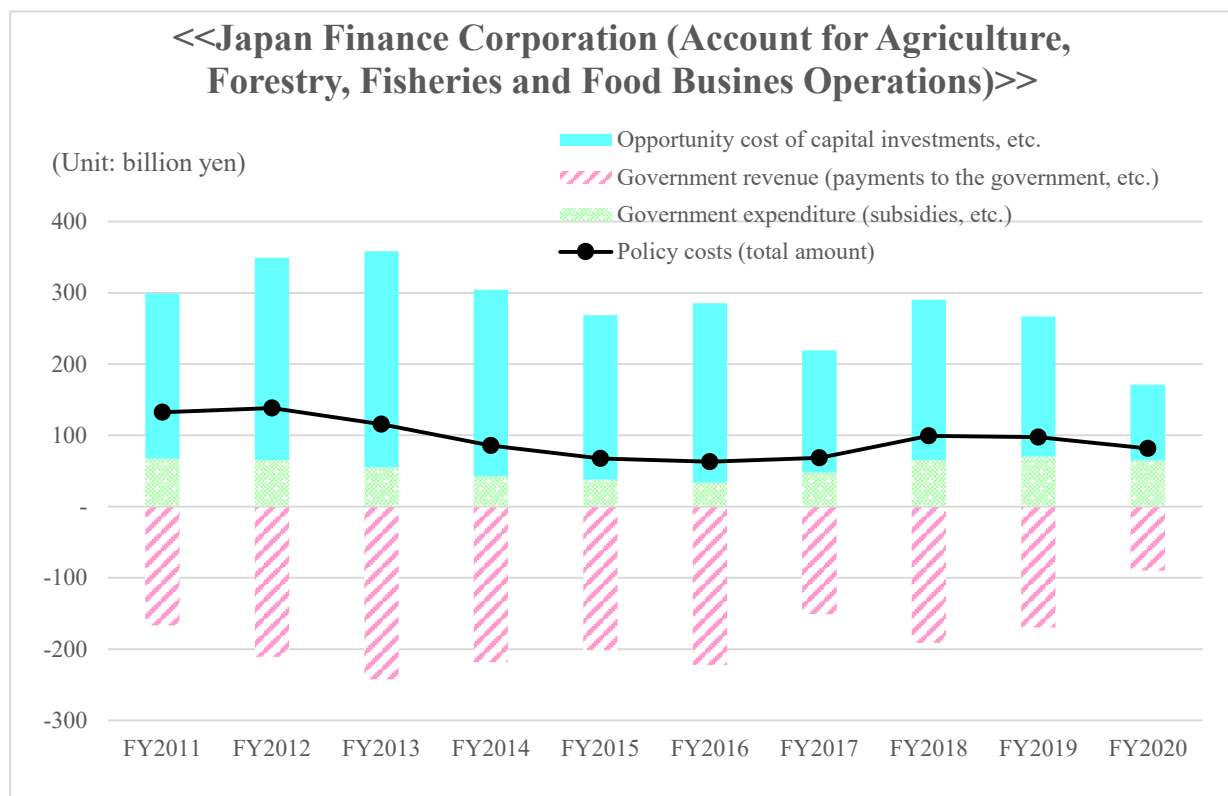
 - a. It is estimated that the fishermen financed by JFC loans produce 183.4 billion yen or 1,189 thousand tons (35% of domestic production) in FY2018 in marine fishery, the main fishery production in Japan. This contributes to the stable supply of fishery products and creation and maintenance of about 8 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 453 people in FY2018.
- 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 363 cases (93.8 billion yen) in FY2018. This contributed to the creation of 1,960 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 456,000 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 314,000 tons. This contributes to the advancement of domestic agriculture, forestry and fisheries.

Overview of policy cost analysis results

[Changes in policy costs]



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

(Unit: billion yen)

FY	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Policy costs (total amount)	132.3	138.4	115.7	85.9	67.4	63.0	68.3	99.2	97.4	81.4
Government expenditure (subsidies, etc.)	67.2	65.7	55.2	42.4	37.8	33.7	47.8	65.5	70.4	64.4
Government revenue (payments to the government, etc.)	-166.6	-210.8	-242.6	-218.7	-201.2	-222.7	-150.9	-191.3	-169.4	-89.6
Opportunity cost of capital investments, etc.	231.7	283.6	303.1	262.1	230.8	252.0	171.5	225.0	196.5	106.6

【Explanation of policy cost trends】

- From FY2012 to FY2016, Government revenue (payments to the government, etc.) and the Opportunity cost of capital investments, etc. have increased 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 the FY2020 analysis, the policy cost decreased due mainly to a fall in opportunity cost of capital investments, etc. through a change in assumed interest rates.

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

- In the basic case, the policy cost decreased by 16 billion yen from the FY2019 policy cost analysis to 81.4 billion yen due to a decrease in opportunity cost of capital investments through a change in assumed interest rates. The policy cost analysis results are apparently adequate, reflecting realities.
- In the sensitivity analysis, the policy cost increased by 70.6 billion yen from the basic case to 152 billion yen due mainly to a rise in opportunity cost of capital investments. The results are apparently adequate, reflecting realities.
- JFC provides agriculture, forestry, and fisheries business operators with long-term, fixed-interest loans that are difficult for private financial institutions to provide, considering that those business operators are vulnerable to natural conditions, require large-scale infrastructure development, and take much time to recover investment. Given that long periods of time are required to recover loans, policy cost analysis periods are very long and the discount factor set in response to the assumed interest rate for the analysis makes great contributions to boosting the policy cost.
- JFC sees the analysis as effective for identifying the cost for social and economic benefits of services to support the sustainable, sound development of agriculture, forestry and fisheries and secure stable food supply. Based on analysis results for multiple years, JFC plans to know the sizes of policy cost components.

(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)			
Cash and deposits	59,598	62,393	44,272	Borrowed money			
Cash	1	1	1	Loans payable	2,385,673	2,672,089	2,900,042
Deposits	59,597	62,392	44,271	Bonds payable	259,978	289,981	274,984
Securities	3,154	9,271	9,271	Trust money	27,905	26,980	25,954
Stocks	2,030	4,530	4,530	Other liabilities	9,154	5,601	6,090
Other securities	1,124	4,741	4,741	Accrued expenses	4,348	4,114	3,872
Loans				Revenue received in advance	10	12	14
Loan on deeds	3,003,836	3,310,203	3,540,651	Lease obligations	248	751	1,495
Other assets	8,879	9,205	9,487	Other liabilities	4,547	723	708
Prepaid expenses	0	0	0	Reserve for bonuses	643	692	692
Accrued revenue	8,312	8,638	8,920	Reserve for directors' bonuses	8	8	8
Agency account receivable	285	285	285	Reserves for retirement pensions	11,003	10,770	10,723
Other assets	281	281	281	Reserve for directors' retirement benefits	22	25	1
Tangible fixed assets	32,615	33,471	34,765	Acceptances and guarantees	3,072	3,911	4,546
Buildings	7,165	7,572	7,723	(Total liabilities)	2,697,462	3,010,061	3,223,044
Land	24,934	24,934	24,934	Capital	399,471	402,363	402,426
Lease assets	222	681	1,359	Retained earnings	2,642	2,642	2,642
Construction in progress	203	163	604	Earned reserve	2,655	2,642	2,642
Other tangible fixed assets	90	119	143	Other retained earnings			
Intangible fixed assets	1,438	3,405	5,364	Retained earnings brought forward	-13	—	—
Software	1,426	1,354	1,220	Total shareholders' equity	402,114	405,006	405,069
Lease assets	2	1	1				
Other intangible fixed assets	8	2,049	4,143	(Total equity)	402,114	405,006	405,069
Guaranty endorsement	3,072	3,911	4,546				
Allowances for bad debts	-13,019	-16,793	-20,245				
Total assets	3,099,576	3,415,067	3,628,114	Total liabilities and equity	3,099,576	3,415,067	3,628,114

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

(Unit: million yen)

Item	FY2018 (Result)	FY2019 (Estimated)	FY2020 (Planned)
Ordinary income	41,549	44,829	48,716
Revenue from fund management	27,917	26,327	29,960
Interest on loans	27,916	26,327	29,960
Interest from repurchase agreements	—	0	0
Interest on deposits	0	0	0
Other interest received	0	0	—
Revenue from service transactions, etc.	41	47	54
Other service revenue	41	47	54
Revenue from government grants	11,494	16,743	16,931
Receipts from the general account	11,474	16,725	16,915
Receipts from the special account	19	17	16
Other ordinary income	2,096	1,711	1,770
Recoveries of write-offs	1,684	1,278	1,345
Other ordinary income	411	432	424
Ordinary expenses	41,485	44,825	48,701
Financing cost	22,328	20,582	24,520
Interest on call money	-0	-0	—
Interest on borrowed money	19,567	17,780	21,407
Interest on bonds	2,761	2,801	3,113
Expenses for service transactions, etc.	2,417	2,820	2,683
Other service expenses	2,417	2,820	2,683
Other operating expenses	128	153	88
Amortization of bond issue expenses	128	153	88
Business expenses	15,228	17,489	17,955
Other ordinary expenses	1,382	3,780	3,451
Provision of allowance for bad debts	1,193	3,774	3,451
Loan amortization	89	6	—
Other ordinary expenses	99	—	—
Ordinary profit	63	3	14
Extraordinary loss	77	3	14
Loss on disposal of fixed assets	77	3	14
Net profit or loss	-13	—	—

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.