

Japan Finance Corporation (Account for Operations to Facilitate Crisis Responses)

<https://www.jfc.go.jp/>

1. Summary of operations implemented using FILP funds

In the event of domestic or international financial chaos recognized by the state minister in charge or a large-scale disaster, JFC extends credit to designated financial institutions. The designated financial institutions receive credit from JFC, respond to the crisis and supply funds required for dealing with the crisis. The following project 1) is eligible for FILP.

1) Loans to designated financial institutions

JFC provides loans to designated financial institutions using FILP funds or bonds (government-backed bonds) as a resource.

2) Compensation for a loss of loans from designated financial institutions

JFC compensates a part of loss caused by loans from designated financial institutions by concluding a damage security contract with designated financial institutions.

3) Provision of interest subsidies to designated financial institutions which receive above credits and provide loans

JFC provides interest subsidies to designated financial institutions to politically reduce the interest on loans from the designated financial institutions.

2. Amount of lending under FY2020 FILP

(Unit: billion yen)

FY2020 FILP	Estimated outstanding amount of FILP lending at the end of FY2019
99.0	1,391.7

3. Estimated policy cost analysis of the project

(1) Policy cost

(Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
1. Government expenditure (subsidies, etc.)	0.6	0.6	+0.0
2. Government revenue (payments to the government, etc.)* ¹	-	-	-
3. Opportunity cost of capital investments, etc.	316.1	213.6	-102.5
Total (1+2+3=policy cost(A))	316.7	214.2	-102.5
Analysis period (years)	20 years	20 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)	316.7	214.2	-102.5
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	98.3	56.8	-41.5
2) Policy cost expected to be newly accrued during the analysis period	218.4	157.5	-60.9
Government expenditure (subsidies, etc.)	0.6	0.6	+0.0
Government revenue (payments to the government, etc.)* ¹	-	-	-
Opportunity cost of surplus, etc.	217.8	156.9	-61.0
Opportunity cost of capital investments, etc.	0.0	0.0	-0.0

(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.
214.2	206.6	-7.6	-0.0	-	-7.6

(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)	316.7	214.2
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2020 analysis)	285.4	235.9	-49.4
	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

- None

○ Factors behind policy cost decrease

- Decrease in cost due to drops in outstanding loans subject to loss compensation (-49.4 billion yen)

(4) Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2020 (previously cited)	214.2
1) Prepayments	-
2) Loan losses	-
3) Others (including profit spread)	214.2

(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

- All projects (loans, loss compensation and interest subsidies) are eligible for estimation.
- The estimation has been made for the implementation of loans worth 199.0 billion yen to designated financial institutions and damage security services worth 123.2 billion yen (compensation for losses) in FY2020.
- The analysis period is 20 years until FILP funds based on FY2020 business plan are completely redeemed.
- The administrative expense decreases depending on assumed outstanding loans from FY2021.
- Since it is difficult to estimate prepayments at present, prepayments or compensation income accompanying prepayments are not projected for this estimation.

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

(Reasons)

In the event of crisis in which JFC cannot respond to using operations transferred from the former corporation, it is required to extend credit to designated financial institutions so that they can provide funds to deal with the crisis. JFC accepts investments and subsidies required for such operations.

(Underlying laws and regulations)

- Grants/Subsidies have no legal base (they are budgetary measures).
- The Japan Finance Corporation Act provides for capital investment. (Article 4)

Article 4 (1) The Government may, when it finds it to be necessary, make contributions to JFC within the amount appropriated in the budget.

(2) When a contribution is made by the Government pursuant to the provisions of the preceding Paragraph, JFC shall, notwithstanding the provisions of Article 445, Paragraph 2 of the Companies Act (Act No. 86 of 2005), be allowed not to record the amount exceeding half of such contribution amount as the capital.

(3) When a contribution is made by the Government investment to the provisions of Paragraph 1 of this Article, JFC shall, in accordance with the separation of accounting prescribed in Article 1 hereof, allocate the capital or reserve increased as a result of such contribution to each account related to the operations listed in each Item of the same Article.

- The Japan Finance Corporation Act provides for payment to the national treasury. (Article 47)

Article 47 (1) 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.

(2) Omitted

6. Special remarks

None

(Reference) Outcome and social and economic benefits of operations

1) Financial result FY2018 (Result)

- | | |
|---|-----------------|
| (1) Loans to designated financial institutions | - billion yen |
| (2) Damage security acceptance for loans from designated financial institutions | 1.1 billion yen |
| (3) Interest subsidies to designated financial institutions | 5.0 billion yen |

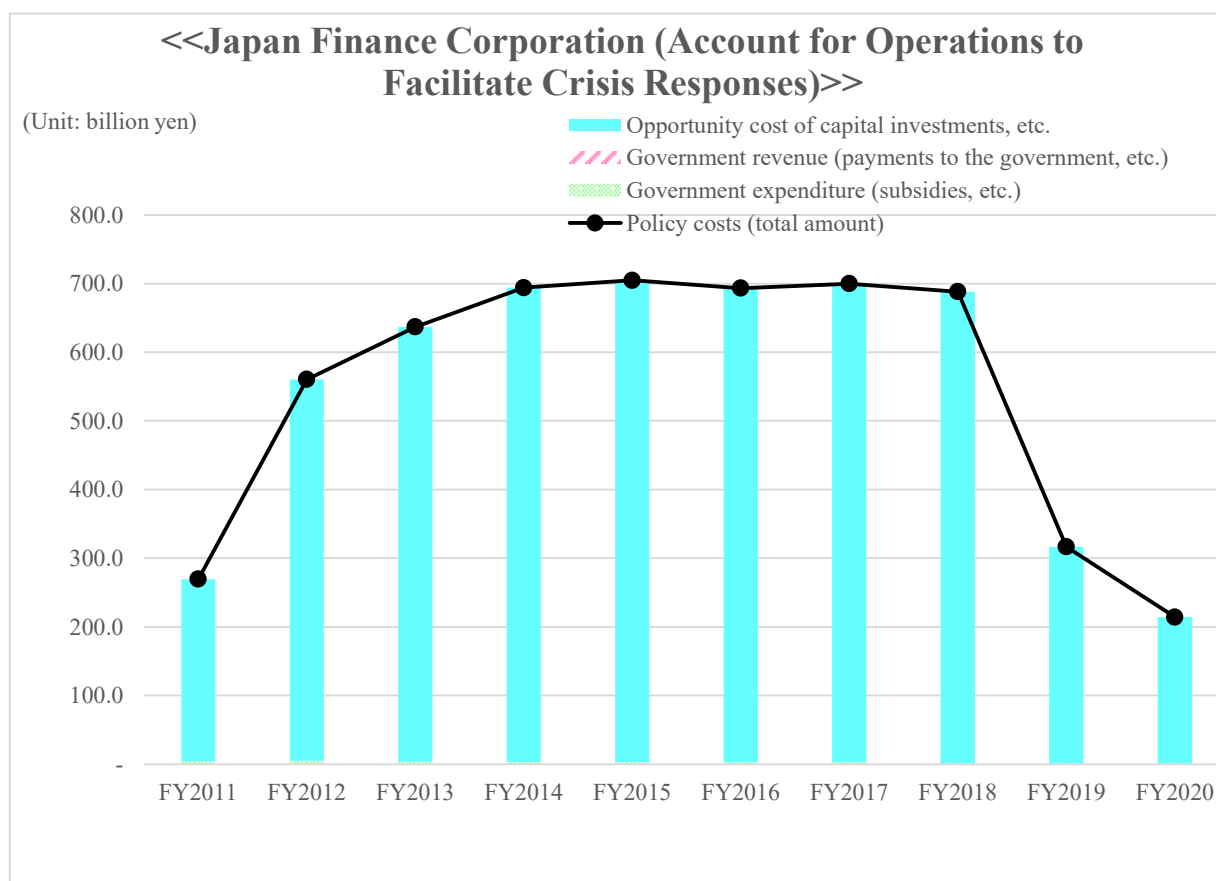
Total financing results from FY2008 to FY2018

- | | |
|---|----------------------|
| (1) Loans to designated financial institutions | 9,001.2 billion yen |
| (2) Damage security acceptance for loans from designated financial institutions | 11,619.3 billion yen |
| (3) Interest subsidies to designated financial institutions | 68.2 billion yen |

- 2) The purpose of Operations to Facilitate Crisis Responses is to extend credit to designated financial institutions so that they can promptly and smoothly supply funds required for dealing with domestic or global financial chaos, a large-scale disaster, terrorism or
- 3) With securing a crisis response which is the same level and same scope as that implemented by policy finance institutions such as the Shoko Chukin Bank and the Development Bank of Japan Inc. through Operations to Facilitate Crisis Responses, necessary funds are smoothly supplied in the event of crisis.

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)

FY	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Policy costs (total amount)	269.5	560.6	637.0	694.1	704.7	693.3	699.9	688.3	316.7	214.2
Government expenditure (subsidies, etc.)	4.1	4.8	3.8	3.3	3.1	2.8	2.8	0.6	0.6	0.6
Government revenue (payments to the government, etc.)	-	-	-	-	-	-	-	-	-	-
Opportunity cost of capital investments, etc.	265.4	555.8	633.2	690.8	701.6	690.5	697.1	687.7	316.1	213.6

【Explanation of policy cost trends】

- Policy costs have remained high after increasing in FY2012 when JFC accepted capital investments to expand loss compensations and interest subsidies under initial and supplementary budgets to counter the Great East Japan Earthquake and relevant economic environment changes.
- Since FY2019, policy costs declined due to such factors as a fall in estimated loss compensation payments through drops in loss compensation transactions and outstanding loans subject to loss compensation.

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

- Accounting for most of the policy cost for operations to facilitate crisis responses are losses on compensation payments regarding damage security services and on interest subsidies regarding interest subsidy services and opportunity cost of capital investments introduced for these services. They are indispensable for implementing the operations.
- The adjustment of assumptions to conditions before the negative interest rate policy in the sensitivity analysis has a limited impact.

(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	756,033	716,509	689,527	Borrowed money	1,815,312	1,391,740	1,182,841
Loans and discounts	1,815,312	1,491,740	1,382,841	Bonds payable	-	100,000	200,000
Other assets	365	250	265	Other liabilities	1,824	1,392	1,359
Tangible fixed assets	1	2	7	Reserve for bonuses	6	7	7
Intangible fixed assets	15	26	81	Reserve for directors' bonuses	0	0	0
Prepaid pension cost	23	23	23	Reserves for retirement pensions	83	93	103
				Reserve for directors' retirement benefits	0	0	0
				Compensation loss reserve	29,244	24,616	13,031
				(Total liabilities)	1,846,471	1,517,850	1,397,343
				Capital	969,466	969,534	969,602
				Retained earnings	-244,186	-278,832	-294,198
				Total shareholders' equity	725,279	690,701	675,403
				(Total equity)	725,279	690,701	675,403
Total assets	2,571,751	2,208,551	2,072,747	Total liabilities and equity	2,571,751	2,208,551	2,072,747

Note: Amounts of less than one million yen are rounded down.

Income Statement

(Unit: million yen)

Item	FY2018 (Result)	FY2019 (Estimated)	FY2020 (Planned)
Ordinary income	15,866	11,089	10,819
Revenue from fund management	12,938	8,504	9,770
Revenue from service transactions, etc.	1,376	1,095	844
Revenue from government grants	162	206	205
Other ordinary income	1,388	1,283	-
Ordinary expenses	29,008	45,736	26,185
Financing cost	12,892	8,474	9,675
Expenses for service transactions, etc.	-	7,677	332
Other operating expenses	4,941	4,554	2,735
Business expenses	179	257	251
Other ordinary expenses	10,995	24,772	13,190
Ordinary loss	13,142	34,646	15,365
Net loss	13,142	34,646	15,365

Note: Amounts of less than one million yen are rounded down.