

# The Okinawa Development Finance Corporation

http://www.okinawakouko.go.jp/

## 1. Summary of operations implemented using FILP funds

With the purpose of promoting the development of industries in Okinawa, the Okinawa Development Finance Corporation (ODFC) provides longterm funds to supplement and encourage both private financial institutions' financing and private investment. In addition to business funds, the ODFC provides funds to all sectors, including education, housing, and medical treatment facilities, that are rarely provided by private financial institutions. Note: Operations not eligible for FILP include some of the infrastructure improvement funds (known as "NTT-C"), etc.

## 2. Amount of lending under FY2020 FILP

(Unit: billion yen)

FY2020 FILP	Estimated outstanding amount of FILP lending at the end of FY2019
126.6	632.9

## 3. Estimated policy cost analysis of the project

### (1) Policy cost

(Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
1. Government expenditure (subsidies, etc.)	2.7	9.6	+6.9
2. Government revenue (payments to the government, etc.)* <sup>1</sup>	-20.5	-9.8	+10.7
3. Opportunity cost of capital investments, etc.	22.4	12.9	-9.5
<b>Total (1+2+3=policy cost(A))</b>	<b>4.6</b>	<b>12.7</b>	<b>+8.1</b>
Analysis period (years)	37 years	37 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)	4.6	12.7	+8.1
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	21.8	12.6	-9.2
2) Policy cost expected to be newly accrued during the analysis period	-17.2	0.1	+17.3
Government expenditure (subsidies, etc.)	2.7	9.6	+6.9
Government revenue (payments to the government, etc.)* <sup>1</sup>	-20.5	-9.8	+10.7
Opportunity cost of surplus, etc.	-0.0	-0.0	+0.0
Opportunity cost of capital investments, etc.	0.6	0.3	-0.3

### (5) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

(A) Policy cost (previously cited)	Case before the negative interest rate policy* <sup>2</sup>	Fluctuation			
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)* <sup>1</sup>	3. Opportunity cost of capital investments, etc.
12.7	14.8	+2.1	-2.1	-15.3	+19.5

### (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)	4.6	12.7
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2020 analysis)			Real fluctuation (2-1)
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2019)	4.1	6.2	+2.2

[Real fluctuation factor analysis]

#### ○Factors behind policy cost increase

- Increase in cost due to increase in loan losses (+1.4 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 a decrease in advanced redemption (-14.3 billion yen)  
- Decrease in cost through new loans provided in FY2020 (-5.3 billion yen)  
- Decrease in cost due to finalization of FY2018 results and revision of FY2019 projections (-0.2 billion yen)

### (4) Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2020 (previously cited)	12.7
1) Prepayments	14.5
2) Loan losses	17.0
3) Others (including profit spread)	-18.7

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

\*<sup>1</sup> 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.

\*<sup>2</sup> 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) Of investment activities, the estimation covers all but loans solely through non-FILP special funds (part of loans for provision of social overhead capital; NTT-C).
- 2) The estimation is based on the assumption that the ODFC will implement the FY2020 lending plan worth 159.1 billion yen (including 157.0 billion yen in loans and 2.1 billion yen in investment) in addition to the existing loan balance of 934.6 billion yen (planned for the end of FY2019).
- 3) The analysis period is supposed to be 37 years, during which the existing loans as well as the loans made based on the ODFC project plan for FY2020 will be fully paid back.
- 4) Prepayments are estimated to account for certain percentages of loans outstanding at the beginning of the period (8.90% for housing loans and 4.13% for non-housing loans on average for the past five years).
- 5) A certain percentage of outstanding loans at the beginning of the period (0.29% (0.15% for housing loans and 0.34% for non-housing loans) on average for the past five years) is set aside for new loan loss provisions.

(Unit: %)

FY		Result					Estimated 2019	Planned 2020	Assumption for calculation		
		2014	2015	2016	2017	2018			2021	2022	...
Prepayment ratio	Housing loans	8.35	11.45	12.44	7.44	4.80	4.55	4.96	8.90	8.90	8.90
	Others	3.70	5.44	5.66	3.88	2.00	1.76	1.60	4.13	4.13	4.13
Loan loss provision ratio		0.36	0.25	0.23	0.21	0.41	0.26	0.26	0.29	0.29	0.29

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

For the purpose of contributing to the development of the Okinawan economy, the ODFC receives financial assistance from the general and special accounts of the national treasury as compensation, etc., for expenses needed to provide long-term funds with low interest rates that are rarely provided by general financial institutions.

(1) Major subsidies include 1) the "compensation for difference in balance" that receives the deficiency in loss and gain balance calculated on the basis of the ODFC project plans, etc. in the fiscal year from the general account to contribute to the swift and efficient management of operations, 2) the "interest compensation" regarding loans with low interest rates for business expansion of companies that work on employment creation utilizing local characteristics, etc. (i.e. "in addition to what is listed in the preceding items, other services, specified by an Ordinance of the Ministry of Health, Labour and Welfare, which are necessary for promoting the employment of physically disabled persons and others having particular difficulty in finding employment, ..." under Article 62, Paragraph 1, Item 5 of the Employment Insurance Act; "in addition to what is listed in the preceding Item 4, services contributing to employment creation in consensual voluntary employment creation regions" under Article 140, Paragraph 1, Item 5 of the Ordinance for Enforcement of the Employment Insurance Act), 3) "subsidy" received from the special account for electric power development acceleration measures to supplement the difference of interest rate in case of loans with low interest rates for promoting companies to be located in the electric power areas (i.e. "the subsidy related to expenses needed for measures which are intended to promote companies to be located in the areas of municipalities where specific power generation facilities are already established or planned to be established, or in the neighboring municipalities of the said municipalities or otherwise the municipalities adjacent to the said neighboring municipalities, and implemented by the person designated by the Minister of the competent ministry..." under Article 51, Paragraph 1, Item 20 of the Cabinet Order of the Act on Special Accounts for Electric Power Development Acceleration. Measures, where "the person designated by the Minister of the competent ministry under Article 51, Paragraph 1, Item 20 of the Cabinet Order of the Act on Special Accounts shall be as follows;...6) Okinawa Development Finance Corporation..." as is stipulated under the Ministerial Announcement Number 5 of the Ministry of Education, Culture, Sports, Science and Technology and the Ministry of Economy, Trade, and Industry.)...

(2) Investments include 1) 'investments' received from the general account to enhance the management foundation of the ODFC, or to finance business that promote the creation of new business and contribute to the promotion of industries in Okinawa (Article 4, Paragraph 2 of the Okinawa Development Finance Corporation Act: "The Government may make additional investments in the ODFC as long as they do not exceed the budgeted amounts.") and 2) 'investments' received original capital for investment to private companies from Fiscal Loan Fund Special Account (Investment Account) to invest in those private companies that contribute to the development of local industries (Article 4, Paragraph 2 of the Okinawa Development Finance Corporation Act: same as the above).

Payment to the national treasury is stipulated in the Okinawa Development Finance Corporation Act. (Article 25, Paragraph 1 of the Okinawa Development Finance Corporation Act: When any profit occurs in the loss and gain calculation in each accounting year, the ODFC shall pay it to the national treasury by May 31 of the next accounting year.)

#### 6. Special remarks

In January 2020, the Okinawa Development Finance Corporation released its FY2019 policy finance assessment report.

#### (Reference) Outcome and social and economic benefits of operations

##### 1) Investment and loan performance

i. Financing (FY2018)	7,000 cases	111.3 billion yen
ii. Financing (aggregate amount from FY1972 to FY2018)	460,000 cases	6,531.8 billion yen
• Industrial Development:		1,909.4 billion yen
• Small and Medium-Sized and Other Business:		2,167.4 billion yen
• Housing:		1,994.0 billion yen
• Primary Sector:		221.8 billion yen
• Other items:		239.3 billion yen
iii. Outstanding balance of lending (end of FY2018)	50,000 cases	858.7 billion yen
iv. Capital investment (FY2018)	3 cases	0.2 billion yen
v. Capital investment (aggregate amount from FY1978 to FY2018)	106 cases	8.4 billion yen

##### 2) A comprehensive financial corporation that is rooted in the community

- As a regional-based policy financial institution, the ODFC conducts the businesses of Japan Finance Corporation, etc. in an integrated and comprehensive manner, and contributes to the promotion of Okinawa by developing and utilizing a unique system in harmony with specific circumstances in Okinawa.
- The ODFC provides policy financial functions that appropriately meet the various financial needs of the prefecture's residents and enterprises through "one-stop" services.

- The ODFC's long-term, fixed-interest loans are used for capital investment, an area in which it takes business operators a long time to recover their investments, while private financial institutions act as the main banks for their business operations and provide them with the funds required for daily operations.

[Capital investment funds: ODFC's share in the prefecture at 21%

Operating funds: ODFC's share in the prefecture at 9% (end of FY2018)]

- The ODFC contributes and employment stabilization and securement by creating and promoting jobs with Okinawa unique system.  
[Employment effect by loans for founders support in Okinawa and investments in creating and promoting jobs (FY2018): 321 jobs]

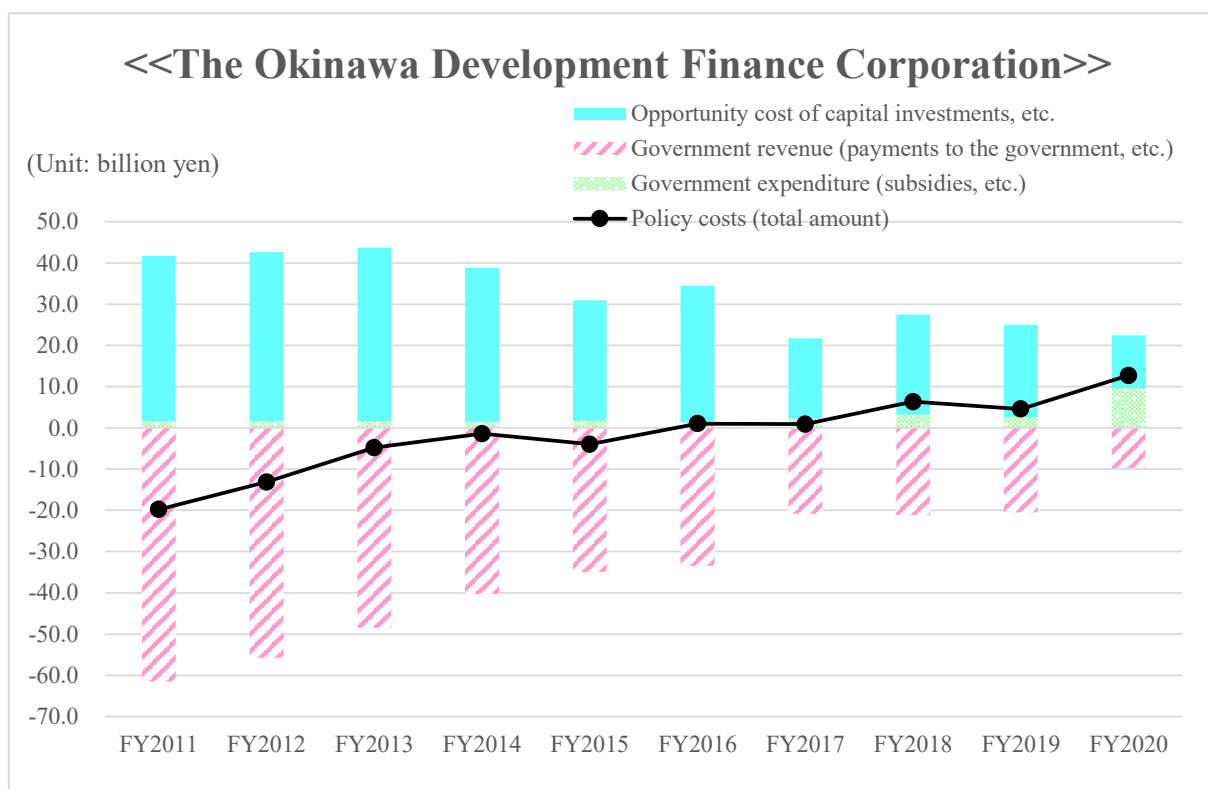
##### 3) Safety net loans to prevent employment loss

These loans function as a safety net to alleviate sudden external damage from typhoons, dramatic social and economic changes, etc. to financially support enterprises and help prevent employment loss.

[Preventative effect in employment loss due to safety net loans (FY2018): 2,259 jobs]

# 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)	-19.8	-13.1	-4.8	-1.4	-4.0	1.0	0.9	6.4	4.6	12.7
Government expenditure (subsidies, etc.)	1.6	1.6	1.7	1.5	1.7	1.3	2.3	3.2	2.7	9.6
Government revenue (payments to the government, etc.)	-61.5	-55.8	-48.5	-40.3	-34.9	-33.5	-20.8	-21.2	-20.5	-9.8
Opportunity cost of capital investments, etc.	40.1	41.0	42.0	37.3	29.2	33.1	19.4	24.3	22.4	12.9

### 【Explanation of policy cost trends】

• Up to FY2011, policy costs were on a downward trend mainly due to an improvement in profit margins and a reduction in clerical costs. From FY2012 onward, policy costs have been on an upward trend mainly due to a reduction in loan interest in accordance with a reduction in loan balance.

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

• Although the policy cost posted an increase of 8.1 billion yen due to an investment return fall through a drop in the assumed interest rates and in return on investment of surplus funds, the increase was held down to 2.2 billion yen in the past year comparison analysis in which the assumed interest rates were adjusted. Given that the redeemability of FILP has been confirmed, we believe that the policy cost increase's financial impact is minimal.

• Although the sensitivity analysis indicates the policy cost in the case before the negative interest rate policy increased by 2.1 billion yen from the basic case, we believe that the increase's financial impact is minimal. We will continue to develop arrangements for managing various risks to maintain and improve the financial soundness of the ODFC.

## (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)
<b>(Assets)</b>				<b>(Liabilities and equity)</b>			
Loans	852,949	919,792	957,323	Borrowings	561,673	626,289	676,401
Investments	6,949	9,049	11,149	Funds for fiscal loans	555,233	619,850	669,905
Cash and deposits	27,481	14,913	14,913	Industrial investment	156	102	48
Securities	5,749	5,749	5,749	Loans in the general account	7	5	4
Agency accounts	87	87	87	Loans from the Organization for Workers' Retirement Allowance Mutual Aid	6,276	6,332	6,444
Accrued revenue	687	658	693	Bonds	177,173	177,254	167,365
Accrued interest on loans	686	657	692	Okinawa Development Finance Corporation bonds	175,000	175,000	165,000
Trust fee receivable	1	1	1	Housing and building bond	2,173	2,254	2,365
Accrued interest on securities	0	0	0	Bond issue difference	-1	-1	-1
Miscellaneous accounts	6	8	6	Trust money	-	10	20
Fixed assets	6,682	6,854	7,127	Loan received	71,021	58,652	55,422
Customers' liabilities on guarantee	0	-	-	Accrued expenses	1,015	970	2,103
Allowances for bad debts	-7,313	-9,249	-9,065	Accrued interests on borrowing	691	683	1,799
				Accrued interest on bonds	288	245	259
				Accrued commissions	14	21	23
				Accrued social premium	22	22	22
				Miscellaneous accounts	132	126	126
				Reserve for bonuses	165	165	165
				Reserves for retirement pensions	2,381	2,381	2,381
				Guaranteed dept	0	-	-
				(Total liabilities)	813,558	865,846	903,982
				Capital	78,324	80,624	82,624
				General account	45,618	46,018	46,218
				Succeeded from the former institutions	21,556	21,556	21,556
				Industrial investment	11,150	13,050	14,850
				Reserve fund			
				Reserve for rice fund and new business establishment promotion	1,410	1,395	1,392
				Unappropriated retained earnings or unappropriated loss for the period (-)	-16	-3	-15
				(Total equity)	79,719	82,016	84,001
<b>Total assets</b>	<b>893,277</b>	<b>947,862</b>	<b>987,982</b>	<b>Total liabilities and equity</b>	<b>893,277</b>	<b>947,862</b>	<b>987,982</b>

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

## Income Statement

(Unit: million yen)

Item	FY2018 (Result)	FY2019 (Estimated)	FY2020 (Planned)	Item	FY2018 (Result)	FY2019 (Estimated)	FY2020 (Planned)
<b>(Losses)</b>				<b>(Profits)</b>			
Ordinary expenses	20,267	20,865	22,305	Ordinary income	20,227	20,863	22,289
Interest on borrowings	3,257	2,969	4,523	Interest on loans	10,532	12,791	12,254
Interest on bonds	1,430	1,079	1,103	Dividends received	26	45	45
Interest payable on funds money entrusted	-	1	1	Commissions from housing loans	11	9	9
Expenses for entrusting business	58	143	115	Trust fees	5	5	5
Administrative expenses	4,518	4,772	4,744	Receipts from the general account	523	495	695
Bond issuing expenses	103	90	57	Receipts from the special accounts for energy related measures	7	6	6
Depreciation expenses	3,576	2,413	2,547	Security income			
Loans depreciation	3,433	2,263	2,395	Profit on securities	13	13	13
Fixed assets depreciation expenses	143	150	152	Miscellaneous receipts	47	186	13
Loans depreciation	7,313	9,249	9,065	Allowances for bad debts	9,062	7,313	9,249
Miscellaneous losses	13	-	-	Extraordinary profit			
Reserve fund	-	150	150	Gain on sales of fixed assets	43	-	-
Extraordinary loss				Current loss	16	3	15
Loss on sale of fixed assets	18	-	-				
<b>Total</b>	<b>20,285</b>	<b>20,865</b>	<b>22,305</b>	<b>Total</b>	<b>20,285</b>	<b>20,865</b>	<b>22,305</b>

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

## (Reference) Hypothetical Balance Sheets and Hypothetical Profit and Loss Statements for Private Companies

Hypothetical Balance Sheet for Private Companies		(Unit: million yen)	
Item	End of FY2018	Item	End of FY2018
(Assets)		(Liabilities)	
Cash and deposits	27,568	Borrowings	561,673
Cash	4	Bonds	177,172
Deposits	27,564	Other liabilities	2,707
Securities	11,726	Accrued expenses	1,015
Stocks	5,998	Other liabilities	1,693
Corporate Bonds	5,728	Reserve for bonuses	165
Loans	781,927	Reserves for retirement pensions	2,381
Loans on bills	2,230	Acceptances and guarantees	0
Loans on bonds	850,719	(Total liabilities)	744,098
Loans not unexecuted	-71,021	(Equity)	
Other assets	716	Capital stock	78,324
Accrued revenue	649	Retained earnings	895
Other assets	67	Other retained earnings	895
Tangible fixed assets	8,111	Reserve for rice fund and new business establishment promotion	1,410
Buildings	6,084	Retained earnings brought forward	-515
Land	3,295	Net unrealized gains or losses on other securities	-21
Other tangible fixed assets	2,870	(Total equity)	79,199
Accumulated depreciation	-4,137		
Intangible fixed assets	562		
Software	369		
Software in progress	193		
Collateral funds for acceptances and guarantees	0		
Allowances for bad debts	-7,315		
Total assets	823,296	Total liabilities and equity	823,296

Hypothetical Profit and Loss Statement for Private Companies		(Unit: million yen)
Item	FY2018	
(Ordinary income)	11,169	
Interest income	10,581	
Interest on loans	10,542	
Interest and dividends on securities	39	
Other interest income	0	
Fees and commissions	16	
National treasury subsidy	7	
Governmental subsidy	523	
Other ordinary income	41	
(Ordinary expenses)	11,249	
Financing cost	4,687	
Interest on borrowing and discounts	3,257	
Interest on bonds	1,430	
Fees and commissions payments	58	
Other operating expenses	103	
Operating expenses	4,641	
Other ordinary expenses	1,761	
Provision of allowance for bad debts	540	
Written-off of loans	1,146	
Provision on stocks	64	
Other ordinary expenses	11	
(Ordinary loss)	81	
(Extraordinary profit)	53	
Profit on retirement of fixed assets	53	
(Extraordinary loss)	31	
Loss on retirement of fixed assets	1	
Impairment loss	30	
Net loss	58	

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