

Development Bank of Japan Inc.

<http://www.dbj.jp/>

1. Summary of operations implemented using FILP funds

The purpose of the operations is to maintain functions of investment and loan on DBJ's long-term business funds and to contribute to the smooth financing and advancement of financing functions by operating a business using a technique of providing investment and loan in an integrated manner and other highly-sophisticated financial techniques.

(Reference) NTT-C is excluded from the policy cost analysis.

2. Amount of lending under FY2020 FILP

(Unit: billion yen)

FY2020 FILP	Estimated outstanding amount of FILP lending at the end of FY2019
900.0	9,908.0

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
1. Government expenditure (subsidies, etc.)	0.0	0.0	-0.0
2. Government revenue (payments to the government, etc.)* ¹	-692.3	-697.8	-5.5
3. Opportunity cost of capital investments, etc.	152.9	-273.4	-426.3
Total (1+2+3=policy cost(A))	-539.4	-971.2	-431.8
Analysis period (years)	41 years	41 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)	-539.4	-971.2	-431.8
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	452.4	255.6	-196.8
2) Policy cost expected to be newly accrued during the analysis period	-991.8	-1,226.8	-235.0
Government expenditure (subsidies, etc.)	0.0	0.0	-0.0
Government revenue (payments to the government, etc.)* ¹	-692.3	-697.8	-5.5
Opportunity cost of surplus, etc.	-299.5	-529.0	-229.5
Opportunity cost of capital investments, etc.	-	-	-

(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.
-971.2	-861.6	+109.6	-0.0	-419.0	+528.6

(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)	-539.4	-971.2
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2020 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2019)	Real fluctuation (2-1)
		-503.1	-406.0	+97.1

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost due to increase in administrative cost accompanying new financing (+68.2 billion yen)
- Increase in cost due to increase in loan losses (+31.0 billion yen)

○Factors behind policy cost decrease

- Decrease in cost through new loans provided in FY2020 (-2.1 billion yen)

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

(A) Policy cost in FY2020 (previously cited)	-971.2
1) Prepayments	6.0
2) Loan losses	30.6
3) Others (including profit spread)	-1,007.8

(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

[Outline of estimation]

- 1) The estimation is made in relation to all FILP operations.
- 2) The estimation is based on the assumption that DBJ will implement financing, following the FY2020 financing plan (2,600.0 billion yen) in addition to the existing loan balance (as of the end of FY2019).
- 3) The analysis period is 41 years until the completion of FILP fund repayments.
- 4) For capital and reserves, it is assumed that the government's shareholdings will be disposed of in the final year of the analysis period based on the partial amendment of the Development Bank of Japan Act in May 2015, which no longer clarifies the timing of the disposition of the government's shareholdings (the wording was amended from "approximately 5 to 7 years from April 1, 2015" to "as early as possible").
- 5) Regarding payments to the national treasury and statutory reserves, it is assumed that DBJ will pay the amount equivalent to the corporate tax out of profits before taxes. As dividends, it is assumed that DBJ will pay the amount of 25% of profits after taxes to the government until the final year of the analysis period.
- 6) Because of the settlement of accounting changed to be prepared based on the private-sector accounting standards since the privatization in October 2008, it makes adjustments including the reversal of the balance of allowance for doubtful accounts to the equity part in order to maintain the continuity to the estimation based on the previous accounting of special corporations as far as possible.

[Project prospect]

- 1) Advanced redemption rate is estimated based on the previous results. Compensation for advanced redemption is estimated based on the assumption that full payment will be required except for borrowers that are severely slumping.
- 2) Charge-off for normal loans is calculated with DBJ's past default data used. For loans to borrowers subject to special attention and riskier loans, the possibility of collection, including collateral disposal, is examined individually. Outstanding risk management loans at the end of March 2019 based on the Banking Act totaled 51.4 billion yen (non-consolidated). Loan loss provisions at the end of March 2019, based on private-sector accounting standards, stood at 35.4 billion yen (non-consolidated).

FY	Result				Estimated	Planned	Assumptions for calculation
	2015	2016	2017	2018	2019	2020	2021-
Prepayment ratio	3.22%	2.26%	3.33%	3.01%	0.38%	0.38%	Accumulated total from FY2021 onwards: 2.57%
Loan charge-off ratio	0.04%	0.02%	0.00%	0.00%	0.10%	0.06%	Accumulated total from FY2021 onwards: 0.18%

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

In order to reduce companies' interest burden, DBJ receives subsidies from Special Accounts for Energy Policy as resources of interest subsidies to be paid to the companies through DBJ.

<Corporate Tax>

It is assumed that DBJ will pay corporate tax, etc. based on the estimated result in FY2019 and based on the statutory effective tax ratio from current earnings before tax from FY2020 onwards.

<Dividend>

It is assumed that DBJ will pay dividends based on the estimated result in FY2019 and will pay an amount equivalent to 25% of profits after taxes to the national treasury annually from FY2020.

6. Special remarks

Due to the partial amendment of the Development Bank of Japan Inc. Act in May 2015, the government is obliged to hold one-third or more of its issued shares for the time being in order to carry out crisis response operations and to hold a half or more of its issued shares until the completion of the specified investment operations.

(Reference) Outcome and social and economic benefits of operations

1) Capital investment and loan (based on annual reports)

	Loan amount	Investment amount
• April, 2014 – March 2015:	2,262.7 billion yen	281.4 billion yen
• April, 2015 – March 2016:	2,861.3 billion yen	166.3 billion yen
• April, 2016 – March 2017:	3,805.8 billion yen	206.7 billion yen
• April, 2017 – March 2018:	2,973.6 billion yen	179.7 billion yen
• April, 2019 – March 2020:	3,490.4 billion yen	300.4 billion yen

2) Long-term loans with fixed interest rates are provided with an emphasis upon the following points until October 2008 (Former Development Bank of Japan):

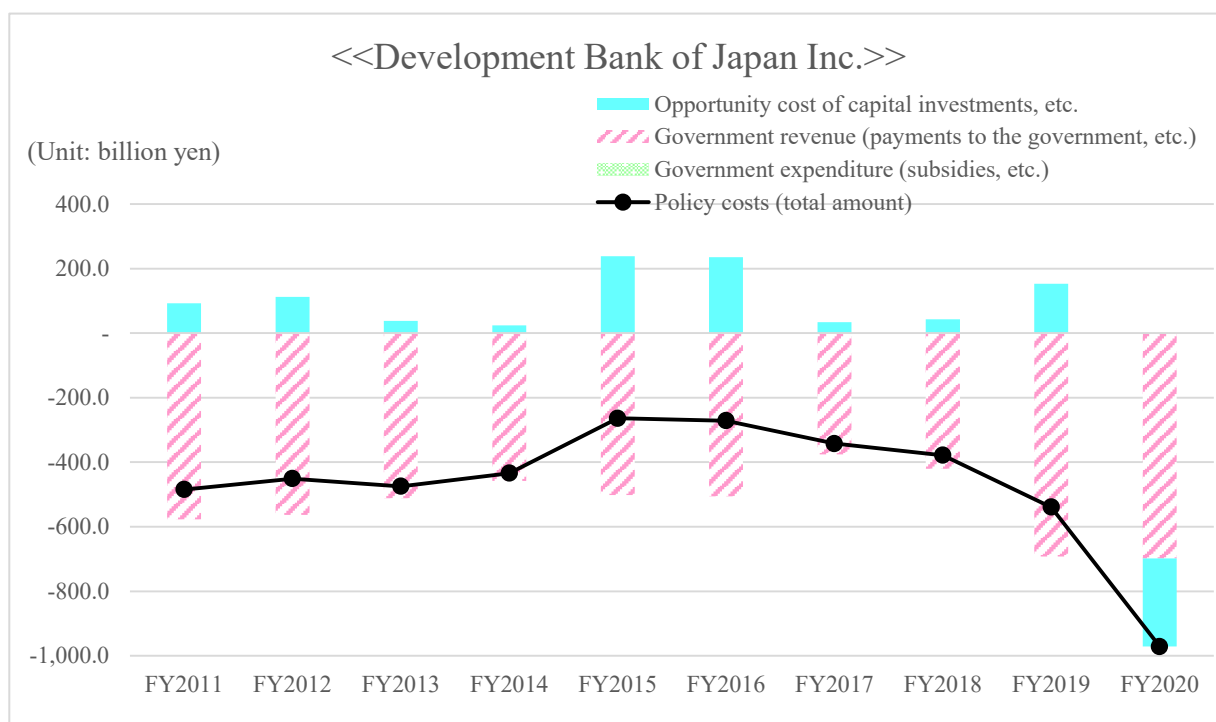
- Assistance to regional revitalization: Promotion of the development of regional towns including revitalization of urban areas; promotion of regional infrastructure; promotion of industrial location; promotion of projects that create employment opportunities in regions, etc.
- Enhancement of environment and infrastructure: environmental measures including waste and recycling measures; assistance to environmentally friendly enterprises, disaster prevention measures; measures for welfare and the aging society including the establishment of barrier-free building; establishment and/or improvement of traffic/distribution networks and telecommunications network, etc.
- Technology and economic revitalization: Promotion of investment in deregulated areas, assistance in the restructuring and/or rehabilitation of enterprises, promotion of imports / inward investment, development of new technology, assisting the collaborations in venture business between industries and universities, etc.

3) DBJ carries out operations focusing on the following points from October 2008:

- Toward the realization of full-scale privatization, DBJ, as a designated financial institution responding to crisis, etc., properly carries out operations utilizing management resources in which DBJ cultivated as a policy finance institution as well as maintaining and deeply cultivating DBJ's customer base, focusing on its strongest area, increasing its earning capacity and heighten its corporate value.
- To be a private financial institution which can meet a broad spectrum of needs for highly-sophisticated and diversified financial services in the business activities and local economy, DBJ aims to use accumulated know-how of screening and industrial researches, win customers' trust with business solutions by creative financial activities and realize a prosperous future utilizing neutrality, reliability, fairness, etc. in which DBJ cultivated as a policy finance institution.

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)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Policy costs (total amount)	-484.8	-451.0	-474.6	-434.0	-263.8	-271.2	-342.1	-378.5	-539.4	-971.2
Government expenditure (subsidies, etc.)	0.5	0.3	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Government revenue (payments to the government, etc.)	-577.5	-563.0	-512.1	-458.1	-501.8	-506.2	-376.0	-420.8	-692.3	-697.8
Opportunity cost of capital investments, etc.	92.2	111.7	37.3	24.0	237.9	234.9	33.9	42.3	152.9	-273.4

【Explanation of policy cost trends】

- Based on the amendment of the Development Bank of Japan Inc. Act in 2015, the timing of the disposition of the government's shareholdings was changed again from "as of the scheduled full privatization" to "as of the completion of the project," and this caused an increase in the opportunity cost of capital investments in FY2015.
- The opportunity cost of capital investments decreased significantly due to the impact of negative interest rates in FY2017 and thereafter.
- In FY2019, each cost amount increases due to an analysis period extension accompanying a FILP fund repayment period extension.
- In FY2020, the opportunity cost of capital investments declined substantially due mainly to a discount factor hike accompanying a fall in the assumed interest rate.

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

- Although the policy cost is susceptible to changes in the assumed interest rates because of the long analysis period, certain profit levels are continuously projected, indicating no problem with financial soundness.
- In the sensitivity analysis (case before the negative interest rate policy), the policy cost increased by 109.6 billion yen from the basic case. The increase was attributable only to a rise in the opportunity cost of capital investments, etc., indicating no financial problem.

(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 bank deposits	959,585	587,941	431,248	Bonds	3,190,537	3,333,936	3,393,936
Securities	1,984,877	2,444,877	2,853,572	Borrowings	7,807,942	7,979,705	8,044,650
Loans	13,063,197	13,731,303	14,081,556	Bond	2,106,213	2,379,443	2,721,843
Other assets	819,730	819,730	819,730	Other liabilities	479,604	479,604	479,604
				(Total liabilities)	13,584,295	14,172,688	14,640,033
				Capital	1,000,424	1,000,424	1,000,424
				Contingency reserve	206,529	206,529	206,529
				Specified investment reserve	588,000	848,000	1,048,000
				Specified investment surplus	5,412	7,879	7,879
				Capital surplus	766,466	636,466	536,466
				Retained earnings	610,437	646,039	680,950
				Valuation and translation adjustments	65,825	65,825	65,825
				(Total equity)	3,243,093	3,411,163	3,546,073
Total assets	16,827,388	17,583,850	18,186,106	Total liabilities and equity	16,827,388	17,583,850	18,186,106

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

Income Statement

(Unit: million yen)

Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)
Ordinary income	268,995	275,300	271,890
Revenue from fund management	188,051		
Revenue from service transactions, etc.	12,854	275,300	271,890
Other business income	7,274		
Other ordinary income	60,815		
Ordinary expenses	152,114	194,400	194,763
Financing cost	87,897		
Expenses for service transactions, etc.	106	137,200	139,893
Other operating expenses	3,524		
Other ordinary expenses	9,675		
Business expenses	50,912	57,200	54,870
Ordinary profit	116,881	80,900	77,127
Extraordinary profits	2	-	-
Extraordinary loss	33	-	127
Net profit before tax	116,849	80,900	77,000
Corporate tax, residence tax and enterprise tax	32,068	21,800	28,127
Income taxes-deferred	- 1,719	-	-
Net profit	86,500	59,100	48,873

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