

## 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 FY2021 FILP

(Unit: billion yen)

FY2021 FILP	Estimated outstanding amount of FILP lending at the end of FY2020
700.0	3,288.2

## 3. Estimated policy cost analysis of the project

## (1) Policy cost (Unit: billion yen)

Category	FY2020	FY2021	Fluctuation
1. Government expenditure (subsidies, etc.)	64.4	63.9	-0.6
2. Government revenue (payments to the government, etc.)*1	-89.6	-119.9	-30.4
3. Opportunity cost of capital investments, etc.	106.6	153.9	+47.3
<b>Total (1+2+3=policy cost(A))</b>	<b>81.4</b>	<b>97.9</b>	<b>+16.4</b>
Analysis period (years)	60 years	60 years	-

## (2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

Category	FY2020	FY2021	Fluctuation
(A) Policy cost (previously cited)	81.4	97.9	+16.4
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	105.8	153.0	+47.1
2) Policy cost expected to be newly accrued during the analysis period	-24.4	-55.1	-30.7
Government expenditure (subsidies, etc.)	64.4	63.9	-0.6
Government revenue (payments to the government, etc.)*1	-89.6	-119.9	-30.4
Opportunity cost of surplus, etc.	0.7	0.9	+0.2
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	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
97.9	163.9	+66.0	-1.0	-57.5	+124.5

(A) Policy cost (previously cited)	Case of a 1% increase in loan charge-offs	Fluctuation	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
97.9	98.2	+0.3	+0.3	+0.1	-

(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.

## (3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2020	FY2021	Simple fluctuation
		Simple comparison (before adjustment)	81.4	97.9
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2021 analysis)	64.4	79.3	+14.9
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2020)			Real fluctuation (2-1)

## 【Real fluctuation factor analysis】

## ○Factors behind policy cost increase

- Increase in cost due to supplementary FY2020 budgets and FILPs (+18.9 billion yen)
- Increase in cost due to finalization of FY2019 results and revision of FY2020 projections (+4.9 billion yen)
- Others (Increase in administrative cost due to new financing, etc.) (+33.4 billion yen)

## ○Factors behind policy cost decrease

- Decrease in cost due to new loans in FY2021 (-35.0 billion yen)
- Decrease in cost due to decrease in loan losses (-6.1 billion yen)
- Decrease in cost due to a decrease in prepayments (-1.2 billion yen)

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

(A) Policy cost in FY2021 (previously cited)	97.9
1) Prepayments	-1.7
2) Loan losses	8.5
3) Others (including profit spread)	91.0

#### 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 FY2021 operation plan (790.4 billion yen) in addition to the existing loan balance of 3,926.4 billion yen (estimated as of the end of FY2020).
- 3) The analysis period is supposed to be 60 years until the complete repayment of loans made based on the FY2021 operation plan as well as existing loans.
- 4) The prepayment ratio is projected at the average level (of 2.57%) 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 (0.83% under the FY2021 decision) based on the asset assessment after the charge-off (the provision on loans at the average of 0.11% for the preceding 5 years).
- 6) The administrative cost from FY2022 covers only an expense for the management and collection of loans (calculated according to the relevant personnel share of 49% in August 2020) and is assumed to gradually decrease according to a fall in outstanding loans.

FY	Result				Estimated 2020	Planned 2021	Assumptions for calculation 2021-2080
	2016	2017	2018	2019			
Prepayment ratio	3.74%	2.27%	2.05%	1.84%	1.73%	1.44%	2.57%
Provision on loans	0.14%	0.20%	0.06%	0.05%	0.00%	0.00%	0.11%

#### 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

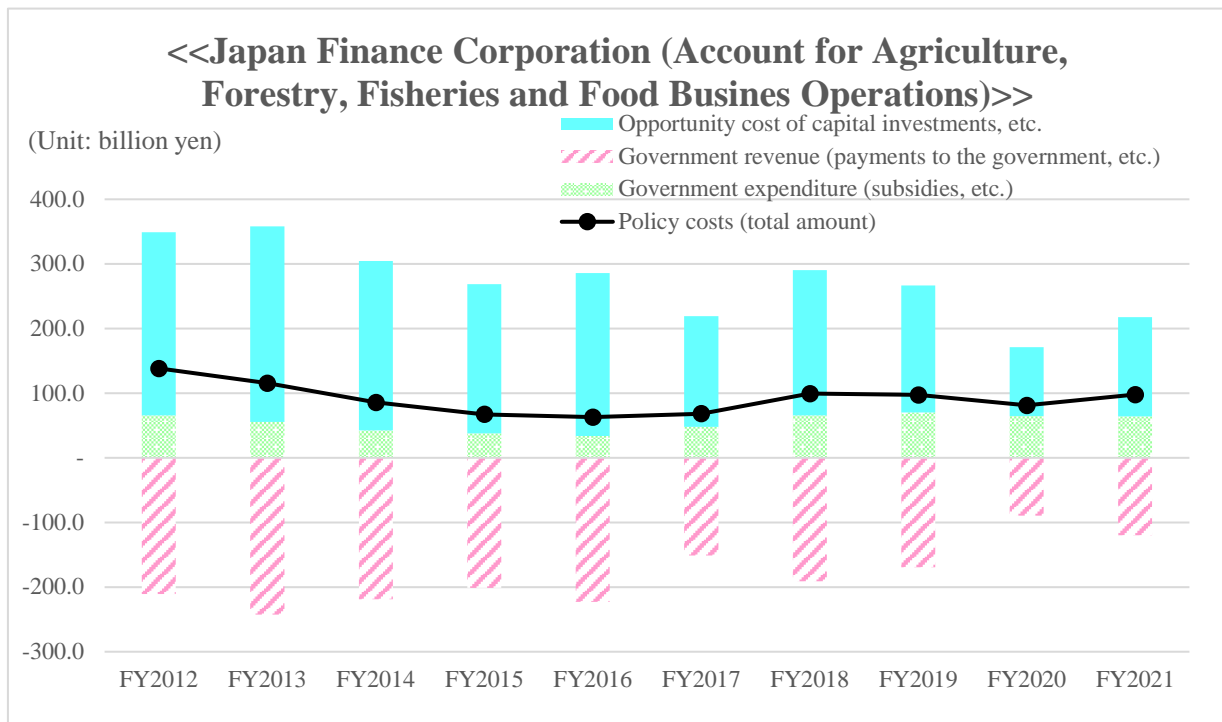
None

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

- 1) Aggregate amount of loan commitment from FY1953 to FY2019      3.91 million cases    22,282.8 billion yen  
 Loan commitment in FY2019      15,000 cases    484.0 billion yen  
 Outstanding loan at the end of FY2019      160,000 cases    3,196.1 billion yen  
 Loan Commitment planned for FY2021      791.0 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% (33 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 37% for corporate certified farmers alone.
  - b. JFC extended 295.6 billion yen of Super L Loans to 6,624 parties to foster and support certified farmers in FY2019. The borrowers would enjoy the increase of 3,382.0 billion yen of gross production and 450.9 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 30.5 billion yen in FY2019. 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 163.1 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 6,605 people in FY2019.
- 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 205 forestry management organizations and supported the forestation of 15 thousand hectares in FY2019.
  - b. The size of planted forests managed by 1,351 forestry management organizations that have the balance of forestry funds is estimated to be 1.23 million hectares, and, according to the past research, public benefit functions are calculated at about 3,469.1 billion yen, that include surface erosion prevention function (1,395.1 billion yen) and water purification function (722.6 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 190.9 billion yen or 1,229 thousand tons (38% of domestic production) in FY2019 in marine fishery, the main fishery production in Japan. This contributes to the stable supply of fishery products and creation and maintenance of about 9 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 1,665 people in FY2019.
- 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 299 cases (63.0 billion yen) in FY2019. This contributed to the creation of 1,812 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 117,000 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 71,000 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)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Policy costs (total amount)	138.4	115.7	85.9	67.4	63.0	68.3	99.2	97.4	81.4	97.9
Government expenditure (subsidies, etc.)	65.7	55.2	42.4	37.8	33.7	47.8	65.5	70.4	64.4	63.9
Government revenue (payments to the government, etc.)	-210.8	-242.6	-218.7	-201.2	-222.7	-150.9	-191.3	-169.4	-89.6	-119.9
Opportunity cost of capital investments, etc.	283.6	303.1	262.1	230.8	252.0	171.5	225.0	196.5	106.6	153.9

### 【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 FY2021, the policy cost increased because of factors such as a change in the assumed interest rate and a rise in opportunity cost of capital investments, etc. due to fiscal measures concerning COVID-19-related loans.

### 【FILP agency's self-assessment of policy cost analysis results (FY2021)】

- In the basic case, the policy cost increased by 16.4 billion yen from the FY2020 policy cost analysis to 97.9 billion yen due to an increase 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 case before the negative interest rate policy under the sensitivity analysis, the policy cost increased 66.0 billion yen compared with the basic case to 163.9 billion yen because of factors such as an increase in opportunity cost of capital investments due to a change in the assumed interest rate. In the case of a 1% increase in loan charge-offs under the sensitivity analysis, the policy cost increased 300 million yen compared with the basic case to 98.2 billion yen because of factors such as an increase in government expenditures (subsidies, etc.) due to growth in loan charge-offs. The policy cost analysis results in both cases are considered to reflect the reality and be appropriate.
- 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 FY2019 (Result)	End of FY2020 (Estimated)	End of FY2021 (Planned)	Item	End of FY2019 (Result)	End of FY2020 (Estimated)	End of FY2021 (Planned)
<b>(Assets)</b>				<b>(Liabilities and equity)</b>			
Cash and deposits	59,726	42,137	40,708	Borrowed money			
Cash	1	1	1	Loans payable	2,487,046	3,299,184	3,622,443
Deposits	59,725	42,136	40,706	Bonds payable	259,981	244,984	239,986
Securities	3,217	9,188	9,188	Trust money	27,032	25,859	24,659
Stocks	2,030	2,030	2,030	Other liabilities	5,524	5,701	5,522
Other securities	1,187	7,158	7,158	Accrued expenses	3,976	3,877	3,770
Loans				Revenue received in advance	9	11	13
Loan on deeds	3,102,871	3,963,297	4,280,734	Lease obligations	270	1,061	1,031
Other assets	9,361	10,798	11,092	Other liabilities	1,267	751	707
Prepaid expenses	0	0	0	Reserve for bonuses	662	683	683
Accrued revenue	7,678	9,116	9,409	Reserve for directors' bonuses	8	8	8
Agency account receivable	1,397	1,397	1,397	Reserves for retirement pensions	11,128	11,151	11,054
Other assets	284	284	284	Reserve for directors' retirement benefits	26	15	1
Tangible fixed assets	32,847	33,730	34,891	Acceptances and guarantees	2,887	3,753	4,412
Buildings	7,425	7,598	7,779	(Total liabilities)	2,794,298	3,591,341	3,908,772
Land	24,934	24,934	24,934	Capital	402,363	443,772	443,832
Lease assets	240	959	932	Retained earnings	2,642	2,642	2,642
Construction in progress	169	119	1,116	Earned reserve	2,642	2,642	2,642
Other tangible fixed assets	77	118	128	Other retained earnings			
Intangible fixed assets	3,177	5,039	6,832	Retained earnings brought forward	-0	—	—
Software	1,937	1,536	5,671	Total shareholders' equity	405,005	446,414	446,474
Lease assets	1	1	0				
Other intangible fixed assets	1,238	3,501	1,160	(Total equity)	405,005	446,414	446,474
Guaranty endorsement	2,887	3,753	4,412				
Allowances for bad debts	-14,785	-30,189	-32,611				
Total assets	3,199,304	4,037,756	4,355,247	Total liabilities and equity	3,199,304	4,037,756	4,355,247

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	End of FY2019 (Result)	End of FY2020 (Estimated)	End of FY2021 (Planned)
Ordinary income	43,287	56,251	51,589
Revenue from fund management	25,899	24,535	32,305
Interest on loans	25,898	24,534	32,305
Interest from repurchase agreements	—	0	0
Interest on deposits	0	1	0
Other interest received	0	0	—
Revenue from service transactions, etc.	40	42	50
Other service revenue	40	42	50
Revenue from government grants	16,002	29,921	17,802
Receipts from the general account	15,986	29,908	17,791
Receipts from the special account	16	12	11
Other ordinary income	1,344	1,752	1,430
Recoveries of write-offs	427	1,345	894
Other ordinary income	917	406	536
Ordinary expenses	43,239	56,236	51,589
Financing cost	20,234	18,652	26,646
Interest on call money	—	-0	—
Interest on borrowed money	17,445	15,849	23,578
Interest on bonds	2,789	2,802	3,067
Expenses for service transactions, etc.	2,488	3,830	3,414
Other service expenses	2,488	3,830	3,414
Other operating expenses	73	88	62
Amortization of bond issue expenses	73	88	62
Business expenses	15,498	18,231	19,043
Other ordinary expenses	4,944	15,434	2,422
Provision of allowance for bad debts	4,640	15,403	2,422
Loan amortization	98	30	—
Other ordinary expenses	205	—	—
Ordinary profit	48	14	—
Extraordinary profit	0	—	—
Gain on disposal of fixed assets	0	—	—
Extraordinary loss	48	14	—
Loss on disposal of fixed assets	48	14	—
Net profit or loss	-0	—	—

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.