

The Okinawa Development Finance Corporation

<https://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 FY2021 FILP

(Unit: billion yen)

FY2021 FILP	Estimated outstanding amount of FILP lending at the end of FY2020
515.9	1,291.4

3. Estimated policy cost analysis of the project

(1) Policy cost

(Unit: billion yen)

Category	FY2020	FY2021	Fluctuation
1. Government expenditure (subsidies, etc.)	9.6	10.3	+0.8
2. Government revenue (payments to the government, etc.)*1	-9.8	-98.7	-89.0
3. Opportunity cost of capital investments, etc.	12.9	48.5	+35.6
Total (1+2+3=policy cost(A))	12.7	-39.9	-52.7
Analysis period (years)	37 years	37 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)	12.7	-39.9	-52.7
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	12.6	49.0	+36.4
2) Policy cost expected to be newly accrued during the analysis period	0.1	-88.9	-89.1
Government expenditure (subsidies, etc.)	9.6	10.3	+0.8
Government revenue (payments to the government, etc.)*1	-9.8	-98.7	-89.0
Opportunity cost of surplus, etc.	-0.0	-1.0	-1.0
Opportunity cost of capital investments, etc.	0.3	0.5	+0.2

(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.
-39.9	-37.0	+2.9	-0.0	-34.4	+37.3

(A) Policy cost (previously cited)	Case of a 1% increase in loan charge-offs	Fluctuation			
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
-39.9	-39.6	+0.3	+0.1	+0.3	-

(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)	12.7	-39.9
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2021 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2020)	Real fluctuation (2-1)
		12.0	-34.5	-46.5

【Real fluctuation factor analysis】

○Factors behind policy cost increase

- Increase in cost due to an increase in advanced redemption (+17.5 billion yen)
- Increase in cost due to increase in loan losses (+16.4 billion yen)
- Others (Increase in administrative cost due to new financing, etc.) (+2.8 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to an interest rate difference regarding new loans under the FY2020 supplementary budget (-59.9 billion yen)
- Decrease in cost through new loans provided in FY2021 (-22.1 billion yen)
- Decrease in cost due to finalization of FY2019 results and revision of FY2020 projections (-1.0 billion yen)

(4) Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2021 (previously cited)	-39.9
1) Prepayments	27.8
2) Loan losses	32.2
3) Others (including profit spread)	-100.0

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 FY2021 lending plan worth 564.0 billion yen (including 561.90 billion yen in loans and 2.1 billion yen in investment) in addition to the existing loan balance of 1,708.0 billion yen (planned for the end of FY2020).
- 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 FY2021 will be fully paid back.
- 4) Prepayments are estimated to account for certain percentages of loans outstanding at the beginning of the period (8.01% for housing loans and 3.85% for non-housing loans on average for the past five years).
- 5) A certain percentage of outstanding loans at the beginning of the period (0.24% (0.14% for housing loans and 0.27% for non-housing loans) on average for the past five years) is set aside for new loan loss provisions.

(Unit: %)

FY		Result					Estimated	Planned	Assumption for calculation		
		2015	2016	2017	2018	2019			2020	2021	2022
Prepayment ratio	Housing loans	11.45	12.44	7.44	4.80	3.93	4.98	5.42	8.01	8.01	8.01
	Others	5.44	5.66	3.88	2.00	2.27	31.88	0.51	3.85	3.85	3.85
		0.25	0.23	0.21	0.41	0.13	0.23	0.12	0.24	0.24	0.24
Loan loss provision ratio	Housing loans	0.00	0.01	0.00	0.70	0.00	0.17	0.22	0.14	0.14	0.14
	Others	0.32	0.28	0.26	0.35	0.15	0.24	0.11	0.27	0.27	0.27

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).

(3) 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 2021, the Okinawa Development Finance Corporation released its FY2020 policy finance assessment report.

(Reference) Outcome and social and economic benefits of operations

1) Investment and loan performance

i. Financing (FY2019)	6,000 cases	109.3 billion yen
ii. Financing (aggregate amount from FY1972 to FY2019)	470,000 cases	6,641.1 billion yen
• Industrial Development:		1,949.6 billion yen
• Small and Medium-Sized and Other Business:		2,224.8 billion yen
• Housing:		1,995.2 billion yen
• Primary Sector:		226.6 billion yen
• Other items:		244.9 billion yen
iii. Outstanding balance of lending (end of FY2019)	51,000 cases	864.1 billion yen
iv. Capital investment (FY2019)	5 cases	1.1 billion yen
v. Capital investment (aggregate amount from FY1978 to FY2019)	111 cases	9.5 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 20%
Operating funds: ODFC's share in the prefecture at 9% (end of FY2019)]
- 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 (FY2019): 398 jobs]

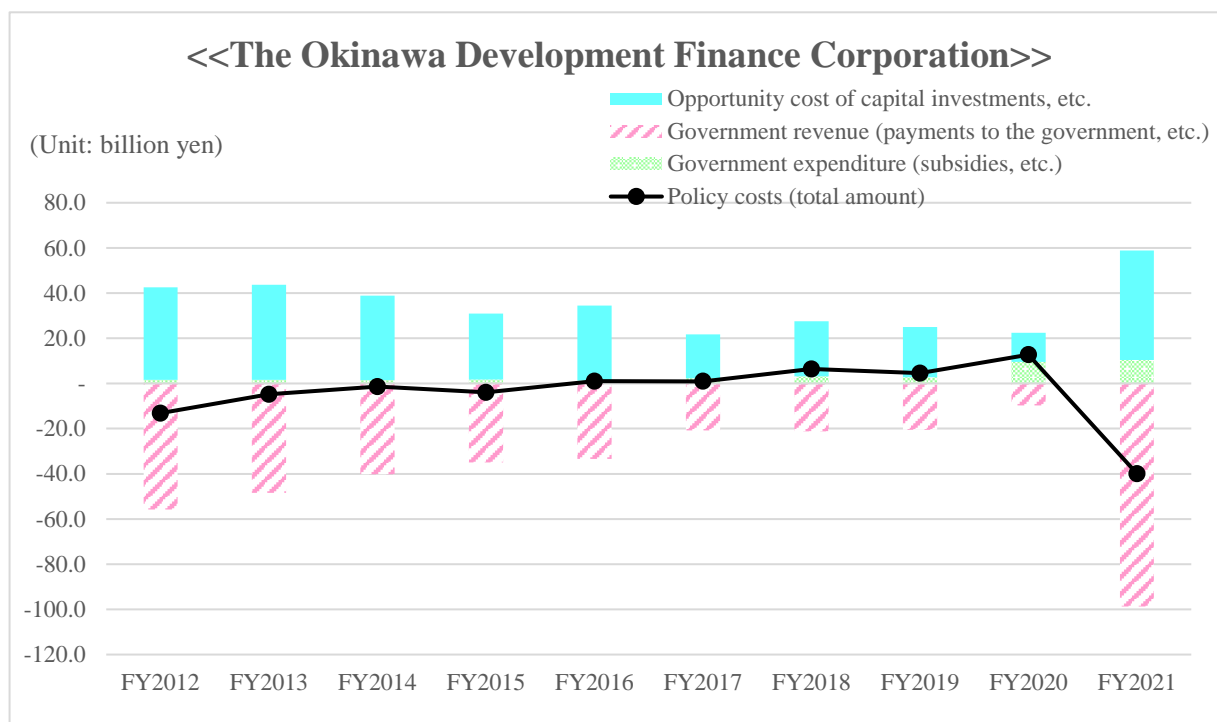
3) Safety net loans to prevent employment loss

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 (FY2019): 2,126 jobs]

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)	-13.1	-4.8	-1.4	-4.0	1.0	0.9	6.4	4.6	12.7	-39.9
Government expenditure (subsidies, etc.)	1.6	1.7	1.5	1.7	1.3	2.3	3.2	2.7	9.6	10.3
Government revenue (payments to the government, etc.)	-55.8	-48.5	-40.3	-34.9	-33.5	-20.8	-21.2	-20.5	-9.8	-98.7
Opportunity cost of capital investments, etc.	41.0	42.0	37.3	29.2	33.1	19.4	24.3	22.4	12.9	48.5

【Explanation of policy cost trends】

- The policy cost was on an uptrend after FY2012 due to such factors as a decline in loan interest receipts due to a decrease in the loan balance. However, as a result of an increase in loan interest receipts due to a rise in the loan balance caused by the provision of loans for COVID-19 control measures in FY2020 and FY2021, the policy cost turned down in FY2021.

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

- In FY2021, the policy cost was reduced by 52.7 billion yen compared with the level estimated in the previous year's analysis due to an increase in loan interest receipts following the implementation of loans for COVID-19 control measures.

- Although the results of the sensitivity analysis (case before the negative interest rate policy) showed an increase of 2.9 billion yen in the policy cost compared with the basic case, the financial impact is considered to be minimal given that the redeemability of FILP has been confirmed. In addition, the results of the sensitivity analysis (case of a 1% increase in loan charge-offs) showed an increase of 300 million yen in the policy cost due to a decrease in payments to the government, etc., but the financial impact is considered to be minimal.

(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)
(Assets)				(Liabilities and equity)			
Loans	858,365	1,692,724	2,140,531	Borrowings	574,768	1,283,082	1,718,162
Investments	7,473	9,573	11,673	Funds for fiscal loans	569,050	1,277,305	1,712,248
Cash and deposits	21,895	14,947	14,947	Industrial investment	102	48	-
Securities	5,747	5,747	5,747	Loans in the general account	5	4	2
Agency accounts	53	53	53	Loans from the Organization for Workers'			
Accrued revenue	622	810	2,330	Retirement Allowance Mutual Aid	5,611	5,725	5,911
Accrued interest on loans	621	809	2,328	Bonds	167,330	157,176	157,252
Trust fee receivable	1	1	1	Okinawa Development Finance Corporation bonds	165,000	155,000	155,000
Accrued interest on securities	0	0	0	Housing and building bond	2,330	2,176	2,252
Miscellaneous accounts	13	9	9	Bond issue difference	-1	-1	-1
Fixed assets	6,547	6,822	7,166	Trust money	-	10	20
Allowances for bad debts	-7,781	-11,036	-12,503	Loan received	62,816	56,193	63,883
				Accrued expenses	891	1,187	5,424
				Accrued interests on borrowing	610	883	5,100
				Accrued interest on bonds	240	256	277
				Accrued commissions	19	26	24
				Accrued social premium	22	22	22
				Miscellaneous accounts	104	105	105
				Reserve for bonuses	168	168	168
				Reserves for retirement pensions	2,465	2,465	2,465
				(Total liabilities)	808,541	1,500,385	1,947,477
				Capital	83,068	218,968	221,168
				General account	49,218	183,318	183,318
				Succeeded from the former institutions	21,556	21,556	21,556
				Industrial investment	12,294	14,094	16,294
				Reserve fund			
				Reserve for rice fund and new business establishment promotion	1,395	1,324	1,322
				Loss carried forward	-	-	-1,026
				Unappropriated retained earnings or unappropriated loss for the period (-)	-71	-1,028	1,013
				(Total equity)	84,392	219,264	222,476
Total assets	892,933	1,719,649	2,169,954	Total liabilities and equity	892,933	1,719,649	2,169,954

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

Income Statement

(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)
(Losses)				(Profits)			
Ordinary expenses	17,926	22,708	31,966	Ordinary income	17,855	21,680	32,979
Interest on borrowings	2,896	2,997	11,175	Interest on loans	9,504	13,097	19,833
Interest on bonds	1,074	864	996	Dividends received	39	41	41
Interest payable on funds money entrusted	-	1	-	Commissions from housing loans	9	4	7
Expenses for entrusting business	84	159	127	Trust fees	5	5	5
Administrative expenses	4,492	5,271	4,785	Receipts from the general account	490	695	2,025
Bond issuing expenses	47	57	57	Receipts from the special accounts for energy related measures	6	6	5
Depreciation expenses	1,257	2,173	2,173	Security income			
Loans depreciation	1,108	2,024	2,029	Profit on securities	13	13	13
Fixed assets depreciation expenses	149	149	144	Miscellaneous receipts	476	38	13
Loans depreciation	7,781	11,036	12,503	Allowances for bad debts	7,313	7,781	11,036
Miscellaneous losses	296	-	-	Current loss	71	1,028	-
Reserve fund	-	150	150				
Current profits	-	-	1,013				
Total	17,926	22,708	32,979	Total	17,926	22,708	32,979

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 FY2019	Item	End of FY2019
(Assets)		(Liabilities)	
Cash and deposits	21,947	Borrowings	574,768
Cash	8	Bonds	167,328
Deposits	21,939	Other liabilities	2,216
Securities	12,420	Accrued expenses	891
Stocks	6,687	Other liabilities	1,324
Corporate Bonds	5,733	Reserve for bonuses	168
Loans	795,549	Reserves for retirement pensions	2,465
Loans on bills	135	(Total liabilities)	746,945
Loans on bonds	858,230	(Equity)	
Loans not unexecuted	-62,816	Capital stock	83,068
Other assets	659	Retained earnings	635
Accrued revenue	584	Other retained earnings	635
Other assets	75	Reserve for rice fund and new business establishment promotion	1,395
Tangible fixed assets	7,637	Retained earnings brought forward	-760
Buildings	6,086	Net unrealized gains or losses on other securities	-14
Land	3,295	(Total equity)	83,689
Construction in progress	10		
Other tangible fixed assets	2,786		
Accumulated depreciation	-4,540		
Intangible fixed assets	528		
Software	505		
Software in progress	24		
Allowances for bad debts	-8,107		
Total assets	830,634	Total liabilities and equity	830,634

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

Hypothetical Profit and Loss

Statement for Private Companies

(Unit: million yen)

Item	FY2019
(Ordinary income)	10,624
Interest income	9,557
Interest on loans	9,505
Interest and dividends on securities	52
Other interest income	0
Fees and commissions	14
National treasury subsidy	6
Governmental subsidy	490
Other ordinary income	557
Gain on sale of stocks, etc	354
Other ordinary income	203
(Ordinary expenses)	10,884
Financing cost	3,970
Interest on borrowing and rediscounts	2,896
Interest on bonds	1,074
Fees and commissions payments	84
Other operating expenses	47
Operating expenses	4,666
Other ordinary expenses	2,117
Provision of allowance for bad debts	1,552
Written-off of loans	348
Loss on sale of stocks, etc	4
Provision on stocks	210
Other ordinary expenses	3
(Ordinary loss)	-260
(Extraordinary loss)	0
Loss on retirement of fixed assets	0
Net loss	-260