

Welfare And Medical Service Agency (Incorporated Administrative Agency) (General Account)

<https://www.wam.go.jp/hp>

1. Summary of operations implemented using FILP funds

For the purpose of improving social welfare and expanding/improving medical services, the Social Welfare and Medical Service Agency (WAM) operates lending businesses, which provide loans for establishing social welfare facilities, including special nursing homes for the elderly, and medical treatment facilities, including hospitals, clinics, and welfare/care facilities for the elderly.

Note: Major operations out of FILP are operations such as the retirement allowance mutual aid business, the insurance business for the rearing of physically and mentally handicapped persons, management diagnosis/guidance and welfare/health information services, and subsidizing business by funds for long-life, childrearing, and handicapped persons. Also operations out of FILP are assistance for social welfare services, pension secured loan and loans secured by accident insurance pensions, etc.

2. Amount of lending under FY2021 FILP

(Unit: billion yen)

FY2021 FILP	Estimated outstanding amount of FILP lending at the end of FY2020
1,689.8	5,320.9

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2020	FY2021	Fluctuation
1. Government expenditure (subsidies, etc.)	4.9	5.1	+0.2
2. Government revenue (payments to the government, etc.)*1	-	-	-
3. Opportunity cost of capital investments, etc.	-41.6	149.4	+191.0
Total (1+2+3=policy cost(A))	-36.7	154.5	+191.2
Analysis period (years)	36 years	38 years	+2 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)	-36.7	154.5	+191.2
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	3.3	36.8	+33.5
2) Policy cost expected to be newly accrued during the analysis period	-39.9	117.7	+157.6
Government expenditure (subsidies, etc.)	4.9	5.1	+0.2
Government revenue (payments to the government, etc.)*1	-	-	-
Opportunity cost of surplus, etc.	-44.8	112.6	+157.5
Opportunity cost of capital investments, etc.	-	-	-

(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)	-36.7	154.5
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2021 analysis)	-41.2	152.5	+193.7
	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 increase in charge-off (+73.5 billion yen)
- Increase in cost due to new loans provided in FY2021 (+56.5 billion yen)
- Increase in cost due to supplementary FY2020 budgets and FILPs (+40.2 billion yen)
- Increase in cost due to rise in capital investments at the beginning of the analysis period (+22.7 billion yen)
- Increase in cost due to rise in projected FILP agency bond issues from FY2022 (+5.9 billion yen)
- Increase in cost due to decrease in investment income (+4.7 billion yen)
- Increase in cost due to decrease in losses at the beginning of the analysis period (+0.9 billion yen)
- Others (Increase in administrative cost due to new financing, etc.) (+0.9 billion yen)

○Factors behind policy cost decrease

- Decrease in cost settled results in FY2019 and expected revision in FY2020 (-11.6 billion yen)

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

(A) Policy cost in FY2021 (previously cited)	154.5
1) Prepayments	0.4
2) Loan losses	86.8
3) Others (including profit spread)	67.3

(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.
154.5	168.5	+13.9	+1.0	-	+13.0

(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.
154.5	155.6	+1.1	+0.2	-	+0.8

(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) Of the Agency's operations, the general account recording loan operation is estimated. However, costs for the welfare and medical service management guidance, welfare and healthcare information service and assistance for social welfare services which are included in this account were excluded from the analysis.
- 2) The estimate is made on the assumption that new loans of 1,786.0 billion yen will be provided for the FY2021 operation plan in addition to the outstanding loan balance of 5,644.7 billion yen (estimated as of the end of FY2020).
- 3) The analysis period is assumed to be 38 years, covering a period in which outstanding loans and new ones to be provided under the FY2021 plan will be repaid completely.
- 4) Administrative expenses are limited to loan control and collection operations in and after FY2023.

[Project prospect]

- 1) The Agency's loan, 1,774.4 billion yen (FY2021) and 90.2 billion yen (FY2022) respectively, is scheduled to be collected by FY2058. (90.2 billion yen to be loaned in FY2022 will be subsidized to be loaned in association with loans prior to FY2021.)
- 2) For loan applications accepted on October 1, 1998 onward, repayment compensation is to be collected upon voluntary advanced redemption, which means that there are two types of advanced redemption, i.e., that requiring repayment compensation and that not requiring repayment compensation. However, advanced redemption requiring repayment compensation is also applicable to FILP loans and this will not affect the policy cost. Therefore, only advanced redemption not requiring repayment compensation is reflected here. The amount of advanced redemption for FY2021 is recorded as the amount equal to the rough estimate. Amounts of advanced redemption for FY2022 onward are calculated by multiplying the outstanding amount at the beginning of each fiscal year by the advanced redemption rate based on the past performance. As the loan balance not subject to redemption compensation requirements will decrease year by year, the advanced redemption rate is expected to decline accordingly.
- 3) As the amount of loans equivalent to the amount of loan loss provisions which have been set aside in the FY2021 budget and which are associated with loans related to COVID-19 is projected to be charged off within the analysis period, the total charge-off amount is expected to be 104.9 billion yen. It should be mentioned that the amount of loan charge-off is based on the loan balance of each year. The loan charge-off ratio is indicated below.

(Unit : %)

FY	Result	Estimated	Planned	Assumptions for calculation			
	2019	2020	2021	2022	2023	2024-2049	2050-2058
Prepayment ratio (welfare)	0.35	0.03	0.01	0.01	0.01	0.01	—
Prepayment ratio (medical)	1.89	0.20	0.14	0.13	0.12	0.10	—
Loan charge-off ratio	0.002	—	Loan charge-offs other than those associated with loans related to COVID-19: 0.661% on a cumulative total basis (note); loan charge-offs associated with loans related to COVID-19: 2.19% on a cumulative total basis				

*Note: Ratio of estimated total loan charge-off during the analysis period to the outstanding loan balance at the beginning of FY2021.

- 4) The outstanding balance of the risk management loans as at the end of FY2019 amounted to 125.3 billion yen. Loan loss provisions according to private-sector accounting standards at the end of FY2019 amounted to 13.8 billion yen. (Loan loss provisions/Outstanding balance of loans (after the deduction of loan received) = 0.412%)

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

(Reasons for granting of subsidies)

In response to the aging society with fewer children, social welfare facilities and treatment medical facilities that function as a base to provide welfare, health and medical services are social resources that are indispensable for the lives of citizens. To facilitate establishment of these facilities, the Agency provides long-term funds with low interest rates. To this end, the Agency receives subsidies from the general account of the national treasury as compensation for expenses, including differences in the interest rates for financing and lending.

(Underlying laws and regulations)

· Article 46 of the Act on General Rules for Incorporated Administrative Agencies (Grants for operating expenses)

The government may, within the scope of the budget, deliver to an Incorporated Administrative Agency an amount, equivalent to all or part of the necessary amount of money, to be appropriated to the financial resources for its operations.

· Budget assistance (interest subsidies)

(Underlying law with regard to the contribution to the national treasury)

Welfare and Medical Service Agency Act

Article 16

1. The Agency may, if there is a reserve fund as prescribed by Paragraph 1 of Article 44 of the Act after the deposition as prescribed by Paragraph 1 or 2 of Article 44 of the Act in the last fiscal year of the project in the period of the medium-term target (hereinafter referred to as "medium-term target period") as prescribed by item 1 of Paragraph 2 of Article 29 of the Act, use the amount approved by Minister of Health, Labour and Welfare as revenue for operations as prescribed by Paragraph 1 of Article 12 in the next medium-term target period as specified in the medium-term plan approved as prescribed by Paragraph 1 of Article 30 of the Act concerning next medium-term target period (if any change is approved as prescribed by the same Paragraph, use the plan after the change).

2. If there is still remaining amount after deduction of the amount approved as prescribed by the preceding paragraph from the amount equivalent to the reserve fund as prescribed by the same paragraph in the account for operations in items 1, 4 and 5 of the preceding article, the remaining amount must be paid to the national treasury.

3. (Omitted)

4. Other than the preceding three paragraphs, necessary items in relation to the procedures for the payment to the national treasury and allocation of reserve is governed by the Government Order.

Act on General Rules for Incorporated Administrative Agencies

Article 46-2

(1) An Incorporated Administrative Agency is to make payments to the national treasury in relation to any Unnecessary Property pertaining to contribution or expenditure from the government (other than any property which the contribution is in the form of money) (hereinafter referred to as "Unnecessary Property Pertaining to Government Contribution, etc." in this paragraph) with an authorization of the competent minister, without delay; provided, however, that the Incorporated Administrative Agency is not required to obtain an authorization of the competent minister if it specifies the plan referred to in Article 30, paragraph (2), item (v) for a Medium-term Plan of an Agency Managed under the Medium-term Objectives, the plan referred to in Article 35-5, paragraph (2), item (v) for a Medium to Long-term Plan of a National Research and Development Agency, or the plan referred to in Article 35-10, paragraph (3), item (v) for an Annual Objective Plan of an Agency Engaged in Administrative Execution, and it makes payment to the national treasury in relation to the Unnecessary Property Pertaining to Government Contribution, etc. in accordance with the relevant plan.

(2) An Incorporated Administrative Agency may make a payment to the national treasury in the amount calculated in accordance with the standards specified by the competent minister to the extent of the amount of income derived from the transfer of Unnecessary Property Pertaining to Government Contribution, etc. (other than money; hereinafter the same applies in this paragraph and the following paragraph) with the authorization of the competent minister (other than any amount exceeding the book value of the property (hereinafter referred to as "Amount Exceeding the Book Value" in the following paragraph)), in lieu of making payment to the national treasury in relation to the Unnecessary Property Pertaining to Government Contribution, etc. pursuant to the provisions of the preceding paragraph; provided, however, that the Incorporated Administrative Agency is not required to obtain an authorization of the competent minister if it specifies the plan referred to in Article 30, paragraph (2), item (v) for a Medium-term Plan of an Agency Managed under the Medium-term Objectives, the plan referred to in Article 35-5, paragraph (2), item (v) for a Medium to Longterm Plan of a National Research and Development Agency, or the plan referred to in Article 35-10, paragraph (3), item (v) for an Annual Objective Plan of an Agency Engaged in Administrative Execution, and it pays the amount to the national treasury in accordance with the relevant plan.

(3) In the case referred to in the preceding paragraph, if there is any Amount Exceeding the Book Value derived from the transfer of Unnecessary Property Pertaining to Government Contribution, etc., an Incorporated Administrative Agency is to pay the amount to the national treasury without delay; provided, however, that this does not apply to the amount authorized if the agency obtains an authorization from the competent minister for the exemption of payment of all or part of the amount.

(4) If an Incorporated Administrative Agency makes payment to the national treasury pursuant to the provisions of paragraph (1) or paragraph (2), and the Unnecessary Property Pertaining to Government Contribution, etc. for which the payment made, pertains to the contribution from the government, the amount specified by the competent minister as the portion pertaining to the Unnecessary Property Pertaining to Government Contribution, etc. for which the payment is made, out of the stated capital of the agency, is to be deemed to have not been contributed by the government to the agency, and the agency is to reduce the amount of its stated capital commensurate with such amount.

(5) Beyond what is provided for in the preceding paragraphs, the matters necessary for the disposal of the Unnecessary Property Pertaining to Government Contribution, etc. are specified by Cabinet Order.

6. Special remarks

The policy cost of the Agency's welfare and medical loan operation is incurred due to the government policy of providing long-term funds at low interest rate that are needed to establish and/or improve social and medical facilities including hospitals. This kind of social resources is indispensable to improve the welfare, medical, and nursing services of aging society with fewer children. Through the Agency's loan, efforts are made to establish and improve social welfare and medical facilities, to increase social welfare services, and to expand medical services.

(Reference) Outcome and social and economic benefits of operations

1. Lending activities

	Total lending in FY2019		Aggregate amount of lending up to FY2019		Outstanding balance of loans at the end of FY2019	
Welfare loans	796 cases	131.3 billion yen	46,032 cases	5,236.2 billion yen	17,234 cases	2,082.5 billion yen
Medical loans	106 cases	122.7 billion yen	96,035 cases	6,742.0 billion yen	4,118 cases	1,329.9 billion yen
Total	902 cases	254.0 billion yen	142,067 cases	11,978.2 billion yen	21,352 cases	3,412.4 billion yen

2. Outcome of lending over the past 10 years (FY2010-2019)

1) Welfare loans led to the establishment of 9,000 private social welfare facilities (capacity: 440,000 persons).

Welfare facilities for the elderly: 167,000 persons (694,000 persons)

Welfare facilities for the disabled: 24,000 persons (136,000 persons)

Welfare facilities for children: 246,000 persons (2,112,000 persons)

2) Medical loans led to the establishment of 500 medical facilities and the expansion/renovation of 800 such facilities.

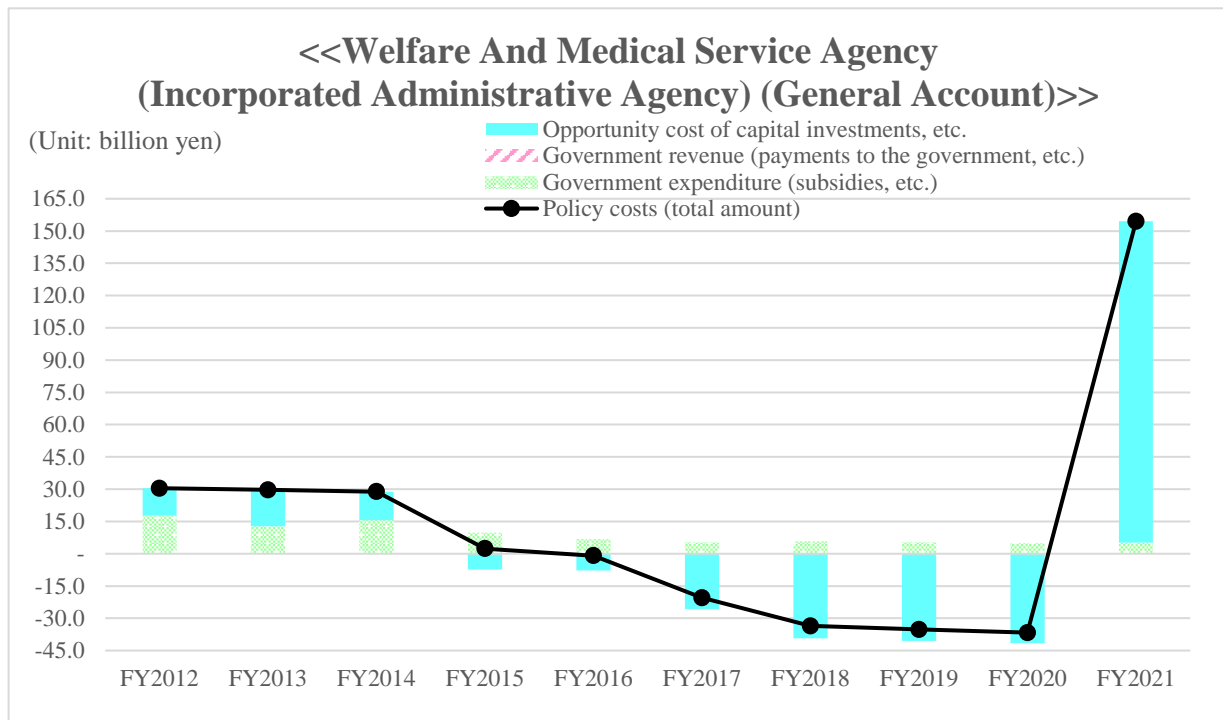
Institutions providing care and health services for the elderly: 22,000 persons (363,000 persons)

Hospitals: 7,000 beds (1,183,000 beds)

Note: Figures in parentheses indicate the capacities (provisional figures) of the private social welfare facilities as of October 2019.

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)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Policy costs (total amount)	30.4	29.7	28.8	2.4	-0.9	-20.5	-33.5	-35.2	-36.7	154.5
Government expenditure (subsidies, etc.)	17.7	12.7	15.6	9.7	6.8	5.3	5.7	5.3	4.9	5.1
Government revenue (payments to the government, etc.)	-	-	-	-	-	-	-	-	-	-
Opportunity cost of capital investments, etc.	12.8	16.9	13.2	-7.4	-7.7	-25.7	-39.3	-40.5	-41.6	149.4

【Explanation of policy cost trends】

Until FY2014, "opportunity cost of capital investments, etc." remained positive due to the receipt of capital investments from the government under the FY2011 supplementary budget that was intended to compensate for the difference in interest rates (loss margin) generated by disaster rehabilitation and reconstruction loans (interest-free loans, etc.) after the Great East Japan Earthquake and also due to the extension of the analysis period in accordance with the extension of the loan period.

Between FY2015 and FY2020, profit increased and a surplus arose because of a significant decrease in the cost of issuing bonds for the fund-raising purpose due to a decline in the assumed interest rate. As a result, "opportunity cost of capital investments, etc." became negative.

In FY2021, due to the effects of loans associated with COVID-19, "opportunity cost of capital investments, etc." increased significantly.

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

In FY2021, the policy cost increased significantly due to the effects of loans associated with COVID-19. Regarding future cash flow, which is used as an assumption for the policy cost estimation, although financial soundness has been secured, it is necessary to keep a close watch on the effects of loans associated with COVID-19 on financial conditions.

The results of the sensitivity analysis (case before the negative interest rate policy) showed an increase of 13.9 billion yen in the policy cost. However, as "opportunity cost of capital investments, etc." accounts for most of the cost increase, WAM's assessment is that the impact on the actual financial conditions is minimal.

The results of the sensitivity analysis (case of a 1% increase in loan charge-offs) showed an increase of 1.1 billion yen in the policy cost. However, as the increase is limited, WAM's assessment is that the impact on the actual financial conditions is 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)			
Current assets	262,188	366,268	261,845	Current liabilities	271,005	292,699	287,312
Cash and bank deposits	3,830	106,427	1,986	Deposited subsidies, etc.	3,545	-	-
Long-term loan to be recovered within one year	254,479	256,608	256,377	Deposited donations	129	200	200
Prepaid expenses	19	-	-	WAM bonds to be repaid within one year	20,000	33,000	27,000
Accrued income	3,500	3,246	3,495	Long-term loans to be repaid within one year	241,203	254,495	255,345
Accounts receivable	352	-	-	Accrued payments	397	136	136
Others	3	-	-	Accrued expenses	5,062	4,721	4,485
Loan loss provisions	- 145	- 146	- 146	Advances received	0	-	-
Reversal of loan loss provisions	149	133	133	Deposit received	12	-	-
Fixed assets	3,089,320	5,373,926	6,885,533	Provisions			
Tangible fixed assets	67	66	47	Provision for bonuses	149	133	133
Buildings	5	4	3	Others	509	13	13
Vehicles and transportation equipment	0	0	0	Fixed liabilities	3,057,214	5,286,701	6,713,748
Tools furniture and fixtures	62	62	43	Asset collateral liabilities	1,141	808	441
Intangible fixed assets	1,128	783	423	Grants for asset collateral operation cost	917	655	327
Software	1,095	782	422	Asset collateral subsidies	192	153	114
Telephone subscription right	1	1	1	Grants for software in progress collateral operation cost	32	-	-
Software in progress	32	-	-	Long-term contributions received	349	257	227
Investment and other assets	3,088,125	5,373,076	6,885,064	WAM bonds	230,000	217,000	210,000
Long-term loan receivable	3,088,525	5,377,235	6,892,982	Discount on bond (-)	- 8	- 6	- 5
Claims in bankruptcy/ revitalization, doubtful accounts, and other	10,373	10,857	11,341	Long-term loans payable	2,823,516	5,066,421	6,500,876
Security deposit and guarantee	708	708	708	Provisions			
Loan loss provisions	- 13,676	- 17,919	- 22,162	Provision for retirement benefits	2,194	2,194	2,194
Return for provision for retirement benefits	2,194	2,194	2,194	Others	21	28	14
				(Total liabilities)	3,328,218	5,579,400	7,001,060
				Capital			
				Financing by the Government	21,788	160,605	160,605
				Capital surplus	- 775	- 775	- 775
				Capital surplus	1,095	1,095	1,095
				Other administrative costs accumulated	- 1,870	- 1,870	- 1,870
				Amount equivalent to accumulated depreciation cost (-)	- 97	- 97	- 97
				Amount equivalent to accumulated net gains or losses on sale or disposal	- 1,773	- 1,773	- 1,773
				Retained earnings or loss carried forward (-)	2,277	964	- 13,511
				Reserve fund	-	2,277	964
				Unappropriated profit or loss for the current year	2,277	- 1,312	- 14,476
				(of this, gross profit or loss)	(6,368)	(- 1,312)	(- 14,476)
				(Total equity)	23,290	160,794	146,318
Total assets	3,351,508	5,740,194	7,147,378	Total liabilities and equity	3,351,508	5,740,194	7,147,378

Notes 1. The balance sheet includes costs for projects other than those subject to the policy cost analysis.

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

Income Statement

(Unit: million yen)

Item	FY2019 (Result)	FY2020 (Estimated)	FY2021 (Planned)
Ordinary expenses	36,502	40,384	58,219
Cost of administrating welfare and medical loans	33,646	36,929	55,026
Expenses for management consultation operations	484	470	483
Cost of administrating welfare/health information services	721	1,218	964
Cost of administrating assistance for social welfare	892	894	896
General and administrative expenses	757	874	849
Miscellaneous losses	2	-	-
Ordinary income	40,945	39,072	43,743
Operation grant income	1,054	2,831	948
Income from welfare and medical loan operations	38,316	30,737	37,861
Income from management services	73	61	73
Income from welfare/health information services	4	3	4
Income from assistance for social welfare services	11	11	-
Income from subsidies, etc.	579	4,534	4,023
Contributions	209	191	200
Reversal of grants for asset collateral operation cost	331	353	328
Reversal of asset collateral subsidie	3	39	39
Income regarding return for provision for bonuses	149	133	133
Income regarding return for provision for retirement benefits	208	175	130
Financial income	0	0	0
Miscellaneous income	7	4	5
Ordinary profit or loss (-)	4,443	- 1,312	- 14,476
Temporary losses	2,257	-	-
Transfer of provision for bonuses accompanying accounting standard revision	145	-	-
Transfer of retirement allowance cost accompanying accounting standard revision	2,112	-	-
Extraordinary profits	4,183	-	-
Reversal of allowance for doubtful receivables	1,925	-	-
Income regarding return for provision for bonuses	145	-	-
Income regarding return for provision for retirement benefits	2,112	-	-
Net profit or loss	6,368	- 1,312	- 14,476
Gross profit or loss	6,368	- 1,312	- 14,476

Notes 1. The balance sheet includes costs for projects other than those subject to the policy cost analysis.

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