

Development Bank of Japan Inc.

<https://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 FY2021 FILP

(Unit: billion yen)

FY2021 FILP	Estimated outstanding amount of FILP lending at the end of FY2020
900.0	11,249.7

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2020	FY2021	Fluctuation
1. Government expenditure (subsidies, etc.)	0.0	0.0	-0.0
2. Government revenue (payments to the government, etc.)*1	-697.8	-943.6	-245.9
3. Opportunity cost of capital investments, etc.	-273.4	-290.0	-16.6
Total (1+2+3=policy cost(A))	-971.2	-1,233.6	-262.5
Analysis period (years)	41 years	41 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)	-971.2	-1,233.6	-262.5
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	255.6	353.7	+98.0
2) Policy cost expected to be newly accrued during the analysis period	-1,226.8	-1,587.3	-360.5
Government expenditure (subsidies, etc.)	0.0	0.0	-0.0
Government revenue (payments to the government, etc.)*1	-697.8	-943.6	-245.9
Opportunity cost of surplus, etc.	-529.0	-643.7	-114.6
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)	-971.2	-1,233.6
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2021 analysis)	-936.4	-1,244.2	Real fluctuation (2-1)
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2020)			

[Real fluctuation factor analysis]

○Factors behind policy cost decrease

- Decrease in cost due to a revision of an accumulation method for Special Investment Operations (-160.3 billion yen)

- Decrease in cost through new loans provided in FY2021 (-147.4 billion yen)

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

(A) Policy cost in FY2021 (previously cited)	-1,233.6
1) Prepayments	6.8
2) Loan losses	30.8
3) Others (including profit spread)	-1,271.3

(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.
			-1,233.6	-1,223.0	+10.6

(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.
			-1,233.6	-1,233.3	+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.

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 FY2021 financing plan (2,600.0 billion yen) in addition to the existing loan balance (as of the end of FY2020).
- 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 2020 based on the Banking Act totaled 57.2 billion yen (non-consolidated). Loan loss provisions at the end of March 2020, based on private-sector accounting standards, stood at 35.5 billion yen (non-consolidated).

FY	Result				Estimated 2020	Planned 2021	Assumptions for calculation 2022-
	2016	2017	2018	2019			
Prepayment ratio	2.26%	3.33%	3.01%	2.04%	0.40%	0.39%	Accumulated total from FY2022 onwards: 2.12%
Loan charge-off ratio	0.02%	0.00%	0.00%	0.00%	0.09%	0.04%	Accumulated total from FY2022 onwards: 0.20%

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 FY2020 and based on the statutory effective tax ratio from current earnings before tax from FY2021 onwards.

<Dividend>

It is assumed that DBJ will pay dividends based on the estimated result in FY2020 and will pay an amount equivalent to 25% of profits after taxes to the national treasury annually from FY2021.

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 Special 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, 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, 2018 – March 2019:	3,490.4 billion yen	300.4 billion yen
• April, 2019 – March 2020:	3,401.5 billion yen	550.3 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):

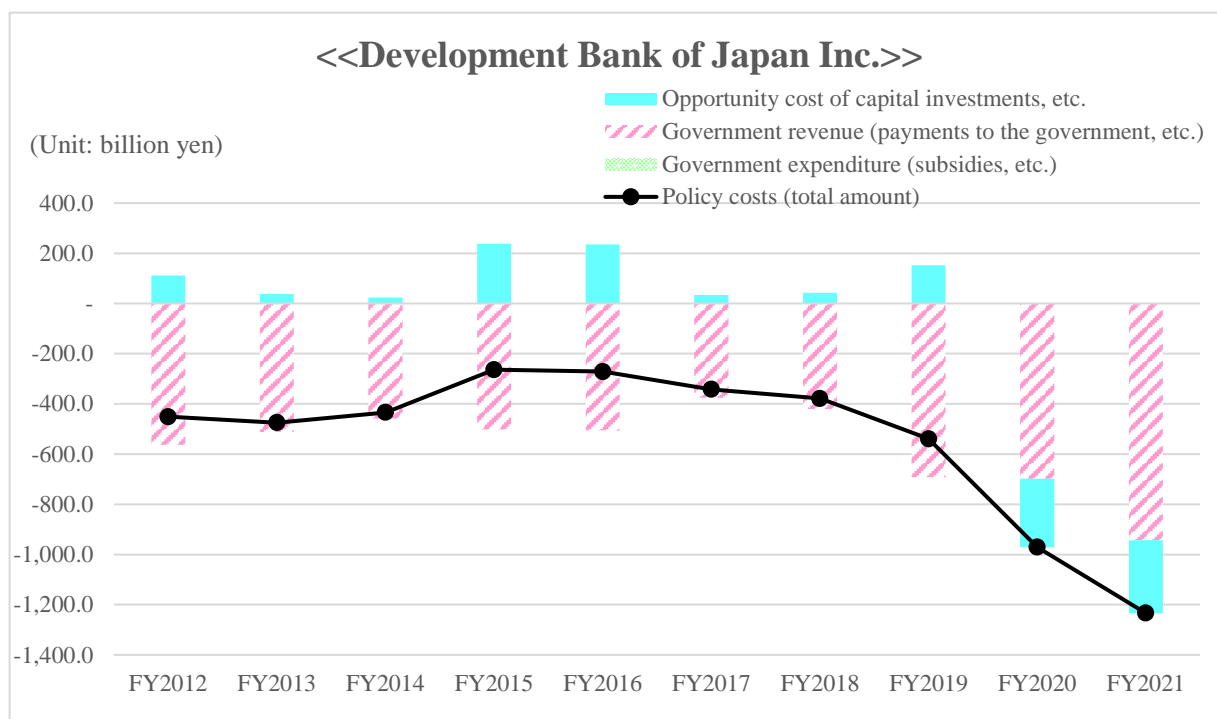
- Assistance to regional revitalization: Promotion of the development of regional towns including revitalization of urban areas; promotion of regional infrastructure; promotion of industrial location; promotion of projects that create employment opportunities in regions, etc.
- Enhancement of environment 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 Response Operations, 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)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Policy costs (total amount)	-451.0	-474.6	-434.0	-263.8	-271.2	-342.1	-378.5	-539.4	-971.2	-1,233.6
Government expenditure (subsidies, etc.)	0.3	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Government revenue (payments to the government, etc.)	-563.0	-512.1	-458.1	-501.8	-506.2	-376.0	-420.8	-692.3	-697.8	-943.6
Opportunity cost of capital investments, etc.	111.7	37.3	24.0	237.9	234.9	33.9	42.3	152.9	-273.4	-290.0

【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.
- In FY2021, the policy cost decreased due to an increase in payments to the government, etc. caused by the revision of the assumptions (rate of return) concerning Special Investment Operations.

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

- Although the policy cost is susceptible to changes in the assumed interest rates because of the long analysis period, a level of profit higher than the discount factor is expected to be continuously maintained. Therefore, the policy cost has stably stayed negative.
- In the sensitivity analysis (case before the negative interest rate policy), the policy cost increased by 10.6 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.
- The results of the sensitivity analysis (case of a 1% increase in loan charge-offs) showed a slight increase (+0.3 billion yen) in the policy cost, but there is no particular impact on the actual financial conditions.

(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)			
Cash and bank deposits	1,252,106	1,107,823	744,704	Bonds	3,314,656	3,674,656	3,539,800
Securities	2,400,949	3,240,949	3,790,949	Borrowings	7,882,447	11,148,461	11,106,649
Loans	12,521,359	16,179,908	16,306,608	Bond	2,377,101	2,719,501	3,004,859
Other assets	1,244,989	1,244,989	1,244,989	Other liabilities	471,654	471,654	471,654
				(Total liabilities)	14,045,859	18,014,273	18,122,961
				Capital	1,000,424	1,000,424	1,000,424
				Contingency reserve	206,529	206,529	206,529
				Specified investment reserve	848,000	1,488,000	1,838,000
				Specified investment surplus	12,436	21,648	21,648
				Capital surplus	636,466	316,466	141,466
				Retained earnings	629,290	685,930	715,823
				Valuation and translation adjustments	40,397	40,397	40,397
				(Total equity)	3,373,543	3,759,395	3,964,287
Total assets	17,419,402	21,773,667	22,087,249	Total liabilities and equity	17,419,402	21,773,667	22,087,249

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

Income Statement

(Unit: million yen)

Item	FY2019 (Result)	FY2020 (Estimated)	FY2021 (Planned)
Ordinary income	260,167	304,200	276,200
Revenue from fund management	174,958		
Revenue from service transactions, etc.	11,562	304,200	276,200
Other business income	15,172		
Other ordinary income	58,475		
Ordinary expenses	182,739	195,900	200,800
Financing cost	77,086		
Expenses for service transactions, etc.	130		
Other operating expenses	12,316	195,900	200,800
Other ordinary expenses	39,562		
Business expenses	53,644		
Ordinary profit	77,428	108,300	75,400
Extraordinary profits	1	-	-
Extraordinary loss	295	-	-
Net profit before tax	77,134	108,300	75,400
Corporate tax, residence tax and enterprise tax	29,817	32,500	32,400
Income taxes-deferred	408	-	-
Net profit	46,908	75,800	43,000

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