

# Organization for Promoting Urban Development (General Incorporated Foundation)

<http://www.minto.or.jp/>

## 1. Summary of operations implemented using FILP funds

The Organization for Promoting Urban Development provides mezzanine support for facilitating the provision of middle-risk funds for long-term private sector urban development projects, contributing to the advancement of urban functioning and the improvement of urban living environments, and steadily promoting excellent private sector urban development projects that feature great direct and spillover effects of investment.

## 2. Amount of lending under FY2021 FILP

(Unit: billion yen)

FY2021 FILP	Estimated outstanding amount of FILP lending at the end of FY2020
35.0	85.8

## 3. Estimated policy cost analysis of the project

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

Category	FY2020	FY2021	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.)*1	-4.3	-4.5	-0.2
3. Opportunity cost of capital investments, etc.	0.3	0.4	+0.1
<b>Total (1+2+3=policy cost(A))</b>	<b>-4.0</b>	<b>-4.1</b>	<b>-0.1</b>
Analysis period (years)	21 years	21 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)	-4.0	-4.1	-0.1
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	-	-	-
2) Policy cost expected to be newly accrued during the analysis period	-4.0	-4.1	-0.1
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)*1	-4.3	-4.5	-0.2
Opportunity cost of surplus, etc.	0.3	0.4	+0.1
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)	-4.0	-4.1
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2021 analysis)	-3.4	-4.2	Real fluctuation (2-1)
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2020)	-3.4	-4.2	-0.8

[Real fluctuation factor analysis]

#### ○Factors behind policy cost increase

- Increase in cost due to finalization of FY2019 results and revision of FY2020 projections (+2.0 billion yen)
- Increase in cost due to supplementary FY2020 budgets and FILPs (+2.0 billion yen)

#### ○Factors behind policy cost decrease

- Decrease in cost through new loans provided in FY2021 (-4.0 billion yen)
- Decrease in cost due to decrease in loan losses (-0.6 billion yen)
- Others (Decrease in cost due to a decrease in clerical costs, etc.) (-0.2 billion yen)

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

(A) Policy cost in FY2021 (previously cited)	-4.1
1) Prepayments	-
2) Loan losses	3.2
3) Others (including profit spread)	-7.3

### (5) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

(A) Policy cost (previously cited)	Case before the negative interest rate policy*2	Fluctuation	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
-4.1	-3.2	+0.9	-	+0.4	+0.5

(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.
-4.1	-3.8	+0.3	-	+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 covers the mezzanine support project among the operations of the Organization for Promoting Urban Development.
- 2) The analysis covers the 21-year period during which all loans and bonds under the FY2021 plan will be redeemed.
- 3) No prepayment is projected in the absence of past data for the mezzanine support project.
- 4) Loan charge-off is calculated based on default ratios obtained from private sector rating agencies, since mezzanine support aims to provide middle-risk funds.
- 5) The Organization for Promoting Urban Development is a general incorporated foundation, so the mezzanine support project is subject to the imposition of corporate tax and interest income tax. Therefore, the estimation covers the tax amount in each fiscal year until the fiscal year when the project is completed.

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

The Organization received subsidies from the general account in FY2011 for recapitalization to stably conduct mezzanine support operations over the long term.

(Underlying laws and regulations)

##### 【Provisions on capital】

- Outline of the urban revitalization promotion system Article 14-5, National aid

The government can grant a subsidy necessary to allowance deposit of support operations for private sector urban development projects within a budget.

[Provisions on payments to the Government]

- Outline of the urban revitalization promotion system Article 14-6

Paragraph 1~2 (omitted)

Paragraph 3

Organization for Promoting Urban Development must pay to the national treasury the balance of allowance deposit of support operations for private sector urban development projects when Organization for Promoting Urban Development abolishes mezzanine support operations.

#### 6. Special remarks

Organization for Promoting Urban Development was shifted from an incorporated foundation to a general incorporated foundation on April 1, 2013, approved by the Prime Minister pursuant to the provisions under Article 45 of the Act on Revising Related Acts in accordance with the Implementation of the Act on General Incorporated Associations and General Incorporated Foundations and the Act on Authorization of Public Interest Incorporated Associations and Public Interest Incorporated Foundation.

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

##### I. Lending and Equity participation

Support results etc.

- (1) Support results (10 matters): 101.6 billion yen
- (2) Planned support in FY2021: 45.0 billion yen

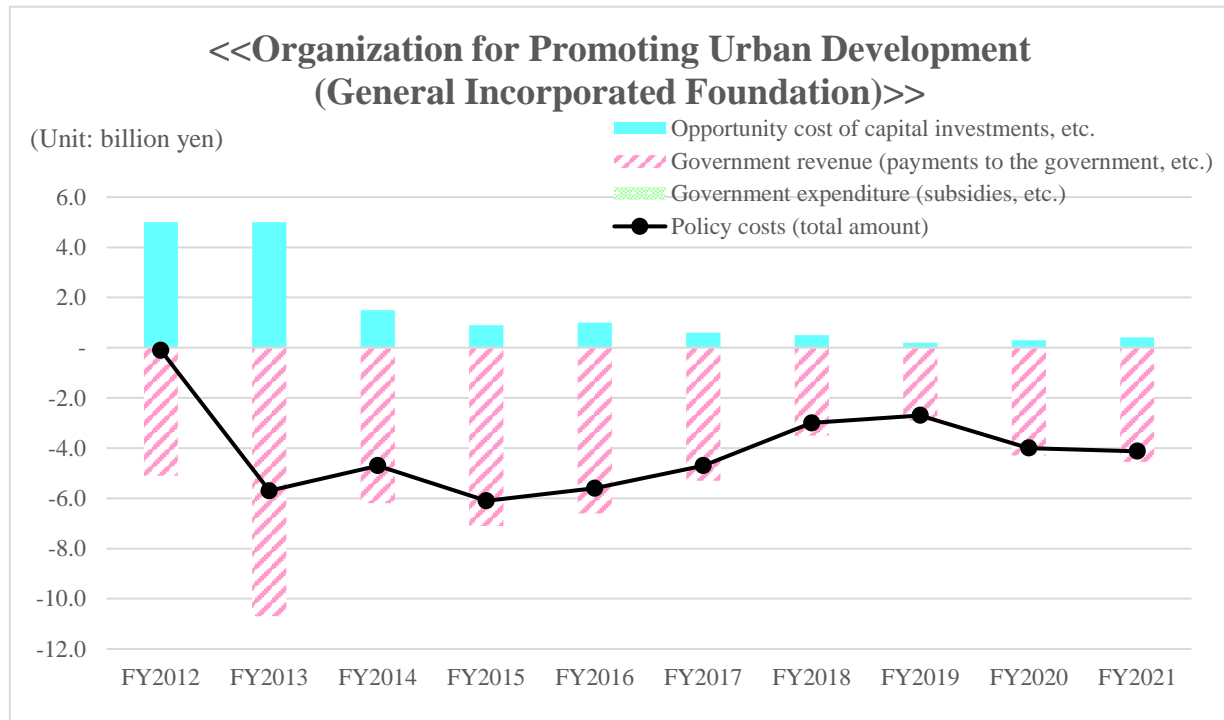
##### II. Primary types of financing for social and economic benefits

Mezzanine support project's demand creation effect (FY2021): About 871.4 billion yen

Economic effect of FILP project investment (FY2021): About 2,192.2 billion yen

# 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)	-0.1	-5.7	-4.7	-6.1	-5.6	-4.7	-3.0	-2.7	-4.0	-4.1
Government expenditure (subsidies, etc.)	-	-	-	-	-	-	-	-	-	-
Government revenue (payments to the government, etc.)	-5.1	-10.7	-6.2	-7.1	-6.6	-5.3	-3.5	-2.9	-4.3	-4.5
Opportunity cost of capital investments, etc.	5.0	5.0	1.5	0.9	1.0	0.6	0.5	0.2	0.3	0.4

### 【Explanation of policy cost trends】

- In accordance with the change of the Organization for Promoting Urban Development to a general incorporated foundation on April 1, 2013, the mezzanine support project that was covered by the estimation became subject to the imposition of corporate tax and interest income tax. Therefore, money transferred to the government has increased since FY2013, resulting in the policy costs having been substantially decreased. Since then, negative costs have been leveling off or increasing in line with the shrinking business size.

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

- Payments to the government increased due to an increase in interest payments during the analysis period.
- The results of the sensitivity analysis showed an increase of 0.9 billion yen in the policy cost compared with the case before the negative interest rate policy, indicating a decline in profitability. This is presumed to reflect the effects of a decline in payments to the government (including taxes) due to changes in profits from investment of surplus funds and the profit margin. Therefore, the impact of interest rate differences on financial conditions cannot be said to be small.
- The results of the sensitivity analysis showed an increase of 0.3 billion yen in the policy cost compared with the case of a 1% increase in loan charge-offs, indicating a decline in profitability. The cost increase is presumed to reflect the effects of a decline in payments to the government (including taxes) due to changes in profits from investment of surplus funds and the profit margin. Given these points, the impact of interest rate differences on financial conditions is not necessarily small.
- The policy cost estimation indicated no problematic events, meaning that financial soundness has been secured.

## (Reference) Financial Statements

## Balance Sheet (Mezzanine Support Project)

(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)</b>			
Current assets				Current liabilities			
Cash and deposits	138	77	77	Accrued payments	16	-	-
Fixed assets				Accrued corporate tax, etc.	46	-	-
Specific assets				Reserve for bonuses	9	-	-
Allowance deposit of support operations for private sector urban development projects	5,026	5,031	5,035	Fixed liabilities			
Deposit for reserve for retirement benefits	46	40	40	Government-guaranteed borrowings	5,800	15,800	25,500
Loans for mezzanine support operations	59,600	101,600	146,300	Government-guaranteed bonds	53,800	85,800	120,800
Allowance for possible loan losses	-	-4,322	-6,489	Reserves for retirement pensions	46	40	40
Investments securities for mezzanine support operations	-	-	-	<b>Total liabilities</b>	<b>59,716</b>	<b>101,640</b>	<b>146,340</b>
Management preparation deposit for mezzanine support operations	7,857	8,925	9,695				
Other fixed assets	-	-	-	<b>(Equity)</b>			
				Specified net asset	5,026	5,031	5,035
				General net asset	7,926	4,681	3,284
				<b>Total equity</b>	<b>12,952</b>	<b>9,711</b>	<b>8,319</b>
<b>Total assets</b>	<b>72,668</b>	<b>111,351</b>	<b>154,658</b>	<b>Total liabilities and equity</b>	<b>72,668</b>	<b>111,351</b>	<b>154,658</b>

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

## Revenue and Expenditure Budget (Mezzanine Support Project)

(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>(Revenues)</b>				<b>(Expenditures)</b>			
Revenues from investment of provisions for private sector urban development projects	1	5	5	Management expenses	136	173	173
Revenue from mezzanine support operations	447	2,994	2,934	Mezzanine support expenses	15,007	42,078	45,090
Interest received	447	2,994	2,634	Mezzanine support project expense	15,000	42,000	45,000
Collection of loans, etc.	-	-	300	Mezzanine support research expense, etc.	7	78	90
Borrowings from private sector	15,000	42,000	50,650	Redemption of loans, etc.	-	-	5,950
Government-guaranteed bonds	15,000	32,000	35,000	Interest and bond issuance expenses	181	1,113	1,220
Government-guaranteed borrowings	-	10,000	15,650	Interest on bonds	115	724	771
Reversal income of specific deposits	3	7	-	Interest on loans, etc.	5	259	305
Miscellaneous revenues	-1	9	8	Commission paid on bonds	61	131	144
				Specific deposit expenses	114	1,072	774
				Provisions for private sector urban development project support operations	0	4	4
				Reserves for mezzanine support operations	108	1,068	770
				Deposit for reserve for retirement benefits, etc.	5	-	-
				Taxes and dues	46	572	384
				Clerical mechanization expenses	4	6	6
<b>Total revenues</b>	<b>15,449</b>	<b>45,015</b>	<b>53,597</b>	<b>Total expenditures</b>	<b>15,489</b>	<b>45,015</b>	<b>53,597</b>
Balance brought forward	117	77	77	<b>Balance</b>	<b>-40</b>	<b>-</b>	<b>-</b>
<b>Total revenues</b>	<b>15,566</b>	<b>45,092</b>	<b>53,674</b>	<b>Balance to be brought forward</b>	<b>77</b>	<b>77</b>	<b>77</b>

Notes: 1. Components may not add up to the total because of rounding.

2. Organization for Promoting Urban Development does not prepare an income statement because it is a general incorporated foundation and employs an accounting method based on the public interest corporation accounting standards.

(Reference) Hypothetical Balance Sheets and Hypothetical Profit and Loss Statements for Private Companies

Hypothetical Balance Sheet for Private Companies  
(Mezzanine Support Project)

(Unit: million yen)

Item	End of FY2019	Category	End of FY2019
(Assets)		(Liabilities)	
Current assets	13,068	Current liabilities	70
Cash and bank deposits	13,068	Accrued expenses	16
Accounts receivable	-	Accrued corporate tax, etc.	46
Fixed assets	59,600	Reserve for bonuses	9
Intangible fixed assets	-	Fixed liabilities	59,646
Software	-	Bonds	53,800
Investment and other assets	59,600	Long-term loans payable	5,800
Long-term loan receivable	59,600	Reserves for retirement pensions	42
Investment securities	-	Reserve for directors' retirement benefits	4
		(Total liabilities)	59,716
		(Equity)	
		Capital stock	12,952
		Capital surplus	11,500
		Other capital surplus	11,500
		Retained earnings	1,452
		Other retained earnings	1,452
		Retained earnings brought forward	1,452
		Valuation and translation adjustments	-
		Valuation difference on securities	-
		(Total equity)	12,952
Total assets	72,668	Total liabilities and equity	72,668

Hypothetical Profit and Loss Statement for Private Companies  
(Mezzanine Support Project) (Unit: million yen)

Item	End of FY2019
Sales	
Interest received	340
Commission received	116
Costs of goods sold	
Interest expenses	120
Commission paid	61
Gross operating profit	275
Sales and administration expenses	153
Operating profit	122
Ordinary profit	233
(Extraordinary profits)	-
(Extraordinary loss)	-
Net profit before tax	233
Corporate tax, residence tax and enterprise tax	46
Net profit (or loss)	188

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