

Japan Finance Corporation (Account for Operations to Facilitate Crisis Responses)

<https://www.jfc.go.jp/>

1. Summary of operations implemented using FILP funds

In the event of domestic or international financial chaos recognized by the state minister in charge or a large-scale disaster, JFC extends credit to designated financial institutions. The designated financial institutions receive credit from JFC, respond to the crisis and supply funds required for dealing with the crisis.

The following project 1) is eligible for FILP.

1) Loans to designated financial institutions

JFC provides loans to designated financial institutions using FILP funds or bonds (government-backed bonds) as a resource.

2) Compensation for a loss of loans from designated financial institutions

JFC compensates a part of loss caused by loans from designated financial institutions by concluding a damage security contract with designated financial institutions.

3) Provision of interest subsidies to designated financial institutions which receive above credits and provide loans

JFC provides interest subsidies to designated financial institutions to politically reduce the interest on loans from the designated financial institutions.

2. Amount of lending under FY2022 FILP

(Unit: billion yen)

FY2022 FILP	Estimated outstanding amount of FILP lending at the end of FY2021
474.0	14,017.8

3. Estimated policy cost analysis of the project

(1) Policy cost

(Unit: billion yen)

Category	FY2021	FY2022	Fluctuation
1. Government expenditure (subsidies, etc.)	1.7	1.9	+0.2
2. Government revenue (payments to the government, etc.)*1	-	-	-
3. Opportunity cost of capital investments, etc.	3,484.7	1,995.3	-1,489.3
Total (1+2+3=policy cost(A))	3,486.4	1,997.2	-1,489.2
Analysis period (years)	20 years	20 years	-

(2) Breakdown of policy cost by the time of the provision of funds

(Unit: billion yen)

Category	FY2021	FY2022	Fluctuation
(A) Policy cost (previously cited)	3,486.4	1,997.2	-1,489.2
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	205.1	248.4	+43.3
2) Policy cost expected to be newly accrued during the analysis period	3,281.3	1,748.9	-1,532.5
Government expenditure (subsidies, etc.)	1.7	1.9	+0.2
Government revenue (payments to the government, etc.)*1	-	-	-
Opportunity cost of surplus, etc.	3,279.6	1,747.0	-1,532.6
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.
1,997.2	1,978.3	-18.9	-0.0	-	-18.9
(A) Policy cost (previously cited)	Case of a 1% increase in compensation/compensation loss reserves	Fluctuation	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
1,997.2	2,011.8	+14.6	-	-	+14.6

(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		FY2021	FY2022	Simple fluctuation
		Simple comparison (before adjustment)	3,486.4	1,997.2
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2022 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2021)	Real fluctuation (2-1)
		2,886.6	1,991.7	-894.9

[Real fluctuation factor analysis]

○Factors behind policy cost increase

-None

○Factors behind policy cost decrease

-Decrease in cost due to a decrease in estimated loss compensation payments through a funding cut for a COVID-19-related loss compensation operation under the FY2022 budget. (-894.9 billion yen)

(Reference)

-COVID-19-related loss compensation operation funding size: 12,616.6 billion yen under the FY2020 budget → 5,034.7 billion yen under the FY2021 budget → 432.1 billion yen under the FY2022 budget

-FY2020 COVID-19-related loss compensation contracts: 2,364.2 billion yen

(4) Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2022 (previously cited)	1,997.2
1) Prepayments	-
2) Loan losses	-
3) Others (including profit spread)	1,997.2

4. Outline of estimation and project prospect employed in the analysis

- All projects (loans, loss compensation and interest subsidies) are eligible for estimation.
- The estimation has been made for the implementation of loans worth 574.0 billion yen to designated financial institutions and damage security services worth 531.3 billion yen (compensation for losses) in FY2022.
- The analysis period is 20 years until FILP funds based on FY2022 business plan are completely redeemed.
- The administrative expense decreases depending on assumed outstanding loans from FY2023.
- Since it is difficult to estimate prepayments at present, prepayments or compensation income accompanying prepayments are not projected for this estimation.

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

(Reasons)

In the event of crisis in which JFC cannot respond to using operations transferred from the former corporation, it is required to extend credit to designated financial institutions so that they can provide funds to deal with the crisis. JFC accepts investments and subsidies required for such operations.

(Underlying laws and regulations)

- Grants/Subsidies have no legal base (they are budgetary measures).

- The Japan Finance Corporation Act provides for capital investment. (Article 4)

Article 4 (1) The Government may, when it finds it to be necessary, make contributions to JFC within the amount appropriated in the budget.

(2) When a contribution is made by the Government pursuant to the provisions of the preceding Paragraph, JFC shall, notwithstanding the provisions of Article 445, Paragraph 2 of the Companies Act (Act No. 86 of 2005), be allowed not to record the amount exceeding half of such contribution amount as the capital.

(3) When a contribution is made by the Government investment to the provisions of Paragraph 1 of this Article, JFC shall, in accordance with the separation of accounting prescribed in Article 41 hereof, allocate the capital or reserve increased as a result of such contribution to each account related to the operations listed in each Item of the same Article.

- The Japan Finance Corporation Act provides for payment to the national treasury. (Article 47)

Article 47 (1) 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.

(2) Omitted

6. Special remarks

None

(Reference) Outcome and social and economic benefits of operations

1) Financial result FY2020 (Result)

(1) Loans to designated financial institutions	3,549.5 billion yen
(2) Damage security acceptance for loans from designated financial institutions	2,364.6 billion yen
(3) Interest subsidies to designated financial institutions	4.6 billion yen

Total financing results from FY2008 to FY2020

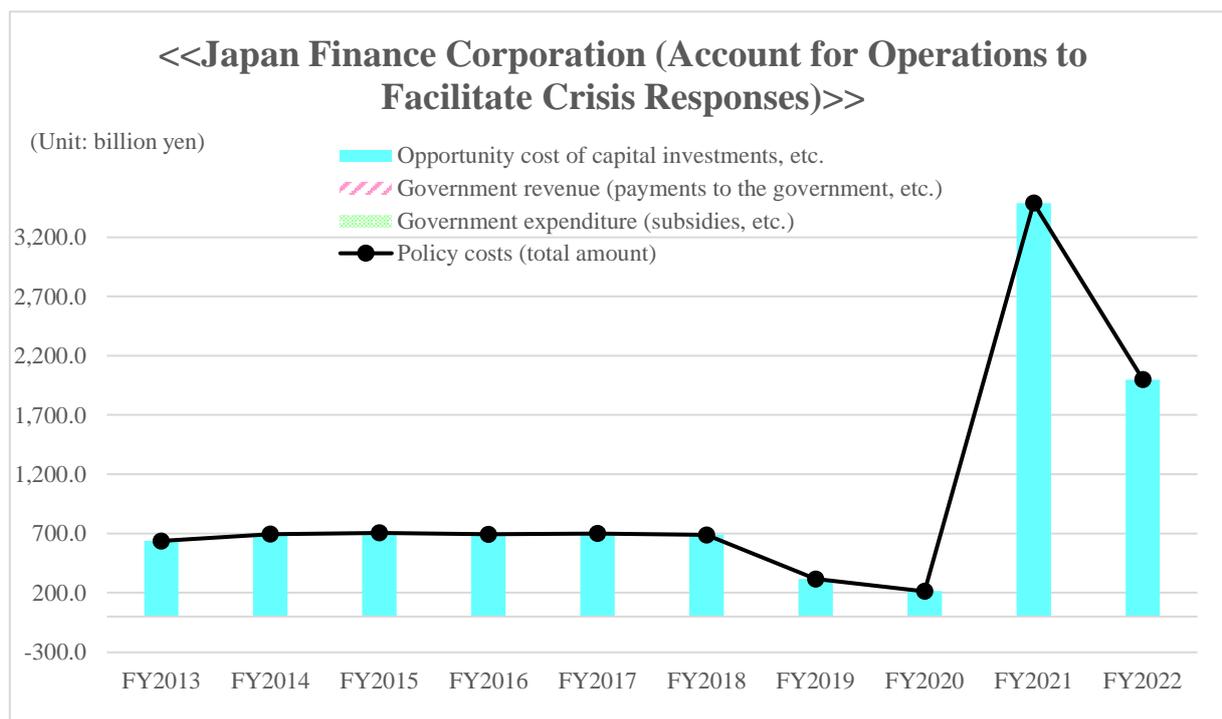
(1) Loans to designated financial institutions	12,585.7 billion yen
(2) Damage security acceptance for loans from designated financial institutions	13,984.7 billion yen
(3) Interest subsidies to designated financial institutions	75.6 billion yen

- 2) The purpose of Operations to Facilitate Crisis Responses is to extend credit to designated financial institutions so that they can promptly and smoothly supply funds required for dealing with domestic or global financial chaos, a large-scale disaster, terrorism or infection, etc.

- 3) With securing a crisis response which is the same level and same scope as that implemented by policy finance institutions such as the Shoko Chukin Bank and the Development Bank of Japan Inc. through Operations to Facilitate Crisis Responses, necessary funds are smoothly supplied in the event of crisis.

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)

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Policy costs (total amount)	637.0	694.1	704.7	693.3	699.9	688.3	316.7	214.2	3,486.4	1,997.2
Government expenditure (subsidies, etc.)	3.8	3.3	3.1	2.8	2.8	0.6	0.6	0.6	1.7	1.9
Government revenue (payments to the government, etc.)	-	-	-	-	-	-	-	-	-	-
Opportunity cost of capital investments, etc.	633.2	690.8	701.6	690.5	697.1	687.7	316.1	213.6	3,484.7	1,995.3

【Explanation of policy cost trends】

- The policy cost increased after FY2012, when JFC received capital investments necessary for expanding damage security and interest subsidy operations under initial and supplementary budgets in response to the Great East Japan Earthquake and changes in the economic environment, and it remained high until FY2018.
- After FY2019, the policy cost trended downward due to such factors as a fall in estimated loss compensation payments caused by the reduction of damage security operations and a decline in outstanding loans subject to loss compensation. However, the policy cost increased steeply due to a rise in estimated loss compensation payments caused by the expansion of damage security operations related to COVID-19 and by implementation of fiscal measures for loss compensation payments under the FY2020 supplementary budget and FY2021 budget.
- The policy cost in FY2022 decreased as loss compensation contracts in FY2020 slipped below the funding size and the FY2022 funding size declined.

【FILP agency's self-assessment of policy cost analysis results (FY2022)】

- Accounting for most of the policy cost for Operations to Facilitate Crisis Responses are opportunity cost of losses on compensation payments regarding damage security services and on interest subsidies regarding interest subsidy services and of capital investments introduced for these services. They are indispensable for implementing the operations.
- Adjusting the assumptions to assume the conditions before the negative interest rate policy or an increase of 1% in compensation/compensation loss reserves under the sensitivity analysis has a limited impact.

(Reference) Financial Statements

Balance Sheet

(Unit: million yen)

Item	End of FY2020 (Result)	End of FY2021 (Estimated)	End of FY2022 (Planned)	Item	End of FY2020 (Result)	End of FY2021 (Estimated)	End of FY2022 (Planned)
(Assets)				(Liabilities and net assets)			
Cash and deposits	767,321	2,653,045	2,378,639	Borrowed money	4,420,649	14,017,759	13,756,604
Loans and discounted	4,570,649	14,867,759	14,336,604	Bonds payable	150,273	850,145	580,072
Other assets	269	3,602	3,615	Other liabilities	11,141	171,931	163,732
Tangible fixed assets	3	4	4	Provision for bonuses	7	7	7
Intangible fixed assets	118	94	69	Provision for directors' bonuses	0	0	0
Prepaid pension cost	18	18	18	Provision for retirement benefits	92	104	116
				Reserve for directors' retirement benefits	0	0	0
				Provision for compensation loss	25,449	160,732	165,092
				(Total liabilities)	4,607,613	15,200,680	14,665,625
				Capital	995,960	2,816,687	2,816,697
				Retained earnings	-265,192	-492,842	-763,370
				Total shareholders' equity	730,767	2,323,844	2,053,326
				(Total net assets)	730,767	2,323,844	2,053,326
Total assets	5,338,380	17,524,524	16,718,951	Total liabilities and net assets	5,338,380	17,524,524	16,718,951

Note: Amounts of less than one million yen are rounded down.

Income Statement

(Unit: million yen)

Item	End of FY2020 (Result)	End of FY2021 (Estimated)	End of FY2022 (Planned)
Ordinary income	10,139	35,740	143,040
Revenue from fund management	6,631	24,312	125,119
Revenue from service transactions, etc.	1,998	9,149	17,704
Revenue from government grants	154	199	216
Other ordinary income	1,354	2,078	-
Ordinary expenses	21,769	263,390	413,568
Financing cost	6,480	24,086	124,456
Expenses for service transactions, etc.	-	54,794	18,611
Other operating expenses	5,143	22,081	102,169
Business expenses	206	332	279
Other ordinary expenses	9,939	162,095	168,051
Ordinary loss	11,630	227,649	270,527
Net loss	11,630	227,649	270,527

Note: Amounts of less than one million yen are rounded down.