

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.

2. Amount of lending under FY2022 FILP

(Unit: billion yen)

FY2022 FILP	Estimated outstanding amount of FILP lending at the end of FY2021
224.3	1,206.5

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2021	FY2022	Fluctuation
1. Government expenditure (subsidies, etc.)	10.3	3.0	-7.4
2. Government revenue (payments to the government, etc.)*1	-98.7	-57.7	+41.0
3. Opportunity cost of capital investments, etc.	48.5	37.0	-11.5
Total (1+2+3=policy cost(A))	-39.9	-17.7	+22.2
Analysis period (years)	37 years	37 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)	-39.9	-17.7	+22.2
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	49.0	36.4	-12.6
2) Policy cost expected to be newly accrued during the analysis period	-88.9	-54.1	+34.8
Government expenditure (subsidies, etc.)	10.3	3.0	-7.4
Government revenue (payments to the government, etc.)*1	-98.7	-57.7	+41.0
Opportunity cost of surplus, etc.	-1.0	0.0	+1.0
Opportunity cost of capital investments, etc.	0.5	0.6	+0.1

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost	Simple comparison (before adjustment)	FY2021	FY2022	Simple fluctuation
		-39.9	-17.7	+22.2
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)	
		-40.9	-17.1	+23.8

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost due to finalization of FY2020 results and revision of FY2021 projections (+59.1 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to interest rate gap for new loans provided in FY2022 (-20.1 billion yen)
 - Decrease in cost due to decrease in prepayment (-8.9 billion yen)
 - Decrease in cost due to decrease in loan losses (-3.3 billion yen)
 - Others (Elimination of outstanding losses at the beginning of FY2022, etc.) (-3.1 billion yen)

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

(A) Policy cost in FY2022 (previously cited)	-17.7
1) Prepayments	17.3
2) Loan losses	6.4
3) Others (including profit spread)	-41.5

(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.
-17.7	-16.8	+1.0	-0.0	-25.0	+25.9

(A) Policy cost (previously cited)	Case of a 1% increase in loan write-offs	Fluctuation	1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
-17.7	-17.5	+0.2	+0.0	+0.2	-

(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

- 1) Of investment activities, the estimation covers all but loans solely through non-FILP special funds.
- 2) The estimation is based on the assumption that the ODFC will implement the FY2022 lending plan worth 295.1 billion yen (including 293.0 billion yen in loans and 2.1 billion yen in investment) in addition to the existing loan balance of 1,535.2 billion yen (planned for the end of FY2021).
- 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 FY2022 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 (0.22% (0.14% for housing loans and 0.24% for non-housing loans) on average for the last five years) is set aside for new loan write-offs.

(Unit: %)

FY		Result					Estimated	Planned	Assumption for calculation		
		2016	2017	2018	2019	2020			2021	2022	2023
Prepayment ratio	Housing loans	12.44	7.44	4.80	3.93	3.10	5.42	4.40	8.01	8.01	8.01
	Others	5.66	3.88	2.00	2.27	7.23	0.87	1.08	3.85	3.85	3.85
		0.23	0.21	0.41	0.13	0.13	0.20	0.12	0.22	0.22	0.22
Loan write-off ratio	Housing loans	0.01	0.00	0.70	0.00	0.00	0.22	0.20	0.14	0.14	0.14
	Others	0.28	0.26	0.35	0.15	0.15	0.19	0.12	0.24	0.24	0.24

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 6 of the Employment Insurance Act; "in addition to what is listed in (a) through (c), services contributing to employment creation in consensual voluntary employment creation regions" under Article 140, Paragraph 1, (d) 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 14 of the Cabinet Order of the Act on Special Accounts for Electric Power Development Acceleration. Measures)...
- (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 2022, the Okinawa Development Finance Corporation released its FY2021 policy finance assessment report.

(Reference) Outcome and social and economic benefits of operations

1) Investment and loan performance

i. Financing (FY2020)	19,000 cases	300.8 billion yen
ii. Financing (aggregate amount from FY1972 to FY2020)	480,000 cases	6,941.9 billion yen
• Industrial Development:		1,968.0 billion yen
• Small and Medium-Sized and Other Business:		2,481.9 billion yen
• Housing:		1,996.1 billion yen
• Primary Sector:		232.8 billion yen
• Other items:		263.1 billion yen
iii. Outstanding balance of lending (end of FY2020)	59,000 cases	1,032.0 billion yen
iv. Capital investment (FY2020)	5 cases	0.2 billion yen
v. Capital investment (aggregate amount from FY1978 to FY2020)	116 cases	9.7 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.
 - 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 (FY2020): 209 jobs]

3) Safety net loans to prevent employment loss

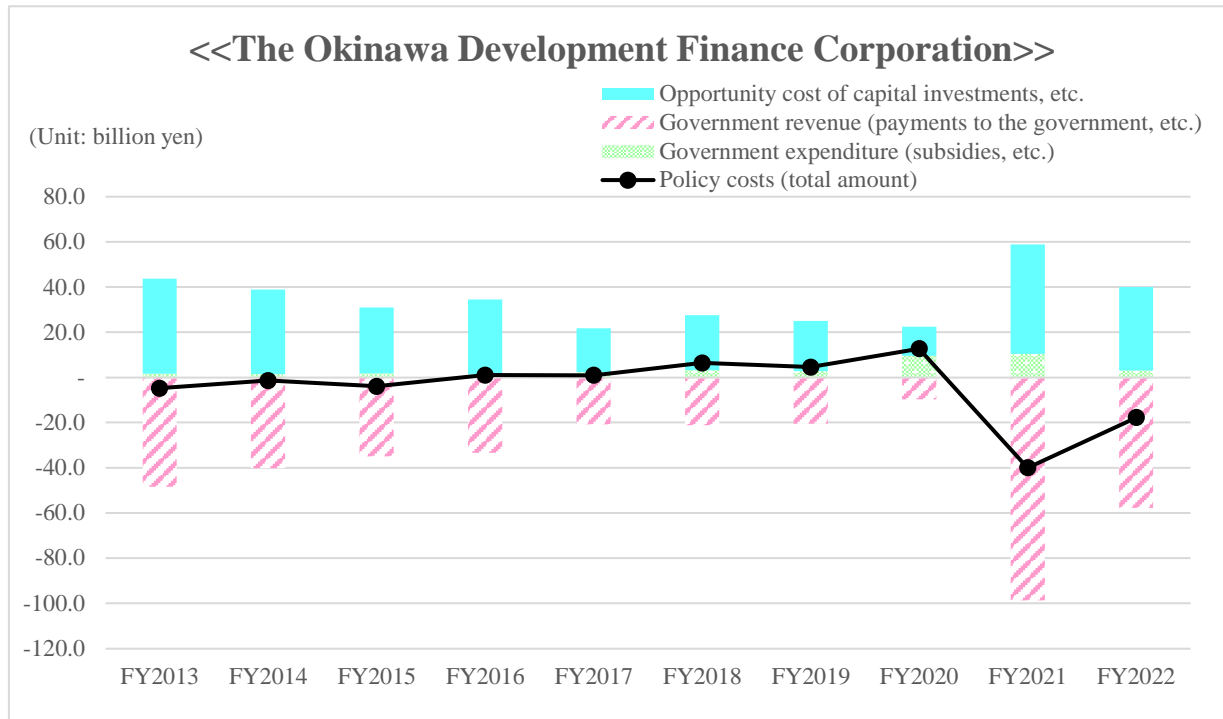
These loans function as a safety net to alleviate sudden external damage from dramatic social and economic changes, including severe economic and employment conditions and typhoons, etc. to financially support enterprises and help prevent employment losses.

On January 27, 2020, a counselling center on loans to and repayments by business operators affected by the COVID-19 outbreak was created to provide powerful cash flow support for business operators.

[Preventative effect in employment loss due to safety net loans (FY2020): 86,247 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)

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Policy costs (total amount)	-4.8	-1.4	-4.0	1.0	0.9	6.4	4.6	12.7	-39.9	-17.7
Government expenditure (subsidies, etc.)	1.7	1.5	1.7	1.3	2.3	3.2	2.7	9.6	10.3	3.0
Government revenue (payments to the government, etc.)	-48.5	-40.3	-34.9	-33.5	-20.8	-21.2	-20.5	-9.8	-98.7	-57.7
Opportunity cost of capital investments, etc.	42.0	37.3	29.2	33.1	19.4	24.3	22.4	12.9	48.5	37.0

【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.
- In FY2022, the policy cost increased as government revenue (payments to the government, etc.) decreased due to a decline in interest on loans that was attributable to a less-than-estimated amount of loans provided in FY2020.

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

- In FY2022, the policy cost increased by 22.2 billion yen from the previous year's analysis due to such factors as a decline in loan interest receipts as the FY2020 lending amount was changed from the amount under a supplementary budget to the actual one.
- Although the results of the sensitivity analysis (case before the negative interest rate policy) showed an increase of 1.0 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 write-offs) showed an increase of 200 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 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)			
Loans	1,026,219	1,519,751	1,685,746	Borrowings	762,221	1,197,301	1,325,889
Investments	7,609	9,709	11,809	Borrowings from government fund for Fiscal Loan	757,105	1,192,048	1,320,412
Cash and deposits	18,997	48,401	14,970	Borrowings from government fund for industrial investment	48	-	-
Securities	5,732	5,690	5,645	Borrowings from the general account	4	2	1
Agency accounts	30	30	30	Borrowings from the Organization for Workers'			
Accrued revenue	558	731	1,075	Retirement Allowance Mutual Aid	5,065	5,250	5,475
Accrued interest on loans	557	730	1,074	Bonds	157,534	157,476	157,583
Trust fee receivable	1	1	1	Okinawa Development Finance Corporation bonds	155,000	155,000	155,000
Accrued interest on securities	1	1	1	Housing and building bond	2,534	2,476	2,583
Miscellaneous accounts	9	9	9	Bond issue difference	-1	-1	-0
Fixed assets	6,472	6,818	6,851	Trust money	-	10	20
Allowances for loan losses	-10,766	-15,992	-16,328	Loan received	21,995	57,649	58,141
				Accrued expenses	893	1,063	3,958
				Accrued interests on borrowing	647	785	3,648
				Accrued interest on bonds	204	227	256
				Accrued commissions	19	27	30
				Accrued social premium	24	24	24
				Miscellaneous accounts	95	95	95
				Provision for bonuses	171	171	171
				Provision for retirement benefits	2,386	2,386	2,386
				(Total liabilities)	945,295	1,416,151	1,548,243
				Capital	111,028	157,728	160,328
				General account	77,178	121,678	121,678
				Succeeded from the former institutions	21,556	21,556	21,556
				Industrial investment	12,294	14,494	17,094
				Reserve fund			
				Reserve for rice fund and new business			
				establishment promotion	1,324	1,289	1,269
				Loss carried forward	-	-2,753	-
				Unappropriated retained earnings or unappropriated loss			
				for the period (-)	-2,787	2,732	-32
				(Total net assets)	109,565	158,996	161,565
Total assets	1,054,859	1,575,147	1,709,808	Total liabilities and net assets	1,054,859	1,575,147	1,709,808

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

Income Statement

(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)
(Losses)				(Profits)			
Ordinary expenses	20,316	26,674	33,022	Ordinary income	17,528	29,405	32,990
Interest on borrowings	2,760	2,677	8,537	Interest on loans	8,950	11,207	14,996
Interest on bonds	810	705	913	Dividends received	33	19	19
Expenses for entrusting business	79	137	157	Commissions from housing loans	3	4	8
Administrative expenses	4,500	4,784	4,881	Trust fees	5	5	5
Bond issuing expenses	47	57	57	Receipts from the general account	691	7,356	1,931
Depreciation expenses	1,290	2,171	2,000	Receipts from the special accounts for energy related measures	6	5	4
Written-off of loans	1,141	2,029	1,852	Security income			
Fixed assets depreciation expenses	150	142	148	Profit on securities	13	24	23
Provision of allowance for loan losses	10,766	15,992	16,328	Miscellaneous receipts	46	20	13
Miscellaneous losses	62	-	-	Reversal of allowance for loan losses	7,781	10,766	15,992
Reserve fund	-	150	150	Current loss	2,787	-	32
Current profits	-	2,732	-				
Total	20,316	29,405	33,022	Total	20,316	29,405	33,022

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 FY2020	Item	End of FY2020
(Assets)		(Liabilities)	
Cash and deposits	19,027	Borrowings	762,221
Cash	69	Bonds	157,533
Deposits	18,958	Other liabilities	1,898
Securities	12,344	Accrued expenses	893
Stocks	6,622	Other liabilities	1,005
Corporate Bonds	5,721	Provision for bonuses	171
Loans and bills discounted	1,004,224	Provision for retirement benefits	2,386
Loans on bills	283	(Total liabilities)	924,210
Loans on bonds	1,025,937	(Net assets)	
Loans not unexecuted	-21,995	Capital stock	111,028
Other assets	604	Retained earnings	-2,048
Accrued revenue	534	Other retained earnings	-2,048
Other assets	70	Reserve for rice fund and new business establishment promotion	1,324
Tangible fixed assets	7,250	Retained earnings brought forward	-3,372
Buildings	6,138	Net unrealized gains or losses on other securities	-11
Land	3,295	(Total net assets)	108,970
Construction in progress	11		
Other tangible fixed assets	2,844		
Accumulated depreciation	-5,038		
Intangible fixed assets	497		
Software	496		
Software in progress	1		
Allowances for loan losses	-10,766		
Total assets	1,033,179	Total liabilities and net assets	1,033,179

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

Hypothetical Profit and Loss

Statement for Private Companies

(Unit: million yen)

Item	FY2020
(Ordinary income)	9,755
Interest income	9,010
Interest on loans	8,963
Interest and dividends on securities	47
Fees and commissions	8
National treasury subsidy	6
Governmental subsidy	691
Other ordinary income	41
Gain on sale of stocks, etc.	4
Other ordinary income	37
(Ordinary expenses)	12,437
Financing cost	3,571
Interest on borrowing and rediscounts	2,760
Interest on bonds	810
Fees and commissions payments	79
Other operating expenses	47
Operating expenses	4,677
Other ordinary expenses	4,062
Provision of allowance for loan losses	3,622
Written-off of loans	178
Written-off of stocks, etc.	260
Other ordinary expenses	2
(Ordinary loss)	-2,682
(Extraordinary loss)	-0
Loss on retirement of fixed assets	-0
Net loss	-2,683