

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 FILP

(Unit: billion yen)

FY2023 FILP	Estimated outstanding amount of FILP lending at the end of FY2022
206.4	891.9

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2022	FY2023	Fluctuation
1. Government expenditure (subsidies, etc.)	3.0	2.5	-0.4
2. Government revenue (payments to the government, etc.)*	-57.7	-92.8	-35.1
3. Opportunity cost of capital investments, etc.	37.0	73.1	+36.1
Total (1+2+3=policy cost(A))	-17.7	-17.1	+0.6
Analysis period (years)	37 years	37 years	-

(2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

Category	FY2022	FY2023	Fluctuation
(A) Policy cost (previously cited)	-17.7	-17.1	+0.6
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	36.4	69.9	+33.5
2) Policy cost expected to be newly accrued during the analysis period	-54.1	-87.0	-32.9
Government expenditure (subsidies, etc.)	3.0	2.5	-0.4
Government revenue (payments to the government, etc.)*	-57.7	-92.8	-35.1
Opportunity cost of surplus, etc.	0.0	0.0	+0.0
Opportunity cost of capital investments, etc.	0.6	3.2	+2.6

(5) Sensitivity analysis (cases where assumptions change) (Unit: billion yen)

(A) Policy cost (previously cited)	Case of assumed interest rate + 1%	Fluctuation	1. Government expenditure (subsidies, etc.)			2. Government revenue (payments to the government, etc.)*			3. Opportunity cost of capital investments, etc.		
-17.1	-8.0	+9.1									
(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.)*			3. Opportunity cost of capital investments, etc.		
-17.1	-17.0	+0.1									

(Note) Components in each column may not add up to the total because of rounding.

* 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.

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2022	FY2023	Simple fluctuation
		Simple comparison (before adjustment)	-17.7	-17.1
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2023 analysis)			
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2022)	-19.7	-18.2	+1.5

[Real fluctuation factor analysis]

○ Factors behind policy cost increase

- Increase in cost due to finalization of FY2021 results and revision of FY2022 projections (+15.8 billion yen)

- Other (Increase in administrative costs due to new loans, etc.) (+9.4 billion yen)

○ Factors behind policy cost decrease

- Decrease in cost due to interest rate gap for new loans provided in FY2023 (-13.9 billion yen)

- Decrease in cost due to decrease in prepayment (-5.7 billion yen)

- Decrease in cost due to decrease in loan losses (-4.1 billion yen)

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

(A) Policy cost in FY2023 (previously cited)	-17.1
1) Prepayments	1.8
2) Loan losses	-4.3
3) Others (including profit spread)	-14.7

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 FY2023 lending plan worth 233.2 billion yen (including 229.5 billion yen in loans and 3.7 billion yen in investment) in addition to the existing loan balance of 1,252.7 billion yen (planned for the end of FY2022).
- 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 FY2023 will be fully paid back.
- 4) Prepayments are estimated to account for certain percentages of loans outstanding at the beginning of the period (5.80% for housing loans and 3.40% for nonhousing loans on average for the past five years).
- 5) A certain percentage of outstanding loans at the beginning of the period (0.19% (0.14% for housing loans and 0.20% for non-housing loans) on average for the last five years) is set aside for new loan write-offs.

(Unit: %)

FY		Result					Estimated	Decide	Assumption for calculation		
		2017	2018	2019	2020	2021			2022	2023	2024
Prepayment ratio	Housing loans	7.44	4.80	3.93	3.10	3.52	4.45	4.11	5.80	5.80	5.80
	Others	3.88	2.00	2.27	7.23	3.87	1.63	1.93	3.40	3.40	3.40
Loan write-off ratio		0.21	0.41	0.13	0.13	0.09	0.23	0.13	0.19	0.19	0.19
	Housing loans	0.00	0.70	0.00	0.00	0.00	0.21	0.22	0.14	0.14	0.14
	Others	0.26	0.35	0.15	0.15	0.10	0.23	0.13	0.20	0.20	0.20

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 2023, the Okinawa Development Finance Corporation released its FY2022 policy finance assessment report.

(Reference) Outcome and social and economic benefits of operations

1) Investment and loan performance

i. Financing (FY2021)	7,000 cases	126.3 billion yen
ii. Financing (aggregate amount from FY1972 to FY2021)	492,000 cases	7,068.1 billion yen
• Industrial Development:		2,005.6 billion yen
• Small and Medium-Sized and Other Business:		2,557.2 billion yen
• Housing:		1,997.0 billion yen
• Primary Sector:		237.8 billion yen
• Other items:		270.6 billion yen
iii. Outstanding balance of lending (end of FY2021)	60,000 cases	1,042.8 billion yen
iv. Capital investment (FY2021)	2 cases	0.1 billion yen
v. Capital investment (aggregate amount from FY1978 to FY2021)	118 cases	9.8 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 "onestop" 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 (FY2021): 399 people]

3) Safety net loans to prevent employment loss

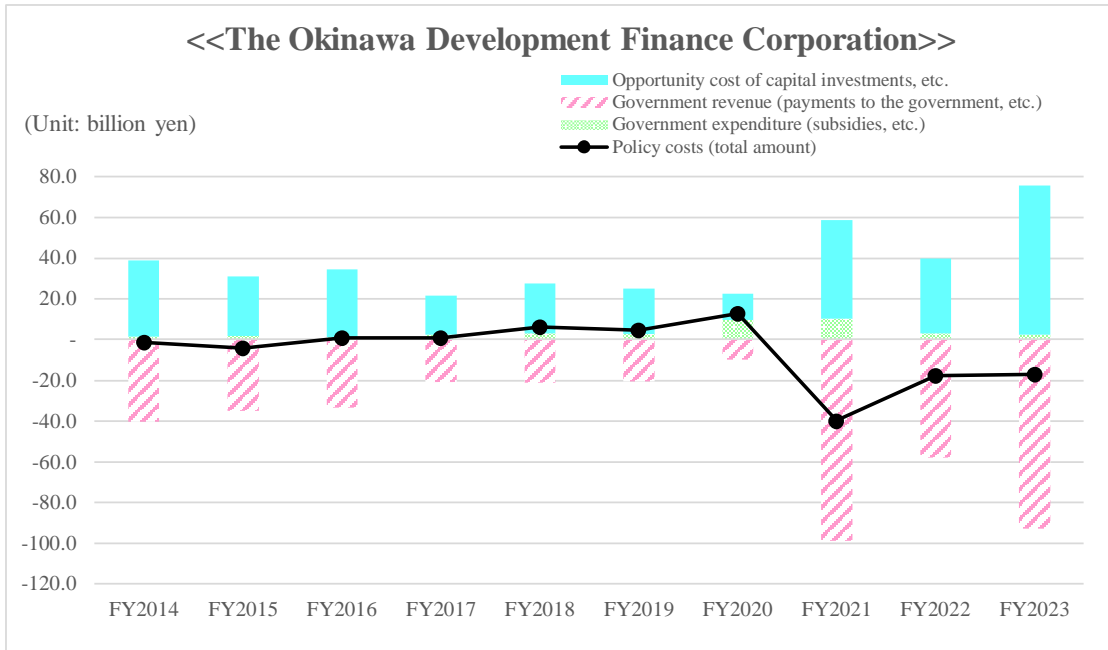
These loans function as a safety net to alleviate sudden external damage from dramatic social and economic changes, including severe economic and employment conditions and typhoons, etc. to financially support enterprises and help prevent employment losses.

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 (FY2021): 21,279 people]

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)

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Policy costs (total amount)	-1.4	-4.0	1.0	0.9	6.4	4.6	12.7	-39.9	-17.7	-17.1
Government expenditure (subsidies, etc.)	1.5	1.7	1.3	2.3	3.2	2.7	9.6	10.3	3.0	2.5
Government revenue (payments to the government, etc.)	-40.3	-34.9	-33.5	-20.8	-21.2	-20.5	-9.8	-98.7	-57.7	-92.8
Opportunity cost of capital investments, etc.	37.3	29.2	33.1	19.4	24.3	22.4	12.9	48.5	37.0	73.1

[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, 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.
- In FY2023, the policy cost remained at the same level as in FY2022. This was because while opportunity cost of capital investments increased, the government's income (National treasury payments, etc.) increased due to the increase in investment yield from surplus capital associated with a rise in assumed interest rate.

[FILP agency's self-assessment of policy cost analysis results (FY2023)]

- The policy cost in FY2023, due to a decrease of the present value of closing capital investment balance in the final fiscal year of the project, as a result of the revision of the discount rate, led to an increase in the opportunity cost of capital investments. On the other hand, as National Treasury payments increased as a result of an increase in the investment yield from surplus capital associated with a rise in assumed interest rate, the total amount of capital cost increased by just 600 million yen compared to FY2022.
- Although the results of the sensitivity analysis (case of assumed interest rate + 1%) showed an increase of 9.1 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 100 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 FY2021 (Result)	End of FY2022 (Estimated)	End of FY2023 (Planned)	Item	End of FY2021 (Result)	End of FY2022 (Estimated)	End of FY2023 (Planned)
(Assets)				(Liabilities and net assets)			
Loans	1,038,554	1,238,863	1,308,104	Borrowings	752,899	881,487	981,953
Investments	7,579	9,679	13,379	Borrowings from government fund for Fiscal Loan	748,348	876,712	977,004
Cash and deposits	38,406	19,976	14,988	Borrowings from the general account	2	1	1
Securities	4,205	4,163	4,120	Borrowings from the Organization for Workers			
Agency accounts	12	12	12	Retirement Allowance Mutual Aid	4,548	4,773	4,948
Accrued revenue	525	593	802	Bonds	157,600	157,443	127,549
Accrued interest on loans	524	591	800	Okinawa Development Finance Corporation bonds	155,000	155,000	125,000
Trust fee receivable	1	1	1	Housing and building bond	2,600	2,443	2,549
Accrued interest on securities	1	1	1	Bond issue difference	-1	-0	-
Miscellaneous accounts	8	8	8	Trust money	-	10	20
Fixed assets	6,650	6,690	7,400	Loan received	10,015	57,991	46,575
Allowances for loan losses	-14,825	-19,789	-20,884	Accrued expenses	833	962	2,403
				Accrued interests on borrowing	614	710	2,123
				Accrued interest on bonds	173	205	232
				Accrued commissions	23	23	25
				Accrued social premium	23	23	23
				Miscellaneous accounts	71	71	71
				Provision for bonuses	163	163	163
				Provision for retirement benefits	2,468	2,468	2,468
				(Total liabilities)	924,048	1,100,595	1,161,202
				Capital	155,849	158,449	165,649
				General account	121,678	121,678	121,878
				Succeeded from the former institutions	21,556	21,556	21,556
				Industrial investment	12,615	15,215	22,215
				Reserve fund			
				Reserve for rice fund and new business establishment promotion	1,289	1,217	1,151
				Loss carried forward	-2,753	-	-
				Unappropriated retained earnings or unappropriated loss for the period (-)	2,680	-66	-73
				(Total net assets)	157,066	159,600	166,726
Total assets	1,081,114	1,260,194	1,327,928	Total liabilities and net assets	1,081,114	1,260,194	1,327,928

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

Income Statement

(Unit: million yen)

Item	FY2021 (Result)	FY2022 (Estimated)	FY2023 (Planned)	Item	FY2021 (Result)	FY2022 (Estimated)	FY2023 (Planned)
(Losses)				(Profits)			
Ordinary expenses	23,802	30,556	34,160	Ordinary income	26,482	30,490	34,087
Interest on borrowings	2,505	2,368	5,015	Interest on loans	8,270	8,651	11,787
Interest on bonds	652	620	726	Dividends received	21	23	16
Expenses for entrusting business	102	127	140	Commissions from housing loans	3	2	0
Administrative expenses	4,598	4,880	5,384	Trust fees	5	5	5
Bond issuing expenses	51	57	58	Receipts from the general account	7,352	6,919	2,437
Depreciation expenses	1,030	2,564	1,804	Receipts from the special accounts for energy related measures	5	4	4
Written-off of loans	889	2,422	1,663	Security income			
Fixed assets depreciation expenses	141	142	141	Profit on securities	24	27	31
Provision of allowance for loan losses	14,825	19,789	20,884	Miscellaneous receipts	36	33	18
Miscellaneous losses	39	-	-	Reversal of allowance for loan losses	10,766	14,825	19,789
Reserve fund	-	150	150	Current loss	-	66	73
Current profits	2,680	-	-				
Total	26,482	30,556	34,160	Total	26,482	30,556	34,160

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 FY2021	Item	End of FY2021
(Assets)		(Liabilities)	
Cash and deposits	38,418	Borrowings	752,899
Cash	2	Bonds	157,599
Deposits	38,415	Other liabilities	1,357
Securities	10,635	Accrued expenses	833
Stocks	6,433	Other liabilities	525
Corporate Bonds	4,202	Provision for bonuses	163
Loans and bills discounted	1,028,540	Provision for retirement benefits	2,468
Loans on bonds	1,038,554	(Total liabilities)	914,487
Loans not unexecuted	-10,015	(Net assets)	
Other assets	573	Capital stock	155,849
Accrued revenue	504	Retained earnings	-151
Other assets	69	Other retained earnings	-151
Tangible fixed assets	6,993	Reserve for rice fund and new business establishment promotion	1,289
Buildings	6,204	Retained earnings brought forward	-1,440
Land	3,295	Net unrealized gains or losses on other securities	-3
Construction in progress	237	(Total net assets)	155,695
Other tangible fixed assets	1,429		
Accumulated depreciation	-4,172		
Intangible fixed assets	426		
Software	411		
Software in progress	16		
Allowances for loan losses	-15,403		
Total assets	1,070,182	Total liabilities and net assets	1,070,182

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

Hypothetical Profit and Loss Statement for Private Companies

(Unit: million yen)

Item	FY2021
(Ordinary income)	15,723
Interest income	8,318
Interest on loans	8,273
Interest and dividends on securities	45
Other interest received	0
Fees and commissions	7
National treasury subsidy	5
Governmental subsidy	7,352
Other ordinary income	41
Gain on sale of stocks, etc.	12
Other ordinary income	28
(Ordinary expenses)	13,824
Financing cost	3,156
Interest on borrowing and rediscounts	2,505
Interest on bonds	652
Fees and commissions payments	102
Other operating expenses	51
Operating expenses	4,782
Other ordinary expenses	5,732
Provision of allowance for loan losses	5,286
Written-off of loans	239
Written-off of stocks, etc.	198
Other ordinary expenses	9
(Ordinary loss)	1,899
(Extraordinary loss)	2
Loss on retirement of fixed assets	2
Net profit	1,897