Development Bank of Japan

1. Summary of operations implemented using FILP funds

With the purpose of promoting the increased vitality and sustainable development of the economy and society, the realization of affluent lifestyle, and autonomous development of local economies, long-term funds are provided for those projects that cannot continue only with financing from private financial institutions, in accordance with the mid-term government policy principles that are prepared by the competent Minister. The main areas subject to investment and lending from Development Bank of Japan (DBJ) are the creation of self-reliant regions, the enhancement of quality of life, and economic revitalization.

Note: Businesses not eligible for FILP include some of the infrastructure improvement funds (known as “NTT-C”), etc.

2. Amount of lending under FY 2002 FILP

(Unit：billion yen)

FY 2002 FILP	Estimated outstanding amount of FILP lending at end of FY 2001
910.0	15,958.9

3. Outcome and social and economic benefits of operations

1) Capital investment and financing
- Aggregate amount for the period from FY 1951 to FY 2000: ¥47.4195 trillion
- FY 2000: ¥1.1996 trillion
- Outstanding balance at the end of FY 2000: ¥17.9948 trillion

2) Long-term loans with fixed and low interest rates are provided in accordance with government’s mid-term policies principles with an emphasis upon the following points:
- Creation of self-reliant regions: promotion of the development of regional towns that includes the revitalization of urban areas; promotion of regional infrastructure; promotion of industrial location; and promotion of projects that create employment opportunities in regions.
- Enhancement of quality of life: environmental measures including waste and recycling measures; disaster prevention measures; measures for welfare and the aging society including the establishment of barrier-free buildings; establishment and/or improvement of traffic/distribution networks and telecommunications networks
- Economic revitalization: promotion of investment in deregulated areas; assistance in the restructuring and/or rehabilitation of enterprises; promotion of imports/inward investment; and assistance in the development of new technology and collaborations in venture business between industries and universities

3) Main operations are to provide extremely long-term equipment funds that are rarely supplied by the private sector (the average term of lending is 15 years or so). On an outstanding balance (at the end of FY 2000) basis, loans with a remaining term of seven years or longer and fixed interest rates account for about 77% of all loans.

4) On an outstanding balance basis, loans for regions account for about 50% (at the end of FY 2000), playing a major role in the regions facilitating public projects, including redevelopment of regional urban areas.
Metropolitan areas*: ¥9.0277 trillion
Regions: ¥8.6069 trillion

*Total of loans to Tokyo, Kanagawa, Saitama, Chiba, Aichi, Osaka and Kyoto

5) From December 1997 to March 2001, the DBJ extended "countermeasures for tight credit" loans to small and medium enterprises, in order to prevent credit contraction due to credit crunches and recall of lent funds (amount: ¥1.6 trillion).

6) As the recession continues, in order to support the integral rehabilitation of finance and industries, since FY 2001, the DBJ has been extending business rehabilitation funds (DIP financing, etc.) needed by companies to preserve their business worth through the judicial process, etc. In addition, in line with the "Reform Priority Program" compiled in the Economic Countermeasures Ministerial Meeting held on October 26, 2001, the DBJ has launched "Corporate Reconstruction Funds" to rehabilitate businesses through acquisition of stocks.

7) The tangible, quantitative examples of the benefits include the following (the estimated cumulative effects of the capital investments and loans executed in FY 2000):
- Securing of employment for 48,000 people mainly through regional projects; increase of sales by ¥2.2 trillion.
- Development of regional areas totaling 60 ha (equivalent to 13 Tokyo Domes) through redevelopment of regional urban areas with significance in view of policies.
- Increase of the quantity recycled by 130,000 tons / year by promoting projects to recycle used paper, waste plastics, refuse incineration ash, etc., and increase of the waste treatment capacity by 130,000 tons / year by developing waste treatment facilities.
- Barrier-freeing of buildings for a total floor area of 400,000 m^2.
- Extension of optical fibers by 13,000 km.

4. Estimated policy (subsidy) cost analysis of the project

Outline of estimate

1) An estimate is made for all investment and lending projects (excluding NTT-C). An analysis is made for the 31-year period during which repayment of all loans is made.

2) An estimate is made for the outstanding balance of past investment and loans (¥17.0138 trillion at the end of FY 2001), and investment and loans under the FY 2002 plan (¥1.1678 trillion) (excluding NTT-C).

3) Based on the above assumptions, the amount of payments to the national treasury and the legal reserve was estimated, and final policy (subsidy) cost were estimated based on the assumption that capital and reserves will be repaid to the national treasury in full when the term subject to this analysis ends.

Policy (subsidy) cost

(Unit：billion yen)

Category	FY2001	FY2002	Increase/Decrease
1. Subsidies from the national treasury	6.5	6.5	0
2. Opportunity cost of capital investment from the national treasury	930.5	987.8	57.3
Subtotal (1+2)	936.9	994.2	57.3
3. Money transfer to the national treasury	– 808.8	– 862.0	– 53.3
Total (1+2+3=policy cost)	128.2	132.2	4.0
Analysis period (years)	31	31	—

Comparing FY2002 policy cost (¥132.2 billion) with FY2001 policy cost (¥128.2 billion), the assumed interest rate decreased whereas, the loan redemption cost increased, so that cost increased by ¥4.0 billion.

The case if assumption is changed

(Unit：billion yen)

Changed assumption and extent of change	Increase / decrease in policy cost
Interest rate on loans and borrowings + 1%	– 2.6

(Reference)

Budgeted amount of subsidies and capital investment in FY 2002
Subsidies: ¥1.4 billion
Capital investment: ¥18.0 billion

5. Projections in the analysis

1) The analysis is made for the 31-year period until FY 2032 during which repayment of all loans will be made, assuming that there will be no more new investment or loans after the FY 2002 repayment.
2) The advanced redemption rates are estimated based on past figures (the rates in accordance with the range of spread of interest rates).
3) "Loans charged off rates" were calculated as follows based on the asset assessment categories. Healthy loans: calculated using data on DBJ past default rates. Loans requiring management or worse: the possibility of recovery was assessed for individual loans, including collaterals.

(Unit:%)

	Result				Estimated	Trial assumption
FY	1997	1998	1999	2000	2001	2003 – 2032
Advanced redemption rate	1.35	0.59	0.89	1.60	0.45	Average for 2003 and on: 0.08
Loans charged off rate	0.00	0.00	0.35	0.37	0.07	2003 – 2032 cumulative rate: 2.50
Tomakomai East Development Co., Ltd. and Mutsu Ogawara Development Co., Ltd.	—	—	0.34	0.35	—	—

4) At the end of FY 2000, the outstanding balance of the risk management loans was ¥661.7 billion. Their share in the total outstanding loan balance was 3.7%. The amount of the allowance for possible loan losses calculated based on the accounting standards for private enterprises was ¥342.9 billion, and its share in the total outstanding loan balance was 1.9%. The difference between 1) the amount that must be booked as allowance for possible loan losses based on the accounting standards for private enterprises and 2) the amount of the same to be booked based on the provisions of Clause 3 of Article 4 of the Development Bank of Japan Law Enforcement Ordinance (3/1,000 of the term-end outstanding loan balance) is entirely written off during the calculation period. As a consequence, the amount of loans written off is actually that calculated based on the private accounting standards.

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

To enhance the business base needed to perform projects stipulated in the Development Bank of Japan Law, capital investment is received from the Industrial Investment Special Account as the case may be (in addition, non-interest-bearing loans are received from the Industrial Investment Special Account (Social Capital Improvement Account) for lowering interest rates of loans to those persons who conduct specified projects contributing to the improvement of social capital. Furthermore, interest subsidies are paid through the DBJ to borrowers engaging in specified projects.)

As for the payment to the national treasury, the greater of the following two is accumulated from the profit in loss and gain account of each business year as reserve, and the remaining profit after deducting the accumulated amount as the reserve is paid: the amount equivalent to 3/1000 of the loans' outstanding balance (the said profit amount if the amount exceeds the said profit) or the amount equivalent to 20/100 of the profit.

(Underlying laws and regulations)

- Payment to the national treasury is stipulated in Clause 3, Article 41 of the Development Bank of Japan Law.
  (Appropriation and payment of profit to the national treasury)

Article 41: The Development Bank of Japan shall accumulate the amounts calculated according to the standards specified by an ordinance as reserve when any profit occurs in the loss and gain account of each business year.

2. *(Omitted)*
3. The Development Bank of Japan shall pay the balance of the profit in the loss and gain account of each business year after deducting the amount accumulated as the reserve under the provision of the first clause above to the national treasury by May 31 of the subsequent business year.

(Reference) Development Bank of Japan Law Enforcement Regulations

Article 3: The amount calculated according to the standards specified in the ordinance under Clause 1, Article 41 of the Development Bank of Japan Law shall be the greater of the following amounts:

1. An amount equivalent to 20/100 of the profit in the loss and gain account of each business year
2. An amount equivalent to 3/1000 of the loans' outstanding balance at the end of each business year (the said profit amount if the amount exceeds the said profit)

7. Special remarks

1) The Development Bank of Japan was established October 1, 1999 and took over the functions of the former Japan Development Bank, the former Hokkaido-Tohoku Development Finance Public Corporation, etc.
2) DBJ is operated based on the principle of "balancing income against expenditure" and, thus, no financial assistance is received to compensate for income/expenditure deficits. The reason why policy (subsidy) costs are positive for the DBJ despite this is because the opportunity costs of capital investment and legal reserve are included in the policy costs calculation.
3) If the amount of the loans written off is increased by 0.1% relative to the total outstanding loan balance, the policy cost increases by ¥14.4 billion. If the amount of advanced redemption is increased by 10%, the policy cost increases by ¥0.4 billion.
4) The FY 2002 FILP has reduced the scale of investments and loans through such means as revise of target fields and lowering of the financing rate. This is in compliance with the stipulation "measures to be taken concerning businesses" stipulated in the Reorganization and Rationalization Plan for Special Public Corporations. The Council on Economic and Fiscal Policy is to conduct a radical examination from early 2002. On this basis, the target fields, scale and organization of public financing are to be revised.

(Reference) Financial Statements

Balance Sheet

(Unit : million yen)

Item	End of FY 2000 (Result)	End of FY 2001 (Estimated)	End of FY 2002 (Planned)	Item	End of FY 2000 (Result)	End of FY 2001 (Estimated)	End of FY 2002 (Planned)
(Assets)				**(Liabilities and capital funds)**			
Loans	17,786,489	17,085,032	16,268,077	Borrowings	14,916,888	14,102,467	13,056,159
Equity investments	176,948	280,703	290,703	Fiscal Loan Funds	13,931,293	13,200,592	12,250,142
Securities	357,695	310,661	343,595	Postal Life Insurance and postal Annuity Fund	480,780	392,620	301,936
Cash and due from banks	29,946	13,927	15,673				
Accrued income	96,450	72,005	64,018	Industrial Investment	504,595	509,212	504,081
Accrued interest on loans	95,913	71,265	63,410	Special Account Measures for Upgrading Energy Infrastructure	220	44	0
Accrued guarantee fees	42	28	25				
Accrued interest on securities	495	713	583	Funds entrusted	34,400	31,225	28,038
Miscellaneous accounts	1,340	1,340	1,340	Bonds	1,329,198	1,343,670	1,602,290
Prepaid money	324	324	324	Accrued expenses	108,951	92,333	76,336
Guarantees	354	354	354	Accrued interest on loans	92,277	80,821	67,141
Other miscellaneous accounts	661	661	661	Accrued interest on funds entrusted	208	189	170
Premises and equipment	40,423	39,577	39,382	Accrued interest on bonds	16,454	11,312	9,005
Deferred accounts	1,966	1,791	1,962	Other accrued expenses	11	10	19
Bond issue premiums	1,966	1,791	1,962	Miscellaneous accounts	71,340	74,350	56,122
Customers' liability for acceptances and guarantees	104,574	77,168	76,810	Loan redemption	21,385	20,064	20,064
				Suspended receipts	1,939	1,939	1,939
Allowance for possible loan losses	—53,359	—51,255	—48,804	Deferred income	47,959	52,256	34,060
				Other miscellaneous accounts	56	91	59
				Acceptances and guarantees	104,574	77,168	76,810
				(Total liabilities)	16,565,350	15,721,214	14,895,755
				Capital	1,039,386	1,122,286	1,122,286
				Legal reserve	951,895	937,735	987,449
				Net income or loss (-)	—14,160	49,714	47,266
				(Total capital funds)	1,977,121	2,109,735	2,157,001
Total assets	18,542,471	17,830,949	17,052,756	**Total liabilities and capital funds**	18,542,471	17,830,949	17,052,756

Income Statement

(Unit : million yen)

Item	FY 2000 (Result)	FY 2001 (Estimated)	FY 2002 (Planned)	Item	FY 2000 (Result)	FY 2001 (Estimated)	FY 2002 (Planned)
(Expenses)				**(Income)**			
Operating expenses	743,439	614,244	553,599	Operating incomes	728,041	663,959	600,865
Interest expense on borrowings	530,604	472,951	429,085	Interest income on loans	667,470	606,098	543,406
Interest expense on funds entrusted	888	810	730	Guarantee commissions	252	221	202
Interest expense on bonds	51,658	42,347	41,254	Interest on securities	1,681	2,291	2,169
Interest expense on short-term borrowings	1	0	0	Dividends received	210	230	221
Sundry interest paid	4	0	0	Interest on deposits	38	13	13
Administrative and other expenses	28,494	30,125	29,771	Miscellaneous interest received	18	18	2,229
Depreciation of premises and equipment	1,304	1,566	1,480	Commissions received	641	1,437	1,123
Commissions paid	49	44	96	Incomes from securities	271	96	60
Exchange loss	0	0	0	Collection of written-off claims	283	0	0
Loans written off	68,601	12,528	0	Miscellaneous incomes	915	195	188
Equity investment written off	2,000	0	0	Transfer from reserve for possible loan losses	56,263	53,359	51,255
Amortization of bond issue premiums	596	460	404	Special income	1,237	0	0
Amortization of bond issue expenses	1,722	878	1,515	Net loss	14,160	—	—
Miscellaneous losses	4,158	824	0				
Transfer to reserve for possible loan losses	53,359	51,255	48,804				
Contingency	0	459	459				
Net income	—	49,714	47,266				
Total	743,439	663,959	600,865	**Total**	743,439	663,959	600,865

Note: Totals may not agree because figures have been rounded off.