

1. Summary of operations implemented using FILP funds

To provide business loans to small enterprises that have difficulty receiving loans from private financial institutions.

2. Amount of lending under FY 2005 FILP

(Unit: billion yen)

FY 2005 FILP	Estimated outstanding amount of FILP lending at the end of FY 2004
2,490.0	8,799.5

3. Outcome and social and economic benefits of operations

- Financing

Total lending		
For business	0.37 mil. cases	¥2.6808 trillion
For environmental health business		
	0.03 mil. cases	¥129.3 billion
For education	0.27 mil. cases	¥305.8 billion
Total	0.67 mil. cases	¥3.1160 trillion
Total financing (aggregate amount from FY 1949 to FY 2003)		
For business	26.63 mil. cases	¥87.0706 trillion
For environmental health business		
	2.17 mil. cases	¥6.6431 trillion
For education	10.70 mil. cases	¥6.6914 trillion
Total	39.51 mil. cases	¥100.4052 trillion
Outstanding balance of lending		
For business	1.60 mil. cases	¥7.9931 trillion
For environmental health business		
	0.20 mil. cases	¥0.9156 trillion
For education	1.35 mil. cases	¥1.1608 trillion
Total	3.14 mil. cases	¥10.0694 trillion
- Contributes to business stability and growth of medium and small enterprise through small loans

(The average loan amount is rather small at ¥7.02 million. Small enterprises with fewer than 20 employees account for 95% of the total number of loans. Non-collateral loans account for 89% of the total number of loans and 82% of the total amount of loans.)

Non-collateral loans	0.36 mil. cases	¥2.3154 trillion
(Of which no-guarantor loans)	0.08 mil. cases	¥0.2767 trillion
Collateral loans	0.04 mil. cases	¥0.4948 trillion
Total	0.40 mil. cases	¥2.8102 trillion
- Total number of employees of borrower enterprises is approximately 15% of the total number of employed persons

(By supporting the business stability and growth of medium and small enterprises, NLFC loans contribute to the stability of the livelihoods of the employees of these enterprises)

Total no. of employees of borrower enterprises	Total no. of employed persons	
9.29 million employees	63.20 million employed persons	= 14.7%
- Employment for approximately 120,000 people a year is created through loans for newly established enterprises

No. of new establishment loans	Average no. of employees per new establishment	
27,218 cases	4.3 employees	= 120,000 employees
- Contributes to preventing the loss of employment for approximately 780,000 people a year through safety net loans

No. of safety net loans	Average no. of employees	
118,614 cases	6.6 employees	= 780,000 employees

 - Even when newly established enterprises are excluded, jobs have increased at enterprises utilizing NLFC loans as a result of those loans having the effect of supporting business stability and growth.

Average rate of increase of employees of enterprises utilizing NLFC loans: 3.5%
- Contributes to the improvement of national life through the steady provision of consumption funds that support the foundations of living (educational loans and loans secured by pensions)

No. of new students utilizing educational loans: 130,000 students

- Notes: 1. The data indicated above in 1) include figures of the People's Finance Corporation and Environmental Sanitation Business Finance Corporation. In addition, financing for business includes special loans and managerial improvement loans.
2. If not noted otherwise, the data for the concerned NLFC are the figures as of the end of FY 2003.
3. The breakdown for non-collateral loans indicated above in 2) includes some cases in which a part of the loan has collateral. Non-collateral loans, excluding these cases, account for 75.5% of the total number of loans and 54.8% of the total amount of loans.
4. The figures indicated above in 3) to 5) are estimates.
5. The number of new establishment loans indicated above in 4) is the total for the number of loans made to entrepreneurs within one year prior to and following the opening of their enterprises for business.
6. The actual figures for safety net loans indicated above in 5) include environmental health business stability loans.

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

Policy (subsidy) cost

(Unit: billion yen)

Category	FY2004	FY2005	Increase/Decrease
1. Subsidies from the Government	5.9	5.5	- 0.4
2. Money transfer to the Government	- 172.1	- 193.4	- 21.3
Subtotal (1+2)	- 166.2	- 187.9	- 21.7
3. Opportunity cost of capital investment from the Government	170.4	202.0	+ 31.6
Subtotal (1+2+3)	4.2	14.1	+ 9.9
4. Decrease in losses	-	-	-
Total (1+2+3+4=policy cost(A))	4.2	14.1	+ 9.9
Analysis period (years)	31	31	-

Breakdown of policy cost by the time of the provision of funds

(Unit: billion yen)

Category	FY2004	FY2005	Increase/Decrease
(A) Policy cost (previously cited)	4.2	14.1	+ 9.9
1) Opportunity cost such as capital investment made before the beginning of the analysis period	170.4	202.0	+ 31.6
2) Policy cost expected to newly accrue during the analysis period	- 166.2	- 187.9	- 21.7
Subsidies from the Government	5.9	5.5	- 0.4
Money transfer to the Government	- 172.1	- 193.4	- 21.3
Policy cost in connection with increase/decrease in surplus	-	-	-
Opportunity cost such as capital investment	-	-	-

Year -to-Year comparison analysis

(Unit: billion yen)

Category	FY2004	FY2005	Increase/Decrease
(A) Policy cost (previously cited)	4.2	14.1	+ 9.9
(A') Policy cost obtained by re-calculating (A) using the same assumed interest rate as in the FY2004 analysis	4.2	- 13.3	- 17.5
(B) Policy cost of (A') generated in FY2005 or later	- 1.7	- 13.3	- 11.6

Policy cost in FY2005 is ¥14.1 billion. The analysis shows a decrease of ¥11.6 billion in real policy cost over FY2004 when the effect of change in the assumed interest rate for FY2004 and FY2005 is eliminated and the policy costs that accrue in FY2005 and thereafter are compared.

This decrease in real policy cost is considered to be attributable to the following factors:

- Decrease in cost by new loans provided in FY2005 (approx. - ¥127.0 billion)
- Increase in cost due to the revision of bad loans charge off rate (0.46% → 0.48%) (approx. + ¥42.0 billion)
- Other factors (increase in cost for office expenses related to new loans provided in FY2005) (approx. + ¥73.0 billion).

Breakdown of policy cost by causative factor

(Unit: billion yen)

Category	FY2005
(A) Policy cost in FY2005	14.1
1) Prepayments	59.5
2) Defaults	179.5
3) Other (spread, etc.)	- 224.9

The case if assumption is changed

(Unit: billion yen)

Changed assumption and extent of change	Increase / decrease in policy cost
Interest rates on money loaned and funds raised +1%	74.5 (+ 60.4)

(Reference)

Budgeted amount of subsidies and capital investment in FY 2005

Subsidies : ¥5.5 billion
Capital investment: —

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

[Outline of estimation]

- 1) All FILP projects are included in calculation
- 2) Calculation is made assuming that loans will be provided under the FY2005 business plan (¥3,518.4 billion) in addition to the loans that have been already provided amounting to ¥10,147.1 billion (estimated at the end of FY2004.)
- 3) The analysis period continues for a period of 31 years in which all loans provided under the FY2005 business plan will be recovered in full in addition to the loans that have been already provided.
- 4) The amount of subsidies and other funds required for the implementation of FILP projects are calculated based on the preset assumptions in accordance with the above-described policy.

[Project prospect]

- 1) The recovery of the FY2005 loans provided by National Life Finance Corporation (NLFC) amounting to ¥3,518.4 billion is to be completed in 31 years.
- 2) The loan interest rate adopted by NLFC in and after January 2005 is 2.4%.
- 3) The advanced redemption rate (advanced redemption during the FY in question / balance of loans at the end of the previous FY) is assumed to be 10.45%, the average figure for the past five years (1999–2003). The loans charge off rate (redemption during the FY in question / balance of loans at the end of the previous FY) is assumed to be 0.48%, the average figure for the past three years (2003–2005).

(Unit:%)

	Result					Estimated	Planned	Assumptions for calculation		
FY	1999	2000	2001	2002	2003	2004	2005	2006	...	2035
Advanced redemption rate	11.38	10.90	11.40	10.36	10.31	11.55	10.76	10.45	...	10.45
Loans charge off rate	0.36	0.32	0.37	0.46	0.47	0.53	0.43	0.48	...	0.48

- 4) In the policy cost analysis, the amount of loans charge off, estimated from the loans charge off rate based on the actual results to date, is reported as a loss (the total amount of loans charged off from FY2004 through FY2035 is ¥233.8 billion; total loans charged off / loans outstanding = 2.3%). Meanwhile, based on the assumption that NLFC operated as a private company, the reserve for loan losses reported on a pro-forma basis in accordance with the "Loans Inspection Manual" is ¥393.2 billion (as of the end of FY2003, loan loss reserve / loans outstanding = 3.9%).

However, since the claims of NLFC are small, the actual situation is such that even if loans should fall into arrears, a considerable percentage of recovery is completed by rehabilitating businesses through a temporary extension of principal repayment or by obtaining the cooperation of the joint surety sought at the time the loans were made (for example, of the debtors in arrears for three months or longer, approximately one-third repaid their loans during the following fiscal year) In addition, in charging off loans, the condition of the borrower is amply ascertained and loans judged to be truly irrecoverable in the future are disposed of.

Therefore, it can be said that the charge of rate based on the actual results indicated above are realistic assumptions for calculation.

Furthermore, the balance of risk management loans disclosed in conformance with the standards (the Banking Law) for private financial institutions is ¥1,044.8 billion (as of the end of FY2003).

- 5) Office expenses are calculated to decrease in proportion to the decrease in loans outstanding in FY2006 and thereafter based on the component ratio (40%) of the personnel assigned to loan management. The total amount of office expenses from FY2005 through FY2035 (those expenses that are subject to policy cost analysis by causative factor) is ¥203.7 billion.

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

Grants in the Managerial Improvement Loan Program and Environment Health Business Loan Program and Loans Not Requiring a third-party Guarantor or Collateral were received from the general account and the so-called revenue difference grants were not received for in FY2005.

(Underlying laws and regulations)

- a) Subsidies have no legal base (they are budgetary measures).
- b) The National Life Finance Corporation Law provides for capital investment.
Clause 2, Article 5 of the Law:
When the need is recognized, the government may provide additional capital investment to the Corporation within the scope of the amount stipulated in the budget.
- c) The National Life Finance Corporation Law provides for payment to national treasury.
Clause 1, Article 22 of the Law:
If profits occur in its statement of profits and losses in each operating year, the Corporation must pay them to the national treasury by May 31 in the next fiscal year.

7. Special remarks

- 1) The Corporation will be reorganized in FY2008 and thereafter with the aim of carrying out the guidance policy finance reform set forth by the Council on Economic and Fiscal Policy. However, since specific conclusions have not been reached at present, analysis is based on the current organizational form of the Corporation.
- 2) The data shows the policy cost required for providing long-term, fixed rate and low interest business loans to small enterprises that have difficulty receiving loans from private financial institutions.
- 3) Changes in policy cost to date are as indicated below.

FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
¥84.6 billion	¥127.7 billion	¥43.6 billion	¥18.2 billion	¥6.6 billion	¥4.2 billion	¥14.1 billion

(Reference) Financial Statements**Balance Sheet**

(Unit : million yen)

Item	End of FY 2003 (Result)	End of FY 2004 (Estimated)	End of FY 2005 (Planned)	Item	End of FY 2003 (Result)	End of FY 2004 (Estimated)	End of FY 2005 (Planned)
(Assets)				(Liabilities and capital)			
Loan receivable	10,069,431	10,147,051	9,879,700	Loans payable	8,787,800	8,437,390	7,925,690
Business loans	7,993,050	8,017,950	7,711,850	Fiscal loan funds borrowed	8,022,420	7,965,210	7,597,390
Environmental health business loans	915,614	957,534	983,983	Loans of postal life insurance funds	437,080	143,880	0
loans secured by pensions	45,713	47,913	47,913	General account funds borrowed	328,300	328,300	328,300
Loans secured by subsidy bonds	71	271	271	Bond	980,000	1,370,470	1,610,595
Educational loans	1,113,027	1,121,827	1,134,427	Cash on trust	0	0	0
Loans by liabilities for guarantees	1,957	1,557	1,257	Loan received	29,096	29,096	29,096
Cash and deposits	53,103	26,186	29,204	Accrued expense	14,635	13,166	15,655
Securities	0	1,300	1,450	Accrued loan interest payable	12,529	9,971	11,904
Agency accounts	3,082	3,082	3,082	Accrued bond interest payable	1,578	2,551	3,142
Accrued income	11,950	11,368	11,469	Accrued entrustment commission payable	528	643	608
Accrued loan interest receivable	11,927	11,344	11,445	Miscellaneous accounts	4,505	4,617	4,562
Accrued entrustment commission receivable	23	23	23	(Total liabilities)	9,816,037	9,854,739	9,585,598
Miscellaneous accounts	2,116	2,116	2,116	Capital			
Fixed assets	55,219	57,731	58,073	Capital investment from General Account	347,971	368,171	368,171
Deferred account				(Total Capital)	347,971	368,171	368,171
Margin on bond issue	556	883	831				
Reserve for loan loss	- 31,449	- 26,807	- 32,156				
Total assets	10,164,008	10,222,910	9,953,769	Total liabilities and capital	10,164,008	10,222,910	9,953,769

Income Statement

(Unit : million yen)

Item	FY 2003 (Result)	FY 2004 (Estimated)	FY 2005 (Planned)	Item	FY 2003 (Result)	FY 2004 (Estimated)	FY 2005 (Planned)
(Losses)				(Profits)			
Ordinary expenditures	244,299	228,171	224,751	Ordinary income	244,587	228,171	224,751
Interest on borrowed funds	80,706	57,770	53,620	Interest on loans	202,579	189,917	191,418
Bond interest	4,792	8,627	14,120	Business loans	158,760	150,472	150,898
Interest cost for cash on trust	0	0	0	Environmental health business loans	21,619	18,025	18,583
Entrusted business commission	4,082	5,049	4,850	loans secured by pensions	406	384	484
Trustor financial institution, etc., commission	3,839	4,790	4,590	Loans secured by subsidy bonds	2	1	2
Commissioned investigation expense	243	259	259	Educational loans	21,785	21,027	21,450
Office expense	70,678	71,832	71,110	Loans by liabilities for guarantees	7	8	0
Floatation costs	1,299	1,219	1,480	Trustee fee	84	94	108
Amortization cost	51,088	55,420	45,968	Receipts from the general account	5,141	5,928	5,546
Loans charged off	48,823	53,000	43,500	Receipts from the special account for coal, etc. (*)	0	5	1
Fixed asset depreciation expense	2,178	2,277	2,291	Interest on deposits in bank	1	1	0
Amortization of margin on bond issue	88	143	177	Profits from securities			
Provision for loan losses	31,449	26,807	32,156	Interest on securities receivable	0	0	0
Miscellaneous loss	204	0	0	Miscellaneous revenue	807	777	871
Reserve fund	0	1,447	1,447	Reversal of reserve for loan loss	35,973	31,449	26,807
Extraordinary loss							
Loss on disposal of fixed asset	288	0	0				
Current income	0	0	0				
Total	244,587	228,171	224,751	Total	244,587	228,171	224,751

* "Special Account for Realizing Advance Demand-Supply Structure of Coal, Petroleum and Energy"

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

(Reference) Postulated Balance Sheet and Postulated Income Statement in the case of Private Enterprise

Postulated balance sheet in the case of private enterprise

(Unit : million yen)	
Item	FY 2003
(Assets)	
Securities	43,103
Cash	385
Deposits	42,718
Receivables under repurchase agreements	10,000
Loans	10,040,335
Loans	10,069,431
Loans receivable	- 29,096
Other assets	18,728
Accrued revenue	10,362
Discounts on bonds	556
Agency accounts	3,082
Temporary payments	2,115
Other assets	2,612
Real estate and properties	55,219
Reserve for possible loan loss	- 393,181
Total assets	9,774,205
(Liabilities)	
Borrowed money	8,787,800
Bonds issued	980,000
Other liabilities	19,141
Accrued expenses	14,635
Revenue received in advance	138
Temporary payments	4,366
Trusted money	0
Accounts payable	1
Reserve for retirement pensions	117,549
Reserve for bonuses	3,475
(Total liabilities)	9,907,965
(Capital)	
Capital	347,971
Funds from General Account	347,971
Retained earnings	- 481,731
Undisposed loss at end of term	481,731
(Total capital)	- 133,760
Total liabilities and capital	9,774,205

Postulated income statement in the case of private enterprise

(Unit : million yen)	
Item	FY 2003
(Ordinary profits)	208,948
Interest received	202,913
Interest on loans	202,913
Revenue from service transactions, etc.	87
Consignment fees	84
Miscellaneous interest received	2
Other operations revenue	1
Interest from repurchase agreements	0
Interest on deposits	1
Income from government subsidies	5,141
Funds received from the General Account	5,141
Other ordinary profits	805
Miscellaneous revenue	805
(Ordinary expenses)	235,284
Interest expenses	85,586
Interest on borrowed money	80,706
Interest on bonds	4,792
Depreciation on margin from bond flotation	88
Expenditure for service transactions, etc.	2,720
Fees of trust and financing institutions	2,720
Other operations expense	1,299
Bond issuing costs	1,299
Business expense	83,814
Administrative expense	61,574
Expenses for development of computer systems	131
Transfer of reserve for retirement pensions	16,006
Transfer of reserve for bonuses	3,475
Depreciation cost	2,627
Other ordinary expense	61,865
Provision for reserve for possible loan loss	61,540
Miscellaneous loss	325
Ordinary loss	26,336
(Extraordinary loss)	289
Loss on disposal of property	289
Net loss	26,625

Note: Totals may not agree due to rounding.