Japan Finance Corporation (Account for JBIC Operations)

http://www.jbic.go.jp

1. Summary of operations implemented using FILP funds

Loans and other financial tools that contribute to promoting overseas development and acquisition of strategically important natural resources, maintaining and improving the international competitiveness of Japanese industries, promoting the overseas projects for preserving the global environment such as preventing the global warming and responding to disruptions in financial order in the international economy.

2. Amount of lending under FY 2011 FILP

(Unit: billion yen)

FY 2011 FILP	Estimated outstanding amount of FILP lending at the end of FY 2010
1,540.0	6,176.8

3. Outcome and social and economic benefits of operations

1) Lending and Equity participation

- Aggregate amount of loan, equity participation and guarantee commitments from FY 1950-2009: ¥59.6859 trillion
  (including ¥54.7404 trillion in loans and ¥0.1024 trillion in equity participation)
- Loan, equity participation and guarantee commitments in FY2009: ¥3.3651 trillion
  (including ¥2.6441 trillion in loans and ¥0.0130 trillion in equity participation)
- Loan, equity participation and guarantee disbursements in FY2009: ¥3.3305 trillion
  (including ¥2.6134 trillion in loans and ¥0.0136 trillion in equity participation)
- Loan, equity participation and guarantee outstanding balance at the end of FY2009: ¥10.7952 trillion
  (including ¥8.7738 trillion in loans and ¥0.0443 trillion in equity participation)

2) Primary types of financing for social and economic benefits

JBIC provides necessary finance in order to develop and obtain foreign resources which are important for Japan, maintain and improve international competitiveness of Japan's industry, deal with foreign financial turmoil and contribute to the sound development of domestic and international economic societies and the improvement of peoples' lives. By the amendment of the "Japan Finance Corporation Act," enforced on 31 March 2010, JBIC has started to provide a new financial function to promote overseas projects that benefit preservation of the global environment such as preventing global warming.

Instances of social and economical benefits are as follows:

- Export loans: Assistance for exports to developing countries of marine vessels and plants by Japanese companies that have a significant effect on production and employment
- Import loans: Contributions to the supply to Japan of important resources, aircraft, etc.
- Overseas investment loans: Securing and ensuring stable supply of resources and energy to Japan, a country poor in natural resources, and assistance for the reinforcement of competitive strength through the development of international operations implemented by Japanese companies under conditions of intense international competition
- Untied loans: Promotion of global warming prevention and other projects to conserve the global environment. Contributions to the international assistance activities of Japanese companies through efforts such as the development of the economic infrastructure in developing countries and assistance for developing-country governments to cope with financial crises
- Bridge loans: Assistance for facilitation of trades to foreign governments which have difficulties in carrying out transactions due to payment difficulty
- Equity participation: Supporting overseas operations of its clients by participating in their investments.

(Reference 1) Effect on development and obtaining of foreign resources which are important for Japan

Among domestic demand for major natural resources, natural resources supplied by projects funded by JBIC (import loans/investment loans for the purpose of assuring the stable supply of energy and other important resources that support the economic activities of Japan) in FY2009 included 26.6 million barrels of oil, 9.9 million tons of natural gas, 2.2 million tons of coal and 0.5 million tons of copper ore. (Japan Bank for International Cooperation survey, FY2010).

(Reference 2) Effect on maintenance and improvement of the international competitiveness of Japanese industries

(Survey concerning the effects of export financing on the domestic economy)

In relation to export-related operations financed in FY2008 and FY2009, the production by export corporations and the order placed to domestic suppliers is ¥171.5 billion in total. Of this amount, the order to medium and small business is estimated ¥41.7 billion (Total approved amount is ¥125.6 billion). The estimated employees maintained/hired within the export corporations are about 1,345 per year. (Japan Bank for International Corporation survey, FY2010)

(Survey on the effects on the Japanese economy)

The economic effects expected from the operations receiving financing can be classified into investment demand effect associated with initial capital investment and future production effect associated with future production activities. Of this, the trial calculation was performed, for the investment demand effect arising from the investment (aggregate total of operation funding about 9.2794 trillion yen, total approved loan :2.4211 trillion yen) in operations receiving the loans - export loans, overseas investment loans including energy and natural resources finance or untied loans - approved in FY2009 up to the first induction stage. As a result, the effect on the Japanese economy is estimated to be about 3.7642 trillion yen when value added is taken into account. In addition, the effect on foreign economies is about 3.6281 trillion yen when value added is taken into account.

Of this, to cope with the international financial crisis, investment demands effect brought by JBIC through suppliers' credits and loans for projects in developing and developed countries conducted by Japanese companies (aggregate total of project funding: about 3.1853 trillion yen, total approved loan: 1.3158 trillion yen) provides a positive impact on the Japanese economy. It is estimated to be 1.8757 trillion yen when value added is taken into account and the impact on foreign economies including developing countries is about 336.2 billion yen. (Japan Bank for International Cooperation survey, FY2010).

(Reference 3) Effect on response to disruptions in financial order in the international economy

In FY2009, JBIC implemented the Trade Finance Support Initiative (about 550 million dollars), the Sumurai Bond Issuance Support Facility (about 230 billion yen) and two-step loans for Japanese financial institutions under the economic crisis package (about 7.2 billion dollars), contributing to stabilizing the financial system and financing overseas operations of Japanese enterprises.

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

Policy (subsidy) cost

(Unit: billion yen)

Category	FY2010	FY2011	Fluctuation
1. Subsidies, etc. from the Government	-	-	-
2. Money transferred to the Government	-659.4	- 543.6	+115.8
Subtotal (1+2)	-659.4	- 543.6	+115.8
3. Opportunity cost of capital investments, etc. from the Government	741.4	635.9	-105.5
Subtotal (1+2+3)	82.0	92.3	+10.2
4. Decrease in retained losses	-	-	-
Total (1+2+3+4=policy cost(A))	82.0	92.3	+10.2
Analysis period (years)	30	29	-1

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

(Unit: billion yen)

Category	FY2010	FY2011	Fluctuation
(A) Policy cost (previously cited)	82.0	92.3	+10.2
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	532.6	498.0	-34.6
2) Policy cost expected to be newly accrued during the analysis period	-450.6	-405.7	+44.9
Subsidies, etc. from the Government	-	-	-
Money transferred to the Government	-659.4	-543.6	+115.8
Policy cost accrued with a change in surplus funds	190.9	46.6	-144.3
Opportunity cost of capital investments, etc.	17.9	91.3	+73.4

Year-to-Year comparison analysis

(Unit: billion yen)

Category	FY2010	FY2011	Fluctuation
(A) Policy cost (previously cited)	82.0	92.3	+10.2
(A') Policy cost obtained by re-calculating (A) using the same assumed interest rate as in the FY2010 analysis	82.0	103.9	+21.9
(B) Policy cost of (A') generated in FY2011 or later	92.2	103.9	+11.6

Policy cost in FY2011 is ¥92.3 billion. The analysis shows an increase of ¥11.6 billion in real policy cost over FY2010 when the effect of change in the assumed interest rate for FY2010 and FY2011 is eliminated and the policy costs that accrue in FY2011 and thereafter are compared. This increase in real policy cost is considered to be attributable to the following factors:

- Decrease in cost due to new loans in FY2011 (- ¥24.6 billion)
- Decrease in cost due to the bad debt charge-off (- ¥58.7 billion)
- Increase in cost due to the pre-repayment (+ ¥11.3 billion)
- Others (including an increase in administrative expenses related to new loans) (+ ¥83.6 billion)

Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2011 (previously cited)	92.3
1) Prepayments	17.5
2) Loan losses	415.5
3) Others (including profit spread)	-340.8

Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

Changed assumption and extent of change	Policy cost (Fluctuation)	
Interest rates on money loaned and funds raised +1%	Without change in discount factor 94.5 (+2.2)	With change in discount factor 160.2 (+68.0)
Fluctuation in opportunity cost	―	+ 333.5
10% rise in charge-off	117.4 (25.1)	
Fluctuation in opportunity cost	―	

(Reference)

Budgeted amount of subsidies and capital investment in FY 2011

Capital investment: ¥200 billion

***Components in each column may not add up to the total because of rounding.**

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

1) The estimation covers accounts relating to JBIC Operations of Japan Finance Corporation.
2) Scale of account: Outstanding balance of financing at the end of FY2010 is ¥9,053.7 billion (estimate), and ¥1,533.5 billion for FY2011. The securitization of ¥19.0 billion is also planned in FY2011.
3) The analysis period is 29 years from FY2011 to FY2039, when the longest-term loans will be repaid (30 years for the FY2010 analysis).
4) The new loans are assumed to be collected based on the amortization schedule of the outstanding loans. However, a part of new loans are assumed to be collected on the basis of an amortization schedule which is different from one of the outstanding loans.
5) The standard interest rates of the Bank apply to new loans.
6) Early prepayments rate based on the past record is used for the estimation. Furthermore, regarding prepayment premiums, although there are cases where a set percentage of original principal for prepayment premiums is secured in some projects, this revenue is not estimated in the analysis.
7) For the administrative expenses of FY2011, the expense associated with new financing and the one associated with the management of past financing are distinguished and the latter will be decreased according to the transition of the balance from FY2012.
8) Sovereign loans losses are estimated based on internal country ratings in order to refleot the unique characteristics of public organizations (i,e, Paris Club) as much as possible, while, in the case of non-sovereign loans, the estimated charge-off amount is calculated using external statistical data widely used by private financial institutions (total amount during analysis period is ¥428.0 billion; however, the estimated amount is strictly a potential amount and will not necessarily be actualized in the future). The loan loss provision ratio for both loans is as given below.

	Result				Estimated	Planned	Assumptions for calculation
FY	2006	2007	2008	2009	2010	2011	2012 to 2039
Prepayment ratio	3.01%	4.26%	1.79%	0.66%	2.01%	1.30%	Each FY: 3.78% [1]
Loan loss provision ratio	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	Cumulative total: 4.64% [2]

Note 1: Percentage against gross amount of planned repayment in the following fiscal year and thereafter.
2: Percentage of gross amount of estimated bad debts during the analysis term against the balance at the beginning of the FY2012 term.

9) At the end of FY2009, the outstanding balance of the risk management loans was ¥366.8 billion. The share of such loans in the total outstanding loan balance was 4.18%.

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

To keep revenues and expenditures in balance and to enhance the business base for performing projects stipulated in the Japan Finance Corporation Act, capital investment is received from the Special Account for FILP and General Account.

(Underlying laws and regulations)

- Capital investment provision

"Japan Finance Corporation Act"

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

- The national treasury payment provision

"Japan Finance Cooperation Act"

Article 47: 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 (3) months after the end of such business year.

"Japan Finance Corporation Act Enforcement Regulations"

Article 18: The amounts calculated according to the standards specified by an ordinance under Clause 1, Article 47 of the Act shall be provided by each section depending on the following accounts:

Clause 6: Account for operations specified by an ordinance under Section 6, Article 41 of the Act: Amounts equivalent to 50/100 of the profit in statements of earnings of each business year

Article 19: The amounts specified by an ordinance under Clause 1, Article 47 of the Act shall be provided by each section depending on the following accounts:

Clause 6: Account for operations specified by an ordinance under Section 6, Article 41 of the Act: Amounts equivalent to the capital brought by the account for operations specified in the same section

Article 21: 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 must submit a statement of the payment to the national treasury in such business year with a balance sheet at the end of such business year and an income statement of such business year and other financial documents which clarify the basis for the calculation of such payment to the national treasury to the finance minister by 20 June of next business year.

Article 22: Concerning the payment to the national treasury in each account for operations listed in each Item of Article 41 of the Act, the amount of the surplus prescribed in Clause 1, Article 47 of the Act shall be divided depending on the amount of the contribution from the investment account of the General Account or the Special Account for FILP in each statement and returned to the General Account or the investment account of the Special Account for FILP.

Clause 2: The amount of the contribution prescribed in the previous clause shall be the amount of the contribution from the General Account for the investment account of the Special Account for FILP on the first day of business year when the amount of the surplus prescribed in the same clause occurred (In the event that the amount of the contribution from the General Account or the investment account of the Special Account for FILP increases/decreases during such business year after that day, the amount obtained by multiplying the number of days from the day of increase/decrease to the end of such business year by such increased/decreased amount of the contribution shall be added/reduced).

7. Special remarks

1) The policy cost analysis of the Japan Bank for International Cooperation operation basically books the payments to the national treasury throughout the period of analysis, so that additional fiscal spending is not required. However, the level of surpluses does not exceed that of the opportunity cost of capital investments. This is what is generating the policy cost.
2) Changes in policy cost to date are as indicated below (Costs up to FY2008 are JBIC's ones).

FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
¥99.3 billion	¥60.8 billion	¥102.5 billion	¥66.0 billion	¥82.5 billion	¥79.8 billion	¥110.5 billion	¥31.5 billion	¥82.0 billion	¥92.3 billion

(Reference) **Financial Statements**

Balance Sheet

(Unit : million yen)

Item	End of FY2009 (Result)	End of FY2010 (Estimated)	End of FY2011 (Planned)
(Assets)			
Cash and Deposits	455,113	159,754	283,108
Cash	0	0	0
Deposits	455,112	159,754	283,108
Account for sales under agreement to resell	-	306,252	412,757
Securities			
Other bonds	44,280	96,518	301,268
Loaned money			
Loan on deeds	8,771,342	8,957,132	9,225,159
Other assets	724,223	693,827	650,410
Prepaid expenses	225	225	225
Accrued revenue	30,685	158,986	215,254
Derivatives	693,022	534,066	434,381
Other assets	290	549	549
Tangible fixed assets	37,903	55,128	55,902
Buildings	3,554	3,359	4,019
Land	33,881	51,184	51,184
Lease assets	79	52	17
Building under construction	90	90	-
Other tangible fixed assets	296	441	681
Intangible fixed assets	2,320	3,344	3,964
Software	2,025	3,114	3,671
Lease assets	259	229	293
Other intangible fixed assets	34	-	-
Customer's liabilities for acceptance and guarantee	1,977,071	2,538,739	2,714,440
Allowance for possible loan and investment losses	-145,354	-166,802	-191,294
Total assets	11,866,899	12,643,896	13,455,717

Item	End of FY2009 (Result)	End of FY2010 (Estimated)	End of FY2011 (Planned)
(Liabilities and equity)			
Borrowed money			
Loans payable	5,267,246	5,263,195	5,417,512
Bonds payable	2,598,954	2,924,559	3,156,901
Other liabilities	56,394	475,561	409,519
Accrued expenses	32,809	39,922	57,828
Revenue received in advance	21,534	23,669	20,437
Derivatives	1,598	411,590	330,844
Lease obligations	356	296	325
Other liabilities	94	82	82
Reserve for bonuses	511	491	469
Reserve for board members' bonuses	6	6	6
Reserve for retirement pensions	11,872	11,872	11,872
Reserve for directors' retirement benefits	17	28	38
Acceptance and guarantee	1,977,071	2,538,739	2,714,440
Total liabilities	9,912,072	11,214,454	11,710,759
Capital	1,055,500	1,091,000	1,291,000
Capital surplus	759,218	753,215	761,660
Earned surplus	726,011	742,615	747,915
Other retained earnings			
Earned surplus carried forward	33,207	10,600	13,745
Total shareholders' equity	1,814,718	1,844,215	2,052,660
Valuation difference on securities	-687	-1,449	-1,449
Deferral hedge profit/loss	140,795	-413,324	-306,253
Total valuation differences and translation adjustments	140,107	-414,773	-307,702
Total equity	1,954,826	1,429,441	1,744,958
Total liabilities and net assets	11,866,899	12,643,896	13,455,717

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

Income Statement

(Unit : million yen)

Item	FY2009 (Result)	FY2010 (Estimated)	FY2011 (Planned)
Ordinary income	191,178	207,890	610,075
Revenue from fund management	179,396	194,287	596,187
Interest on loans and discounts	143,212	191,691	591,289
Interest from repurchase agreements	-	1	3
Interest on deposits	547	2,594	4,895
Interest on interest swaps	35,617	-	-
Other interest received	19	-	-
Revenue from service transactions, etc.	11,144	13,411	13,814
Other service revenue	11,144	13,411	13,814
Other Operating Revenue	33	74	-
Revenue from derivatives	33	74	-
Other ordinary income	604	117	73
Other ordinary income	604	117	73
Ordinary expenses	163,355	197,428	596,293
Financing cost	122,322	149,051	545,891
Interest on borrowed money	58,349	64,900	148,134
Interest paid on bonds	63,973	67,637	104,174
Interest on interest-rate swap	-	16,513	293,581
Expenses for service transactions, etc.	1,107	2,548	2,524
Other service expenses	1,107	2,548	2,524
Other operation expenses	4,679	4,447	3,126
Foreign exchange trading loss	3,416	1,777	-
Amortization of bond issue expenses	854	2,036	2,347
Financial derivatives expenses	68	-	-
Other operation expenses	340	632	779
Business expenses	16,392	19,933	20,259
Other ordinary expenses	18,854	21,448	24,491
Provision for reserve for possible loan loss	18,853	21,448	24,491
Other ordinary expenses	0	-	-
Ordinary profits	27,823	10,461	13,782
Extraordinary profits	5,388	141	-
Gain on disposal of fixed assets	0	0	-
Bad debt recovered	5,387	140	-
Extraordinary losses	3	2	36
Loss on disposal of fixed assets	3	2	36
Net profit	33,207	10,600	13,745

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