DBJ's Management Functions

As a financial institution, DBJ's most important public social responsibility is to maintain the trust of society. We employ an operations management cycle that reflects the voice of society, particularly in terms of addressing the issues society faces from a long-term perspective, at the appropriate time and in the appropriate manner. We undertake projects that are meaningful from both economic and social perspectives and work to offer superior investment and loan solutions. DBJ considers sincerity and fairness in its investments and loans, as well as all of its other operations, a part of its CSR efforts.

■ Management System

A fundamental principal of DBJ's management is thorough compliance with the current DBJ Law and various corporate laws. The Bank complies strictly with all laws, rules and regulations, and operates fairly in good faith and in accordance with social standards.

■ Corporate Governance

DBJ carries out its activities in accordance with three-year policies prepared by the competent ministers (the Minister of Finance and the Minister of Land, Infrastructure and Transport). Based on these Medium-Term Policy Principles, DBJ prepares and publishes Investment and Finance Guidelines for each fiscal year. We have also established the Management Council, which consists of experts from outside the Bank. These entities consider and publicize the implementation status of the Bank's operations as recorded in its Medium-Term Policy Principles.

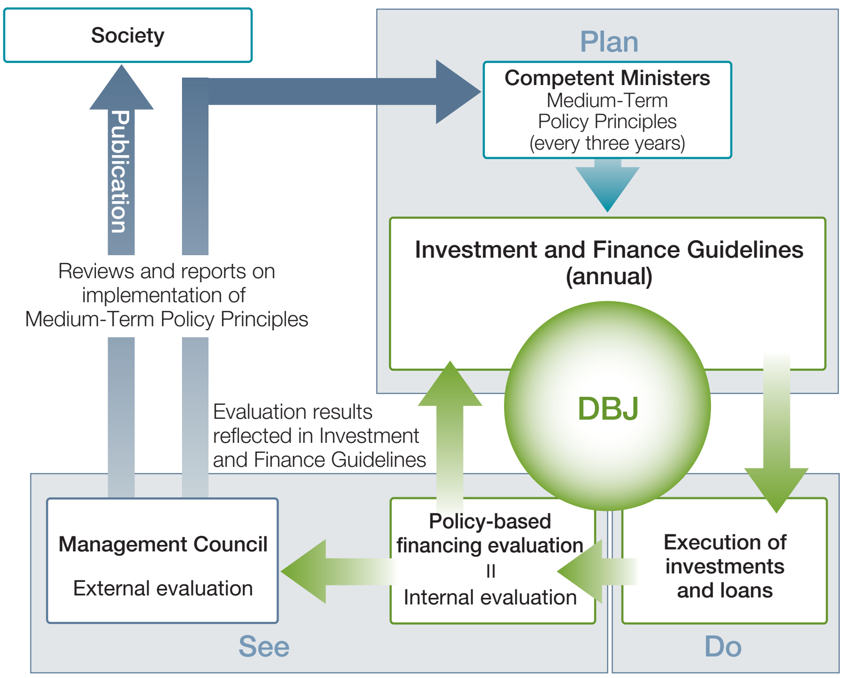
The characteristics of DBJ's business management are described below.

(1) Complementing and Encouraging Private-Sector Financial Institutions
DBJ Law prohibits the Bank from competing with private-sector financial institutions. Rather, our aim is to complement and encourage these institutions.

(2) Ensuring Sound Finance
DBJ maintains a strong risk management capacity and conducts asset/liability management to ensure a balance between revenues and expenditures and enhance the certainty of repayment from our client. As a policy-based financial institution, we strive toward sound and efficient operations.

(3) Evaluating Policy Effectiveness
DBJ endeavors to evaluate the policy effectiveness of its financing and maintain its accountability as a financial institution.

Operations Management Cycle Based on the DBJ Law



DBJ follows the Plan, Do, See, Feedback management cycle to boost accountability for the appropriateness of its operations and their results. This cycle encourages ongoing improvement.

We also strive to manage effectively the wide range of risks we face as a financial institution, and to earn the trust of our clients and society as a whole.

The "Plan" Process

The "plan" process consists of two steps: preparing and publicizing Investment and Finance Guidelines based on governmental Medium-Term Policy Principles.

(1) Prepare Medium-Term Policy Principles

The competent ministers formulate three-year policies. These policies form the basis for economic and social measures that clarify the basic stance for DBJ's operations.

(2) Create Investment and Finance Guidelines

DBJ establishes Investment and Finance Guidelines for each fiscal year based on the Medium-Term Policy Principles. The guidelines describe DBJ's basic investment and loan directions and include details of DBJ's investment and loan systems as well as target areas.

The "Do" Process

The "do" process corresponds to the execution of investments and loans in line with the Investment and Finance Guidelines formulated during the "plan" process. Rather than simply applying guidelines and systems mechanically, DBJ takes a broader and more tailored approach toward individual project evaluation that includes the provision of business structures and information, as well as monitoring.

The "See" and "Feedback" Processes

The "see" process takes place in two stages. First, DBJ conducts internal evaluations, and then the Management Council conducts external evaluations.

(1) Internal Evaluation (Operations Evaluation)

DBJ's internal evaluations evaluate the individual policy effectiveness of all investments and loans, the effectiveness of investment and loan systems and include detailed evaluations of individual projects, taking into account specific project categories, fields and themes. The Bank combines the results obtained through these evaluations into operations evaluation documents. DBJ submits its overall evaluations, which include the evaluation documents and financial statements that describe the financial soundness of projects, to the Management Council and publicizes its internal evaluation results.

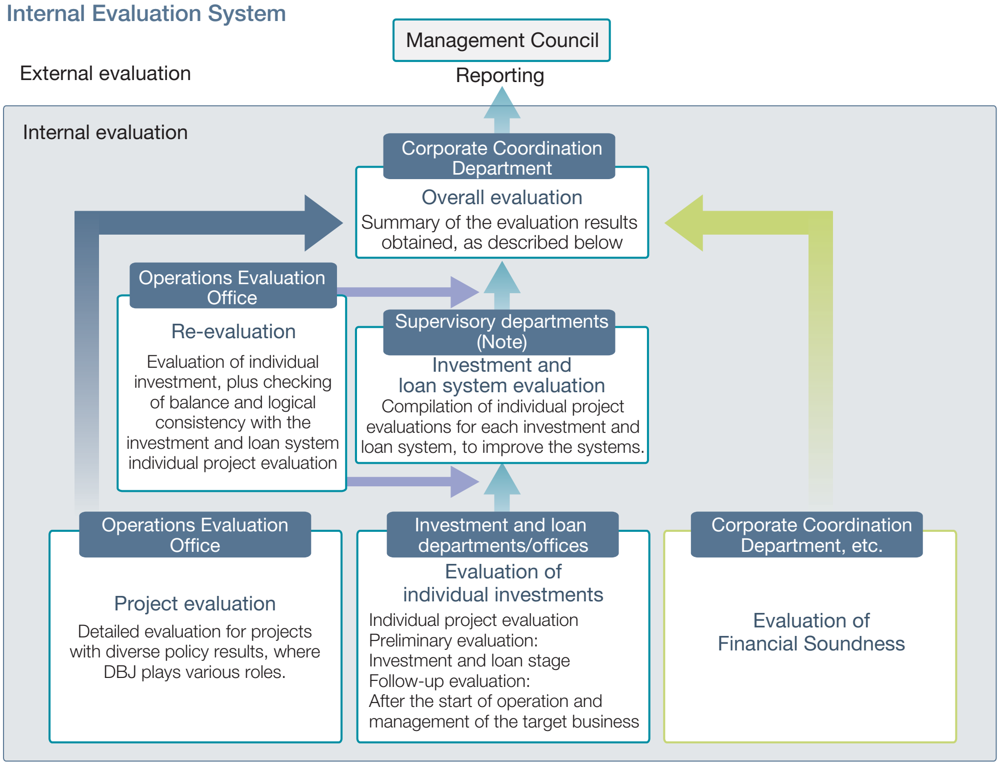
To protect its internal evaluation results from arbitrariness, DBJ has established the Operations Evaluation Office. This office conducts special sessions on in-house evaluations and confirms that evaluation systems are employed properly. The office has also formed a committee of academic experts with a view toward improving DBJ's evaluation system.

(2) External Evaluation (Management Council)

DBJ's Management Council, which consists of outside experts, evaluates operations stated in the Medium-Term Policy Principles. To improve transparency, we publicize the findings of the Council.

The DBJ budget also is submitted to the Japanese Diet for approval each year. Diet approval is also required for the Bank's financial statements. Overall operations are reviewed by the Board of Audit, the Ministry of Finance, and the Financial Services Agency.

Internal Evaluation System



: Sections performing internal evaluations within DBJ

Note: Supervisory departments are sections in charge of drafting policies and plans for investment and loans for each investment and loan system. For example, the Department for Urban Development supervises the investment and loan system dealing with urban development (see the organization chart on page 143).

Factors Evaluated

① Policy aspects of target business: Whether the target business for an investment and loan can realize the policy objectives; what kind of validity it has for the people of Japan and local residents; and what level of results can be achieved

② Role of investment and loans: Whether DBJ investment and loans continue to be based on the principles of supplementing and encouraging private-sector investments, and what kind of role they play at the time of a target business's implementation

■ Internal Audits

Internal Audits

Internal audits are carried out independently from other management and operational departments, and comprise a series of processes involving not only a comprehensive and objective evaluation of the organization's internal management conditions but proposals and follow-up measures to improve the issues identified.

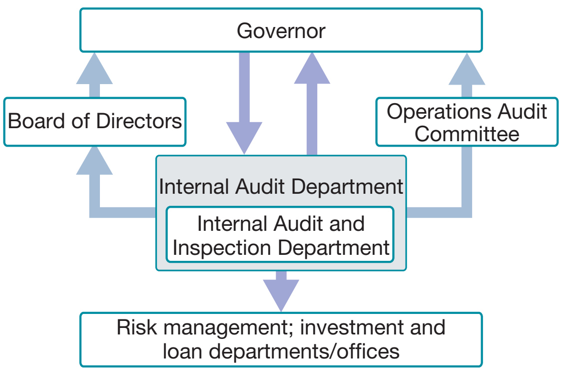
DBJ must fulfill its mission as a policy-based financial institution of the Japanese government, while maintaining its fiscal soundness. Therefore, internal audits are essential if the Bank is to secure proper internal management and deal with the increasing diversity and sophistication of its operations.

Internal Audit Systems

To facilitate audits, DBJ has established an Operations Audit Committee and an Internal Audit and Inspection Department, which serve as internal audit departments under the direct supervision of the DBJ governor and are independent from other departments. The Internal Audit Department, as its name suggests, performs internal auditing and inspections to ensure effective and efficient risk management, reliable financial reports, and compliance with laws and regulations.

Under the Bank's fair and appropriate internal audit system, the governor determines the basic policy for auditing and inspection upon on consultation with the Board of Directors. Important matters relating to audits and inspections results are reported to the governor after discussion with the Operations Audit Committee.

Overview of Internal Audit Systems



Compliance

Basic Stance

DBJ's compliance policies are outlined below.
(a) DBJ's executives and employees are keenly aware of the Bank's social mission and responsibilities as a public-sector bank and recognize that illegal acts or improper business operations harm the reputation of the Bank and interfere significantly with the Bank's ability to fulfill its objectives. We also realize the Bank's need to always conduct activities appropriately and in compliance with the law.
(b) DBJ's executives and employees are well aware that the DBJ must conduct its businesses legally and appropriately and be responsible for explaining its actions to the general public.

Compliance system

DBJ has established the Legal and Compliance Department to take overall responsibility for planning, preparing and adjusting compliance activities.

In addition, DBJ has established the General Risk Management Committee to reflect on legal compliance matters, determine the extent of compliance, and discuss improvements to the Bank's internal system. In addition, all departments of each individual branch have compliance officers responsible for verifying their section's legal compliance, reporting on compliance-related matters and serving as liaisons.

Compliance Activities

DBJ has prepared a Compliance Manual, which contains specific behavioral guidelines that ensure legal compliance. The manual includes related laws and regulations and is distributed to all executives and employees. To thoroughly educate all executives and employees on basic legal matters, the Bank also holds training seminars and briefings.

In addition, DBJ formulates detailed compliance programs for each fiscal year. After discussion in the General Risk Management Committee the "action plans" are officially approved by the governor.

Declaration on Personal Information Protection

When handling personal information from business partners, DBJ complies with laws concerning the protection of personal information by independent administrative institutions, handling this information as described below.

DBJ requests that any opinions or complaints concerning its handling of personal information be directed to the Development Bank of Japan Personal Information Desk.

1. Purpose of Using Personal Information
DBJ is entrusted by its business partners with necessary information, and the Bank uses this information to perform properly the operations defined by the DBJ Law.

2. Limiting the Purpose of Use for Personal Information
DBJ uses the personal information of its business partners only for the purposes described above. The specific purposes for such information are published on the Bank's website. Use for any other purpose will be clearly indicated at the time that information is obtained.

3. Obtaining Personal Information Appropriately
When entrusted with personal information from its business partners, DBJ does not obtaine it under false pretenses or through improper methods.

4. Managing Personal Information Content
DBJ endeavors to verify the validity of personal information from its business partners and requests that the partners cooperate.

5. Storing Personal Information Safely
To prevent leakage of the information received from its business partners, the Bank has established measures to manage this information safely and will continue to improve these measures. DBJ endeavors to maintain strict information-handling procedures, supervising and training its executives and regular employees on the handling of personal information and concluding non-disclosure agreements with subcontractors.

6. Providing Personal Information to Third Parties
The Bank releases personal information to outside parties only if the providers, its business partners, agree, or it can be inferred to have agreed to such use. However, such information is provided to third parties in certain legally defined situations deemed to be in an individual's own or the public's interest.

7. Disclosing Personal Information
If an individual requests the disclosure of personal information entrusted to the Bank by its business partners, the procedures for such disclosure are as specified in relevant laws concerning the protection of personal information held by independent administrative institutions.

8. Revising or Discontinuing the Use of Personal Information
If an an individual requests the discontinuation of the use of personal information, the procedures employed for such a request are as specified in laws concerning the protection of personal information held by independent administrative institutions.

■ Risk Management

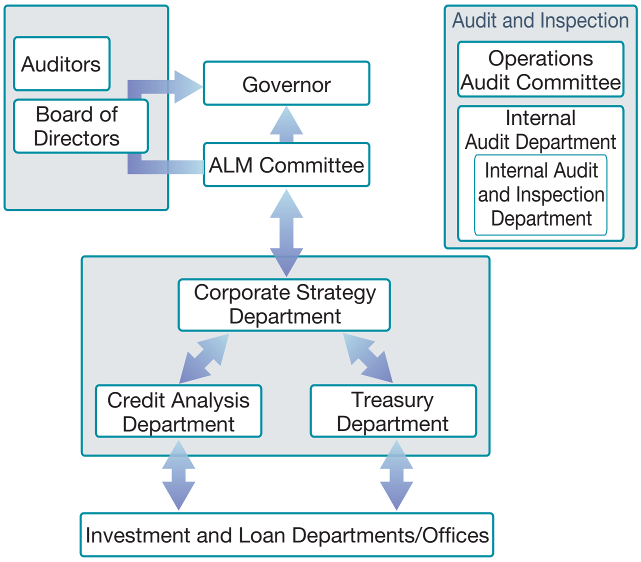
Continuing financial liberalization and advances in computer technology drive the computerization of finance, and innovation in financial technologies creates an increasingly diverse and complex risk environment for financial institutions. Therefore, we expect risk management to become an increasingly important theme.

To ensure management soundness and safety, as well as raise corporate value, DBJ works to manage risk appropriately in line with specific business and risk characteristics. Controlling risk is an issue of utmost importance, and we have established risk management processes and methods accordingly.

Asset/Liability and Risk Management System

DBJ conducts asset/liability and risk management from the perspectives of maintaining financial soundness and improving operational efficiency-prerequisites to ongoing operational viability. To ensure appropriate management of individual risk categories, DBJ has developed an asset/liability and risk management system that clarifies which department is responsible for each type of risk. The Corporate Strategy Department oversees comprehensive asset/liability and risk management activities. The ALM Committee, consisting of executives and the DBJ governor, determines basic policies related to comprehensive asset/liability and risk management, and conducts regular monitoring.

Asset/Liability and Risk Management System Overview



Credit Risk Management

Credit risk refers to the risk of sustaining losses resulting from a decline in the value of assets due to deterioration in the financial condition of the borrower. Credit risk management requires credit management of individual loans as well as bankwide portfolio management.

(1) Credit Administration of Individual Loans

When making an investment or loan, DBJ examines the entity's project viability and the project's profitability from a fair and neutral standpoint, in addition to considering the project's policy significance and benefits. We also have an internal borrower rating system. DBJ is not subject to the Banking Law or the Law concerning Emergency Measures for the Revitalization of the Functions of the Financial System (Financial Revitalization Law), but carries out independent asset assessments in line with internal policies for self-assessment of credit quality based on the Financial Services Agency's Financial Inspection Manual. The results of self-assessments are subject to an audit by an auditing corporation and are reported to the ALM Committee. Credit risk and amounts are monitored to confirm they are within the limits established for individual borrowers.

The sales and credit analysis departments hold separate roles in the screening and administering of credit for individual loans and each department keeps the other's operations in check. The Lending Committee, Loan Fund Committee, and Investing Committee meet as needed to deliberate important issues concerning the management and governance of individual loans. These mutual checking functions serve to ensure the appropriateness of lending operation and management environment.

(a) Borrower rating system

DBJ's borrower rating system measures creditworthiness by combining an evaluation point rating and a borrower category rating, with the result efficiently determining a potential client's credit circumstances. The evaluation point rating selects indicator/evaluation categories that are common across all industries, scoring the creditworthiness of the potential borrower quantitatively and qualitatively. On the other hand, the borrower category rating measures specific items related to the borrower, looking at the borrower's realistic financial condition, cash flows and debt repayment history. By putting the ratings together, the system generates a comprehensive assessment of a borrower's repayment capacity.

(b) Asset self-assessment system

Assets self-assessments are used to define asset classifications that will offset recoverability risk or the degree of risk of value loss, based on the borrower rating, the corresponding borrower category and the collateral or guarantee status. Such assessments help DBJ establish timely and appropriate amortization schedules and reserve levels.

Borrower Rating Classifications

Borrower category	Borrower rating	Definition	
Normal borrowers	1	Borrowers with favorable business conditions and who have been confirmed to have no particular problematic financial circumstances.	Debt history demonstrates an extremely high degree of reliability, with several outstanding factors. DBJ accords these borrowers the highest rating.
	2		Debt history demonstrates a very high degree of reliability with outstanding factors.
	3		Debt history demonstrates high reliability.
	4		Debt history demonstrates sufficient reliability, but these borrowers are more vulnerable to the impact of potential changes in the operating environment than are borrowers with higher ratings.
	5		Debt history demonstrates no reliability issues, but the impact of the potential worsening of the operating environment is likely to reduce their debt repayment capabilities.
	6		Debt history demonstrates no immediate reliability issues, but the impact of the potential worsening of the operating environment is highly likely to reduce their debt repayment capabilities.
	7		Under current circumstances, financial conditions indicate no major problems, but if the operating environment or financial conditions worsen in the future, debt repayment capability is likely to decline.
	8		Under current circumstances, financial conditions indicate the need for attention in some aspects but an established capacity for debt has been confirmed. As the business is in its startup phase, no business conditions are available for rating, but the debt history indicates no problems.
Borrowers requiring caution A	9	Borrowers experiencing weak business conditions, are unstable or have issues with their finances. These borrowers are likely to require management intervention in the future.	No major losses or substantial financial issues exist, but these borrowers should be treated with caution.
Borrowers requiring caution B	10		Business conditions are sluggish or financial problems are present.
Borrowers requiring caution C	11		The borrower is arrears to DBJ for less than one year, conditions are likely to change, or the borrower is in arrears to another financial institution or conditions are currently changing. Financial support is confirmed, although liabilities are effectively in excess of assets.
Substandard borrowers	12	Either some or all of the debts of these borrowers requiring caution are under management.	
Borrowers in danger of bankruptcy	13	Borrowers in this category are having financial difficulties but are not bankrupt. Management improvement loans and the like are progressing poorly, and these borrowers are highly likely to fall into bankruptcy. Although they remain in business, these borrowers are financially overextended. As business conditions are also lackluster, the likelihood of these borrower's loans becoming delinquent or of principal or interest becoming ultimately unrecoverable is high. Consequently, these borrowers are highly likely to continue sustaining significant losses.	
Effectively bankrupt borrowers	14	Although not legally or formally in bankruptcy, these borrowers are experiencing severe financial difficulties and are realistically falling into bankruptcy, as their lack of potential for restructuring has been confirmed. These borrowers remain in business formally, but their finances reveal large amounts of non-performing assets or they have excessive long-term borrowings outstanding from the Japanese government. Liabilities have effectively exceeded assets for a long period of time. There is little hope of a business turnaround, they have suffered a major loss due to a natural disaster, an accident or a sharp change in economic conditions, or they are in circumstances similar to these. As there is no potential for restructuring, these borrowers are effectively substantially delinquent in their principal and interest payments.	
Bankrupt borrowers	15	These borrowers are in bankruptcy, legally and formally. Specifically, these borrowers are in bankruptcy or liquidation, under corporate reorganization, bankruptcy proceedings or civil rehabilitation, or have had transactions suspended by a bill clearinghouse.	

(2) Portfolio Management

DBJ performs a comprehensive analysis of data from borrower ratings and self-assessment such as loan defaults, and calculates the loan portfolio's overall exposure to credit risk. Credit risk exposure can be classified as 1) expected loss (EL), the average loss expected during a specific loan period, and 2) unexpected loss (UL), the maximum loss that could incur at a certain rate of probability. The EL and UL calculations are reported to the Asset and Liability Management (ALM) Committee. Monitoring the situation and considering countermeasures allow DBJ to control risk and devise effective measures to improve risk return.

Market and Liquidity Risk Management

(1) Market Risk

Market risk can be broadly classified into interest rate risk, exchange risk and stock market risk.

Market risk describes the risk of loss from fluctuations in the value of assets or liabilities (including off-balance-sheet items), owing to changes in interest rates, exchange rates, stock markets and various other markets. DBJ divides these risks broadly into interest rate risk and exchange risk.

(a) Interest Rate Risk

Interest rate fluctuations can create mismatches on rates of interest on assets and liabilities or on interest periods, creating the risk of reduced profits or the risk of losses. Interest rate risk can reduce the economic value of DBJ's assets or interest income. DBJ calculates and analyzes risk exposure with cash flow ladder analyses (gap analysis), value at risk (VaR), interest rate sensitivity analyses (basis point value), and other methods. A portion of the interest rate risk associated with lending operations is covered through interest rate swaps, which are used solely for hedging purposes. DBJ does not have any trading-related risk because it does not engage in trading (specified transactions).

(b) Exchange Risk

Exchange risk is the risk of loss due to unexpected shifts in exchange prices, and this risk affects entities holding a net excess of assets or liabilities denominated in foreign currencies. Exchange risk entails the possibility of a decline in the economic value of DBJ's assets due to the impact of changes in currency exchange rates. DBJ's exchange risk derives from issuing foreign currency bonds and the extension of foreign currency loans. DBJ uses currency swaps to hedge this risk. The Bank manages counterparty risk in swap transactions, the risk that the counterpart in the swap transaction will be unable to fulfill its obligations, by continually monitoring the creditworthiness of all parties, and by diversifying transactions among several institutions.

(2) Liquidity Risk

Liquidity risk is the risk of a mismatch occurring in the periods when funds are used and raised, causing unexpected differences in the flow of funds (cash flow risk). This situation makes securing funds difficult and creates situations in which interest rates on borrowed funds are substantially higher than usual rates. At such times, because of market complexities entities in these circumstances may become unable to participate in market transactions, compelling them to conduct transactions under substantially less favorable terms than otherwise would be the case. The risk of losses for these reasons is known as market liquidity risk.

With regard to these risks, As its main method of acquiring funds, DBJ relies on the stable procurement of long-term funds from the government's Fiscal Investment and Loan Program (FILP) , government-guaranteed bonds, and FILP agency bonds, rather than on short-term funds such as deposits. To meet unexpected short-term funding requirements, funds on hand are placed primarily in short-term investments, taking security and liquidity into consideration. Overdraft lines of credit have been established with multiple private financial institutions. DBJ also maintains daytime liquidity by using the Bank of Japan's Real Time Gross Settlement (RTGS), whereby settlements are made instantly for each transaction. Every effort is made to ensure that settlement conditions are managed appropriately.

In addition to credit risk, the ALM Committee deliberates DBJ's market risk and liquidity risk.

Operational Risk Management

DBJ defines operational risk as the risk of loss arising from internal processes, people or systems that are inappropriate or non-functioning, or from external events. DBJ works to establish a risk management system to minimize risk and prevent potential risks from materializing.

The General Risk Management Committee has been established to deliberate topics concerning operational risk management. Within operational risk management, DBJ conducts operational risk management and systems risk management as described below.

(1) Operational Risk Management

Operational risk refers to the risk of sustaining losses resulting from employees neglecting to perform their duties correctly or from accidents, fraud, and the like. To reduce or prevent operational risk, DBJ prepares manuals, performs checks on administrative procedures, provides education and training, and uses systems to reduce the burden of administrative duties.

(2) Systems Risk Management

Systems risk refers to the risk of loss due to a breakdown or malfunction of computer systems, system defects, or improper computer usage. To properly manage systems risk, DBJ has implemented the following internal processes to optimize systems risk management.

DBJ has formulated an Information Security Policy to safeguard the Bank's information systems. Additionally, the Bank has established a General Risk Management Committee to deliberate on matters related to systems risk. DBJ also set up the General Security Management Division to integrate the maintenance and management of information security. Information asset officers have been appointed to take responsibility for security measures in each department and branch office, thus ensuring policy compliance.

As part of its effort to promote systems risk management, DBJ is taking measures to prevent problems and enhance reliability by standardizing systems development procedures, forestalling fraudulent access through the management of access privileges and passwords, and by preventing information leaks with thorough information asset management. In addition to setting up a two-tier system for hardware and software, DBJ has created a backup center and formulated a business continuity plan (BCP) in preparation for a malfunction or natural disaster.

Responding to the New Capital Adequacy Requirements (Basel II)

A new capital adequacy requirement, Basel II, was introduced in Japan on March 31, 2007. Basel II applies to financial institutions that handle deposits, including banks, credit associations, credit cooperatives and other institutions. Although DBJ is not directly subject to these requirements, the Bank has elected to comply, with a view to enhancing risk management.

Basel II consists of the following three pillars.

Pillar 1: Minimum Capital Requirements

Using the method defined by Basel II to calculate risk-weighted assets, a capital ratio of 4% or more is required for banks that operate only in Japan, while the international standard is a ratio of 8% or higher. Under Basel II, the calculation for credit risk-weighted assets has become more elaborate, and regulations on operational risk have been introduced. DBJ's capital ratio on a consolidated basis is 18.90%, indicating sustained soundness of capital.

Pillar 2: Verification of Self-Management and Supervision of Financial Institutions

Financial institutions themselves are required to comprehend the major risks that affect them, including risks not covered under Pillar 1, and to evaluate the capital required to cover such risks from a management standpoint. The Financial Services Agency verifies such preparations. DBJ conducts its own comprehensive risk management and responds to these requirements.

Pillar 3: Market Discipline through Information Disclosure

Financial institutions must thoroughly disclose their risks and their methods for calculating those risks, with the aim of raising the level of market discipline and consequently raising the level of risk management at financial institutions. Disclosure items are provided in the section entitled "Financial Condition," beginning on page 111.

■ Disclosure

Through enhanced communications, DBJ discloses information impartially, swiftly and appropriately to raise management transparency and to promote further understanding of the Bank among its various stakeholders, including clients, local communities, private-sector financial institutions, regional government bodies and the national government.

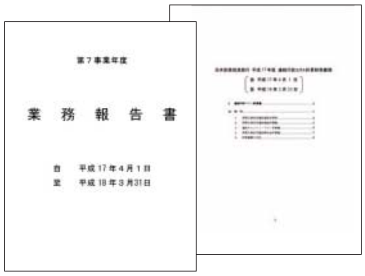
Disclosure System

DBJ has prepared a system for the appropriate disclosure of information based on the Law Concerning the Disclosure of Information Held by Independent Administrative Institutions. The Bank indicates clearly the roles of each department in disclosing information to specific audiences. In principle, the Treasury Department discloses information targeting investors, the Corporate Coordination Department discloses news information to the mass media and the Corporate Strategy Department discloses public relations information to the general public via the Internet and various publications.

Information Disclosure Materials

As shown below, DBJ offers a wide range of information, using such media as newsletters and its website.

(1) Materials legally required for disclosure
Operation report
Financial statements
Administrative cost report

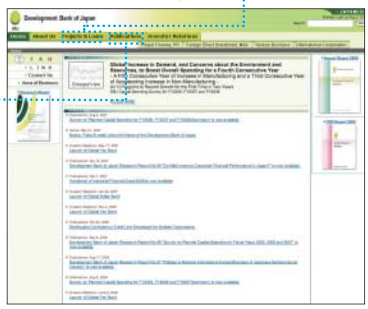


(2) Voluntarily disclosed information
CSR Annual Report
Financial Report, in accordance with the Securities and Exchange Law of Japan

(3) Others
DBJournal (newsletter)
Website: **http://www.dbj.go.jp/english/**

Download Center (Japanese only)
Various information for downloading

Publications
Various information for downloading



Other available information

Project & Loans
Introductions to various DBJ projects

About the Privatization of DBJ (Japanese only)
Explanation of DBJ's privatization