Overview of Operations

Overview of Operations in the Six-Month Period Ended March 31, 2009

Operating Conditions

Economic Environment

During the six months ended March 31, 2009, the Japanese economy was affected by the mid-September 2008 collapse of Lehman Brothers, a U.S. investment bank, which sparked a financial crisis with effects that rippled outward rapidly into the real economy throughout the rest of the world, culminating in the worst economic recession since World War II. Exports, which had served as a driver of growth for the Japanese economy, shrunk with unprecedented speed, and industrial production fell by more than 30%. These downturns rapidly affected corporate earnings and profits, as well as income and employment levels. Furthermore, the downward trend in capital investment became more pronounced, and personal consumption decreased.

Review of the Six-Month Period Ended March 31, 2009

Since its establishment on October 1, 2008, the core of DBJ's business has remained that same as those conducted by its predecessor, prior to privatization. As a highly specialized financial institution, we seek to resolve clients' issues through the provision of integrated investment and loan services.

Below is an overview of these activities during the six-month period ended March 31, 2009. The figures provided for the loans, investment and consulting/advisory services described below are for DBJ on a nonconsolidated basis.

Loans

We provide senior financing through traditional corporate loans, nonrecourse loans and other types of structured financing as well as a variety of other loans that employ advanced financial methods. During the six-month period ended March 31, 2009, we provided ¥1,670.3 billion in loans, including loans for financial crisis response business.

For details regarding business loans in response to the financial crisis, please refer to the section on page 13 entitled "Financial Crisis Response Business."

Investment

We work to resolve client issues involving business expansion and support strategies and the formation of financial infrastructures. We achieve these activities by supporting the creation of funds, as well as mezzanine, equity and other financing methods, providing appropriate financing based on a long-term perspective. During the six-month period, ¥63.1 billion was allocated to investing activities.

Consulting/Advisory Services

Consulting and advisory services utilize the networks created by the DBJ's predecessor. Through these services, we help clients of all sizes grow more competitive in a host of industries. We perform consulting on projects that help invigorate regional communities, and provide advisors to support these activities. During the six-month period, investment and loan commissions, and fees from M&A and other advisory services amounted to ¥3.8 billion.

Subsidiaries

In December 2008, our Singapore Representative Office was incorporated, becoming the wholly owned DBJ subsidiary DBJ Singapore Limited.

Situated in the middle of Southeast Asia, which has enjoyed rapid growth in recent years, Singapore has grown as a result of the role it serves as the region's financial center. DBJ Singapore should serve as a springboard for other DBJ Group companies to provide loans and investment and conduct M&A and advisory services to meet the broad-ranging needs of clients in the area.

Overview of Consolidated Operating Performance

Consolidated Financial Highlights

(Billions of yen)

	For the Six-Month Period Ended March 31, 2009
Total income	154.8
Net loss	(128.3)
Total assets	14,028.0
Loans	12,008.8
Securities	1,246.5
Total liabilities	11,941.6
Borrowed money	8,067.8
Debentures and corporate bonds	3,513.0
Total equity	2,086.4
Common stock	1,000.0
Capital adequacy ratio (BIS standard)	18.88%
Ratio of risk-monitored loans (Banking Law base)	1.60%
Return on equity	(6.06)%
Return on assets	(0.92)%
Number of employees	1,096

The period under review is the six months from October 1, 2008, through March 31, 2009. As DBJ was established on October 1, 2008, no previous figures are available for comparison.

Consolidated Income and Expenses

During the period, DBJ posted total income of ¥154.8 billion. Of this amount, interest income generated ¥135.7 billion, and fees and commissions ¥4.6 billion. Other operating income came to ¥719 million, and other income was ¥13.6 billion.

Total expenses were ¥272.9 billion. This amount included interest expenses of ¥84.1 billion, expenses on fees and commissions of ¥0.1 billion, other operating expenses of ¥11.0 billion and general and administrative expenses of ¥17.8 billion, as well as other expenses of ¥159.7 billion.

Net interest income was ¥51.5 billion and net fees and commissions ¥4.5 billion. However, as a direct result of confusion in the credit transaction market, DBJ posted valuation losses on credit default swaps and expenses on other financial derivatives, resulting in net other operating losses of ¥10.3 billion. In addition, the sudden downturn in the economic environment resulted in an increase in expenses associated with loan losses and losses on shares, prompting net other losses of ¥149.6 billion. As a result, the loss before income taxes and minority interests, excluding operating expenses, was ¥121.6 billion.

After declaring an extraordinary loss of ¥3.5 billion, the loss before income taxes and minority interests came to ¥118.1 billion.

In line with DBJ's privatization (conversion to a joint-stock company), DBJ must pay taxes in the same manner as other general corporations. During the year, current income taxes—including corporate, resident and other taxes—came to ¥20.0 billion, and DBJ posted deferred income taxes of ¥6.4 billion.

As a result, during the period, DBJ posted a net loss of ¥128.3 billion.

Consolidated Assets, Liabilities and Equity

As of March 31, 2009, total assets amounted to ¥14,028.0 billion. Of that amount, loans were ¥12,008.8 billion, and securities came to ¥1,246.5 billion. These amounts include new financing for the provision of loans in response to the financial crisis, as well as short-term corporate bonds issued to fund DBJ's entry into the commercial paper purchasing business.

Call loans and bills bought amounted to ¥145.0 billion at the end of the term, and reverse repurchase agreements came to ¥375.9 billion. These assets represent the investment of excess cash on hand.

Total liabilities as of March 31, 2009, stood at ¥11,941.6 billion, of which debentures and corporate bonds amounted to ¥3,513.0 billion and borrowed money ¥8,067.8 billion. Also, during the period DBJ floated its first corporate bond issue following privatization (conversion to a joint-stock company). These bonds, issued under the registration statement method, were floated on December 2008 and generated ¥57.0 billion. Also, acceptances and guarantees came to ¥157.2 billion.

Total equity at the end of the period was ¥2,086.4 billion. DBJ's unrealized loss on available-for-sale securities came to ¥1.6 billion. This amount includes valuation losses on securities that DBJ holds independently, as well as shares in listed companies that DBJ owns through funds.

Privatizing DBJ

Development Bank of Japan Inc. was established on October 1, 2008. Under the terms of the Development Bank of Japan Inc. Law (Law No. 85, 2007; the "New DBJ Law") approved by the Japanese Diet on June 6, 2007 as part of the Law on the Promotion of Administrative Reform to Bring About a Simple and Efficient Government (Law No. 47, 2006; the "Administrative Reform Promotion Law") and the fundamental reform of policy-based finance, DBJ, upon its establishment, took over all assets of the Development Bank of Japan (the "predecessor") as investment in kind, with the exception of assets transferred to the government under the provisions of Article 15, Paragraph 2, of the Appendix to the New DBJ Law. Under Article 15, Paragraph 1, of the same law, DBJ also assumed all rights and obligations of the predecessor, with the exception of assets transferred to the government under Article 15, Paragraph 2, of the Appendix to the New DBJ Law.

DBJ has instituted emergency measures to deal with the global financial and economic crisis which began in the autumn of 2008. On June 26, 2009, the Diet passed the Law for Partial Amendment of the Development Bank of Japan Inc. Law ("Revised DBJ Law"), which, by extending the government's investment period to the end of March 2012, enables DBJ to strengthen its financial base in line with the economic crisis measures announced in April 2009.

Under the New DBJ Law, DBJ was to have achieved full privatization within five to seven years after its establishment. With the law's revision, the target date has been extended to five to seven years after the end of the investment period mentioned above. At the end of fiscal year 2011, the government plans a review of DBJ's organization which will include the future of government-held shares. The government will continue to hold its shares until then.

Note: Please refer to pages 86–92 for details of the New DBJ Law and Law for Partial Amendment of the Development Bank of Japan Inc. Law.

Law Passed for Partial Revision of the Development Bank of Japan Inc. Law

The Law for Partial Amendment of the Development Bank of Japan Inc. Law was passed today at an Upper House plenary session of the ongoing 171st ordinary session of the Diet.

The law introduced a number of amendments designed to help Japan's medium-sized and large corporations deal with funding problems arising from the global financial crisis which began in the United States last fall.

- The law provides for the strengthening of DBJ's finances by enabling the government to make additional investments in DBJ until the end of March 2012. Investments may now be made by means of delivery bonds.
- The law extends the disposal period for government-held shares in DBJ. Whereas existing provisions stipulated a target of "approximately five to seven years after October 1, 2008," the revised law states that the government must dispose of all of its shares in DBJ by "approximately five to seven years after April 2012."
- In view of the certain level of government involvement in DBJ required to ensure that crisis response business are implemented properly—government shares are in excess of the one-third of all outstanding shares it would normally hold, for example—a government review of DBJ's crisis response business, including the future of government-held shares, will be held in or around the end of fiscal year 2011, followed by necessary actions based on the findings. Until these steps are taken, the government will not dispose of any of its shares in DBJ.

(Unofficial translation)

Reference 1: New DBJ Law (after the amendment pursuant to the Law for Partial Amendment of the Development Bank of Japan Inc. Law)

Disposition of Government-Owned Shares

Article 2

1. Pursuant to Article 6, Paragraph 2 of the Law Concerning Promotion of Administrative Reform for Realizing the Simple and Effective Government (Law No. 47 of 2006, as amended), the Government shall make efforts to reduce the number of shares held by it in the Corporation (hereinafter in the following Paragraph and the immediately following Article referred to as "Government-Owned Shares"), taking into account the market situation, and shall dispose all of them in approximately five to seven years from April 1, 2012.

Government Investment

Article 2-2

During the period ending March 31, 2012, the Government may invest in the Corporation as it deems necessary within the limits set by its budget.

Delivery of Government Bonds

Article 2-3

1 During the period ending March 31, 2012, the Government, in implementing the crisis response business specified in Article 2, item 5 of the Japan Finance Corporation Law (Law No. 57 of 2007; hereinafter "Crisis Response Business") may issue government bonds in order to secure the capital required to ensure the soundness of the Corporation's finances.

Supplementary Provisions of the Law for Partial Amendment of the Development Bank of Japan Inc. Law

Deliberation

Article 2

1 By the end of fiscal year 2011, the Government shall review the organization of the Corporation, taking into account the status of investments in Development Bank of Japan Inc. (hereinafter "the Corporation") under the provisions of Article 2-2 of the Supplementary Provisions to the Development Bank of Japan Inc. Law as amended by this Law; the redemption of Government bonds under the provisions of Article 2-4, Paragraph 2 of the same Supplementary Provisions; the conduct of crisis response Business by the Corporation (this refers to Crisis Response Business conducted under the provisions of Article 2, Item 5 of the Japan Finance Corporation Law (Law No. 57 of 2007); same hereinafter); and changes in socioeconomic and other circumstances. This review, from a point of view of the Government's practice of maintaining a certain level of involvement in the Corporation, such as by consistently holding more than one-third of the Corporation's issued shares, is meant to ensure that the Corporation's Crisis Response Business are properly implemented; it shall include a consideration of the Corporation's Crisis Response Business and, based on that, of the Government's holding of stock in the Corporation. The Government shall take necessary measures based on its findings.

2 Notwithstanding the provisions of Article 6, Paragraph 2 of the Law on Promotion of Administrative Reform for Realizing Simple and Efficient Government (Law No. 47 of 2006) as amended under the provisions of the following Article (the "Administrative Reform Promotion Law") and of Article 2, Paragraph 1 of the Supplementary Provisions to the Development Bank of Japan Inc. Law as amended by this Law, the Government shall not dispose of its shares in the Corporation prior to taking the measures described in the preceding paragraph.

Reference 2. The Law Concerning Promotion of Administrative Reform for Realizing the Simple and Effective Government (after the amendment pursuant to the Law for Partial Amendment of the Development Bank of Japan Inc. Law)

Status of the Shoko Chukin Bank Limited and the Development Bank of Japan Inc.

Article 6

Full-scale privatization is prescribed for the Shoko Chukin Bank and Development Bank of Japan Inc. and measures to this effect shall be taken in fiscal year 2008 to minimize Government involvement while maintaining the autonomy of management.

2 The Government shall invest in the Shoko Chukin Bank and Development Bank of Japan, Inc. taking into account the market situation, and shall dispose all such investments in approximately five to seven years from April 1, 2012.

3 The Government shall, with regard to full-scale privatization as provided in Paragraph 1, take measures to ensure the financial bases that are necessary to the smooth operations of the Shoko Chukin Bank and Development Bank of Japan Inc. At the same time, necessary measures shall be taken to ensure maintenance of the foundations of the financial functions for members of small and medium-sized enterprise cooperatives and other organizations composed of small and medium-sized corporate members that belong to the Shoko Chukin Bank and investment and financing functions of Development Bank of Japan Inc. for long-term business funds.

Reference 3: Supplementary Resolutions

Supplementary Resolutions on the Bill for Partial Amendment of the Development Bank of Japan Inc. Law

House of Councilors Committee on Financial Affairs
June 25, 2009

The following matters should receive the Government's careful consideration.

- In implementing Crisis Response Business based on the recent measures for additional investment, Development Bank of Japan Inc. shall ensure the measures result in a smooth supply of funds on the basis of appropriate analysis by drawing upon its accumulated knowledge and skills.
- With the global monetary crisis having serious economic and financial impacts, and the balance of loans to small and medium enterprises falling steadily, efforts must be made to further facilitate loans by the Japan Finance Corporation to small and medium-sized businesses. In implementing Crisis Response Business for large and midscale enterprises, Development Bank of Japan Inc. must be certain to expedite loans to associated small and medium enterprises as well.
- The Government should review its holding of shares in Development Bank of Japan Inc. and take necessary measures based on its findings. Any such deliberations should take into account the need to ensure that the Corporation acts for the good of the community, that it has a stable source of the funds required to fulfill its functions as a provider of long-term investment and loans, and that it has systems in place to secure competitive officers and employees. The Government should take appropriate measures to prevent any damage to the Corporation's long-term value.
- The Government should reassess the future provision of policy-based finance by Development Bank of Japan Inc. and the Japan Finance Corporation, reaffirming the importance of their roles and functions and paying attention to their relationships not only with private financial institutions but also with the Japanese financial sector as a whole, including affiliated organizations and the Japan Post Bank.

Resolutions passed.

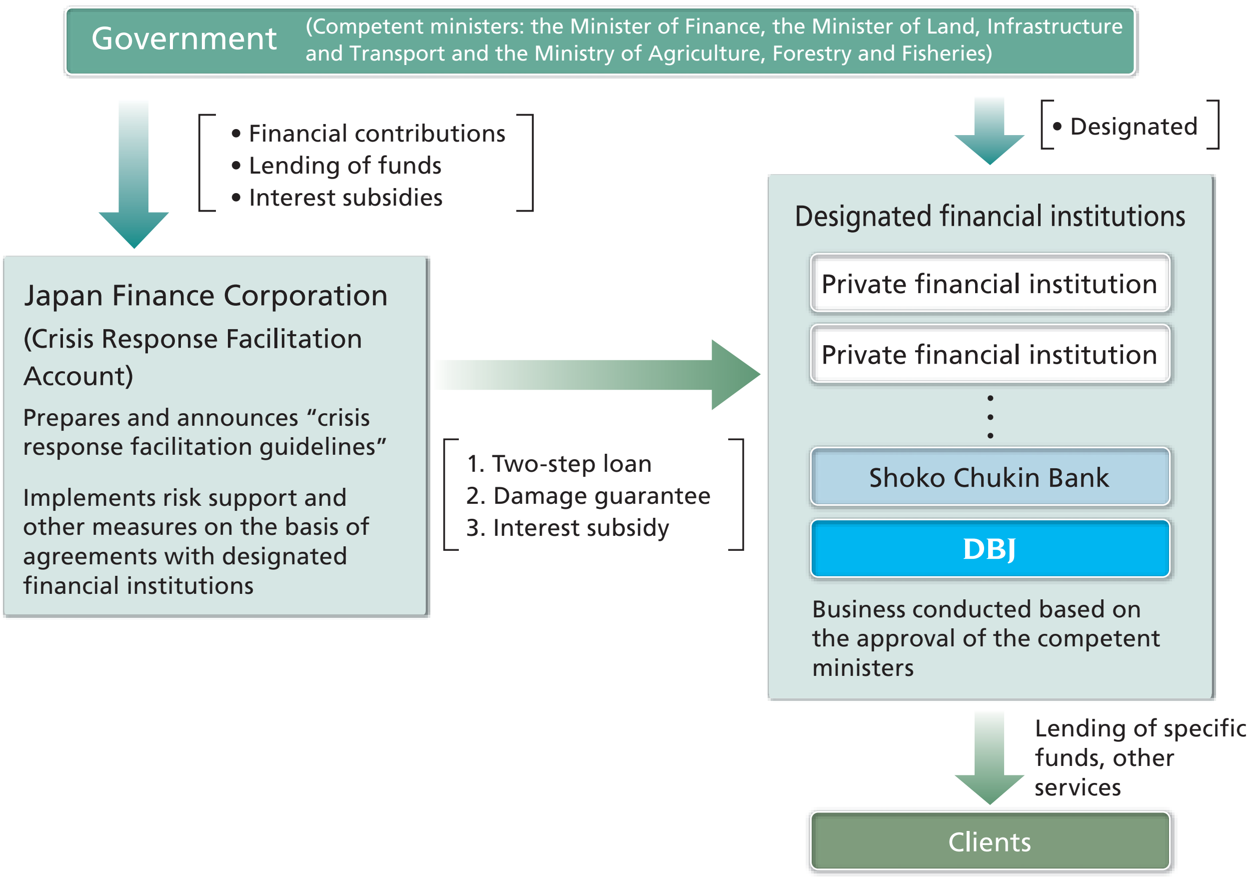
Crisis Response Business

Crisis Response Business

Through the Japan Finance Corporation (JFC), the Japanese government sets aside specific funds that are earmarked for use in the event of crisis, such as disruptions in the domestic or overseas financial markets, large-scale disasters, terrorism and epidemics of communicable diseases. Upon the receipt of such credit (e.g. for two-step loans, financial indeminity or interest subsidies), institutions designated to provide such funds do so quickly and flexibly.

At the time of its establishment, DBJ was designated as such a financial institution, as was Shoko Chukin Bank Limited.

■ **Crisis Response Business Scheme**



Financial Crisis Response Business

DBJ began conducting crisis response business on October 1, 2008. These services consist of providing necessary funds during such crises as disruptions in domestic or overseas financial markets or a large-scale disaster. These funds are provided by the Japanese government via designated financial institutions under the Japan Finance Corporation Law (Law 57 of 2007, later updated). Funds provided under this law receive a risk subsidy from JFC.

On October 30, Shoko Chukin and DBJ established "lifestyle measures" in response to the worsening corporate cashflow conditions resulting from the global financial and economic crisis that commenced in the autumn of 2008. On December 11, these measures were granted crisis designation under the category of "incidents related to confusion in the international financial order." On December 19, these measures were augmented with economic measures, or "emergency lifestyle defense measures," funded through an expanded budget and the commencement of the commercial paper acquisition business, and labeled Cashflow Countermeasures for Medium-Sized and Large Companies Employing the Crisis Response Business of the Japan Finance Corporation. On January 27, 2009, government regulations were amended, incorporating these items into the second supplementary budget for fiscal 2008, supplemented with funds generated by DBJ's commercial paper acquisition business.

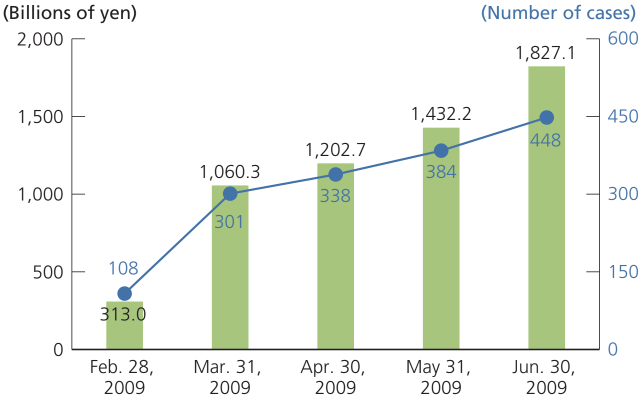
Additional economic crisis countermeasures were announced on April 10, 2009, outlining specific measures for large-scale crisis response business and earmarking a total of ¥15 trillion for crisis response for medium-sized and large companies. In line with these measures, approval of a supplementary budget for fiscal 2009 was announced on May 29, 2009. This budget received Diet approval on June 26, and the revised New DBJ Law went into force and was promulgated on July 3, 2009. These measures paved the way to reinforce DBJ's financial structure and execute crisis response business smoothly.

As part of the danger of loss related to the introduction of loans for medium-sized and large companies, as well as commercial paper acquisition, DBJ has drawn up with JFC a framework for reimbursement on loss guarantee transactions, and DBJ appropriately employs this framework for reimbursement of loss guarantee transactions.

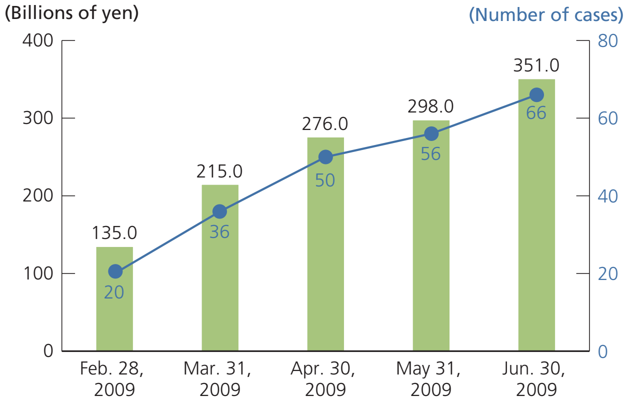
As of June 30, 2009, DBJ's loan performance and commercial paper acquisition of financial crisis countermeasure loans in response to the financial crisis was as follows.

- Cumulative loans: ¥1,827.1 billion (448 cases)
- Cumulative loans executed with loss guarantee agreements: ¥163.1 billion (10 cases, including those slated for application to JFC)
- Cumulative commercial paper acquisition: ¥351.0 billion (66 cases)

■ **Loans as Financial Crisis Countermeasures (Cumulative, at Month-End)**



■ **Commercial Paper Acquisition as Financial Crisis Countermeasures (Cumulative, at Month-End)**



Activities to Enhance Financial Expertise

DBJ conducts its business activities according to the corporate philosophy of "applying financial expertise to design the future."

DBJ considers financial expertise to involve its core competencies of intention, intellectual assets and networks, and the ability to leverage its accumulated financial infrastructure to resolve clients' issues.

To enhance its financial expertise, during the six months ended March 31, 2009, we established the DBJ Financial Expertise Research Group and made theoretical adjustments. We also opened the DBJ Financial Academy with the aim of raising the level of financial expertise among our general personnel.

DBJ Financial Expertise Research Group

Between May and September 2008, the DBJ Financial Expertise Research Group met a total of eight times to make theoretical adjustments.

This research group invited financial academics and other outside experts in an attempt to learn the realities of the financial crisis, as well as to participate in deliberations from the standpoint of how DBJ's future operations should address the situation. One outcome of this research was a report entitled *The Investment Banking Model and DBJ's Future Stance*, which was published in October 2008.

The Investment Banking Model and DBJ's Future Stance

DBJ Financial Academy

Since May 2008, the DBJ Financial Academy has held weekly courses with the objective of raising the level of financial expertise of general employees by strengthening the knowledge and understanding that is essential to the advanced corporate financial business that lies at the heart of DBJ's business model. During the year ended March 31, 2009, courses covered statistics, an overview of technical financial theory and financial legislation.

The DBJ Financial Academy accepts students from outside, such as employees of regional financial institutions. We look forward to expanding the fields in which DBJ's financial expertise is applied.

■ DBJ Financial Academy Curriculum

2008 Course

(May 2008 through February 2009)

- Statistics
- Bond actuarial studies
- Corporate finance
- Overview of technical financial theory
- Business management and M&A
- International finance
- Financial legislation
- Japanese corporate finance

2009 Course

(Expected to run from June 2009 through February 2010)

Core courses

- Basic financial theory
- Corporate finance
- Valuation/case studies
- International finance
- Financial system theory
- Financial policy

Elective courses

- Financial Instruments and Exchange Law
- Crystal ball practice
- Real estate finance
- Investments (investment theory)
- M&A finance

Overseas Business

Since its conversion to a joint-stock company in October 2008, DBJ has made a full-fledged entry into international business. This business is positioned as one of DBJ's growth strategies in its first medium-term management plan. (See page 19.)

To achieve the targets set in the first medium-term management plan, we are creating an overseas risk management structure, preparing operating bases, training personnel and moving forward with core infrastructure. At the same time, we are working to expand our network with trustworthy partners and domestic and overseas financial institutions.

On June 1, 2009, we reconfigured our Department for International Affairs into the International Strategy & Coordination Department as part of our move to commence full-scale overseas investment and loan activities. This department is charged with gathering information and fostering integrated risk management, which will contribute to building structures to support overseas business.

Operations at Overseas Locations

New York Representative Office

The New York Representative Office is responsible for North America, Canada, and Central and South America. This office monitors financial, industrial and economic trends and economic policies. The office provides information to Japanese companies and other entities that are planning to commence operations in North and South America, as well as client companies that are considering entry into the Japanese market.

London Representative Office

The London Representative Office is responsible for Europe (including those countries in Eastern Europe and countries that were once part of the Soviet Union), the Middle East and Africa. This office monitors international financial markets, as well as economic trends and policies. The office provides information to Japanese companies that are planning to commence operations in Europe, as well as overseas companies that are interested in venturing into Japan.

DBJ Singapore Limited

DBJ converted its Singapore Representative Office into a wholly owned subsidiary, DBJ Singapore Limited, on December 16, 2008.

By establishing our operational hub in Singapore, which is located in the rapidly growing Southeast Asian region and increasing its influence as a financial center, we hope to respond to various needs of our clients, such as loans, investments and M&A advisory services.

DBJ Singapore's principal activities spanning Asia and Oceania include:

1. Supporting Japanese companies that are commencing or expanding operations in Asia and Oceania
2. Supporting overseas companies that are interested in venturing into Japan or forging business tie-ups with Japanese companies

Outline of DBJ Singapore Limited (As of July 1, 2009)

Established:	December 16, 2008
Capital:	S$1,000,000
Business:	Loans, investment and M&A advisory services
Address:	9 Raffles Place, #30-03 Republic Plaza, Singapore 048619
CEO & Managing Director:	Masamitsu Kawasumi

Business Tie-ups with Overseas Institutions

DBJ leverages its business alliances with the following overseas institutions, according to specific objectives.

China International Investment Company (the CITIC Group)

- Corporate group with a wide-ranging financial service network throughout Asia, including China

IE Singapore

- Government institution that supports internationalization and provides overseas investment for Singaporean companies

DBJ Singapore Limited opening ceremony

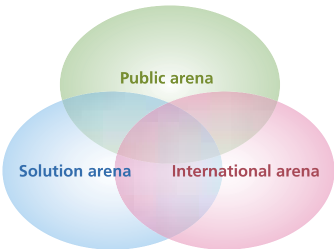
Group Companies

The DBJ Group, including DBJ, its subsidiaries and affiliates, provides a variety of service to meet its clients' needs.

Japan Economic Research Institute Inc.

Japan Economic Research Institute, which is wholly capitalized by DBJ, is a research institution that primarily conducts surveys and provides consulting services. In April 2009, the institute made a fresh start, taking over the research and related activities conducted by its predecessor.

Operating with a long-term perspective and from a standpoint of fairness and neutrality, the institute generates synergies from its three fields of research—the public, solutions and international arenas—targeting the public and private sectors. The company meets clients' research and consulting needs from a comprehensive viewpoint.



Outline of Japan Economic Research Institute Inc. (As of July 1, 2009)

Established :	December 1989
Capital:	¥480 million
Business:	Research, consulting and advisory services
Address:	3-4, Kanda-surugadai 3-chome, Chiyoda-ku, Tokyo 101-0062, Japan
President:	Kazuyuki Mori

New Business Investment Co., Ltd

New Business Investment, which promotes Japanese industry and finance by encouraging venture companies to launch diverse new businesses, was established in 1990 using venture capital provided by the Japanese government. In 2004, the company made a fresh start by becoming a venture capitalist with joint investment from DBJ and 126 other companies.

Since its establishment, New Business Investment has invested in nearly 200 venture businesses, contributing to companies' new business creation efforts and expanding their fields and scales of operation. New Business Investment has helped companies holding sophisticated and proprietary technical and service expertise and knowledge invest in venture companies in fields expected to grow rapidly.

Outline of New Business Investment Co., Ltd (As of July 1, 2009)

Established :	June 1990
Capital:	¥6 billion
Business:	Research, consulting and advisory services
Address:	6-2, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-0004, Japan
President:	Shinya Matsuno

IPO Information

Recently the market for companies seeking to make initial public offerings has withered, but in 2009 New Business Investment helped take public two companies in which it is an investor.

Ubiquitous Energy, Inc.
Stock exchange listing: JASDAQ
Ubiquitous Energy is primarily an energy consultant that works with small and medium-sized manufacturers on ways to reduce their electric power expenditures.

In addition to its energy cost solution business, Ubiquitous Energy helps other companies market energy-saving products, such as *Eco Cute* heat pumps and stoves that cook through induction heating, thereby reducing CO_2 emissions and lowering the environmental impact of companies' operations.

tella, Inc.
Stock exchange listing: NEO (JASDAQ)
Concentrating on dendritic cell (DC) vaccine therapy*, tella uses a combination of chemotherapy and radiation therapy to fight cancer effectively. The company provides its proprietary cancer treatment technology and expertise to in immune maximizing therapies for cancer to contracted medical institutions.

* Dendritic cell (DC) vaccine therapy is a cancer therapy method that uses dendritic cells to recognize and record cancer antigens in lymphocytes. This approach supports a targeted attack on cancer cells, minimizing the damage to healthy cells and virtually eliminating side effects.