



Development
Bank of
Japan

Development Bank of Japan

Annual Report 2006

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Message from the Governor

The Development Bank of Japan (DBJ) is a policy-based financial institution whose mission is to contribute to the development of Japan's society and economy.

The role of policy-based financial institutions has been a key subject of debate for the Japanese government in recent years. The Important Policy of Administrative Reform, endorsed by the Cabinet on December 24, 2005, proposed that DBJ be completely privatized as a single entity, so that we could maintain our numerous functions and thus remain capable of developing new financial methods. We feel that the Cabinet's decision indicated that our achievements in providing new financial technologies have been recognized among industrial and financial circles, as well as community groups such as local public bodies. DBJ has provided solutions while actively adopting new methods of finance aligned with policy objectives in the priority areas of community development, environment conservation, and technology.

DBJ is currently considering the appropriate business model as a private entity. Nevertheless, we will continue to demonstrate reliability, impartiality, long range perspective, and public spirit. DBJ will also continue to optimize its management resources, such as expertise with new financial technologies and project evaluations, and our networks with the public and private sector. DBJ aims to contribute to the sustainable development of Japan's economy and society, by providing financial solutions based on medium- to long-term loan and equity financing.

DBJ supports community development by supporting business revitalization and business ventures. Further, DBJ provides solutions such as private finance initiatives (PFI) and public and private sector partnerships (PPP) to energize local economies and to maintain and improve the quality of community services limited by local government financial constraints.

With the world's first system of loans based on environmental ratings, DBJ supports environment-friendly investments and corporate activities through financing and encouragement of corporate social responsibility (CSR). This has earned DBJ plaudits from various interested parties. In addition, this spring DBJ began a loan program for promoting disaster



management for companies that take positive measures such as business continuity plans (BCP) to prevent disasters. DBJ has already discussed this type of loan with many companies.

DBJ is a firm supporter of technological development. DBJ helps entrepreneurs aiming to capitalize on their technological expertise by evaluating technology management strategies and the technology's potential for commercialization.

The Important Policy of Administrative Reform, the Administrative Reform Promotion Law ("Law for Advancing Administrative Reform to Realize a Streamlined and Efficient Government") and Policy-based Financing Reform Plan recommended that DBJ transition in fiscal 2008 from our current status as a special public corporation, to a stock company, with a view to complete privatization in the future. Throughout the privatization process, DBJ will continue to build on the efforts that have been recognized, and will strive to provide a wide range of services and solutions.

On behalf of everyone at DBJ, I ask for your continued support and goodwill as DBJ takes steps toward privatization.

Takeshi Komura
Governor

Takeshi Komura

Profile

The Development Bank of Japan was established in accordance with the Development Bank of Japan Law on October 1, 1999, as the successor to all rights and obligations of the Japan Development Bank and the Hokkaido-Tohoku Development Finance Public Corporation. The finance functions of the Japan Regional Development Corporation and the Japan Environment Corporation were also transferred to DBJ.

Objectives

DBJ provides long-term financing and other policy-based schemes to qualified projects as a supplement and inducement to the lending and other services provided by ordinary financial institutions. By doing so, it promotes the upgrading, vitalization and sustainable development of the economy and society; the realization of an enhanced quality of life; and the creation of self-reliant regions.

Capitalization (as of the end of March 2006)

DBJ is capitalized at ¥1,272.2 billion (wholly owned by the government).

Number of Employees (as of the end of March 2006)

DBJ employs 1,352 workers.

Services

As an integrated policy-based financial institution, DBJ's implementation of the following functions supports desirable projects in line with Japan's economic and social policy.

Supply of long-term funds (loans, debt guarantees, and other services) :

DBJ supplies long-term, fixed-interest, good-quality funds which, in collaboration with funding from private-sector banks, support projects that have high policy content.

Project support :

DBJ's diverse skills and financing functions are put to practical use in promoting the smooth formulation of projects with high policy content. This support is provided comprehensively at every stage, from the project's initial concept to its planning and commercialization.

Information supply :

Using its domestic and overseas networks, DBJ carries out study and research related to important economic, social, industrial, and local trends, and furnishes a wide range of information to interested parties.

Characteristics of Business Management

Creating and publicly disclosing investment guidelines based on Medium-Term Policy Principles:

DBJ conducts its work according to the Medium-Term Policy Principles of the Development Bank of Japan, which are prepared by the competent ministers.

Investment and Finance Guidelines are prepared and publicly disclosed for each fiscal year. In addition, the Management Council, consisting of independent experts, deliberates on and announces the progress of work related to matters set down in the Medium-Term Policy Principles.

Complementing and encouraging private financial institutions:

The Development Bank of Japan Law prohibits competition with private financial institutions. DBJ's role is to complement and encourage private financing.

Ensuring sound finance:

In managing its work as a policy-based financial institution, DBJ strives for sound and efficient operations based on the principles of certainty of repayment and balanced revenues and expenditures, as well as for strong risk management capacity and an upgraded system of asset/liability management.

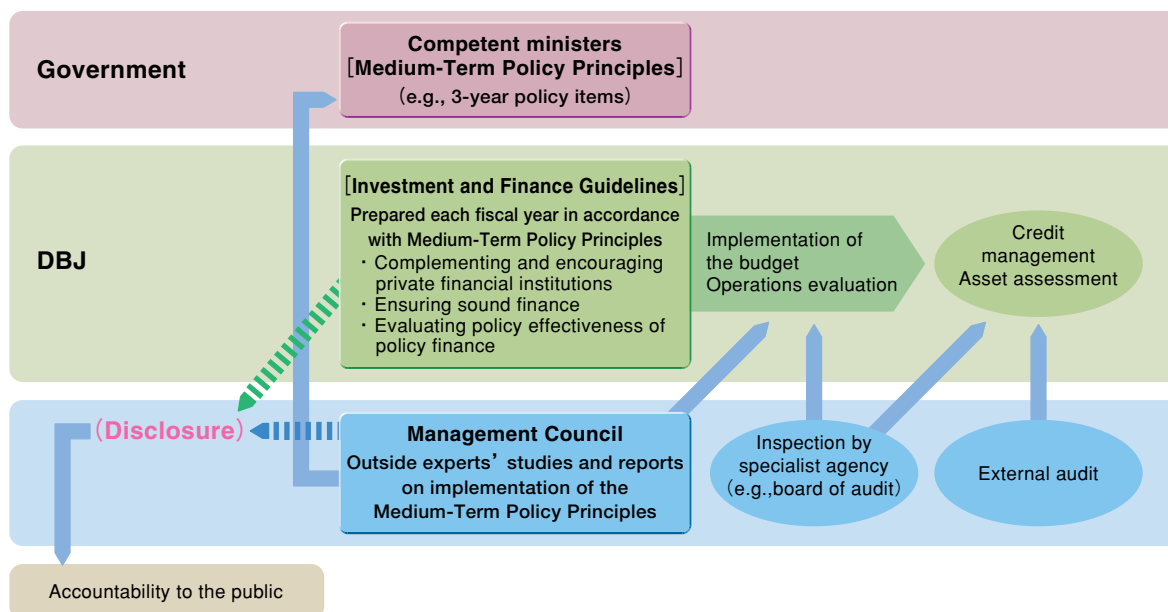
Evaluating policy effectiveness:

DBJ works to ensure its accountability as a governmental institution by evaluating objectively the contribution of its financing to policy effectiveness.

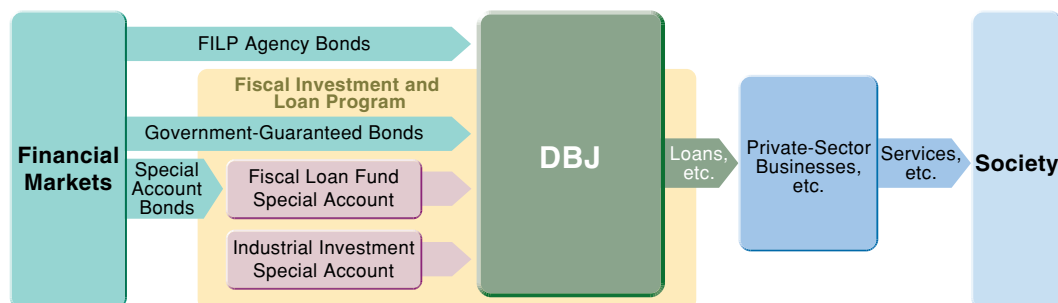
Business Scale

Lending scale and target fields correspond to each year's policy requirements, and, together with fiscal investment plans, are determined by the Diet. Annual settlements are also submitted to the Diet. DBJ's business scale for fiscal year 2006 is ¥1,110 billion.

Principles of Work Management



Structure of Fund Procurement



Ratings for Development Bank of Japan (as of June 2006)

Ratings on FILP Agency Bonds

Moody's	S&P	R&I	JCR
A2	AA-	AAA	AAA

Notes: 1. FILP agency bonds are not government-guaranteed.

Notes: 2. Moody's: Moody's Investors Service, Inc.

S&P: Standard & Poor's

R&I: Rating and Investment Information, Inc.

JCR: Japan Credit Rating Agency, Ltd.

Ratings on Government-Guaranteed Bonds

	Moody's	S&P
Foreign currency-denominated foreign bonds	Aaa	AA-
Yen-denominated foreign bonds		
Domestic bonds	A2	-

Financial Highlights (Non-consolidated)

◆ Primary Management Indices

In fiscal 2006, which ended March 31, 2006, total revenue amounted to 385,836 million yen. Ordinary income totaled 67,261 million yen, and net earnings stood at 92,679 million yen.

The capital ratio (non-consolidated; BIS standards) was 16.07% at the end of fiscal 2006.

Fiscal period	Fifth period	Sixth period	Seventh period
	2004	2005	2006
Total revenues	488,837	431,635	385,836
Ordinary income	74,176	59,707	67,261
Net earnings	113,986	112,550	92,679
Equity	1,194,286	1,215,461	1,272,286
Total equity	1,753,646	1,875,077	2,010,684
Total assets	15,326,174	14,465,803	13,682,117
Loans	14,785,724	13,860,747	12,873,226
Securities	426,981	391,172	429,587
Equity ratio	12.49 %	13.90 %	16.07 %
Return on equity (ROE)	6.77 %	6.20 %	4.77 %
Return on assets (ROA)	0.73 %	0.77 %	0.67 %
Overhead Ratio (OHR)	24.01 %	24.94 %	26.38 %
Number of employees	1,370	1,362	1,357

Note 1: ROE and ROA are based on net income

Note 2: OHR = General and administrative expenses / Gross operating income

Privatization of DBJ

DBJ provides long-term financing and other policy-based schemes to qualified projects as a supplement or inducement to loans and other services provided by ordinary financial institutions. By doing so, we promote the upgrading, vitalization and sustainable development of the economy and society; the realization of an enhanced quality of life; and the creation of self-reliant regions.

The role of policy-based financial institutions has been widely debated in the Council on Economic and Fiscal Policy in recent years. The Important Policy of Administrative Reform, endorsed by the Cabinet on December 24, 2005, proposed that DBJ be completely privatized as a single entity, so that we could continue to maintain our numerous functions and thus remain capable of developing new financial technologies. Accordingly, DBJ will become a stock company in fiscal 2008, and be completely privatized within five to seven years depending on market conditions.

After the Administrative Reform Promotion Law ("Law for Advancing Administrative Reform to Realize a Streamlined and Efficient Government") was approved on May 26, 2006, the Headquarters for the Implementation of Policy Finance Reform compiled the Policy-based Financing Reform Plan on June 27. This provides more detail on the DBJ's operations after privatization, and will guide the legislative process. The details will continue to be discussed.

These discussions will inevitably lead to changes in DBJ's organizational structure. Nevertheless, we will maintain our financial expertise and network, which was built with your generous support following our previous existences as the Japan Development Bank and the Hokkaido-Tohoku Development Finance Public Corporation. DBJ will strive to develop as a private financial institution capable of satisfying sophisticated and diverse financial service needs with the reliability, impartiality, long range perspective, and public spirit acquired in our role as a policy-based financial institution. DBJ will also work to enhance convenience while focusing on medium- to long-term loan and equity financing, taking advantage of our resources such as project evaluation skills and risk-taking capacity.

DBJ is determined to address society's needs and the challenges of the modern world with a pioneering spirit and a long range perspective.



DBJ's Vision

DBJ Builds on Our Distinct Features and Strengths to Become a Unique Financial Institution

Vision

DBJ strives to be a financial institution that contributes to the solution of social issues by:

- working to resolve social issues as an impartial and reliable organization
- prioritizing a long range perspective
- emphasizing public spirit

DBJ provides unique financial services through:

- a long range perspective in providing a total package of financial services such as financial advisory, loan and equity financing
- development of new financing methods for a wide range of risk-taking business financing
- functioning as a financial platform by actively providing:
 - industry surveys based on wide-ranging networks with industrial circles
 - regional information based on networks in Japan and overseas
 - policy information based on networks with government organizations
- respect for long standing relationships with customers
- open alliances capitalizing on DBJ's distinct features

DBJ will continue to build on our experiences in its customary business areas through:

- cooperation with regional financial institutions to contribute to local economies
- promotion of environmental conservation and disaster prevention measures (CSR activities)
- strong performance in areas of industry and technology, infrastructure development, and support of financial markets
- a role as a social safety net in the event of a natural disaster or other crisis

Solutions for Every Client

Clients

Private-sector Enterprises

- DBJ's advice and long-term equity and loan financing based on industrial research help create long-term strategies for issues such as growth tactics, business revitalization, reorganization, capital policies, and the bolstering of international competitiveness.
- DBJ supports clients' CSR activities with our expertise in environmental conservation, disaster prevention, and safety.
- DBJ has developed a seamless process covering all stages of growth from equity to loan financing, to help new businesses expand.
- DBJ contributes to the revitalization of communities as a partner of local companies.

National and Regional Governments and Other Public Sector Clients

- DBJ reinforces the consultative and long-term financing functions essential to financial reform and regional revitalization.
- DBJ supports public-private collaborations from a public and impartial standpoint.

A New
Development
Bank of Japan

Services

Medium- to Long-term Loans and Structured Finance

- DBJ will continue to provide medium- to long-term financing.
- DBJ provides its own value-added financial services (loans based on the companies' fulfillment of environmental and social responsibilities, disaster prevention and safety measures, and potential for technological commercialization).
- DBJ will continue to develop and provide financing using non-recourse loans, unconventional secured loans and structured loans, for example, debtor-in-possession (DIP) finance, and use of inventory and intellectual property rights as collateral.
- DBJ helps to revitalize financial and capital markets by liquidating and securitizing assets.
- DBJ serves as a pump primer with its impartiality in the credit market.

Equity Financing and Mezzanine Financing

- DBJ funds relatively high-risk projects such as mezzanine financing and equity financing for revitalization, reorganization and growth strategies, projects aimed at strengthening international competitiveness, and infrastructure projects.
- When providing funds for riskier projects, DBJ uses its ability to assess industries and businesses to evaluate a project's potential, and strives to enhance added value with a focus on long-term investment.

Consulting and Advisory

- DBJ provides advisory services based on our industry expertise and ability to develop new financing methods.
- DBJ helps arrange financing such as structured finance.
- The Advisory service is premised on DBJ's long-term partnership with our clients.