

Annual Report  
2004

**DBJ**

Development Bank of Japan

# DBJ

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2004

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### Figures stated in this publication

Figures stated in this publication have been rounded down to the nearest whole unit, so the sum of individual figures may not match the total shown. Any figures that fall short of a single unit are shown as zero (0). A dash (—) indicates that there is no figure for the item concerned.



## Message from the Governor

The Development Bank of Japan (DBJ) takes a precise, scientific approach to identifying the challenges facing contemporary society and collaborates with private-sector financial institutions to support projects that achieve higher policy goals of great socioeconomic significance. Using a wide range of methods, including direct financing and various project funding schemes, DBJ strives to fulfill its responsibility of breathing new life into financial markets.

DBJ's top priorities are community development, environmentally sustainable societies, and the future of technology and new industry.

These are the areas that we have determined are most crucial for the revitalization and ongoing development of Japan's economy.

**Community development: Cooperating with local communities**

DBJ works in cooperation with local communities on a variety of efforts such as business revitalization and private finance initiatives (PFI). We spare no effort in applying both finances and knowledge to help communities energize their economies.

**Environmentally sustainable societies: Building a sustainable society**

DBJ strives to address social problems from a broad, interdisciplinary perspective that can contribute to building a society of true harmony that is worthy of being passed down to future generations. In its unique role as a policy-based financial institution, DBJ is proactive about using environmental ratings and other advanced means to contribute to the realization of a sustainable society.

**The future of technology and new industry: Making the most of technology**

The creation of new industries that capitalize on the latest technological advances is essential to strengthening the competitiveness of the Japanese economy. DBJ contributes to enterprises and projects that maximize the potential of technology by providing fine-tuned investments and loans, with a special focus on assistance for the commercialization of manufacturing technologies and the promotion of innovative workmanship.

Many issues remain as Japan faces the challenge of fully revitalizing its economy and ensuring its continued development. The knowledge and insight of a diverse range of people must be brought together to envision and then execute the most effective solutions. DBJ's part in this process is to serve as a catalyst for the synthesis of new value by helping to bring the right resources together at the right time and place.

On behalf of everyone at DBJ, please let me request your continued support and good will.

Takeshi Komura  
Governor

The Development Bank of Japan (DBJ) was established based on 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.

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## 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, and, by doing so, promotes the following:

Upgrading vitalization and sustainable development of the economy and society, the realization of enhanced quality of life, and the creation of self-reliant regions.

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## Capitalization (as of the end of March 2004)

DBJ is capitalized at ¥1,194.2 billion (wholly owned by the government).

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## Number of Employees (as of the end of March 2004)

DBJ employs 1,362 workers.

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## Services

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

### Supply of long-term funds (providing loans, debt guarantees, and others):

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

### Project support:

Practical application is made of a variety of know-how and financing functions, for the purpose of promoting smooth formulation of projects that have high policy content. This support is provided comprehensively at every stage, from concept and planning to 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.

## Characteristics of Business Management

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

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

Investment and Finance Guidelines is prepared and publicly disclosed for each fiscal year. In addition, the Management Council, consisting of independent experts, has been formed for deliberation on and public disclosure of the progress of work related to matters 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 their financing.

### Ensuring sound finance:

In managing its work as a policy-based financial institution, DBJ is working toward sound and efficient operations based on the principles of certainty of repayment and balanced revenues and expenditures, while also strengthening its risk management capacity and upgrading its ALM (asset/liability management) system.

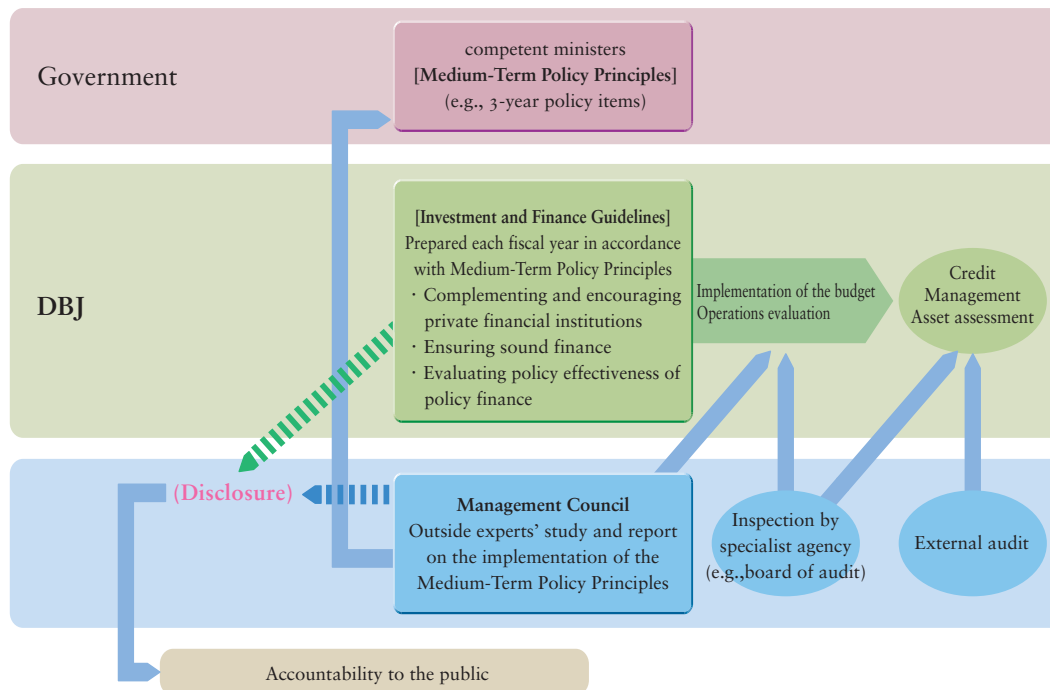
### Evaluating policy effectiveness:

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

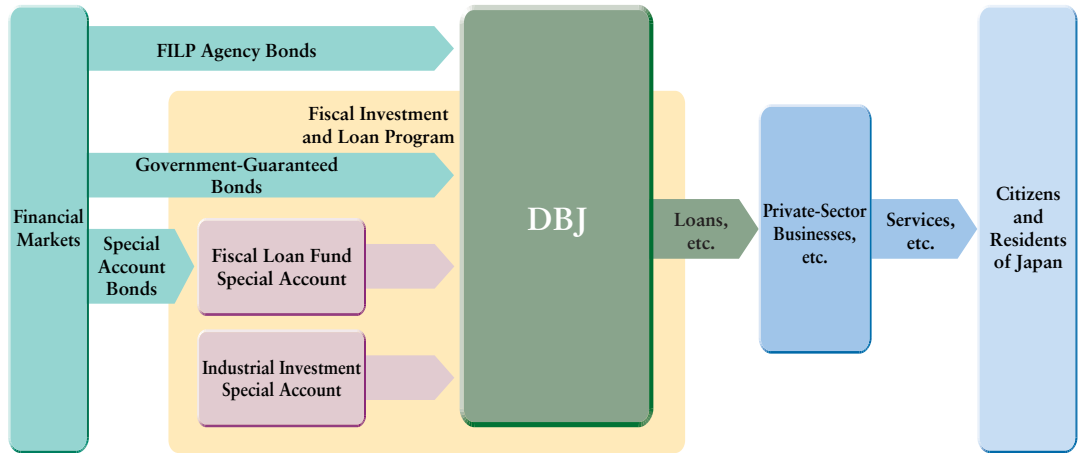
## Business Scale

The scale of lending and the target fields correspond to each year's policy requirements, and, together with fiscal investment plans, are determined by debate and decision of the Diet. Annual settlement is also reported to the Diet. DBJ's business scale in fiscal year 2004 is ¥1,178 billion.

## Principles of Work Management



## ■ Structure of Fund Procurement



## ■ Ratings for Development Bank of Japan (as of June 2004)

### 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.  
 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	-

**DBJ is a catalyst for the creation of the new value required to build a prosperous tomorrow.**

DBJ builds and supports highly significant projects that will provide new solutions both for contemporary society and the next generation. This defines the approach of DBJ's policy-based financing.

# Navigate to Tomorrow...



## To community development

DBJ works closely with local communities to assist them with overcoming various challenges, helping to enhance regional financial functions and revitalize local industries.



## To environmentally sustainable societies

DBJ contributes to the realization of a sustainable society by supporting companies that fulfill their social responsibilities.



## To the future of technology and new industry

DBJ provides know-how and funds to create new industries built on technology in order to revitalize the Japanese economy.

Everything DBJ does is aimed at developing a sustainable society and creating a prosperous life for the citizens of Japan. DBJ is actively involved in projects needed now and for the future.



## Creating disaster-prepared cities while revitalizing downtown areas

### Urban redevelopment and downtown revitalization

Akashi Regional Promotion Development Co., Ltd.

- This project sought to redevelop urban areas and upgrade commercial facilities in downtown Akashi City.
- Urban redevelopment projects generally require massive capital investment, but these projects are not very profitable, and it takes a long time to recover the investment. DBJ facilitates project success by advising businesses based on past experience and providing financing through long-term loans.







## Train cars that anyone can easily board or exit, creating cities that are friendly to people

### Introduction of barrier-free train cars for regional transportation

Iyo Railway Co., Ltd.



- This project introduced train cars with street-level floors in Matsuyama City, Ehime Prefecture. Barrier-free train cars with low floors reduce the height of the step to allow people in wheelchairs or with baby carriages to get on and off smoothly.
- Low floor streetcars are more expensive than regular streetcars. DBJ financing provides incentive to carry out similar types of projects that have high policy significance.



## Developing the energy of the future by channeling the power of nature

### Project financing for construction of wind power plants

Eurus Energy Iwaya Corp.

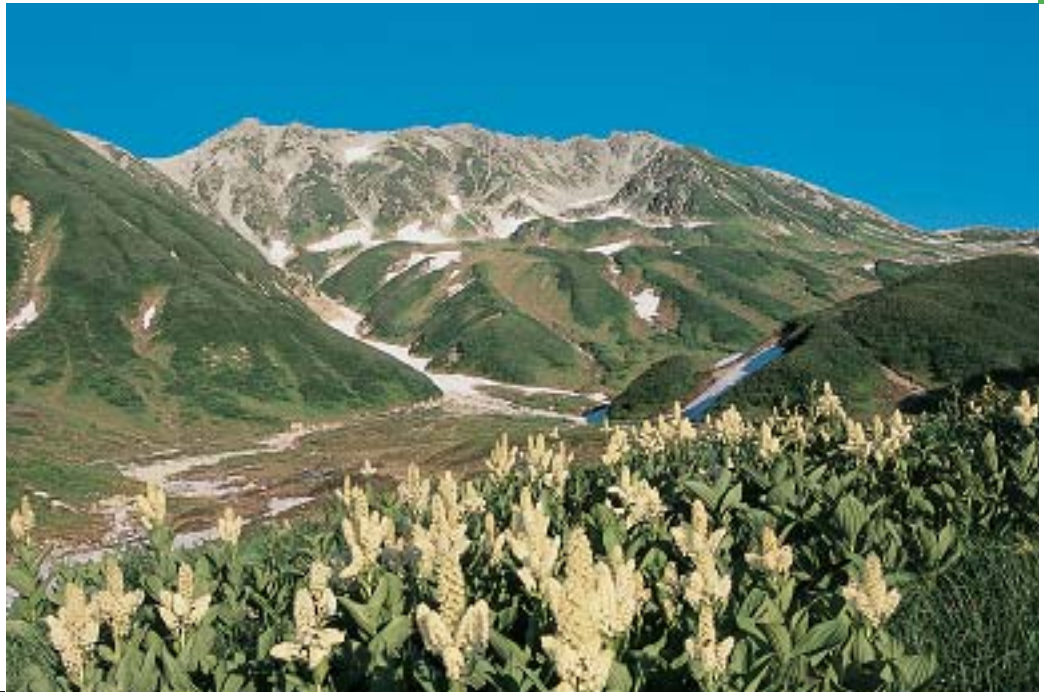
- This project built twenty-five 1,300kW wind power generators in Higashidori-mura, Aomori Prefecture. Clean electric power will be sold to power companies for a 17 year period starting in 2001.
- DBJ provided project finance loans in conjunction with private financial institutions. Wind power is a high-risk

venture, and after a careful study of wind conditions, DBJ prepared a financing plan based on an understanding of wind direction, wind speed, and other factors.



Photo credit: Eurus Energy Japan Corp.





## Protecting the rich natural environment of Tateyama Kurobe by introducing low-emission vehicles

### Introducing low-emission vehicles at national parks

Tateyama Kaihatsu Tetsudo Co., Ltd.

- In order to protect and conserve the rich natural resources of the Tateyama Kurobe Alpine Route in Chubu Sangaku National Park, this project has been gradually introducing hybrid low-emission buses to the highland roads since 1998.
- Hybrid buses are more expensive than regular buses, and replacing all vehicles will take a long time. DBJ allowed this project to be implemented in a stable and systematic manner by providing long-term loans.





## Achieving zero waste with eco-cement Environment-friendly recycling

### Project to develop eco-cement

Ichihara Ecocement Corp.



- A project to develop eco-cement using the ash from incinerating waste is underway in Ichihara City in Chiba Prefecture.
- The eco-cement project is the core focus of the “Chiba Prefecture Western and Central Region Eco Town Plan,” which is based on the concept of zero emissions and aims to eliminate waste. By recycling waste that previously would have been buried in landfills, this project helps to build a society based on renewable

resources, easing the problem of insufficient disposal sites and addressing the issue of dioxins.

- DBJ has provided long-term funds to aid the commercialization of Japan’s first eco-cement, which aims to achieve zero emissions, thus putting the project on stable footing.





## Elevating railroad crossings Restoring safety and speed to everyday life

### Elevated crossing project

Tokyu Corp.



Before elevated crossing

- This project removed ground level railroad crossings at 18 points along an approximately 2.8km stretch of the Tokyu Meguro Line between Meguro and Senzoku Stations by elevating the railroad above the roadway.
- The project costs for elevating railroad crossings are enormous. Moreover, because an increase in revenue is not expected, the investment must be recovered over a long period of time. DBJ cooperated in achieving this socially beneficial project by providing long-term (20-year) fixed-rate loans.

## To the future of technology and new industry



## Support for technology used for next-generation lenses New product line revitalizes community

### Strengthening communities' technological foundation

Tamron Co., Ltd.

- A plant manufacturing high value-added lenses in Aomori Prefecture's Tsugaru region carried out construction work to upgrade the plant.
- This project is expected to strengthen the company's technological foundation, create employment in the region, and enhance the regional economy by securing orders for local companies.
- This project is part of efforts to strengthen the company's production system for the medium to long term, given the recent diversity in products such as



digital cameras. DBJ provides continual support for this type of technology-based effort by providing long-term fixed-rate loans.





Rendering

Rendering: Courtesy of JAXA & Lockheed Martin



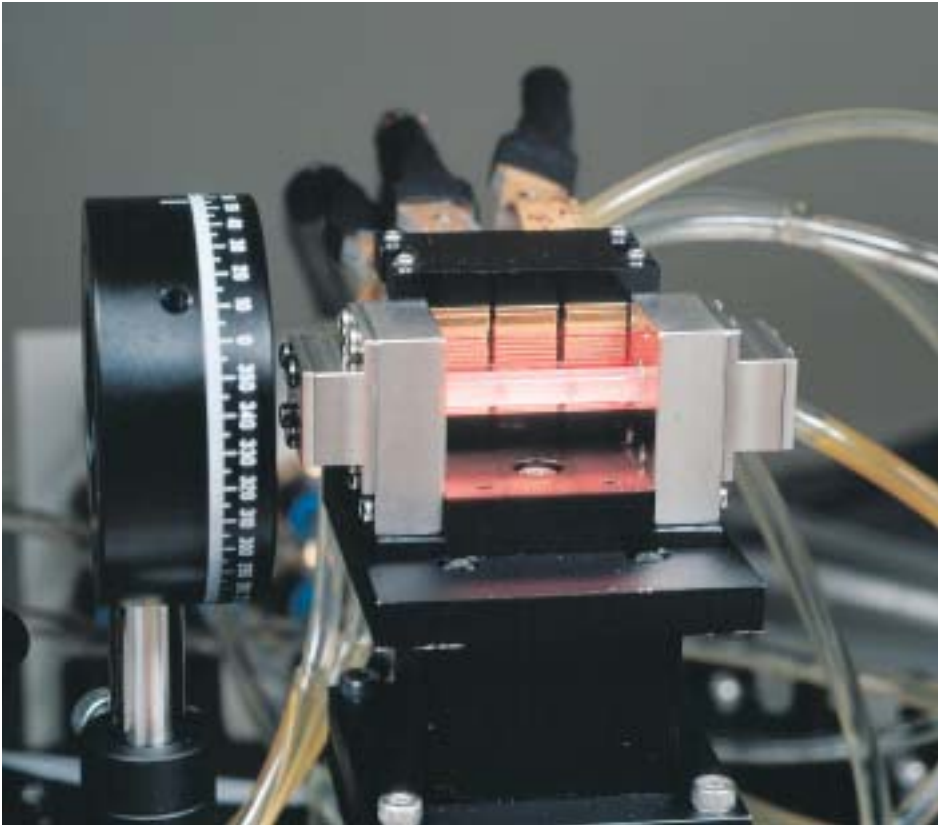
## Advanced science and technology creating business on the vast stage of space

### Space technology R&D project

Galaxy Express Corp.

- This project is Japan's first joint public and private sector venture in rocket development. The two-stage liquid fuel rocket under development is intended mainly for commercial launches and will have the capacity to launch 2-ton satellites into a sun-synchronous orbit at an altitude of 800km.
- Rocket development is generally a high-risk venture as a result of massive development costs and a long investment recovery period. DBJ is helping to facilitate this project by providing long-term loans.

## To the future of technology and new industry



## Creating new industry based on passion and experience in taking on new challenges on the human frontier

### Commercializing high power diode laser

Hamamatsu Photonics K.K.

- This project commercialized high power diode laser by applying original cooling and condensing technology acquired through years of research and development.
- Commercializing high power diode laser is a pioneering venture that generally entails high business risk as a result of the need to establish production lines, maintain yield rates, and forecast demand. DBJ provides quality, long-term financing in support of companies willing to accept the challenge of blazing new trails.







## Developing new engines to help revitalize the local economy


### Technological development at a leading regional company

**Mazda Motor Corp.**

- Hiroshima has a flourishing automobile manufacturing industry, and in this project, Mazda developed an all-aluminum gasoline engine that achieves superior power performance, fuel efficiency, and low noise.
- This project required massive investment over several fiscal years. The project was key to revitalizing the local community, and DBJ provided support in the form of stable long-term financing.



DBJ strives to achieve optimal operations management within the Plan, Do, See cycle outlined below. The Bank is also working to manage the various risks associated with being a financial institution and to earn the trust of the general public.

	<i>Plan</i>	Preparation and publication of Investment and Finance Guidelines based on the Medium-Term Policy Principles
	<i>Do</i>	Execution of investments and loans
	<i>See</i>	External evaluation: Management Council Internal evaluation: Operations evaluation

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## Operations Management Cycle

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### Preparation and Publication of Investment and Finance Guidelines based on the Medium-Term Policy Principles

DBJ carries out its activities in accordance with three-year policies prepared by the competent ministers (Medium-Term Policy Principles) and prepares and publishes Investment and Finance Guidelines for each fiscal year.

### Management Council

DBJ established a Management Council comprised of outside experts in accordance with Article 24 of the Development Bank of Japan Law. Council members examine the status of operations related to the items stated in the Bank's Medium-Term Policy Principles. The results of this examination are published with a view to enhancing transparency.

#### Management Council profile

Membership limit: Eight members

Appointment: The Bank Governor appoints scholars and experts subject to approval by the Minister of Finance.

Term of office: Four years

Chair: The Chair is designated by the Governor and presides over council affairs.

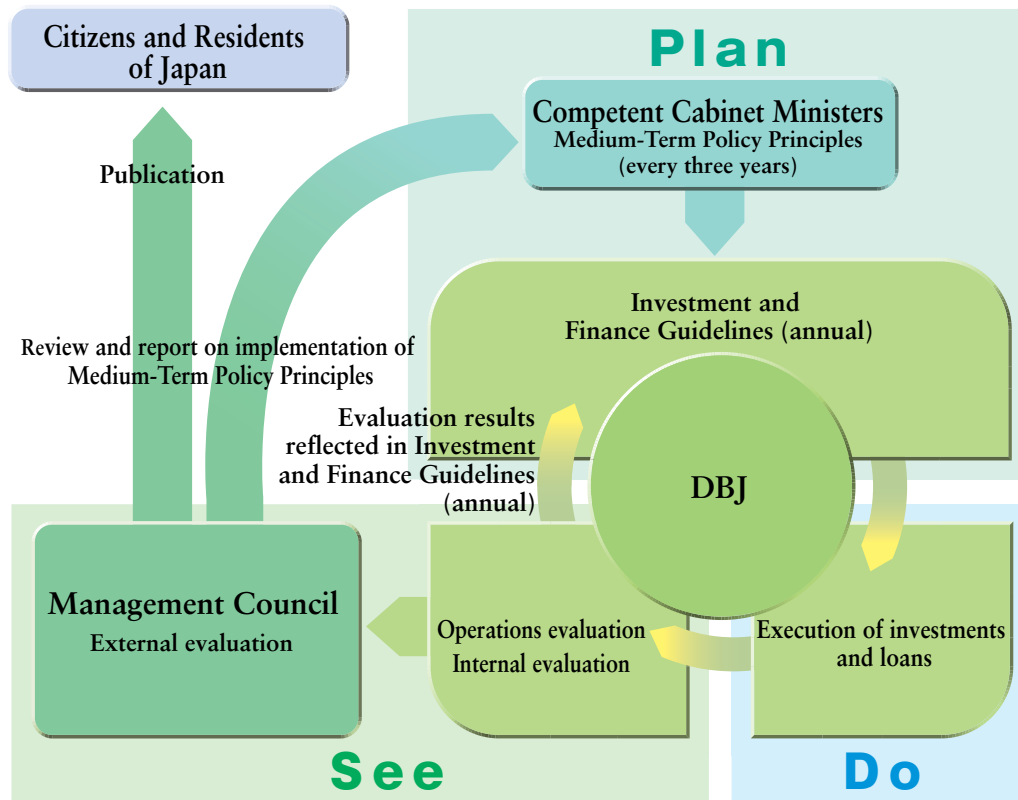
#### Management Counselors (As of the end of June 2004. \*Chairman)

<b>Satoru Kishi</b>	Senior Advisor, The Bank of Tokyo-Mitsubishi, Ltd.
<b>Shigeru Morichi</b>	Professor, Department of Civil Engineering, Division of Engineering, Graduate School, University of Tokyo
<b>Shinobu Shimizu</b>	Chairman of the Board and Representative Director, Tokyu Corp. Former Chairman, The Association of Japanese Private Railways
<b>*Shoichiro Toyoda</b>	Honorary Chairman and Director, Toyota Motor Corp. Honorary Chairman, Nippon Keidanren
<b>Yasuko Niimura</b>	Chief Economist and Managing Director, Sumitomo-Life Research Institute, Inc.
<b>Yasuo Shingu</b>	Honorary Chairman, Sumitomo Metal Industries, Ltd. Former Chairman of the Board of Directors, Kansai Economic Federation
<b>Yoichi Kaya</b>	Director General, Research Institute of Innovative Technology for the Earth (RITE)
<b>Yoshio Matsui</b>	Chairman, The Yomiuri Shimbun

#### Report of the Management Council of the Development Bank of Japan (December 2001)

In accordance with Article 24 of the Development Bank of Japan Law, the Management Council prepared a report on the results of its examination of the implementation status of the current Medium-Term Policy Principles. DBJ passed this report on to the competent ministers.

## ■ Operations Management Cycle Based on the DBJ Law



## Operations Evaluation

As with national and local public bodies, DBJ is required to undertake proactive reform to ensure accountability and better operations management. To achieve this goal, DBJ has introduced an operations evaluation system.

### Mechanism for operations evaluation

DBJ conducts its operations in line with the Medium-Term Policy Principles formulated by the competent ministers. The law also stipulates that the Management Council discuss the status of the implementation of these policies. In order for this framework to work effectively, DBJ must evaluate its own operations and maintain an internal evaluation mechanism enabling it to provide the Management Council with the information needed for these deliberations. The operations evaluation mechanism assesses individual investment and loan proposals (individual proposals) as well as the internal investment and loan system, and then reports the results to the Management Council. This information is also useful to DBJ in reviewing its own operations (see figure above, “Operations Management Cycle Based on the DBJ Law”). Specifically, the procedure consists of (1) evaluation of individual investment and loan projects (an assessment of individual proposals’ policy significance); (2) evaluation of the investment and loan system (an assessment of the effectiveness of the investment and loan system); (3) evaluation of projects (a detailed evaluation of specific proposals); and (4) compilation of the results in an Operations Evaluation Report (comprehensive evaluation) and release of the report after the Management Council has been informed.

DBJ has established the Operations Evaluation Office as an internal organization dedicated to ensuring that internal evaluations generate accurate and reliable results. The office ensures optimal functioning of the evaluation system. DBJ also established a committee consisting of scholars and experts to solicit suggestions on how to improve the evaluation system.

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## Internal Management System

The Diet approves DBJ's budget every year, and DBJ must submit its financial statements to the Diet, as well. In addition, overall operations are reviewed by the Board of Audit, the Ministry of Finance and the Financial Services Agency. Under the DBJ Law, the executive serving as the auditor monitors operations, and the organization-wide measures described below are applied to internal management.

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### Legal Compliance System

DBJ positions the formulation of a legal compliance system as one of management's most important tasks in fulfilling the Bank's social mission and responsibilities as a policy-based financial institution. DBJ is currently undertaking the following organization-wide efforts.

#### Development of a compliance system

DBJ has established a general risk management committee to serve as the body to deliberate on compliance matters, as well as to ascertain the extent to which compliance is practiced and discuss improvements to the Bank's internal system. In addition, the compliance officers appointed in all departments and branch offices are responsible for verifying compliance in their assigned department or branch office as well as reporting on compliance-related matters and serving as liaisons.

#### Internal dissemination of compliance information

DBJ has prepared a Compliance Manual containing specific behavior guidelines to ensure compliance, as well as related laws and regulations. This manual is distributed to all executives and employees. Moreover, the Bank is holding training seminars and briefings in an effort to thoroughly educate all executives and employees about basic matters related to internal compliance.

#### Formulation of compliance programs

DBJ formulates compliance programs for each fiscal year as detailed action plans to achieve compliance. These programs are discussed and adopted by the Compliance Committee.

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### ALM and Risk Management System

DBJ has developed an asset/liability and risk management system that clarifies which department is responsible for each type of risk in order to ensure appropriate management of individual risk, and places the Finance Planning & Coordination Department in charge of overseeing 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 for each type of risk.

#### Credit risk

Credit risk refers to the risk of sustaining losses resulting from a decline or complete loss in the value of assets due to deterioration in the financial condition of the borrower. Credit risk management requires monitoring of individual loans as well as Bank-wide portfolio management.

- Monitoring of individual loans

When making investments and loans, DBJ examines the primary entity's project viability and profitability from a neutral and fair standpoint, in addition to considering the project's policy significance and benefits. The loan amounts are determined using ratings. 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 the Self-Assessment Criteria based on the Financial Services Agency's Financial Inspection Manual. The results of self-assessments are subject to an audit by an audit corporation in accordance with the Practical Guidelines for Verifying Internal Regulations Covering the Self-Assessment of Assets by Banks and Other Financial Institutions and for Auditing Bad Debt Write-offs and

Bad Debt Reserves (Fourth Report of the Special Committee on Bank Auditing of the Japanese Institute of Certified Public Accountants).

- Portfolio management

DBJ reports on the internal ratings, the results of the self-assessment, and the status of unexpected losses to the ALM Committee. This monitoring and consideration of countermeasures allows DBJ to control risk and carefully review measures to improve risk-return.

**Market risk**

Market risk can be broadly classified into interest rate risk and exchange risk. DBJ is taking the following steps to control market risk.

- Interest rate risk

DBJ employs cash flow ladder analysis (gap analysis), present value analysis, interest rate sensitivity analysis, and other methods to manage its assets and liabilities. The Bank covers a portion of interest rate risk associated with lending operations 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).

- Exchange risk

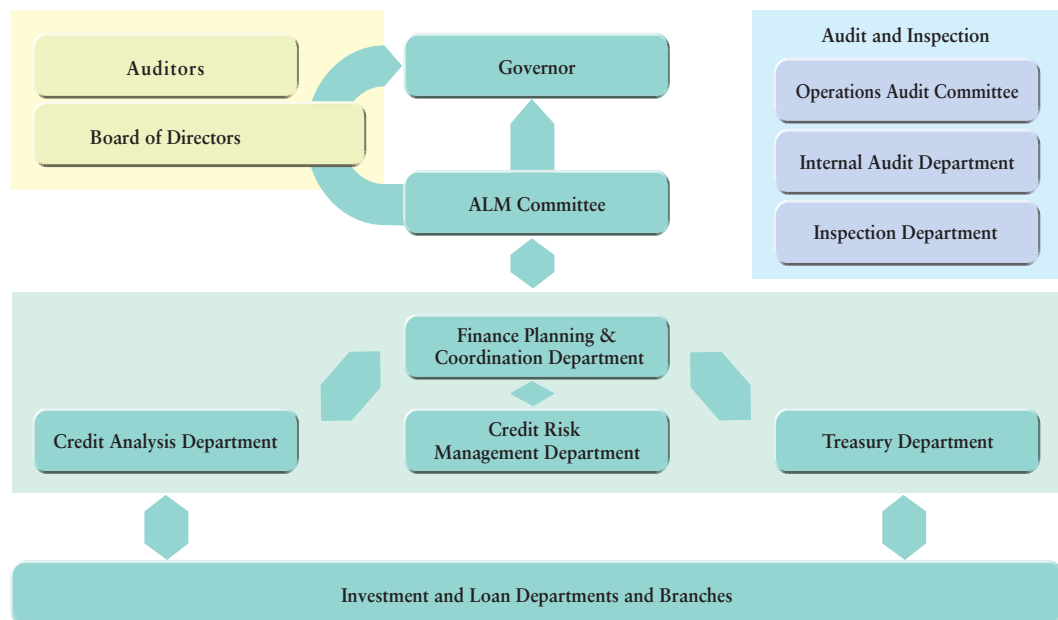
Exchange risk results from extending foreign currency loans and issuing foreign currency bonds. DBJ uses currency swaps to hedge this risk. The Bank manages counterparty risk in swap transactions (risk that the other party to the swap transaction will be unable to fulfill its obligations) by continually monitoring the creditworthiness of counterparties to swap transactions and by diversifying transactions across several institutions.

**Liquidity risk**

DBJ has a robust system for controlling liquidity risk. In addition to rigorous management of projected cash flows, the Bank 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 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, and overdraft lines of credit have been established with multiple private financial institutions. DBJ also maintains daytime liquidity by using the Bank of Japan’s settlement system, Real Time Gross Settlement (RTGS), a system whereby settlements are made instantly for each transaction. DBJ does its utmost to manage its settlement position appropriately.

**Asset/Liability and Risk Management System**



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## Operational Risk Management

Operational risk refers to the risk of sustaining losses resulting from employees neglecting to perform their operational duties correctly or from accidents, fraud, and so forth. DBJ is working to reduce and prevent the actualization of operational risk by preparing manuals, performing mutual checks on administrative procedures, providing education and training, and employing computer systems to reduce the burden of administrative duties. Inspection Department led by senior executives under the direct authority of the Governor perform independent inspections. These on-site inspections are conducted once yearly for each department and branch office to confirm that administrative duties are being carried out in an appropriate manner and in compliance with laws and regulations as well as internal Bank rules.

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## Systems Risk Management

Systems risk refers to the risk of sustaining losses resulting from the breakdown or malfunction of computer systems, system defects, or improper computer usage. DBJ recognizes the growing importance of systems risk management for financial institutions as a result of the ongoing spread of networks and other factors. In response to the Special Action Plan on Countermeasures to Cyberterrorism of Critical Infrastructure issued by the IT Security Promotion Committee of the Government of Japan, the Bank is taking the following steps to develop internal systems to manage systems risk.

### Formulation of an Information Security Policy

DBJ has formulated an Information Security Policy as a uniform policy to ensure the security of the Bank's information systems.

### Establishment of a System Risk Management Committee

A System Risk Management Committee has been established to deliberate on matters related to system risk. The Committee discusses policies for formulating basic policies for the system risk management system and internal rules.

### Establishment of an Information Security Management Division

DBJ has established an Information Security Management Division to provide integrated maintenance and management of information security. The division is responsible for confirming on a daily basis that system usage complies with internal rules.

### Appointing of Information Assets Officers

DBJ has appointed information assets officers for each department and branch office as the persons responsible for implementing security measures.

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## Internal Audit Systems

Internal audits involve a comprehensive and objective assessment of the appropriateness and effectiveness of the organization's internal management stance from a position independent of the managing divisions and the operation divisions, and also involve a series of work processes ranging from advice on problem correction to follow-up. As a policy-based financial institution, DBJ fulfills its social mission as a government-affiliated institution through its operations. As a financial institution, DBJ must maintain its health through governance based on principles of self-responsibility. Its internal monitoring functions, which aim to ensure the effectiveness of internal management while addressing the greater diversity and sophistication of operations, are becoming increasingly important.

To facilitate this internal monitoring process, DBJ has established an Internal Audit Department under the direct supervision of the Governor, independent of the operational departments, to complement the business audits. This department is working to facilitate internal monitoring in order to achieve and maintain appropriate and effective risk management, reliable financial reports, and compliance with laws and regulations—the primary objectives of internal control. Specifically, the department verifies the appropriateness and effectiveness of operations management with respect to compliance with laws and regulations and to risk management in each department and branch office, and also performs both internal rating audits and self-assessment of assets. Further, an Operations Audit Committee was established under the Governor to deliberate on important issues related to internal audits.



## Website Information

DBJ's website offers a variety of timely information, including an introduction to the Bank, news releases, and research reports.

Website address: <http://www.dbj.go.jp/english/index.html>



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Investor relations

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## DBJ's Business Areas and Fiscal 2004 Investment and Loan Plan

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### Business Areas and Investment and Loan Plan

In fiscal 2004, DBJ's activities focused on the following three main areas:

1. Restructuring and Economic Revitalization
2. Revitalization of Local Economies
3. Environmental Measure and Infrastructure

In order to promote investment in these areas, as explained below, DBJ focuses on investment and loan activities while conducting surveys and research and providing information in support of policy proposals and project formulation.

#### Restructuring and Economic Revitalization

- Economic structural reform, including assistance of new entrants in deregulated industries, support for the revitalization of financial and capital markets, support for industrial revitalization and business rehabilitation, and facilitation of access by overseas corporations to Japan
- Enhancement of intellectual infrastructure, including the development of new technologies and businesses that contribute to the improvement of technology standards in Japan

#### Revitalization of Local Economies

- Development of regional social infrastructure through implementing urban renewal projects, enhanced utilization of existing urban areas, improvement of regional transportation infrastructure and so forth
- Regional economic revitalization through the promotion of regional location of industries, regional industrial development and employment creation, enhancement of regional financial capabilities, and so forth

#### Environmental Measures and Infrastructure

- Environmental conservation, energy, disaster prevention, and welfare measures, including promotion of the creation of a recycling society, urban disaster prevention initiatives, and measures for welfare and the aging society
- Development of transportation and physical distribution networks, including the improvement of core metropolitan transportation networks and air transportation systems, and the enhancement of distribution efficiency
- Formulation of telecommunications networks, including the promotion of telecommunications network development, enhancement of utilization, and the introduction of advanced information technology



## Loans and Investments by Fiscal Year

Item	Fiscal Year			(Reference) Fiscal 2003 year-end balance
	2001	2002	2003	(billions of yen)
Structural reform and economic revitalization	354.8	379.6	416.0	2,192.1
Economic structural reform	330.5	349.7	400.3	1,898.1
Development of intellectual infrastructure	24.2	29.8	15.7	294.0
Creation of self-reliant regions	247.8	253.2	275.5	3,639.4
Development of regional social infrastructure	115.7	147.4	182.4	2,301.2
Revitalization of regional economies	132.1	105.8	93.0	1,338.2
Enhancement of quality of life	606.2	573.3	448.1	8,748.3
Environmental protection, energy, disaster prevention, and welfare measures	339.5	269.9	252.1	4,607.2
Transport and distribution networks	171.4	176.7	186.2	3,491.6
Telecommunications networks	95.2	126.7	9.7	649.4
Sub-total	1,208.9	1,206.2	1,139.7	14,580.0
Improvement of social capital	46.7	55.7	43.3	641.5
Total	1,255.6	1,262.0	1,183.1	15,221.6
(of which capital subscription)	(5.1)	(101.8)	(61.6)	(311.4)
Debt guarantees	11.1	2,272.2	15.4	2,216.6

Notes: 1. Investment and loan categories were revised effective fiscal 2004. Investment and loan amounts in fiscal 2001 and 2002 were adjusted for convenience to conform to fiscal 2003 categories.

2. Investment in funds is recorded on the basis of the agreement amount.

3. In fiscal 2001, the figures include ¥75.5 billion corresponding with the business activities of the former Hokkaido-Tohoku Development Finance Public Corporation, ¥5.8 billion corresponding with the former lending business of the Japan Regional Development Corporation, and ¥16.0 billion corresponding with the former lending business of the Japan Environment Corporation.

4. In fiscal 2002, the figures include ¥81.6 billion corresponding with the business activities of the former Hokkaido-Tohoku Development Finance Public Corporation, ¥3.1 billion corresponding with the former lending business of the Japan Regional Development Corporation, and ¥17.7 billion corresponding with the former lending business of the Japan Environment Corporation.

5. In fiscal 2003, the figures include ¥63.7 billion corresponding with the business activities of the former Hokkaido-Tohoku Development Finance Public Corporation, ¥0.5 billion corresponding with the former lending business of the Japan Regional Development Corporation, and ¥11.5 billion corresponding with the former lending business of the Japan Environment Corporation.

6. The fiscal 2003 year-end balance does not include ¥36.1 billion in stock from Tomakomai East Development Corporation and the Mutsu Ogawara Development Corporation.

7. Debt guarantees, etc., in fiscal 2002 include ¥21.0 billion in debt guarantees for borrowings, etc., from private financial institutions, and ¥2,251.1 billion in debts for collateralized loan obligations using credit derivatives (bonds issued by special purpose companies totaling ¥10.0 billion and credit default swap transactions totaling ¥2,241.1 billion) etc.

## Features of the Fiscal 2004 Investment and Finance Plan

### Fiscal 2004 Investment and Finance Amount

In light of the reform of special public corporations, DBJ plans to invest or lend a total of ¥1,178.0 billion in fiscal 2004, as in fiscal 2003, in an effort to provide financing in cooperation with private financial institutions in areas critical to the achievement of national economic and fiscal policies addressing regional economies, the environment, technology, and other issues.

Accordingly, the balance of loans is expected to decrease about ¥4.3 trillion compared to the time of DBJ's founding (from ¥18.8 trillion at the end of March 2000 to an estimated ¥14.5 trillion at the end of March 2005).

(Reference) Comparison of fiscal 2000 investment and loan plan and initial amounts planned in recent years

Fiscal year	Initial amount planned	Comparison with fiscal 2000 plan
2000	2,230	—
2001	1,600	▲ 630
2002	1,200	▲ 1,030
2003	1,178	▲ 1,052
2004	1,178	▲ 1,052

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## DBJ decreases borrowings from the Fiscal Loan Fund and continues to raise its own capital through FILP agency bonds

DBJ decreased its borrowings from the Fiscal Loan Fund by ¥26 billion compared to the initial fiscal 2003 plan, to ¥577 billion (an approximately ¥1 trillion decrease compared to the fiscal 2000 initial plan) and accordingly reduced its dependence on the Fiscal Loan Fund. On the other hand, DBJ plans to issue ¥240 billion in FILP agency bonds, as in fiscal 2003, so that the Bank can raise funds independently. As a result, capital raised in the market (FILP agency bonds, government guaranteed bonds, foreign bonds) will make up 45.9% of the funds raised externally in fiscal 2004, excluding capital contributions.

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## Greater Focus on Three Priority Areas

In light of policies developed by the Council on Economic and Fiscal Policy and other government bodies, DBJ will focus on investment and loan programs intended to promptly address pressing matters among policy issues in fields such as regional economies, the environment, and technology. Particular emphasis was laid on the issues listed below.

### Contributions to Regional Revitalization

- Enhancing measures in high risk areas by augmenting fund functions  
DBJ will increase risk-taking and the provision of financial know-how through capital contributions to funds that can contribute to regional revitalization such as urban renewal funds, business and industrial rehabilitation funds, and venture funds.
- Greater support of regional midsized companies through relationship banking  
DBJ utilizes relationship banking functions in cooperation with regional financial institutions to provide the necessary funds so that the midsized companies that play such a central role in regional industry and employment are able to continue to advance their business by streamlining and improving management efficiency.
- Aid for businesses in structural reform areas  
To support regional revitalization, DBJ provides aid for businesses in special structural reform regions that have been designated as such in light of their particular characteristics.
- Continued active efforts with PFI  
DBJ will continue to adopt a flexible approach to the percentage of loans it allocates to private finance initiatives.
- Stronger aid for funds addressing security issues such as disaster prevention  
DBJ will increase its support for funds necessary to prevent disasters in public facilities such as train stations and airports used by large numbers of people.

### Active Efforts to Address Environmental Issues

- Increased aid for environment-friendly companies through an environmental scoring system  
DBJ has created Japan's first system to encourage companies' environmental efforts by using an environmental scoring system to select companies striving to employ advanced measures to address environmental problems and providing support for those companies' efforts to raise funds to cover environmental expenses.
- Support for the Kyoto mechanism  
To improve the effectiveness of the Kyoto Protocol, DBJ has set up a system to provide aid in a timely manner through a fund intended to reduce greenhouse gases using the Kyoto mechanism.
- Promotion of energy conservation  
DBJ attempts to facilitate energy conservation by including energy conserving building projects in its support, which corporations need to implement medium-term plans to achieve energy conservation targets developed for such building structures including offices, department stores, and hotels.

## Promotion of Economic Revitalization Through Technological Advancement: Enhancing Industrial Financial Functions

- Creation and revitalization of new industries by facilitating supply of funds for business development in venture and midsized companies  
Although venture and midsized companies have the technological capacity and knowledge to develop new industrial fields, it has become difficult for these companies to raise business capital due to the recent financial environment and inadequate credit strength. By facilitating the supply of these funds to venture and midsized companies, DBJ helps to create new industries that can support the next generation and revitalize Japan's economy.
- Operations supporting effective use of intellectual property  
Japan has not developed the full market potential of intellectual property such as patents, copyrights, and various types of content. Accordingly, DBJ uses methods to mobilize and promote the effective use of intellectual property.
- Support to facilitate fundraising that focuses on a company's cash flow  
DBJ supplies the funds needed by midsized companies to conduct businesses that serve valuable socioeconomic purposes. The Bank facilitates companies' fundraising by offering diverse financing technologies with an emphasis on cash flow. Among its measures are loans secured by accounts receivable and other assets—not only by real estate—and loans with covenants for risk control, available without depending on conventional financing methods such as real estate collateral.
- Promotion of industrial revitalization  
DBJ attempts to prevent the loss of advanced technological resources by assisting businesses to rehabilitate themselves in a timely fashion through business reconstruction plans, by including a rehabilitation plan with its funding in support of industrial revitalization.

### Examples of Projects Covered by the Fiscal 2004 Investment and Loan Plan

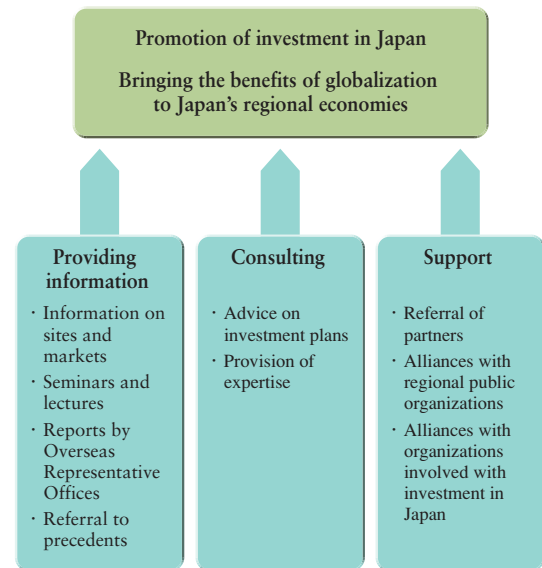
(billions of yen)		
	Initial amount	Chief loan targets (sample)
Structural reform and economic revitalization	318	
Economic structural reform	280	Support to facilitate fundraising using collateral other than real estate, business and industrial rehabilitation, promotion of access to Japan, support for businesses in areas targeted for structural reform
Development of intellectual infrastructure	38	New technology development, creation and revitalization of new industries, support for effective use of intellectual property
Support for regional economies	300	
Development of regional social infrastructure	170	Promotion of the privatization of public enterprises, improvement of social capital through private finance initiatives (PFI), urban redevelopment and renewal projects, establishment of disaster prevention projects for congested regions
Revitalization of regional economies	130	Enhanced support for regional midsized companies through relationship banking, advancement of regional financial functions, strengthening of regional competitiveness, revitalization of industrial activities in cold areas
Environmental measures and infrastructure	513	
Environmental protection, energy, disaster prevention, and welfare measures	270	Promotion of environmentally friendly management using environmental scoring, promotion of businesses utilizing the Kyoto mechanisms, energy and security measures, urban flood control businesses to develop new energy
Transport and distribution networks	165	Construction of core transportation networks and air transportation systems
Telecommunications networks	78	Installation of communications networks including fiber optic cable, improvements to information security, e-commerce
Sub-total	1,131	
Improvement of social capital	47	Operations to install advanced television broadcasting facilities
<b>Total</b>	<b>1,178</b>	

Note: The initial budget for fiscal 2004 includes ¥121.4 billion for the former Hokkaido-Tohoku Development Finance Public Corporation, ¥9.5 billion for the former lending business of the Japan Regional Development Corporation, and ¥7.1 billion for the former lending business of the Japan Environment Corporation.

## Efforts to promote investment in Japan and bring the benefits of globalization to Japan's regional economies

The investment of foreign capital in Japan is expected to facilitate exchange of advanced technology and knowledge and to create jobs, as well as to vitalize the Japanese economy.

Department for International Affairs of DBJ and its Overseas Representative Offices support inward investment and brings the benefits of globalization to Japan's regional economies in a variety of ways: information provision by holding seminars and issuing of reports by Overseas Representative Offices, consulting services for corporations' investment plans, and through alliances with regional public institutions and organizations.



### Example initiative: Finnish Well-being Center (FWBC) Project

This project endeavors to introduce health and welfare equipment utilizing IT that is commonly used in Finland to Japan's nursing homes. The goal is to create a new type of elderly care business that provides an environment in which the elderly can live independently within a community. Currently, special homes for the elderly and R&D facilities are being developed, as the core of the project.

The project is particularly notable for the alliances and cooperation between Finland and Sendai City's administration, academic organizations and companies. Requests for cooperation from the Finnish government resulted in DBJ's support for this project from its initial stage through completion.



Illustration of project at completion

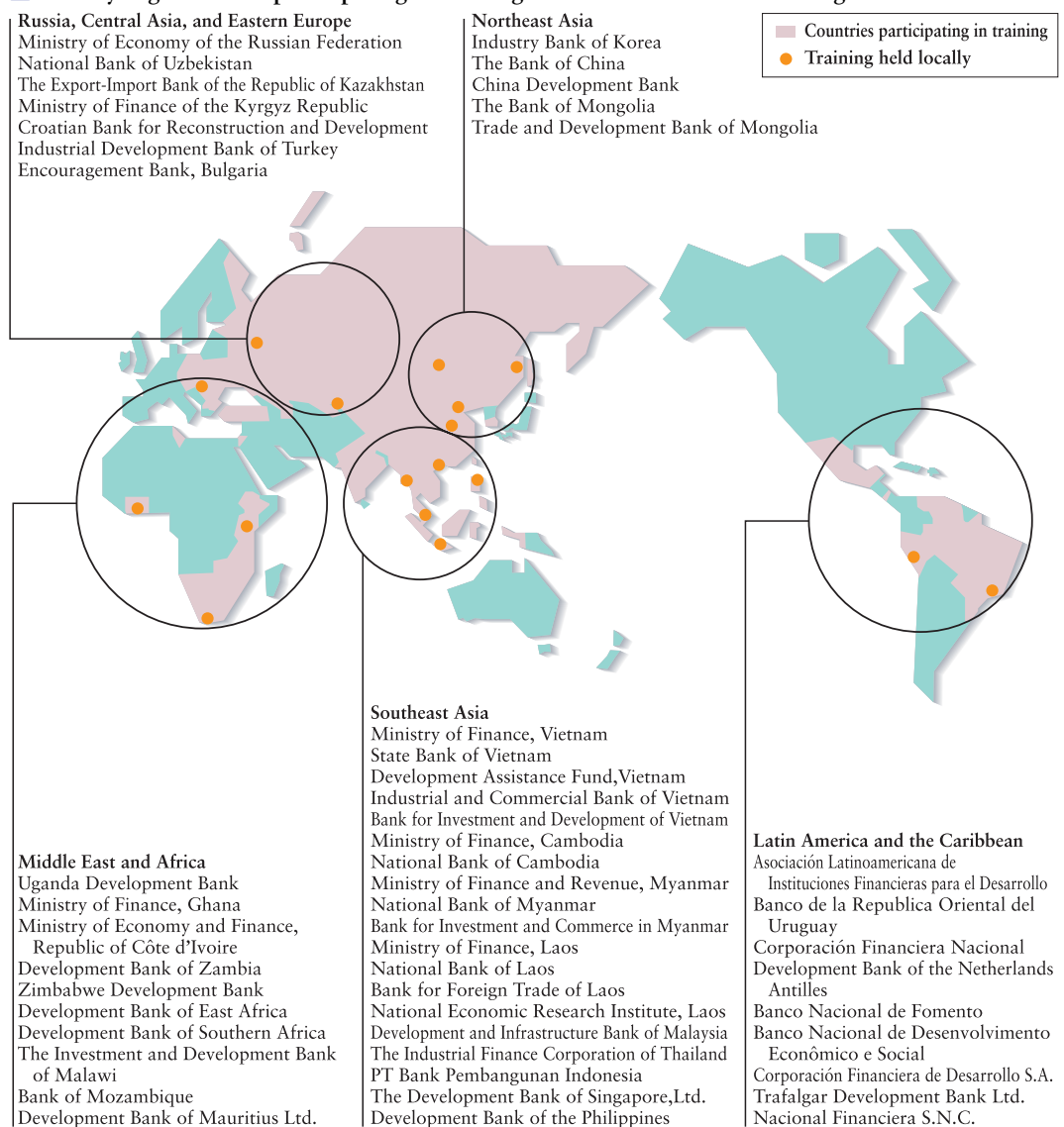
## International Cooperation Activities

### Significance of international cooperation

The importance of sound policy-based financing and development finance in addressing various economic development challenges that cannot be met adequately by private-sector finance is being emphasized in developing countries, primarily in Asia. Accordingly, official development assistance organizations, related government agencies, and international development finance organizations ask DBJ for intellectual cooperation that draws on the experience, knowledge, and domestic network built up in the process of assisting Japan's postwar economic growth.

In response, DBJ has held the "Developmental Finance Course" in Tokyo every year since 1967, inviting development finance organizations from South Korea, China, the Association of Southeast Asian Nations, Latin America, Africa, and Eastern Europe. As part of its function as a knowledge bank, DBJ aims to provide international cooperation based on high-quality training and surveys, and strives to contribute to enhancing Japan's presence in the international community.

### Primary organizations participating in training and locations of local training

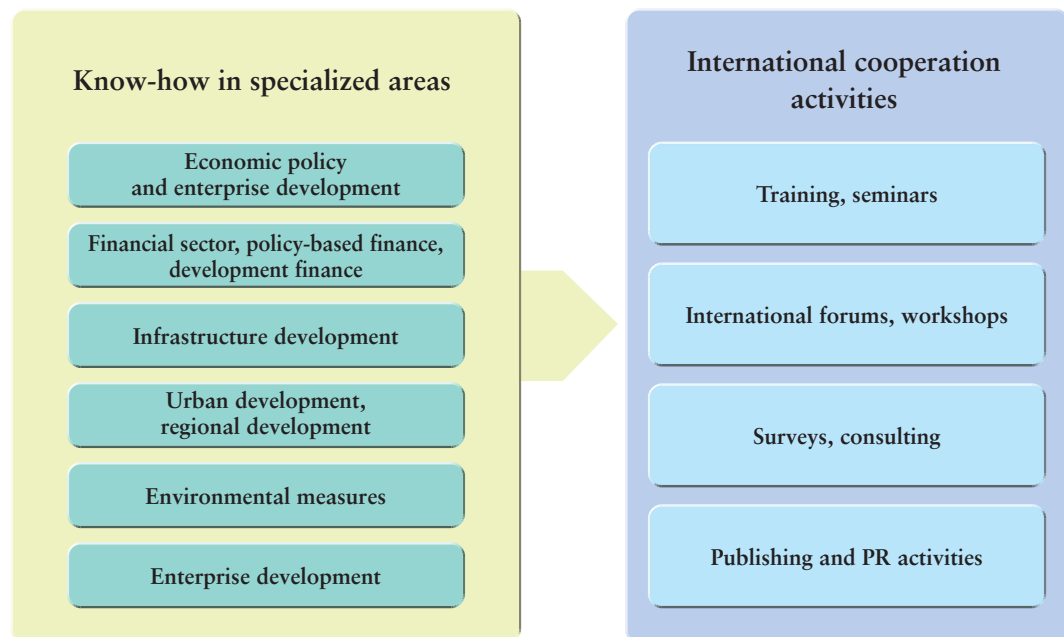


### Status of fiscal 2003 activities

Since the 1990s, intellectual technology cooperation for countries around the world that are making the transition to a market economy has been a priority issue for DBJ. The Bank has focused particularly on four countries in Southeast Asia making this shift—Cambodia, Laos, Myanmar, and Vietnam. Independently or through Japan's official development assistance, DBJ has held training sessions in Tokyo and around the world in cooperation with the Ministry of Finance and international cooperation organizations.

At the same time, DBJ also has conducted surveys and held seminars on setting up infrastructure, quality management and regional finance using the private sector—issues that Japan, South Korea, China, and ASEAN member countries have in common—either independently or with the cooperation of the World Bank or Inter-American Development Bank. Also, DBJ has arranged opportunities for dialogue with Kreditanstalt für Wiederaufbau (German development bank) and the China Development Bank on shared policy issues.

#### ■ Specialized areas and areas of activity



**Fiscal 2003 training for countries making the transition to a market economy**

Finance ministries, central banks, and development finance organizations from Cambodia, Laos, Myanmar, and Vietnam were invited.



**Executive Officer Conference with the China Development Bank**

Opinions on common policy issues such as establishing transportation infrastructure and developing regional economies were exchanged.

## Financial Condition

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- Compliance with Corporate Accounting Standards

The consolidated financial statements of the preceding consolidated accounting period (April 1, 2002 to March 31, 2003) and the current consolidated accounting period (April 1, 2003 to March 31, 2004) have been audited and certified by ChuoAoyama Pricewaterhouse Coopers.

The financial statements of the preceding accounting period (April 1, 2002 to March 31, 2003) and the current accounting period (April 1, 2003 to March 31, 2004) have been audited and certified by ChuoAoyama Pricewaterhouse Coopers.

- Compliance with Accounting Standards for Special Agencies, etc.

The financial statements of the preceding accounting period (April 1, 2002 to March 31, 2003) and the current accounting period (April 1, 2003 to March 31, 2004) have been audited and certified by ChuoAoyama Pricewaterhouse Coopers.



**Accounts Based on  
Corporate Accounting  
Standards**

Report of Independent Auditors

To the Governor of  
Development Bank of Japan

We have audited the accompanying consolidated balance sheets of Development Bank of Japan and its subsidiary as of March 31, 2004 and 2003, and the related consolidated statements of operations, equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Development Bank of Japan and its subsidiary as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.



ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan

June 25, 2004

## CONSOLIDATED BALANCE SHEETS

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Assets</b>			
Cash and Due from banks	¥ 19,305	¥ 39,787	\$ 182,659
Reverse Repurchase Agreements	77,166	192,880	730,125
Money Held in Trust (Note 25)	4,893	1,969	46,299
Securities (Notes 4, 13 and 25)	426,971	439,063	4,039,851
Loans (Note 5)	14,785,724	15,713,160	139,897,100
Other Assets (Note 6)	304,750	320,403	2,883,439
Premises and Equipment (Note 7)	38,081	38,862	360,312
Deferred Charges on Bonds and Notes	2,249	1,808	21,287
Customers' Liabilities for Acceptances and Guarantees	76,812	87,715	726,772
Allowance for Loan Losses (Note 8)	(395,881)	(474,603)	(3,745,681)
Allowance for Investment Losses	(13,903)	(11,237)	(131,550)
<b>Total Assets</b>	<b>¥ 15,326,171</b>	<b>¥ 16,349,810</b>	<b>\$ 145,010,613</b>

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Bonds and Notes (Note 9)	¥ 1,780,606	¥ 1,596,630	\$ 16,847,443
Borrowings (Note 10)	11,403,450	12,664,024	107,895,263
Other Liabilities (Note 11)	277,824	357,808	2,628,669
Allowance for Bonus Payments	1,659	1,775	15,703
Allowance for Employee Retirement Benefits (Note 20)	32,172	32,888	304,400
Acceptances and Guarantees (Note 12)	76,812	87,715	726,772
<b>Total Liabilities</b>	<b>¥ 13,572,524</b>	<b>¥ 14,740,843</b>	<b>\$ 128,418,250</b>
<b>Equity</b>			
Capital	¥ 1,194,286	¥ 1,182,286	\$ 11,299,896
Retained Earnings	540,403	426,416	5,113,103
Net Unrealized Gain on Available-for-sale Securities, Net of Taxes (Note 25)	18,956	264	179,364
<b>Total Equity</b>	<b>¥ 1,753,646</b>	<b>¥ 1,608,967</b>	<b>\$ 16,592,363</b>
<b>Total Liabilities and Equity</b>	<b>¥ 15,326,171</b>	<b>¥ 16,349,810</b>	<b>\$ 145,010,613</b>

Accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Revenues</b>			
Interest Income	¥ 485,098	¥ 543,179	\$ 4,589,827
Interest on Loans	483,195	540,870	4,571,818
Interest and Dividends on Securities	1,890	2,297	17,885
Interest on Reverse Repurchase Agreements	12	7	120
Interest on Due from banks	0	4	4
Other Interest Income	0	0	0
Fees and Commissions (Note 14)	2,757	1,659	26,091
Other Operating Income (Note 15)	—	1,020	—
Other Ordinary Income (Note 16)	38,768	214	366,814
Collection of Written-off Claims	2,048	470	19,379
Gains on Sales of Premises and Equipment	217	246	2,059
<b>Total Revenues</b>	<b>¥ 528,890</b>	<b>¥ 546,791</b>	<b>\$ 5,004,170</b>
<b>Expenses</b>			
Interest Expenses	¥ 373,924	¥ 439,932	\$ 3,537,935
Interest on Bonds and Notes	31,615	33,562	299,130
Amortization of Discounts on Bonds and Notes (Note 3(f))	—	354	—
Interest on Borrowings	329,073	397,690	3,113,575
Other Interest Expenses	13,235	8,324	125,230
Fees and Commissions (Note 17)	21	48	199
Other Operating Expenses (Note 18)	2,466	1,977	23,337
General and Administrative Expenses	26,765	31,653	253,249
Other Ordinary Expenses (Note 19)	11,483	151,789	108,648
Losses on Sales of Premises and Equipment	242	264	2,297
<b>Total Expenses</b>	<b>¥ 414,903</b>	<b>¥ 625,665</b>	<b>\$ 3,925,665</b>
<b>Earnings (Loss) before Income Taxes</b>	<b>¥ 113,987</b>	<b>¥ (78,874)</b>	<b>\$ 1,078,505</b>
<b>Income Taxes</b>	<b>¥ 0</b>	<b>¥ 0</b>	<b>\$ 1</b>
Current	0	0	1
Deferred	—	—	—
<b>Net Earnings (Loss)</b>	<b>¥ 113,987</b>	<b>¥ (78,874)</b>	<b>\$ 1,078,504</b>

Accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENTS OF EQUITY

	Millions of yen			
	Capital	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities, Net of Taxes	Total Equity
For the Fiscal Year ended March 31, 2003				
Balance at March 31, 2002	¥ 1,122,286	¥ 505,291	¥ 869	¥ 1,628,446
Net Change in Unrealized Gain on Available-for-sale Securities, Net of Taxes	—	—	(605)	(605)
Capital Contribution from the Japanese Government	60,000	—	—	60,000
Net Loss	—	(78,874)	—	(78,874)
Balance at March 31, 2003	¥ 1,182,286	¥ 426,416	¥ 264	¥ 1,608,967

	Millions of yen			
	Capital	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Total Equity
For the Fiscal Year ended March 31, 2004				
Balance at March 31, 2003	¥ 1,182,286	¥ 426,416	¥ 264	¥ 1,608,967
Net Change in Unrealized Gain on Available-for-sale Securities	—	—	18,692	18,692
Capital Contribution from the Japanese Government	12,000	—	—	12,000
Net Earnings	—	113,987	—	113,987
Balance at March 31, 2004	¥ 1,194,286	¥ 540,403	¥ 18,956	¥ 1,753,646

	Thousands of U.S. dollars			
	Capital	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Total Equity
For the Fiscal Year ended March 31, 2004				
Balance at March 31, 2003	\$ 11,186,356	\$ 4,034,599	\$ 2,506	\$ 15,223,461
Net Change in Unrealized Gain on Available-for-sale Securities	—	—	176,858	176,858
Capital Contribution from the Japanese Government	113,540	—	—	113,540
Net Earnings	—	1,078,504	—	1,078,504
Balance at March 31, 2004	\$ 11,299,896	\$ 5,113,103	\$ 179,364	\$ 16,592,363

Accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Cash Flows from Operating Activities</b>			
Earnings (Loss) before Income Taxes	¥ 113,987	¥ (78,874)	\$ 1,078,505
Depreciation and Amortization	969	1,106	9,172
Change in Allowance for Loan Losses	(37,787)	104,107	(357,528)
Change in Allowance for Investment Losses	2,665	9,411	25,222
Change in Allowance for Bonus Payments	(115)	1,775	(1,097)
Change in Allowance for Employee Retirement Benefits	(716)	3,371	(6,781)
Interest Income-Accrual Basis	(485,098)	(543,179)	(4,589,827)
Interest Expense-Accrual Basis	373,924	439,932	3,537,935
Net Gains and Losses on Securities	589	8,607	5,573
Net Gains and Losses on Money Held in Trust	(147)	15	(1,392)
Net Gains and Losses on Foreign Exchanges	1	1	14
Net Gains and Losses on Sale of Premises and Equipment	25	17	238
Net Change in Loans	882,668	955,764	8,351,486
Net Change in Bonds and Notes	183,218	253,072	1,733,546
Net Change in Borrowings	(1,260,573)	(1,192,003)	(11,927,088)
Net Change in Reverse Repurchase Agreements	115,713	(177,882)	1,094,842
Interest Income-Cash Basis	474,911	545,606	4,493,437
Interest Expense-Cash Basis	(387,216)	(450,590)	(3,663,697)
Others	(36,318)	(8,832)	(343,631)
Sub-total	(59,299)	(128,572)	(561,071)
Payments for Income Taxes	(0)	(0)	(0)
<b>Net Cash used in Operating Activities</b>	<b>¥ (59,299)</b>	<b>¥ (128,572)</b>	<b>\$ (561,071)</b>
<b>Cash Flows from Investing Activities</b>			
Payments for Purchases of Securities	¥ (60,006)	¥ (115,271)	\$ (567,759)
Proceeds from Redemption of Securities	90,000	112,138	851,547
Payments for Money Held in Trust	(2,946)	(1,984)	(27,874)
Payments for Purchases of Premises and Equipment	(893)	(641)	(8,449)
Proceeds from Sale of Premises and Equipment	679	465	6,433
<b>Net Cash used in Investing Activities</b>	<b>¥ 26,834</b>	<b>¥ (5,294)</b>	<b>\$ 253,898</b>
<b>Cash Flows from Financing Activities</b>			
Capital Contribution from the Japanese Government	¥ 12,000	¥ 60,000	\$ 113,540
<b>Net Cash provided by Financing Activities</b>	<b>¥ 12,000</b>	<b>¥ 60,000</b>	<b>\$ 113,540</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>¥ (1)</b>	<b>¥ (0)</b>	<b>\$ (13)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>¥ (20,466)</b>	<b>¥ (73,867)</b>	<b>\$ (193,646)</b>
<b>Cash and Cash Equivalents at the Beginning of the Fiscal Year</b>	<b>¥ 39,718</b>	<b>¥ 113,585</b>	<b>\$ 375,798</b>
<b>Cash and Cash Equivalents at the End of the Fiscal Year</b>	<b>¥ 19,251</b>	<b>¥ 39,718</b>	<b>\$ 182,152</b>

Accompanying notes are an integral part of these financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of Presentation

The accompanying consolidated financial statements have been prepared from the accounts maintained by the Development Bank of Japan (“DBJ”) and its consolidated subsidiary in accordance with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The consolidated financial statements are not intended to present the financial position and the result of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The amounts indicated in millions of yen are rounded down by omitting the figures less than one million yen. Accordingly, the sum of each amount appearing in the accompanying financial statements and the notes thereto may not be equal to the sum of the individual account balances. Amounts in U.S. dollars are presented solely for the convenience of readers outside Japan. The rate of ¥105.69=\$1.00, the effective exchange rate prevailing as of March 31, 2004, has been used in conversion. The presentation of such amounts is not intended to imply that Japanese yen amounts have been or could have been readily translated, realized or settled in U.S. dollars at that rate or any other rate.

### 2. Principles of Consolidation

#### (a) Scope of Consolidation

The consolidated financial statements include the accounts of DBJ and its consolidated subsidiary, DBJ Business Restructuring Investment Co., Ltd. DBJ does not have any other subsidiaries. Tomatoh Inc. and Shin Mutsu-Ogawara Inc., in which DBJ has over 50% ownership interest are not considered to be subsidiaries and consequentially not consolidated because DBJ made those investments as part of its financing operations, which are DBJ’s primary business, and did not intend to obtain control over their operating and financing policies.

DBJ does not have affiliates. As of March 31, 2004, DBJ owns greater than 20% but less than a majority of voting stock of Nihonkai LNG Co., LTD. and 32 other companies. These companies, however, are not considered to be affiliates because DBJ made these investments as part of its financing operations, which are DBJ’s primary business, and did not intend to obtain ability to exert significant influence on their operating and financing policies.

On consolidation, significant intercompany accounts and transactions have been eliminated.

#### (b) Year-end Date of Consolidated Subsidiary

Fiscal year-end of the consolidated subsidiary is March 31.

#### (c) Appropriation of Retained Earnings

Consolidated Statements of Equity are presented based on the approved appropriation of Retained Earnings for the fiscal year ended March 31, 2004.

### 3. Summary of Significant Accounting Policies

#### (a) Cash and Cash Equivalents

“Cash and Cash Equivalents” in the consolidated statements of cash flows consists of cash on hand and due from banks, excluding trust money to financial agencies related to principal or interest payments on bonds, that is included in “Cash and Due from Banks” as presented in the consolidated balance sheets.

The reconciliation between “Cash and Cash Equivalents” and “Cash and Due from Banks” is as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and Due from Banks	¥ 19,305	¥ 39,787	\$ 182,659
Trust Money to Financial Agencies	(53)	(69)	(507)
Cash and Cash Equivalents	¥ 19,251	¥ 39,718	\$ 182,152

**(b) Securities**

Held-to-maturity Debt Securities are stated at amortized cost on a straight-line basis, computed using the moving-average method. Available-for-sale Securities whose current values can be estimated are stated at market value (cost is calculated principally using the moving-average method), and other non-marketable securities are stated at cost or amortized cost computed using the moving-average method. Unrealized gain and loss on Available-for-sale Securities are included in Equity, net of income taxes.

**(c) Valuation Method for Derivative Financial Instruments**

All derivative financial instruments are carried at market value, except for certain derivatives that are designated as hedging instruments as discussed below.

**(d) Hedge Accounting**

( i ) Hedge Accounting

DBJ applies the deferral method of hedge accounting. Foreign currency swaps, which are used to hedge the foreign currency fluctuations are translated not at market values but at contractual rates, as the foreign currency swap contracts meet the hedging criteria under the Japanese Accounting Standards for Financial Instruments.

( ii ) Hedging Instruments and Hedged Items

- Hedging Instruments : Interest Rate Swaps
- Hedged Items : Bonds and Notes, Borrowings
- Hedging Instruments : Foreign Currency Swaps
- Hedged Items : Foreign currency dominated Loans and Bonds and Notes

( iii ) Hedging Policy

DBJ utilizes hedging instruments to hedge interest rate and foreign exchange fluctuations on its assets and liabilities.

( iv ) Evaluation of Hedge Effectiveness

DBJ evaluates effectiveness of the hedges by testing periodically whether the derivatives are effective in reducing the risks associated with the hedged items.

**(e) Premises and Equipment**

( i ) Depreciation

Premises and Equipment are depreciated using the declining-balance method, except for buildings (excluding installed facilities) that are depreciated on a straight-line basis.

The estimated useful lives are principally as follows:

- Buildings : 22 years to 50 years
- Equipment : 3 years to 20 years

( ii ) Accounting standard for impairment of fixed assets

On August 9, 2002, the Business Accounting Council in Japan issued “Accounting Standard for Impairment of Fixed Assets”. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

DBJ has not yet applied this new standard nor has determined the effect of applying it on the consolidated financial statements.

**(f) Amortization of deferred charges**

“Discounts on Bonds and Notes” are amortized over the life of Bonds and Notes, and “Bonds and Notes Issuance Costs” are charged to income as they are incurred.

Until the fiscal year ended March 31, 2003, the amounts of amortization of discounts on bonds and notes had been presented in “Amortization of Discounts on Bonds and Notes” as their own account. From April 1, 2003, they are presented in “Interest on Bonds and Notes” combined with interest, in accordance with the amendment of the applicable law which regulates the reporting standards.

**(g) Foreign currency translation and revaluation method**

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the market exchange rates prevailing at the fiscal year end.



**(h) Allowance for Loan Losses**

DBJ provides for “Allowance for Loan Losses” as detailed below pursuant to the internal rules for self-assessment of credit quality and loan losses. The allowance for claims on debtors who are legally bankrupt, in special liquidation or effectively bankrupt is provided based on the amount of claims, after the write-off described below, net of amounts expected to be collected through disposal of collateral or execution of guarantees.

The allowance for claims on debtors who are not legally bankrupt at the moment, but likely to become bankrupt for which future cash flows cannot reasonably be estimated is provided for the amount considered to be necessary based on an overall solvency assessment performed on the claims, net of amounts expected to be collected through disposal of collateral or execution of guarantees.

With respect to the claims on debtors who are likely to become bankrupt or to be closely monitored, and for which future cash flows can reasonably be estimated, the allowance is provided for the difference between the present value of expected future cash flows discounted at the contracted interest rate and the carrying value of the claims.

The allowance for claims on debtors other than those described above is provided based on the historical default rate, which is calculated based on the actual defaults over a certain historical period (the average financing period for DBJ).

All claims are assessed initially by investment and lending departments and then by the Credit Risk Management Department, which is independent from the investment and lending departments based on internal rules for self-assessment of credit quality. The allowance is provided based on the results of the self-assessment.

With respect to the claims on debtors who are legally or substantially bankrupt with collateral or guarantees, the amount of claims exceeding the estimated market values of collateral or guarantees, which are deemed uncollectible, have been written-off, and totaled ¥55,184 million (\$522,132 thousand) and ¥77,016 million for the years ended March 31, 2004 and 2003, respectively.

**(i) Allowance for Investment Losses**

“Allowance for Investment Losses” is provided based on the estimated losses on non-marketable debt securities.

**(j) Allowance for Bonus Payments**

“Allowance for Bonus Payments” is calculated and provided for based on estimated amounts of future payment attributable to the services that have been rendered by employees and executive directors to the date of the balance sheets.

**(k) Allowance for Employee Retirement Benefits**

“Allowance for Employee Retirement Benefits” represents future payments for pension and retirement benefits to employees and executive directors, and is accrued based on the projected benefit obligations and estimated pension plan assets at fiscal year end. The actuarial gain or loss is recognized during the year it arises.

**(l) Equipment Used under Finance Lease Agreements**

Equipment used under finance lease agreements is accounted for as equipment leased under operating leases, except for those the ownership of leased equipment transfer to the lessee.

**(m) Consumption tax**

Income and expense subject to consumption tax exclude related consumption taxes paid or received.

**(n) Income Taxes**

DBJ is exempt from taxes based on income, however DBJ is subject to parity taxes among local taxes. On the other hand, the consolidated subsidiary is subject to income taxes and local taxes.

Deferred income taxes are recorded for income taxes based on differences between the tax bases of assets and liabilities and those as reported in the consolidated financial statements, using enacted tax rates which will be in effect when the differences are expected to reserve. The assets and liabilities method is used to determine deferred income taxes.

#### 4. Securities

Securities as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Japanese Government Bonds	¥ 171,488	¥ 204,027	\$ 1,622,557
Corporate Bonds	79,320	79,051	750,505
Equities	176,012	155,834	1,665,363
Other securities	150	150	1,426
	<b>¥ 426,971</b>	<b>¥ 439,063</b>	<b>\$ 4,039,851</b>

#### 5. Non-performing Loans

The amounts of Non-Performing Loans included in “Loans” on the consolidated balance sheets as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loans to Bankrupt Debtors	¥ 23,705	¥ 54,692	\$ 224,289
Delinquent Loans	271,472	341,115	2,568,573
Loans Past Due Three Months or More	270	6,707	2,559
Restructured Loans	193,210	182,724	1,828,083
	<b>¥ 488,658</b>	<b>¥ 585,240</b>	<b>\$ 4,623,504</b>

Notes: 1. The amounts of Loans indicated above are stated at gross amounts, before reduction of allowance for loan losses.

2. “Loans to Bankrupt Debtors” represent non-accrual loans to debtors who are legally bankrupt as defined in Article 96-1-3 and 4 of the Japanese Tax Law Enforcement Regulation.

3. “Delinquent Loans” represent non-accrual loans other than (i) Loans to Bankrupt Debtors and (ii) Loans whose interest payments are deferred in order to assist or facilitate the restructuring efforts of borrowers in financial difficulties.

4. “Loans Past Due Three Months or More” are loans whose principal or interest payment is three months or more past due and do not fall under the category of “Loans to Bankrupt Debtors” or “Delinquent Loans”.

5. “Restructured loans” are loans whose repayment terms have been modified to the advantage of debtors through means such as reduction or exemption of interest rates, postponement of principal and interest payments, and forgiveness of loans to support or restructure the debtors’ businesses, and do not fall under the category of “Loans to Bankrupt Debtors”, “Delinquent Loans” or “Loans Past Due Three Months or More”.

DBJ provides commitment lines under which it lends necessary funds up to the pre-determined amount, that is within the borrowers’ financing needs for the projects and up to the agreed maximum amount to lend upon borrowers’ request, provided that the request meets terms and conditions for disbursement prescribed in the loan agreements. The total balance of unused commitment lines as of March 31, 2004 and 2003 are ¥90,985 million (\$860,867 thousand), including ¥49,517 million (\$468,512 thousand) being financed within one year and ¥129,003 million, including ¥87,221 million being financed within one year, respectively.

## 6. Other Assets

Other Assets as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Prepaid Expenses	¥ 54	¥ 89	\$ 515
Accrued Income	67,967	73,393	643,083
Derivatives	923	5,872	8,739
Deferred Hedge Losses	183,922	225,383	1,740,211
Others	51,882	15,664	490,891
	¥ 304,750	¥ 320,403	\$ 2,883,439

Note: Deferred Hedge Losses are net realized or unrealized losses from hedging instruments. The gross amounts of deferred hedge gains and losses before netting are ¥3,704 million (\$35,052 thousand) and ¥187,627 million (\$1,775,263 thousand) as of March 31, 2004, respectively. The corresponding amounts as of March 31, 2003 are ¥5,203 million and ¥230,587million, respectively.

## 7. Premises and Equipment

Premises and Equipment as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Tangible Fixed Assets			
Land	¥ 20,424	¥ 20,705	\$ 193,253
Buildings	34,168	34,188	323,290
Equipment	2,018	2,053	19,097
Construction in Progress	141	263	1,338
	¥ 56,753	¥ 57,210	\$ 536,978
Less-Accumulated Depreciation	(19,057)	(18,732)	(180,320)
Net Book Value	¥ 37,695	¥ 38,477	\$ 356,658
Intangible Fixed Assets			
Guarantee Deposits	¥ 384	¥ 382	\$ 3,633
Others	18	18	171
	¥ 402	¥ 400	\$ 3,804
Less-Accumulated Amortization	(15)	(14)	(150)
Net Book Value	¥ 386	¥ 385	\$ 3,654

## 8. Allowance for Loan Losses

Allowance for Loan Losses as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
General Allowance for Loan Losses	¥ 249,415	¥ 289,191	\$ 2,359,881
Specific Allowance for Loan Losses	146,465	185,412	1,385,800
	¥ 395,881	¥ 474,603	\$ 3,745,681

## 9. Bonds and Notes

Bonds and Notes as of March 31, 2004 and 2003 are as follows:

Description of Bonds and Notes	Issue date	Currency and Amounts 2004 (In millions)	Interest rate (%)	Maturity date	Millions of yen		Thousands of U.S. dollars
					2004	2003	2004
					¥	¥	\$
Japanese Government-guaranteed Bonds 185-186* <sup>1</sup>	February 1996- November 1996	JPY 20,000	2.90~ 3.10	February 2006- November 2006	¥ 20,000	¥ 20,000	\$ 189,233
Japanese Government-guaranteed Bonds 1-7	August 2000- February 2004	JPY 330,000	0.80~ 1.90	August 2010- February 2014	330,000	300,000	3,122,339
Japanese Government-guaranteed Foreign Bonds 63-67* <sup>2</sup>	January 1995- September 1998	JPY75,000 GBP250	1.81~ 9.12	January 2005- September 2028	114,225 [39,225]	146,359 [32,134]	1,080,755 [371,133]
Japanese Government-guaranteed Foreign Bonds 5-9* <sup>1</sup>	August 1993- March 1998	SF190 DM150	3.00~ 7.50	January 2005- March 2005	25,510 [25,510]	47,140 [21,630]	241,367 [241,367]
Japanese Government-guaranteed Foreign Bonds 1-7	November 1999- June 2003	JPY 355,000 USD750 EUR750	1.05~ 6.87	June 2010- September 2023	513,621	438,621	4,859,695
Japanese Government-underwritten Bonds 163-211* <sup>1</sup>	May 1994- December 1998	JPY 237,250	1.10~ 4.70	May 2004- December 2008	237,250 [86,070]	344,510 [107,260]	2,244,772 [814,363]
FILP Agency Bonds 1-12	September 2001- February 2004	JPY 540,000	0.41~ 1.83	September 2006- September 2018	540,000	300,000	5,109,282
					¥ 1,780,606	¥ 1,596,630	\$ 16,847,443

Notes:1. These bonds are government-guaranteed bonds and government-underwritten bonds issued by the Hokkaido-Tohoku Development Finance Public Corporation prior to the merger with the Japan Development Bank that formed DBJ.

2. These bonds are government-guaranteed bonds issued by the Japan Development Bank prior to the merger with the Hokkaido-Tohoku Development Finance Public Corporation that formed DBJ.

3. Fiscal Investment and Loan Program (FILP) Agency Bonds issued in Japanese domestic markets are not government-guaranteed.

4. Figures indicated in brackets [ ] represent the amounts to be redeemed within one year.

Scheduled redemptions of Bonds and Notes for each of the next five years as of March 31, 2004 are as follows:

Fiscal year ended in March 31, 2005	¥ 150,805 million	\$ 1,426,863 thousand
2006	51,770	489,829
2007	196,600	1,860,157
2008	183,250	1,733,844
2009	139,560	1,320,466

## 10. Borrowings

Borrowings as of March 31, 2004 and 2003 are as follows:

March 31	Average interest rate (%)	Due date of repayment	Millions of yen		Thousands of U.S. dollars
			2004	2003	2004
Borrowings		April			
Long-term Borrowings from Japanese Government	2.46	2004-December 2023	¥ 11,403,450	¥ 12,664,024	\$ 107,895,263
			¥ 11,403,450	¥ 12,664,024	\$ 107,895,263

Borrowings with maturities for each of the next five years as of March 31, 2004 are as follows:

Fiscal year ended in March 31, 2005	¥ 1,399,632 million	\$ 13,242,811 thousand
2006	1,381,170	13,068,126
2007	1,365,853	12,923,205
2008	1,307,868	12,374,575
2009	1,113,799	10,538,359

## 11. Other Liabilities

Other Liabilities as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Accrued Expenses	¥ 49,960	¥ 63,542	\$ 472,713
Unearned Income	31,714	49,826	300,068
Deposits from Employees	153	181	1,456
Derivatives	187,127	232,013	1,770,535
Others	8,867	12,244	83,897
	¥ 277,824	¥ 357,808	\$ 2,628,669

## 12. Acceptances and Guarantees

Acceptances and Guarantees as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acceptances	¥ —	¥ —	\$ —
Guarantees	76,812	87,715	726,772
	¥ 76,812	¥ 87,715	\$ 726,772



### 13. Assets Pledged as Collateral

Securities collateralized in foreign currency transactions are ¥121,693 million (\$1,151,415 thousand) as of March 31, 2004 and ¥204,027 million as of March 31, 2003.

### 14. Fees and Commissions (Income)

Fees and Commissions (Income) for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Commissions	¥ 2,757	¥ 1,659	\$ 26,091
	¥ 2,757	¥ 1,659	\$ 26,091

### 15. Other Operating Income

Other Operating Income for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Gains on derivative instruments	¥ —	¥ 1,020	\$ —
	¥ —	¥ 1,020	\$ —

### 16. Other Ordinary Income

Other Ordinary Income for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Reversal of Allowance			
for Loan Losses	¥ 37,787	¥ —	\$ 357,528
Gains on Sales of Equities and			
Other Securities	31	8	294
Gains on Money Held in Trust	149	—	1,411
Others	801	206	7,581
	¥ 38,768	¥ 214	\$ 366,814

### 17. Fees and Commissions (Expenses)

Fees and Commissions (Expenses) for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Wire Transfer Service Charges	¥ 5	¥ 5	\$ 48
Commissions	15	42	151
	¥ 21	¥ 48	\$ 199

## 18. Other Operating Expenses

Other Operating Expenses for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Foreign Exchange Losses	¥ 1	¥ 1	\$ 15
Bonds and Notes Issuance Costs	1,201	1,518	11,367
Losses on derivative instruments	871	—	8,242
Others	392	457	3,713
	¥ 2,466	¥ 1,977	\$ 23,337

## 19. Other Ordinary Expenses

Other Ordinary Expenses for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Provision for Loan Losses	¥ —	¥ 104,107	\$ —
Provision for Investment Losses	4,075	9,432	38,560
Write-off of Loans	3,836	23,680	36,297
Losses on Sales of Equities and Other Securities	16	—	156
Write-off of Equities	589	8,607	5,573
Losses on Money Held in Trust	1	15	19
Others	2,963	5,946	28,043
	¥ 11,483	¥ 151,789	\$ 108,648

Note: Losses on sale of loans included in "Others" are ¥2,070 million (\$19,589 thousand) and ¥5,554 million for the fiscal years ended March 31, 2004 and 2003, respectively.

## 20. Employee Retirement Benefits

DBJ has defined benefit pension plans, which consist of welfare pension fund plan and lump-sum severance indemnity plan.

### (a) The Funded Status of the Pension Plans

March 31		Millions of yen		Thousands of U.S. dollars
		2004	2003	2004
Projected Benefit Obligation	(A)	¥ (43,396)	¥ (42,043)	\$ (410,606)
Fair Value of Plan Assets	(B)	11,224	9,154	106,206
Unfunded Pension Obligation	(C)=(A)+(B)	(32,172)	(32,888)	(304,400)
Unrecognized Net Obligation at Transition	(D)	—	—	—
Unrecognized Net Actuarial Gains/Losses	(E)	—	—	—
Unrecognized Prior Service Cost	(F)	—	—	—
Net Amount Recognized on the Balance	(G)=(C)+(D)+(E)+(F)	(32,172)	(32,888)	(304,400)
Prepaid Pension Cost	(H)	—	—	—
Allowance for Employee Retirement Benefits	(G)-(H)	¥ (32,172)	¥ (32,888)	\$ (304,400)

Note: The above Projected Benefit Obligations include a portion in which the pension fund manages on behalf of the Japanese Government welfare program.

### (b) Component of Pension Cost

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service Cost	¥ 1,525	¥ 1,640	\$ 14,437
Interest Cost	838	996	7,934
Expected Return on Plan Assets	(91)	(206)	(866)
Amortization of Prior Service Cost	—	—	—
Amortization of Net Actuarial Gains/Losses	(807)	3,007	(7,637)
Amortization of Net Obligation at Transition	—	—	—
Other Costs	—	—	—
Net Pension Cost	¥ 1,465	¥ 5,438	\$ 13,868

### (c) Principal Assumptions Used

March 31	2004	2003
Discount Rate	2.0%	2.0%
Expected Rate of Return on Plan Assets	1.0%	2.0%
Method of Attributing the Projected Benefits to Periods of Services	Straight-line basis	Straight-line basis
Amortization Period of Actuarial Gains/Losses	Gains/losses are charged to income immediately	Gains/losses are charged to income immediately

## 21. Lease Transactions

### (a) Finance Lease Transactions

(Excluding leases where the ownership of the property is deemed to have transferred to the lessee)

March 31	Millions of yen					
	2004			2003		
	Equipment	Others	Total	Equipment	Others	Total
Acquisition Cost Equivalents	¥ 761	¥ 204	¥ 965	¥ 871	¥ 120	¥ 991
Less-Accumulated Depreciation Equivalents	(367)	(51)	(418)	(413)	(43)	(456)
Book Value Equivalents	¥ 393	¥ 153	¥ 547	¥ 457	¥ 77	¥ 535

March 31	Thousands of U.S. dollars		
	2004		
	Equipment	Others	Total
Acquisition Cost Equivalents	\$ 7,202	\$ 1,933	\$ 9,135
Less-Accumulated Depreciation Equivalents	(3,476)	(482)	(3,958)
Book Value Equivalents	\$ 3,726	\$ 1,451	\$ 5,177

Future lease payments subsequent to the end of the fiscal year for finance leases (including the interest portion thereon) are summarized below:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	Due in One Year or Less	¥ 216	¥ 211
Due after One Year	335	328	3,177
	¥ 552	¥ 540	\$ 5,227

Lease expense, depreciation equivalents and interest expense equivalents relating to finance leases for the fiscal year ended March 31, 2004 amount to ¥239 million (\$2,269 thousand), ¥231 million (\$2,193 thousand) and ¥7 million (\$74 thousand), respectively. The corresponding amounts for the fiscal year ended March 31, 2003 are ¥255 million, ¥246 million and ¥9 million, respectively.

Notes:1. Depreciation equivalents are calculated using the straight-line method, assuming that useful life is equal to the lease term and the residual value at the end of the lease term is zero.  
2. Interest expenses are defined as the difference between total lease payments and acquisition equivalents, which are allocated over the lease term using the interest method.

### (b) Operating Lease Transactions

DBJ has no future lease payments subsequent to the end of fiscal year for operating lease transactions as of March 31, 2004 and 2003.

## 22. Deferred Tax Assets and Liabilities

Deferred Tax Assets and Liabilities as of March 31, 2004 and 2003 consisted of the followings:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred Tax Assets:			
Enterprise Tax Payable	¥ 0	¥ —	\$ 0
	¥ 0	¥ —	\$ 0
Less-Valuation Allowance	(0)	—	(0)
Net Deferred Tax Assets	¥ —	¥ —	\$ —

## 23. Segment Information

### (a) Segment Information by Type of Business

DBJ and its consolidated subsidiary are engaged in business such as private equity investment and fund management and other activities as well as banking business. Such segment information, however, is not presented, as the percentages of those activities are insignificant.

### (b) Segment Information by Geographic Area

Segment information classified by geographic area is not presented, as there are no consolidated subsidiaries and offices located in countries or areas other than Japan.

### (c) Ordinary Income from Overseas Entities

Ordinary income from overseas entities is omitted because the amount is below 10 percent of the consolidated ordinary income.



## 24. Derivative Transactions

### 1. Details Related to Transactions

#### (a) Details of Transactions

DBJ utilizes derivative financial instruments, which comprise interest rate swap, currency swap and credit default swap.

#### (b) Policy for Derivative Transactions

DBJ utilizes interest rate swaps and currency swaps to reduce its exposure to market risks from fluctuations in interest rates and foreign currency exchange rates, and does not hold or issue derivative financial instruments for trading purposes. Also DBJ utilizes credit default swaps as part of its “acceptances and guarantee on customers’ debts” business within the limit of a certain definite amount of risk.

#### (c) Purposes of Transaction

DBJ utilizes interest rate swaps to reduce its exposure to the risk of interest rate fluctuations associated with funding transactions, and foreign currency swaps to reduce its exposure to the risks of foreign currency exchange rate fluctuations associated with its loans and bonds denominated in foreign currencies. DBJ also utilizes credit default swaps as part of its “acceptances and guarantee on customers’ debts” business.

DBJ adopted the Japanese accounting standards for hedge accounting to interest rate swaps and foreign currency swaps as described below:

##### ( i ) Hedge Accounting

DBJ applies the deferral method of hedge accounting. Foreign currency swaps, which are used to hedge the foreign currency fluctuations as the foreign currency swap contracts meet the hedging criteria under the Japanese Accounting Standard for Financial Instruments, are translated not at market but at contractual rates.

##### ( ii ) Hedging Instruments and Hedged Items

- Hedging Instruments : Interest Rate Swaps
- Hedged Items : Bonds and Notes, Borrowings
- Hedging Instruments : Foreign Currency Swaps
- Hedged Items : Foreign currency dominated Loans and Bonds and Notes

##### ( iii ) Hedging Policy

DBJ utilizes hedging instruments to hedge interest rate and foreign exchange fluctuations of the hedged assets and liabilities.

##### ( iv ) Evaluation of Hedge Effectiveness

DBJ evaluates effectiveness of the hedges by testing periodically whether the derivatives are effective in reducing the risks associated with the hedged items.

#### (d) Risks Involved in Derivatives Transactions

Derivatives involve the following risks:

##### ( i ) Market Risk

Potential loss from changes in the market value of financial products due to fluctuations in interest rates or exchange rates.

##### ( ii ) Credit Risk

Potential loss from the failure of a counterparty to perform its obligations in accordance with terms and conditions of contract governing the transactions due to the counterparty’s bankruptcy or deteriorating business conditions.

Concerning derivative transactions for hedging purpose, the market risk on derivatives is offset against the hedged transactions. As for credit risk, DBJ limits the counterparty to financial institutions highly rated by the credit rating agencies, and monitors consistently the cost of restructuring its transactions and creditworthiness of each counterparty. In addition, DBJ transacts with multiple counterparties to reduce credit risk. Also, concerning credit derivative transactions, DBJ holds credit risk of target debt itself in the transaction.

#### (e) Risk Management Policies for Derivatives

The treasury department enters into and monitors derivative transactions in accordance with the internal management policy, which defines the authorization procedures, including pre-approval by authorized personnel, and limits on derivative transactions. Also, total contract amount, total amount of risk, market value, and total amount of counterparties’ credit risk in the derivative transactions are reported to the directors in charge periodically.

## 2. Information on Market Value of Derivatives

The market values of derivatives at March 31, 2004 and 2003 are as follows:

### (a) Interest Rate-related Transactions

March 31	Millions of yen			
	2004			
	Contract Value		Market Value	Unrealized Gain (Loss)
Total	Over one year			
Over-the-Counter				
Swaps				
Receive Fixed/ Pay Float	¥ 571,000	¥ 571,000	¥ (5,409)	¥ (5,409)
Receive Float/ Pay Fixed	571,000	571,000	(1,130)	(1,130)
	¥ 1,142,000	¥ 1,142,000	¥ (6,540)	¥ (6,540)

March 31	Millions of yen			
	2003			
	Contract Value		Market Value	Unrealized Gain (Loss)
Total	Over one year			
Over-the-Counter				
Swaps				
Receive Fixed/ Pay Float	¥ 197,000	¥ 197,000	¥ 8,065	¥ 8,065
Receive Float/ Pay Fixed	197,000	197,000	(6,726)	(6,726)
	¥ 394,000	¥ 394,000	¥ 1,339	¥ 1,339

March 31	Thousands of U.S. dollars			
	2004			
	Contract Value		Market Value	Unrealized Gain (Loss)
Total	Over one year			
Over-the-Counter				
Swaps				
Receive Fixed/ Pay Float	\$ 5,402,592	\$ 5,402,592	\$ (51,182)	\$ (51,182)
Receive Float/ Pay Fixed	5,402,592	5,402,592	(10,700)	(10,700)
	\$ 10,805,184	\$ 10,805,184	\$ (61,882)	\$ (61,882)

Notes: 1.The above transactions are marked to market and changes in unrealized gain (loss) are included in the Consolidated Statements of Operations. Derivative transactions qualifying for hedge accounting are excluded from the tables above.

2.Market values for the over-the-counter transactions are based primarily on discounted present values.

### (b) Currency-related Transactions

There is no currency-related derivative transactions whose unrealized gains and losses are recognized currently in income.

### (c) Equity-related Transactions

Not applicable

### (d) Bond-related Transactions

Not applicable

### (e) Commodity-related Transactions

Not applicable

**(f) Credit Derivatives Transactions**

		Millions of yen			
		2004			
		Contract Value		Market Value	Unrealized Gain (Loss)
March 31		Total	Over one year		
Over-the-Counter					
Credit Default Swap					
	Sold	¥ 2,129,857	¥ 2,129,857	¥ 456	¥ 456
	Bought	2,113,457	2,113,457	51	51
				¥ 507	¥ 507

		Millions of yen			
		2003			
		Contract Value		Market Value	Unrealized Gain (Loss)
March 31		Total	Over one year		
Over-the-Counter					
Credit Default Swap					
	Sold	¥ 2,241,169	¥ 2,241,169	¥ 676	¥ 676
	Bought	2,224,769	2,224,769	167	167
				¥ 843	¥ 843

		Thousands of U.S. dollars			
		2004			
		Contract Value		Market Value	Unrealized Gain (Loss)
March 31		Total	Over one year		
Over-the-Counter					
Credit Default Swap					
	Sold	\$ 20,151,928	\$ 20,151,928	\$ 4,314	\$ 4,314
	Bought	19,996,757	19,996,757	489	489
				\$ 4,803	\$ 4,803

Notes: 1.The above transactions are marked to market and changes in unrealized gain (loss) are included in the Consolidated Statements of Operations.

2.Market values are based on the counterparties' tendered price.

3.'Sold' means the underwriting of credit risk and 'Bought' means the transferring of credit risk.

## 25. Market Value of Securities and Money Held in Trust

Market value of Securities and Money held in Trust as of March 31, 2004 and 2003 are summarized below. The information about investments in subsidiary and affiliates with market value is reported in the notes to non-consolidated financial statements.

### 1. Securities

#### (a) Trading Securities

Not applicable

#### (b) Held-to-maturity Debt Securities with market values

March 31	Millions of yen				
	2004				
	Book Value	Market Value	Unrealized Gain (Loss)		
			Net	Gain	(Loss)
Japanese Government Bonds	¥ —	¥ —	¥ —	¥ —	¥ —
Japanese Local Government Bonds	—	—	—	—	—
Short-term Corporate Bonds	—	—	—	—	—
Corporate Bonds	60,100	61,018	918	938	(19)
Others	—	—	—	—	—
	¥ 60,100	¥ 61,018	¥ 918	¥ 938	¥ (19)

March 31	Millions of yen				
	2003				
	Book Value	Market Value	Unrealized Gain (Loss)		
			Net	Gain	(Loss)
Japanese Government Bonds	¥ —	¥ —	¥ —	¥ —	¥ —
Japanese Local Government Bonds	—	—	—	—	—
Short-term Corporate Bonds	—	—	—	—	—
Corporate Bonds	60,100	61,312	1,212	1,277	(64)
Others	—	—	—	—	—
	¥ 60,100	¥ 61,312	¥ 1,212	¥ 1,277	¥ (64)

March 31	Thousands of U.S. dollars				
	2004				
	Book Value	Market Value	Unrealized Gain (Loss)		
			Net	Gain	(Loss)
Japanese Government Bonds	\$ —	\$ —	\$ —	\$ —	\$ —
Japanese Local Government Bonds	—	—	—	—	—
Short-term Corporate Bonds	—	—	—	—	—
Corporate Bonds	568,644	577,337	8,693	8,879	(185)
Others	—	—	—	—	—
	\$ 568,644	\$ 577,337	\$ 8,693	\$ 8,879	\$ (185)

Note: Market value is based on the closing price at the fiscal year end.

(c) Available-for-sale Securities with market values

March 31	Millions of yen				
	2004				
	Acquisition Cost	Book Value	Unrealized Gain (Loss)		
Net			Gain	(Loss)	
Equities	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	181,420	181,498	78	99	(20)
Japanese Government Bonds	171,420	171,488	67	88	(20)
Japanese Local Government Bonds	—	—	—	—	—
Short-term Corporate Bonds	—	—	—	—	—
Corporate Bonds	10,000	10,010	10	10	—
Others	—	—	—	—	—
	<b>¥ 181,420</b>	<b>¥ 181,498</b>	<b>¥ 78</b>	<b>¥ 99</b>	<b>¥ (20)</b>

March 31	Millions of yen				
	2003				
	Acquisition Cost	Book Value	Unrealized Gain (Loss)		
Net			Gain	(Loss)	
Equities	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	213,752	214,027	274	309	(34)
Japanese Government Bonds	203,752	204,027	274	309	(34)
Japanese Local Government Bonds	—	—	—	—	—
Short-term Corporate Bonds	—	—	—	—	—
Corporate Bonds	10,000	10,000	0	0	—
Others	—	—	—	—	—
	<b>¥ 213,752</b>	<b>¥ 214,027</b>	<b>¥ 274</b>	<b>¥ 309</b>	<b>¥ (34)</b>

March 31	Thousands of U.S. dollars				
	2004				
	Acquisition Cost	Book Value	Unrealized Gain (Loss)		
Net			Gain	(Loss)	
Equities	\$ —	\$ —	\$ —	\$ —	\$ —
Bonds	1,716,530	1,717,271	741	939	(198)
Japanese Government Bonds	1,621,914	1,622,557	643	841	(198)
Japanese Local Government Bonds	—	—	—	—	—
Short-term Corporate Bonds	—	—	—	—	—
Corporate Bonds	94,616	94,714	98	98	—
Others	—	—	—	—	—
	<b>\$ 1,716,530</b>	<b>\$ 1,717,271</b>	<b>\$ 741</b>	<b>\$ 939</b>	<b>\$ (198)</b>

Note: Book value equals to market value based on the closing price at the fiscal year end.

(d) Held-to-maturity Debt Securities sold

Not applicable

(e) Available-for-sale Securities sold

	Millions of yen		
	2004		
For the Fiscal Year ended March 31	Proceeds from Sales	Total amount of Gain on Sales	Total amount of Loss of Sales
Available-for-sale Securities	¥ 235	¥ —	¥ 16
	¥ 235	¥ —	¥ 16

	Millions of yen		
	2003		
For the Fiscal Year ended March 31	Proceeds from Sales	Total amount of Gain on Sales	Total amount of Loss of Sales
Available-for-sale Securities	¥ 0	¥ 0	¥ —
	¥ 0	¥ 0	¥ —

	Thousands of U.S. dollars		
	2004		
For the Fiscal Year ended March 31	Proceeds from Sales	Total amount of Gain on Sales	Total amount of Loss of Sales
Available-for-sale Securities	\$ 2,226	\$ —	\$ 156
	\$ 2,226	\$ —	\$ 156

(f) Held-to-maturity Debt Securities and Available-for-sale Securities whose market values are not readily determinable

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Held-to-maturity Debt Securities			
Unlisted Corporate Bonds	¥ 9,070	¥ 8,951	\$ 85,822
Available-for-sale Securities			
Unlisted Equities	176,012	155,834	1,665,364
Unlisted Corporate Bonds	140	—	1,325
Others	150	150	1,426
	¥ 185,373	¥ 164,935	\$ 1,753,936

(g) Change in Classification of Securities

For the fiscal year ended March 31, 2004, DBJ has changed the classification of the securities amounted to ¥140 million (\$1,325 thousand) from “Held-to-maturity Debt Securities” to “Available-for-sale Securities” due to the deteriorating credit quality of the issuers. There are no impacts on the consolidated financial statements due to this change of classification.



(h) Redemption Schedule of Available-for-sale Securities with maturities and Held-to-maturity Debt Securities

March 31	Millions of yen			
	2004			
	Maturity			
	Within 1 year	1 to 5 years	5 to 10 years	More than 10 years
Bonds	¥ 179,968	¥ 70,340	¥ 500	¥ —
Japanese Government Bonds	161,317	10,171	—	—
Japanese Local Government Bonds	—	—	—	—
Short-term Corporate Bonds	—	—	—	—
Corporate Bonds	18,651	60,169	500	—
Others	150	—	—	—
	¥ 180,118	¥ 70,340	¥ 500	¥ —

March 31	Millions of yen			
	2003			
	Maturity			
	Within 1 year	1 to 5 years	5 to 10 years	More than 10 years
Bonds	¥ 90,529	¥ 192,549	¥ —	¥ —
Japanese Government Bonds	90,288	113,739	—	—
Japanese Local Government Bonds	—	—	—	—
Short-term Corporate Bonds	—	—	—	—
Corporate Bonds	241	78,810	—	—
Others	—	150	—	—
	¥ 90,529	¥ 192,699	¥ —	¥ —

March 31	Thousands of U.S. dollars			
	2004			
	Maturity			
	Within 1 year	1 to 5 years	5 to 10 years	More than 10 years
Bonds	\$ 1,702,791	\$ 665,536	\$ 4,731	\$ —
Japanese Government Bonds	1,526,322	96,234	—	—
Japanese Local Government Bonds	—	—	—	—
Short-term Corporate Bonds	—	—	—	—
Corporate Bonds	176,469	569,302	4,731	—
Others	1,419	—	—	—
	\$ 1,704,210	\$ 665,536	\$ 4,731	\$ —

## 2. Money Held in Trust

There is no Money Held in Trust held for the purpose of investment or held to maturity. Market value of Other Money Held in Trust (Money Held in Trust other than that stated above) is summarized below:

March 31	Millions of yen				
	2004				
	Acquisition Cost	Book Value	Unrealized Gain (Loss)		
			Net	Gain	(Loss)
Other Money Held in Trust	¥ 4,910	¥ 4,893	¥ —	¥ —	¥ —

March 31	Millions of yen				
	2003				
	Acquisition Cost	Book Value	Unrealized Gain (Loss)		
			Net	Gain	(Loss)
Other Money Held in Trust	¥ 1,984	¥ 1,969	¥ —	¥ —	¥ —

March 31	Thousands of U.S. dollars				
	2004				
	Acquisition Cost	Book Value	Unrealized Gain (Loss)		
			Net	Gain	(Loss)
Other Money Held in Trust	\$ 46,463	\$ 46,299	\$ —	\$ —	\$ —

## 3. Net Unrealized Gain on Available-for-sale Securities

The breakdown of net unrealized gain on Available-for-sale Securities is as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Net Unrealized Gain			
Available-for-sale Securities	¥ 18,956	¥ 264	\$ 179,364
Other Money Held in Trust	—	—	—
	¥ 18,956	¥ 264	\$ 179,364
Add: Deferred Tax Assets			
(Less: Deferred Tax Liabilities)	¥ —	¥ —	\$ —
Net Unrealized Gain on Available-for-sale Securities, Net of Taxes	¥ 18,956	¥ 264	\$ 179,364

Note: Net unrealized gain and loss on 'Interest in Limited Partnership' accounted in "Other Assets", which amounts to ¥18,878 million (\$178,623 thousand) / gain and ¥9 million / loss are included in the "Net Unrealized Gain on Available-for-sale Securities, Net of Taxes" noted above as of March 31, 2004 and 2003, respectively.

Report of Independent Auditors


To the Governor of  
Development Bank of Japan

We have audited the accompanying non-consolidated balance sheets of Development Bank of Japan as of March 31, 2004 and 2003, and the related non-consolidated statements of operations and equity for the years then ended, all expressed in Japanese Yen. These non-consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the non-consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall non-consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Development Bank of Japan as of March 31, 2004 and 2003, and the non-consolidated results of their operations for the years then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying non-consolidated financial statements.



ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan

June 25, 2004

## NON-CONSOLIDATED BALANCE SHEETS

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Assets</b>			
Cash and Due from banks	¥ 19,298	¥ 39,778	\$ 182,595
Reverse Repurchase Agreements	77,166	192,880	730,125
Money Held in Trust	4,893	1,969	46,299
Securities (Notes 3 and 10)	426,981	439,073	4,039,943
Loans (Note 4)	14,785,724	15,713,160	139,897,100
Other Assets (Note 5)	304,750	320,402	2,883,436
Premises and Equipment (Note 6)	38,081	38,862	360,312
Deferred Charges on Bonds and Notes	2,249	1,808	21,287
Customers' Liabilities for Acceptances and Guarantees	76,812	87,715	726,772
Allowance for Loan Losses (Note 7)	(395,881)	(474,603)	(3,745,681)
Allowance for Investment Losses	(13,903)	(11,237)	(131,550)
<b>Total Assets</b>	<b>¥ 15,326,174</b>	<b>¥ 16,349,810</b>	<b>\$ 145,010,638</b>

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Bonds and Notes	¥ 1,780,606	¥ 1,596,630	\$ 16,847,443
Borrowings	11,403,450	12,664,024	107,895,263
Other Liabilities (Note 8)	277,826	357,808	2,628,694
Allowance for Bonus Payments	1,659	1,775	15,703
Allowance for Employee Retirement Benefits	32,172	32,888	304,400
Acceptances and Guarantees (Note 9)	76,812	87,715	726,772
<b>Total Liabilities</b>	<b>¥ 13,572,527</b>	<b>¥ 14,740,842</b>	<b>\$ 128,418,275</b>
<b>Equity</b>			
Capital	¥ 1,194,286	¥ 1,182,286	\$ 11,299,896
Retained Earnings (Note 11)	540,403	426,417	5,113,103
Statutory Reserve	1,000,908	982,478	9,470,226
Accumulated Deficit	(460,504)	(556,061)	(4,357,123)
Net Unrealized Gain on Available-for-sale Securities	18,956	264	179,364
<b>Total Equity</b>	<b>¥ 1,753,646</b>	<b>¥ 1,608,968</b>	<b>\$ 16,592,363</b>
<b>Total Liabilities and Equity</b>	<b>¥ 15,326,174</b>	<b>¥ 16,349,810</b>	<b>\$ 145,010,638</b>

Accompanying notes are an integral part of these financial statements.

## NON-CONSOLIDATED STATEMENTS OF OPERATIONS

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Revenues</b>			
Interest Income	¥ 485,098	¥ 543,179	\$ 4,589,827
Interest on Loans	483,195	540,870	4,571,818
Interest and Dividends on Securities	1,890	2,297	17,885
Interest on Reverse Repurchase Agreements	12	7	120
Interest on Due from banks	0	4	4
Other Interest Income	0	0	0
Fees and Commissions (Note 12)	2,757	1,659	26,091
Other Operating Income (Note 13)	—	1,020	—
Other Ordinary Income (Note 14)	38,768	214	366,814
Collection of Written-off Claims	2,048	470	19,379
Gains on Sales of Premises and Equipment	217	246	2,059
<b>Total Revenues</b>	<b>¥ 528,890</b>	<b>¥ 546,791</b>	<b>\$ 5,004,170</b>
<b>Expenses</b>			
Interest Expenses	¥ 373,924	¥ 439,932	\$ 3,537,935
Interest on Bonds and Notes	31,615	33,562	299,130
Amortization of Discounts on Bonds and Notes (Note 2(e))	—	354	—
Interest on Borrowings	329,073	397,690	3,113,575
Interest on Swaps (net)	13,234	8,316	125,220
Other Interest Expenses	1	8	10
Fees and Commissions (Note 15)	21	48	199
Other Operating Expenses (Note 16)	2,466	1,977	23,337
General and Administrative Expenses	26,766	31,653	253,254
Other Ordinary Expenses (Note 17)	11,482	151,789	108,648
Losses on Sales of Premises and Equipment	242	264	2,297
<b>Total Expenses</b>	<b>¥ 414,904</b>	<b>¥ 625,665</b>	<b>\$ 3,925,670</b>
<b>Net Earnings (Loss)</b>	<b>¥ 113,986</b>	<b>¥ (78,874)</b>	<b>\$ 1,078,500</b>

Accompanying notes are an integral part of these financial statements.

## NON-CONSOLIDATED STATEMENTS OF EQUITY

	Millions of yen				
	Capital	Retained Earnings		Net Unrealized Gain on Available-for- sale Securities	Total Equity
		Statutory Reserve	Accumulated Deficit		
For the Fiscal Year ended March 31, 2003					
Balance at March 31, 2002	¥ 1,122,286	¥ 937,734	¥ (432,443)	¥ 869	¥ 1,628,446
Net Change in Unrealized Gain on Available-for-sale Securities	—	—	—	(605)	(605)
Transfer from net earnings accounted under the DBJ Law to Statutory Reserve (Note 11)	—	44,743	(44,743)	—	—
Capital Contribution from the Japanese Government	60,000	—	—	—	60,000
Net Earnings (Loss)	—	—	(78,874)	—	(78,874)
Balance at March 31, 2003	¥ 1,182,286	¥ 982,478	¥ (556,061)	¥ 264	¥ 1,608,968
Appropriations:					
Provision for Statutory Reserve	—	18,429	(18,429)	—	—
Total	¥ —	¥ 18,429	¥ (18,429)	¥ —	¥ —
Unappropriated Accumulated Deficit	¥ —	¥ —	¥ (574,490)	¥ —	¥ —

	Millions of yen				
	Capital	Retained Earnings		Net Unrealized Gain on Available-for- sale Securities	Total Equity
		Statutory Reserve	Accumulated Deficit		
For the Fiscal Year ended March 31, 2004					
Balance at March 31, 2003	¥ 1,182,286	¥ 982,478	¥ (556,061)	¥ 264	¥ 1,608,968
Net Change in Unrealized Gain on Available-for-sale Securities	—	—	—	18,692	18,692
Transfer from net earnings accounted under the DBJ Law to Statutory Reserve (Note 11)	—	18,429	(18,429)	—	—
Capital Contribution from the Japanese Government	12,000	—	—	—	12,000
Net Earnings (Loss)	—	—	113,986	—	113,986
Balance at March 31, 2004	¥ 1,194,286	¥ 1,000,908	¥ (460,504)	¥ 18,956	¥ 1,753,646
Appropriations:					
Provision for Statutory Reserve	—	26,113	(26,113)	—	—
Total	¥ —	¥ 26,113	¥ (26,113)	¥ —	¥ —
Unappropriated Accumulated Deficit	¥ —	¥ —	¥ (486,617)	¥ —	¥ —

Accompanying notes are an integral part of these financial statements.



For the Fiscal Year ended March 31, 2004	Thousands of U.S. dollars				
	Capital	Retained Earnings		Net Unrealized Gain on Available-for- sale Securities	Total Equity
		Statutory Reserve	Accumulated Deficit		
<b>Balance at March 31, 2003</b>	<b>\$ 11,186,356</b>	<b>\$ 9,295,851</b>	<b>\$ (5,261,248)</b>	<b>\$ 2,506</b>	<b>\$ 15,223,465</b>
Net Change in Unrealized Loss on Available-for-sale Securities	—	—	—	176,858	176,858
Transfer from net earnings accounted under the DBJ Law to Statutory Reserve (Note 11)	—	174,375	(174,375)	—	—
Capital Contribution from the Japanese Government	113,540	—	—	—	113,540
Net Earnings (Loss)	—	—	1,078,500	—	1,078,500
<b>Balance at March 31, 2004</b>	<b>\$ 11,299,896</b>	<b>\$ 9,470,226</b>	<b>\$ (4,357,123)</b>	<b>\$ 179,364</b>	<b>\$ 16,592,363</b>
Appropriations:					
Provision for Statutory Reserve	—	247,077	(247,077)	—	—
<b>Total</b>	<b>\$ —</b>	<b>\$ 247,077</b>	<b>\$ (247,077)</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Unappropriated Accumulated Deficit</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (4,604,200)</b>	<b>\$ —</b>	<b>\$ —</b>

Accompanying notes are an integral part of these financial statements.

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation

The accompanying financial statements have been prepared from the accounts maintained by the Development Bank of Japan (“DBJ”) in accordance with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The financial statements are not intended to present the financial position and the result of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The amounts indicated in millions of yen are rounded down by omitting the figures less than one million Yen. Accordingly, the sum of each amount appearing in the accompanying financial statements and the notes thereto may not be equal to the sum of the individual account balances.

Amounts in U.S. dollars are presented solely for the convenience of readers outside Japan. The rate of ¥105.69=\$1.00, the effective exchange rate prevailing as of March 31, 2004, has been used in conversion. The presentation of such amounts is not intended to imply that Japanese yen amounts have been or could have been readily translated, realized or settled in U.S. dollars at that rate or any other rate.

## 2. Summary of Significant Accounting Policies

### (a) Securities

Held-to-maturity Debt Securities are stated at amortized cost, on a straight-line basis, computed using the moving-average method. Investments in subsidiary are stated at cost computed using the moving-average method. Available-for-sale Securities whose current values can be estimated are stated at market value (cost is calculated principally using the moving-average method), and other non-marketable securities are stated at cost or amortized cost computed using the moving-average method. Unrealized gains and losses on Available-for-sale Securities are included in Equity.

### (b) Valuation Method for Derivative Financial Instruments

All derivative financial instruments are carried at market value, except for certain derivatives that are designated as hedging instruments as discussed below.

### (c) Hedge Accounting

#### ( i ) Hedge Accounting

DBJ applies the deferral method of hedge accounting. Foreign currency swaps, which are used to hedge the foreign currency fluctuations are translated not at market values but at contractual rates, as the foreign currency swap contracts meet the hedging criteria under the Japanese Accounting Standards for Financial Instruments.

#### ( ii ) Hedging Instruments and Hedged Items

- Hedging Instruments : Interest Rate Swaps
- Hedged Items : Bonds and Notes, Borrowings
- Hedging Instruments : Foreign Currency Swaps
- Hedged Items : Foreign currency dominated Loans and Bonds and Notes

#### ( iii ) Hedging Policy

DBJ utilizes hedging instruments to hedge interest rate and foreign exchange fluctuations on its assets and liabilities within the outstanding asset and liability amounts.

#### ( iv ) Evaluation of Hedge Effectiveness

DBJ evaluates effectiveness of the hedges by testing periodically whether the derivatives are effective in reducing the risks associated with the hedged items.

**(d) Premises and Equipment**

**( i ) Depreciation**

Premises and Equipment are depreciated using the declining-balance method, except for buildings (excluding installed facilities) that are depreciated on a straight-line basis.

The estimated useful lives are principally as follows:

Buildings: 22 years to 50 years

Equipment: 3 years to 20 years

**( ii ) Accounting standard for impairment of fixed assets**

On August 9, 2002, the Business Accounting Council in Japan issued “Accounting Standard for Impairment of Fixed Assets”. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

DBJ has not yet applied this new standard nor has determined the effect of applying it on the non-consolidated financial statements.

**(e) Amortization of deferred charges**

“Discounts on Bonds and Notes” are amortized over the life of Bonds and Notes, and “Bonds and Notes Issuance Costs” are charged to income as they are incurred.

Until the fiscal year ended March 31, 2003, the amounts of amortization of discounts on bonds and notes had been presented in “Amortization of Discounts on Bonds and Notes” as their own account. From April 1, 2003, they are presented in “Interest on Bonds and Notes” combined with interest, in accordance with the amendment of the applicable law which regulates the reporting standards.

**(f) Foreign currency translation and revaluation method**

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the market exchange rates prevailing at the fiscal year end.

**(g) Allowance for Loan Losses**

DBJ provides for “Allowance for Loan Losses” as detailed below pursuant to the internal rules for self-assessment of credit quality and loan losses.

The allowance for claims on debtors who are legally bankrupt, in special liquidation or effectively bankrupt is provided based on the amount of claims, after the write-off described below, net of amounts expected to be collected through disposal of collateral or execution of guarantees. The allowance for claims on debtors who are not legally bankrupt at the moment, but likely to become bankrupt for which future cash flows cannot reasonably be estimated is provided for the amount considered to be necessary based on an overall solvency assessment performed on the claims, net of amounts expected to be collected through disposal of collateral or execution of guarantees.

With respect to the claims on debtors who are likely to become bankrupt or to be closely monitored, and for which future cash flows can reasonably be estimated, the allowance is provided for the difference between the present value of expected future cash flows discounted at the contracted interest rate and the carrying value of the claims.

The allowance for claims on debtors other than those described above is provided based on the historical default rate, which is calculated based on the actual defaults over a certain historical period (the average financing period for DBJ).

All claims are assessed initially by investment and lending departments and then by the Credit Risk Management Department, which is independent of the investment and lending departments based on internal rules for self-assessment of credit quality. The allowance is provided based on the results of the self-assessment.

With respect to the claims on debtors who are legally or substantially bankrupt with collateral or guarantees, the amount of claims exceeding the estimated market values of collateral or guarantees, which are deemed un-collectible, have been written-off, and totaled ¥55,184 million (\$522,132 thousand) and ¥77,016 million for the years ended March 31, 2004 and 2003, respectively.

**(h) Allowance for Investment Losses**

“Allowance for Investment Losses” is provided based on the estimated losses on non-marketable debt securities.

**(i) Allowance for Bonus Payments**

“Allowance for Bonus Payments” is calculated and provided for based on estimated amounts of future payment attributable to the services that have been rendered by employees and executive directors to the date of the balance sheets.

(j) **Allowance for Employee Retirement Benefits**

“Allowance for Employee Retirement Benefits” represents future payments for pension and retirement benefits to employees and executive directors, and is accrued based on the projected benefit obligations and estimated pension plan assets at fiscal year end. The actuarial gain or loss is recognized during the year it arises.

(k) **Equipment Used under Finance Lease Agreements**

Equipment used under finance lease agreements is accounted for as equipment leased under operating leases, except for those in which the ownership of leased equipment transfer to the lessee, in which case the equipment is capitalized.

(l) **Consumption tax**

Income and expense subject to consumption tax exclude related consumption taxes paid or received.

(m) **Income taxes**

DBJ is exempt from taxes based on income, however DBJ is subject to parity taxes among local taxes.

### 3. Securities

Securities as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Japanese Government Bonds	¥ 171,488	¥ 204,027	\$ 1,622,557
Corporate Bonds	79,320	79,051	750,505
Equities	176,021	155,844	1,665,455
Other securities	150	150	1,426
	¥ 426,981	¥ 439,073	\$ 4,039,943

Notes: Investments in subsidiary, in the total amount of ¥10 million (\$95 thousand) are included in “Equities” as of March 31, 2004 and 2003, respectively.

### 4. Non-performing Loans

The amounts of Non-Performing Loans included in “Loans” on the non-consolidated balance sheets as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loans to Bankrupt Debtors	¥ 23,705	¥ 54,692	\$ 224,289
Delinquent Loans	271,472	341,115	2,568,573
Loans Past Due Three Months or More	270	6,707	2,559
Restructured Loans	193,210	182,724	1,828,083
	¥ 488,658	¥ 585,240	\$ 4,623,504

- Notes: 1. The amounts of Loans indicated above are stated at gross amounts, before reduction of allowance for loan losses.  
2. “Loans to Bankrupt Debtors” represent non-accrual loans to debtors who are legally bankrupt as defined in Article 96-1-3 and 4 of the Japanese Tax Law Enforcement Regulation.  
3. “Delinquent Loans” represent non-accrual loans other than ( i ) Loans to Bankrupt Debtors and ( ii ) loans whose interest payments are deferred in order to assist or facilitate the restructuring efforts of borrowers in financial difficulties.  
4. “Loans Past Due Three Months or More” are loans whose principal or interest payment is three months or more past due, and do not fall under the category of “Loans to Bankrupt Debtors” or “Delinquent Loans”.  
5. “Restructured loans” are loans whose repayment terms have been modified to the advantage of debtors through means such as reduction or exemption of interest rates, postponement of principal and interest payments, and forgiveness of loans to support or restructure the debtors’ businesses, and do not fall under the category of “Loans to Bankrupt Debtors”, “Delinquent Loans” or “Loans Past Due Three Months or More”.

DBJ provides commitment lines under which it lends necessary funds up to the pre-determined amount, that is within the borrowers’ financing needs for the projects and up to the agreed maximum amount to lend upon borrowers’ request, provided that the request meets terms and conditions for disbursement prescribed in the loan agreements. The total balance of unused commitment lines as of March 31, 2004 and 2003 are ¥90,985 million (\$860,867 thousand), including ¥49,517 million (\$468,512 thousand) being financed within one year and ¥129,003 million, including ¥87,221 million being financed within one year, respectively.

## 5. Other Assets

Other Assets as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Prepaid Expenses	¥ 54	¥ 89	\$ 515
Accrued Income	67,967	73,393	643,083
Derivatives	923	5,872	8,739
Deferred Hedge Losses	183,922	225,383	1,740,211
Others	51,881	15,664	490,888
	¥ 304,750	¥ 320,402	\$ 2,883,436

Notes: Deferred Hedge Losses are net realized or unrealized losses from hedging instruments. The gross amounts of deferred hedge gains and losses before netting are ¥3,704 million (\$35,052 thousand) and ¥187,627 million (\$1,775,263 thousand) as of March 31, 2004, respectively. The corresponding amounts as of March 31, 2003 are ¥5,203 million and ¥230,587million, respectively.

## 6. Premises and Equipment

Premises and Equipment as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Tangible Fixed Assets			
Land	¥ 20,424	¥ 20,705	\$ 193,253
Buildings	34,168	34,188	323,290
Equipment	2,018	2,053	19,097
Construction in Progress	141	263	1,338
	¥ 56,753	¥ 57,210	\$ 536,978
Less- Accumulated Depreciation	(19,057)	(18,732)	(180,320)
Net Book Value	¥ 37,695	¥ 38,477	\$ 356,658
Intangible Fixed Assets			
Guarantee Deposits	¥ 384	¥ 382	\$ 3,633
Others	18	18	171
	¥ 402	¥ 400	\$ 3,804
Less - Accumulated Amortization	(15)	(14)	(150)
Net Book Value	¥ 386	¥ 385	\$ 3,654

## 7. Allowance for Loan Losses

Allowance for Loan Losses as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
General Allowance for Loan Losses	¥ 249,415	¥ 289,191	\$ 2,359,881
Specific Allowance for Loan Losses	146,465	185,412	1,385,800
	¥ 395,881	¥ 474,603	\$ 3,745,681

## 8. Other Liabilities

Other Liabilities as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Accrued Expenses	¥ 49,963	¥ 63,542	\$ 472,738
Unearned Income	31,714	49,826	300,068
Deposits from Employees	153	181	1,456
Derivatives	187,127	232,013	1,770,535
Others	8,867	12,244	83,897
	¥ 277,826	¥ 357,808	\$ 2,628,694

## 9. Acceptances and Guarantees

Acceptances and Guarantees as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acceptances	¥ —	¥ —	\$ —
Guarantees	76,812	87,715	726,772
	¥ 76,812	¥ 87,715	\$ 726,772

## 10. Assets Pledged as Collateral

Securities collateralized in foreign currency transactions are ¥121,693 million (\$1,151,415 thousand) as of March 31, 2004 and ¥204,027 million as of March 31, 2003.

## 11. Retained Earnings

A portion of net earnings calculated pursuant to Article 4 of the Development Bank of Japan Law (“DBJ Law”) was appropriated to Statutory Reserve as stipulated by Article 41 of the DBJ Law. Unappropriated Accumulated deficit, losses carried forward to the following fiscal years, are the amounts which are not appropriated under the DBJ Law for each fiscal year.

## 12. Fees and Commissions (Income)

Fees and Commissions (Income) for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Commissions	¥ 2,757	¥ 1,659	\$ 26,091
	¥ 2,757	¥ 1,659	\$ 26,091

## 13. Other Operating Income

Other Operating Income for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Gains on derivative instruments	¥ —	¥ 1,020	\$ —
	¥ —	¥ 1,020	\$ —



## 14. Other Ordinary Income

Other Ordinary Income for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Reversal of Allowance			
for Loan Losses	¥ 37,787	¥ —	\$ 357,528
Gains on Sales of Equities and Other Securities	31	8	294
Gains on Money Held in Trust	149	—	1,411
Others	801	206	7,581
	¥ 38,768	¥ 214	\$ 366,814

## 15. Fees and Commissions (Expenses)

Fees and Commissions (Expenses) for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Wire Transfer Service Charges	¥ 5	¥ 5	\$ 48
Commissions	15	42	151
	¥ 21	¥ 48	\$ 199

## 16. Other Operating Expenses

Other Operating Expenses for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Foreign Exchange Losses	¥ 1	¥ 1	\$ 15
Bonds and Notes Issuance Costs	1,201	1,518	11,367
Losses on derivative instruments	871	—	8,242
Others	392	457	3,713
	¥ 2,466	¥ 1,977	\$ 23,337

## 17. Other Ordinary Expenses

Other Ordinary Expenses for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Provision for Loan Losses	¥ —	¥ 104,107	\$ —
Provision for Investment Losses	4,075	9,432	38,560
Write-off of Loans	3,836	23,680	36,297
Losses on Sales of Equities and Other Securities	16	—	156
Write-off of Equities	589	8,607	5,573
Losses on Money Held in Trust	1	15	19
Others	2,963	5,946	28,043
	¥ 11,482	¥ 151,789	\$ 108,648

Note: Losses on sale of loans included in "Others" are ¥2,070 million (\$19,589 thousand) and ¥5,554 million for the fiscal years ended March 31, 2004 and 2003, respectively.

## 18. Lease Transactions

### (a) Finance Lease Transactions

(Excluding leases where the ownership of the property is deemed to have transferred to the lessee)

March 31	Millions of yen					
	2004			2003		
	Equipment	Others	Total	Equipment	Others	Total
Acquisition Cost Equivalents	¥ 761	¥ 204	¥ 965	¥ 871	¥ 120	¥ 991
Less-Accumulated Depreciation Equivalents	(367)	(51)	(418)	(413)	(43)	(456)
Book Value Equivalents	¥ 393	¥ 153	¥ 547	¥ 457	¥ 77	¥ 535

March 31	Thousands of U.S. dollars		
	2004		
	Equipment	Others	Total
Acquisition Cost Equivalents	\$ 7,202	\$ 1,933	\$ 9,135
Less-Accumulated Depreciation Equivalents	(3,476)	(482)	(3,958)
Book Value Equivalents	\$ 3,726	\$ 1,451	\$ 5,177

Future lease payments subsequent to the end of the fiscal year for finance leases (including the interest portion thereon) are summarized below:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	Due in One Year or Less	¥ 216	¥ 211
Due after One Year	335	328	3,177
	¥ 552	¥ 540	\$ 5,227

Lease expense, depreciation equivalents and interest expense equivalents relating to finance leases for the fiscal year ended March 31, 2004 amount to ¥239 million (\$2,269 thousand), ¥231 million (\$2,193 thousand) and ¥7 million (\$74 thousand), respectively. The corresponding amounts for the fiscal year ended March 31, 2003 are ¥255 million, ¥246 million and ¥9 million, respectively.

Notes: 1. Depreciation equivalents are calculated using the straight-line method, assuming that useful life is equal to the lease term and the residual value at the end of the lease term is zero.  
2. Interest expenses are defined as the difference between total lease payments and acquisition equivalents, which are allocated over the lease term using the interest method.

### (b) Operating Lease Transactions

DBJ has no future lease payments subsequent to the end of fiscal year for operating lease transactions as of March 31, 2004 and 2003.

## 19. Market Value of Securities

Market value of Securities, excluding investments in subsidiary and affiliates, are reported in the notes to consolidated financial statements.

DBJ holds no investments in subsidiary with market value as of March 31, 2004 and 2003.

**Accounts Based on  
Accounting Standards for  
Special Agencies, etc.**

## REPORT OF AUDITORS

MR. TAKESHI KOMURA, *Governor*  
DEVELOPMENT BANK OF JAPAN  
9-1, Otemachi 1-chome  
Chiyoda-ku, Tokyo

We have audited the balance sheets of the Development Bank of Japan ("DBJ") as of March 31, 2003 and 2004 and the related statements of earnings for the two fiscal years ended March 31, 2004. Our audit was made in accordance with the Development Bank of Japan Law and the regulations thereunder.

The accounting principles and procedures followed by DBJ are those generally followed by special public corporations in Japan, and the aforesaid balance sheets and statements of earnings have been prepared in conformity with such accounting principles and procedures applied on a consistent basis in all material respects.

The accompanying balance sheets of DBJ as of March 31, 2003 and 2004 and statements of earnings for the two fiscal years ended March 31, 2004 have been prepared by reclassifying the aforesaid financial statements. We have reviewed the reclassifications made in preparing such financial statements and, in our opinion, such statements, as reclassified, fairly present on a consistent basis the financial position of DBJ as of March 31, 2003 and 2004 and the results of its operations for the two fiscal years ended March 31, 2004.

  
Hiroyuki Hoshi  
*Auditor*  
Development Bank of Japan

  
Shigeru Kobayashi  
*Auditor*  
Development Bank of Japan

Tokyo, June 25, 2004

## NON-CONSOLIDATED BALANCE SHEETS

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Assets</b>			
Cash and Due from banks (Note 3)	¥ 19,206	¥ 38,209	\$ 181,729
Securities (Note 4)	327,918	475,734	3,102,641
Loans (Note 5)	14,840,881	15,790,022	140,418,976
Less-Allowance for Loan Losses	(44,522)	(47,370)	(421,257)
	<u>14,796,358</u>	<u>15,742,652</u>	<u>139,997,719</u>
Equity Investments	244,077	197,597	2,309,373
Premises and Equipment (Note 6)	57,029	57,317	539,592
Less-Accumulated depreciation	(19,101)	(18,777)	(180,729)
	<u>37,928</u>	<u>38,539</u>	<u>358,863</u>
Accrued Income Receivable (Note 7)	68,898	75,241	651,888
Other Assets (Note 8)	533	786	5,046
Unamortized discount on Bonds and Notes	2,296	1,876	21,725
Customers' Liabilities for Acceptances and Guarantees	76,821	87,715	726,852
<b>Total Assets</b>	<b>¥ 15,574,038</b>	<b>¥ 16,658,353</b>	<b>\$ 147,355,836</b>
<b>Liabilities, Capital and Statutory Reserve</b>			
<b>Liabilities</b>			
Bonds and Notes	¥ 1,780,606	¥ 1,596,630	\$ 16,847,443
Long-term Borrowings (Note 9)	11,403,450	12,664,024	107,895,263
Accrued Expenses Payable (Note 10)	51,126	64,536	483,737
Other Liabilities (Note 11)	40,726	62,252	385,342
Acceptances and Guarantees	76,821	87,715	726,852
<b>Total Liabilities</b>	<b>13,352,730</b>	<b>14,475,158</b>	<b>126,338,637</b>
<b>Capital and Statutory Reserve</b>			
Capital (Note 12)	1,194,286	1,182,286	11,299,896
Statutory Reserve (Note 2 (j))	1,027,021	1,000,908	9,717,303
<b>Total Capital and Statutory Reserve</b>	<b>2,221,307</b>	<b>2,183,194</b>	<b>21,017,199</b>
<b>Total Liabilities, Capital and Statutory Reserve</b>	<b>¥ 15,574,038</b>	<b>¥ 16,658,353</b>	<b>\$ 147,355,836</b>

Accompanying notes are an integral part of these financial statements.

## NON-CONSOLIDATED STATEMENTS OF EARNINGS

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Interest Income</b>			
Interest on Loans	¥ 482,935	¥ 541,247	\$ 4,569,356
Interest on Securities	1,700	2,074	16,087
Other Interest Income	232	243	2,196
	<u>484,867</u>	<u>543,566</u>	<u>4,587,639</u>
<b>Interest Expenses</b>			
Interest on Bonds and Notes	37,572	36,208	355,494
Interest on Borrowings	336,034	403,011	3,179,435
	<u>373,606</u>	<u>439,219</u>	<u>3,534,929</u>
<b>Net Interest Income</b>	<u>111,260</u>	<u>104,346</u>	<u>1,052,710</u>
<b>Other Income</b>			
Fees and Commissions (Note 13)	2,839	1,705	26,868
Others (Note 14)	4,204	1,874	39,785
	<u>7,044</u>	<u>3,580</u>	<u>66,653</u>
<b>Administrative and Other Expenses</b>			
Salaries and related expenses	16,928	17,386	160,169
Other administrative expenses	9,966	10,451	94,298
Depreciation	982	1,119	9,297
Fees and Commissions (Note 15)	16	28	159
Write-off of Claims (Note 16)	61,503	58,612	581,923
Others (Note 17)	5,641	4,939	53,381
	<u>95,039</u>	<u>92,539</u>	<u>899,227</u>
<b>Earnings before Provision for Loan Losses</b>	<u>23,266</u>	<u>15,387</u>	<u>220,136</u>
Provision for Loan Losses	2,847	3,041	26,941
<b>Net Earnings (Note 2(i))</b>	<u>¥ 26,113</u>	<u>¥ 18,429</u>	<u>\$ 247,077</u>
<b>Appropriation of Net Earnings (Note 2(j))</b>			
Statutory Reserve	26,113	18,429	247,077
Payment to National Treasury	—	—	—
<b>Total Appropriation of Net Earnings</b>	<u>¥ 26,113</u>	<u>¥ 18,429</u>	<u>\$ 247,077</u>

Accompanying notes are an integral part of these financial statements.



## NON-CONSOLIDATED LIST OF ASSETS

March 31, 2004	Millions of yen	Thousands of U.S. dollars	Remarks(Millions of yen/ Thousands of U.S. dollars)
<b>Cash and Due from banks</b>	<b>¥ 19,206</b>	<b>\$ 181,729</b>	
Cash	2	23	
Due from banks	19,204	181,706	Current deposits: 22 banks, including Bank of Japan
			Ordinary deposits: 2 banks, including Sumitomo Mitsui Banking Corporation
<b>Securities</b>	<b>327,918</b>	<b>3,102,641</b>	
Japanese Government Bonds	248,586	2,352,039	Issues
			Face value
			Book value
			Financing bills: 4 holdings
			¥40,000
			¥39,999
			Coupon-bearing government bonds
			¥193,600
			¥198,787
			(4,5,6,10 years): 11 holdings
			\$1,831,772
			\$1,880,853
			Treasury bills: 3 holdings
			¥9,800
			¥9,799
			\$92,724
			\$92,724
Corporate Bonds	69,310	655,790	37 holdings
Other securities	10,020	94,812	
			Book value
			Collateralized debt obligations: 2 holdings
			¥10,000
			\$94,616
			Equity acquired by excising the warrant, etc.: 2 holdings
			¥20
			\$196
<b>Loans</b>	<b>14,840,881</b>	<b>140,418,976</b>	
Yen loans	14,733,869	139,406,462	15,560 holdings
Direct loans	14,732,453	139,393,067	15,526 holdings
Agency loans	1,415	13,395	15,512 holdings
Foreign currency loans	107,012	1,012,514	14 holdings
Allowance for Loan Losses	(44,522)	(421,257)	34 holdings
Equity Investments	244,077	2,309,373	375 holdings
Premises and Equipment	37,928	358,863	
Premises and Equipment for Business	37,786	357,525	
			Book value
			(1) Land: 91 properties/ 65% of 43,966m <sup>2</sup> , and 139,906m <sup>2</sup>
			¥20,479
			\$193,768
			(2) Buildings: 216 buildings/ 95% of 2,244m <sup>2</sup> , 65% of 846m <sup>2</sup> , and 108,579m <sup>2</sup>
			16,900
			159,906
			(Gross floor area)
			(3) Equipment: 2,016 items
			402
			3,813
			(4) Petty sum depreciable assets: 101 items
			1
			18
			(depreciated over three years as prescribed by tax code)
			(5) Key money and other: 4 holdings
			2
			20
			* Accumulated depreciation amounted to ¥19,101 million (\$180,729 thousand).
Construction in progress	141	1,338	5 holdings
<b>Accrued Income Receivable</b>	<b>68,898</b>	<b>651,888</b>	
Accrued Interest on Loans	68,051	643,883	Interest accrued on loans but not yet received
Accrued Interest on Securities	835	7,906	Interest accrued on securities but not yet received
Accrued Guarantee Fees	10	99	Fees accrued on guarantees but not yet received
<b>Other Assets</b>	<b>533</b>	<b>5,046</b>	
Suspense payments	95	902	39 holdings
Guarantee deposits	384	3,636	84 holdings
			Deposits and guarantees relating to land and buildings leased for business use
Others	53	508	123 holdings
<b>Unamortized discount on Bonds and Notes</b>	<b>2,296</b>	<b>21,725</b>	Difference between face value and proceeds from bonds
<b>Customers' Liabilities for Acceptances and Guarantees</b>	<b>76,821</b>	<b>726,852</b>	44 cases
<b>Total Assets</b>	<b>¥ 15,574,038</b>	<b>\$ 147,355,836</b>	

Note: Amounts in U.S. dollars are presented solely for the convenience of readers outside Japan. The rate of ¥105.69=\$1.00, the effective exchange rate prevailing as of March 31, 2004, has been used in conversion. The presentation of such amounts is not intended to imply that Japanese yen amounts have been or could have been readily translated, realized or settled in U.S. dollars at that rate or any other rate.

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation

Development Bank of Japan (“DBJ”) maintains its records and prepares its statutory financial statements in accordance with the Development Bank of Japan Law (“DBJ Law”) and the regulations thereunder and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements from the International Financial Reporting Standards. The financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and procedures generally accepted in countries and jurisdictions other than Japan.

Consolidated financial statements are not prepared because DBJ has no subsidiaries under the DBJ Law.

The amounts indicated in millions of yen are rounded down by omitting the figures less than one million yen. Accordingly, the sum of each amount appearing in the accompanying financial statements and the notes thereto may not be equal to the sum of the individual account balances.

Amounts in U.S. dollars are presented solely for the convenience of readers outside Japan. The rate of ¥105.69=\$1.00, the effective exchange rate prevailing as of March 31, 2004, has been used in conversion. The presentation of such amounts is not intended to imply that Japanese yen amounts have been or could have been readily translated, realized or settled in U.S. dollars at that rate or any other rate.

## 2. Summary of Significant Accounting Policies

### (a) Securities

Securities are stated at cost, which is determined by the moving average method.

Under the DBJ Law, DBJ cannot invest surplus funds except in Japanese Government Bonds or other bonds permitted by the DBJ Law, or in deposits at the Fiscal Loan Fund, Bank of Japan or the financial institutions specified by the Minister of Finance.

### (b) Derivatives

Derivative transactions are not recorded on the non-consolidated balance sheets. Income and expenses from derivative transactions are recognized in the non-consolidated statements of earnings on a cash basis.

### (c) Translation of accounts denominated in foreign currencies

DBJ holds foreign currency swap to hedge exchange rate risks on its loans, bonds and notes that are denominated in foreign currencies. These foreign currency swaps are not recognized in the non-consolidated balance sheets. The foreign currency denominated loans, bonds and notes that are being hedged are measured at the contract rates of the respective foreign currency swaps designated as hedging instruments.

### (d) Depreciation method for Premises and Equipment

In accordance with certain provisions set forth the Corporation Tax Law, depreciation is provided based on the declining balance method for all Premises and Equipment except for buildings and key money, which are depreciated based on the straight-line method.

### (e) Unamortized discounts on Bonds and Notes

Discounts on bonds and notes are amortized using the straight-line method over the average period of redemption in accordance with an ordinance defined by the Ministry of Finance.

### (f) Bonds and Notes issuance costs

Bonds and Notes issuance costs are recorded as expenses in the period they are incurred in accordance with a provision defined by the Ministry of Finance.

### (g) Allowance for Loan Losses

A provision for loan losses is established in accordance with the requirements set forth by the Ministry of Finance pursuant to the DBJ Law. Under the provision, the allowance for loan losses is limited to 0.3% of loans outstanding at end of each fiscal year.

### (h) Employee retirement benefits

In accordance with the DBJ Law and regulations thereunder, employee retirement benefits to employees (including payment to employees reaching retirement age) are included in DBJ’s budget of revenues and expenditures on the basis of anticipated payments to be made during the relevant year and are included in “Salaries and related expenses” in the non-consolidated statements of earnings when paid.

### (i) Income taxes

DBJ is exempt from taxes based on income, however DBJ is subject to parity taxes of the inhabitants’ taxes among local taxes.

(j) **Appropriation of net earnings**

In accordance with provisions of the DBJ Law and a related law, DBJ is required to set aside out of net earnings as a statutory reserve, the larger of ( i ) an amount equivalent to 20% of net earnings or ( ii ) an amount equivalent to 0.3% of loans outstanding at the end of each fiscal year (if this amount is in excess of the amount of net earnings for the year, then the amount of such net earnings). The reserve provided may only be used to cover net losses. The balance of net earnings remaining each year, after providing for this reserve, is to be paid to the National Treasury by May31 of the following fiscal year. Interim payments are provided for under the Cabinet Order.

Since none of the amounts of net earnings for the fiscal years ended March 31, 2004 and 2003 were in excess of such required amounts, the payment to National Treasury was not made.

(k) **Consumption tax**

Income and expense subject to consumption tax include related consumption taxes paid or received.

### 3. Cash and Due from banks

Cash and Due from banks as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash	¥ 2	¥ 2	\$ 23
Due from banks	19,204	38,207	181,706
	¥ 19,206	¥ 38,209	\$ 181,729

### 4. Securities

Securities as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Japanese Government Bonds	¥ 248,586	¥ 396,633	\$ 2,352,039
Corporate Bonds	69,310	69,081	655,790
Other securities	10,020	10,020	94,812
	¥ 327,918	¥ 475,734	\$ 3,102,641

### 5. Loans

Loans as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Yen loans	¥ 14,733,869	¥ 15,667,815	\$ 139,406,462
Direct loans	14,732,453	15,665,055	139,393,067
Agency loans	1,415	2,760	13,395
Foreign currency loans	107,012	122,207	1,012,514
	¥ 14,840,881	¥ 15,790,022	\$ 140,418,976

Pursuant to the DBJ Law and regulations thereunder, loans in arrears are defined as the loans for which the principal payments are overdue by six months or more. This categorization is different from the categorization of non-performing loans as defined under the Banking Law and the Financial Revitalization Law. The amounts of the loans in arrears included in “Loans” on the non-consolidated balance sheets as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loan past-due for six months or more as to principal payments	¥ 95,466	¥ 168,593	\$ 903,272
	¥ 95,466	¥ 168,593	\$ 903,272

## 6. Premises and Equipment

Premises and Equipment as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Premises and Equipment for Business	¥ 56,888	¥ 57,054	\$ 538,254
Construction in progress	141	263	1,338
	¥ 57,029	¥ 57,317	\$ 539,592
Less- Accumulated Depreciation	(19,101)	(18,777)	(180,729)
Net Book Value	¥ 37,928	¥ 38,539	\$ 358,863

## 7. Accrued Income Receivable

Accrued Income Receivable as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Accrued Interest on Loans	¥ 68,051	¥ 74,216	\$ 643,883
Accrued Interest on Securities	835	1,010	7,906
Accrued Guarantee Fees	10	15	99
	¥ 68,898	¥ 75,241	\$ 651,888

## 8. Other Assets

Other Assets as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Suspense payments	¥ 95	¥ 270	\$ 902
Guarantee deposits	384	382	3,636
Others	53	133	508
	¥ 533	¥ 786	\$ 5,046

## 9. Long-term Borrowings

DBJ borrows funds from the Japanese Government in order to meet funding requirements for the conduct of operations specified in the DBJ Law. DBJ also accepts other funds received from government sources in order to apply them to the sources of funds necessary to financially contribute to a particular government policy with respect to the operations provided in the DBJ Law, as provided in the Cabinet Order. Long-term Borrowings as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Fiscal Loan Fund	¥ 10,755,891	¥ 11,881,686	\$ 101,768,301
Reserve Funds of the Postal Life Insurance			
Special Account	219,838	301,936	2,080,026
Industrial Investment Special Account	402,869	452,363	3,811,804
Funds entrusted	24,851	28,038	235,132
	¥ 11,403,450	¥ 12,664,024	\$ 107,895,263

## 10. Accrued Expenses Payable

Accrued Expenses Payable as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Accrued interest on Bonds and Notes	¥ 7,204	¥ 9,662	\$ 68,169
Accrued interest on Long-term Borrowings	43,918	54,868	415,541
Other accrued expenses	2	5	27
	¥ 51,126	¥ 64,536	\$ 483,737

## 11. Other Liabilities

Other Liabilities as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loan Redemption	¥ 6,038	¥ 10,075	\$ 57,134
Suspense receipts	2,845	2,276	26,926
Unearned income	31,714	49,826	300,068
Others	128	74	1,214
	¥ 40,726	¥ 62,252	\$ 385,342

## 12. Capital

The Japanese Government is the sole owner of the equity interest, which is not evidenced by documents such as stock certificates, but is evidenced at the Registration Office of the Legal Affairs Bureau of Japan.

### 13. Fees and Commissions (Income)

Fees and Commissions (Income) for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Commissions received	¥ 2,257	¥ 1,200	\$ 21,355
Guarantee Fees	582	505	5,513
	¥ 2,839	¥ 1,705	\$ 26,868

### 14. Others (Income)

Others (Income) for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Collection of written-off claims	¥ 71	¥ 40	\$ 676
Income from Equity Investments	27	1	260
Others	4,105	1,832	38,849
	¥ 4,204	¥ 1,874	\$ 39,785

\* "Others" in the above table includes "income from credit derivative transactions" which amounts to ¥ 2,846 million (\$26,932 thousand) and ¥ 1,265 million for the fiscal years ended March 31, 2004 and 2003, respectively.

### 15. Fees and Commissions (Expenses)

Fees and Commissions (Expenses) for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Commissions paid	¥ 16	¥ 28	\$ 159
	¥ 16	¥ 28	\$ 159

## 16. Write-off of Claims

DBJ writes-off loans past-due, equity investments and securities declined in value drastically, only after exhausting all available remedies including realization on any collateral and disposal by sale of claims. Write-offs are recorded at fiscal year end only with the approval of the Minister of Finance. The amounts of Loans, Equity Investments and Securities written off for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Securities written off	¥ 30	¥ —	\$ 284
Loans written off	57,194	57,912	541,150
Equity Investments written off	4,279	700	40,489
	¥ 61,503	¥ 58,612	\$ 581,923

## 17. Others (Expenses)

Others (Expenses) for the fiscal years ended March 31, 2004 and 2003 are as follows:

For the Fiscal Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Amortization of Discount on Bonds and Notes	¥ 337	¥ 391	\$ 3,197
Bonds and Notes issuance cost	1,201	1,518	11,367
Others	4,102	3,030	38,817
	¥ 5,641	¥ 4,939	\$ 53,381

\* "Others" in the above table includes "expense from credit derivative transactions" which amounts to ¥ 2,484 million (\$ 23,509 thousand) and ¥ 1,089 million for the fiscal year ended March 31, 2004 and 2003, respectively.

## 18. Credit Derivative Transactions

DBJ utilizes credit default swap as part of its "Acceptances and Guarantees on Customers' Debts" business within the limit of a certain definite amount of risk. Contract value as of March 31, 2004 and 2003 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Sold	¥ 2,129,857	¥ 2,241,169	\$ 20,151,928
Bought	¥ 2,113,457	¥ 2,224,769	\$ 19,996,757



## TRENDS IN CAPITAL

(Millions of yen)

Date	Capital		Application
	Increase (decrease)	Balance	
October 1999 to March 2000	110,900	976,286	Loans from the government
April 2000 to March 2001	63,100	1,039,386	Loans from the government
April 2001 to March 2002	82,900	1,122,286	Loans from the government
April 2002 to March 2003	60,000	1,182,286	Loans from the government
April 2003 to March 2004	12,000	1,194,286	Loans from the government

### (Reference)

#### Trends in capital of the Japan Development Bank

(Millions of yen)

Date	Capital		Application
	Increase (decrease)	Balance	
April 1996 to March 1997	9,000	332,275	Loans from the government
April 1997 to March 1998	9,500	341,775	Loans from the government
April 1998 to March 1999	347,850	689,625	Loans from the government
April 1999 to September 1999	9,500	699,125	Loans from the government

#### Trends in capital of Hokkaido-Tohoku Development Finance Public Corporation

(Millions of yen)

Date	Capital		Application
	Increase (decrease)	Balance	
April 1996 to March 1997	4,000	71,061	Loans from the government
April 1997 to March 1998	4,000	75,061	Loans from the government
April 1998 to March 1999	59,000	134,061	Loans from the government
April 1999 to September 1999	32,200	166,261	Loans from the government

## BOARD OF DIRECTORS (as of July 15, 2004)



Sumihito Okawa      Takeshi Komura      Kimio Yamaguchi

Governor  
**Takeshi Komura**

Deputy Governor  
**Kimio Yamaguchi**

Senior Executive Director  
**Kozo Isshiki**

Senior Executive Director  
**Hiroaki Ito**

Senior Executive Director  
**Takashi Ando**

Senior Executive Director  
**Kozo Oikawa**

Senior Executive Director  
**Kenichi Fukaya**

Senior Executive Director  
**Keimei Kaizuka**

Auditor  
**Hiroyuki Hoshi**

Deputy Governor  
**Sumihito Okawa**

Senior Executive Director  
**Fumio Inui**

Senior Executive Director  
**Mikio Araki**

Senior Executive Director  
**Fumiyuki Kashima**

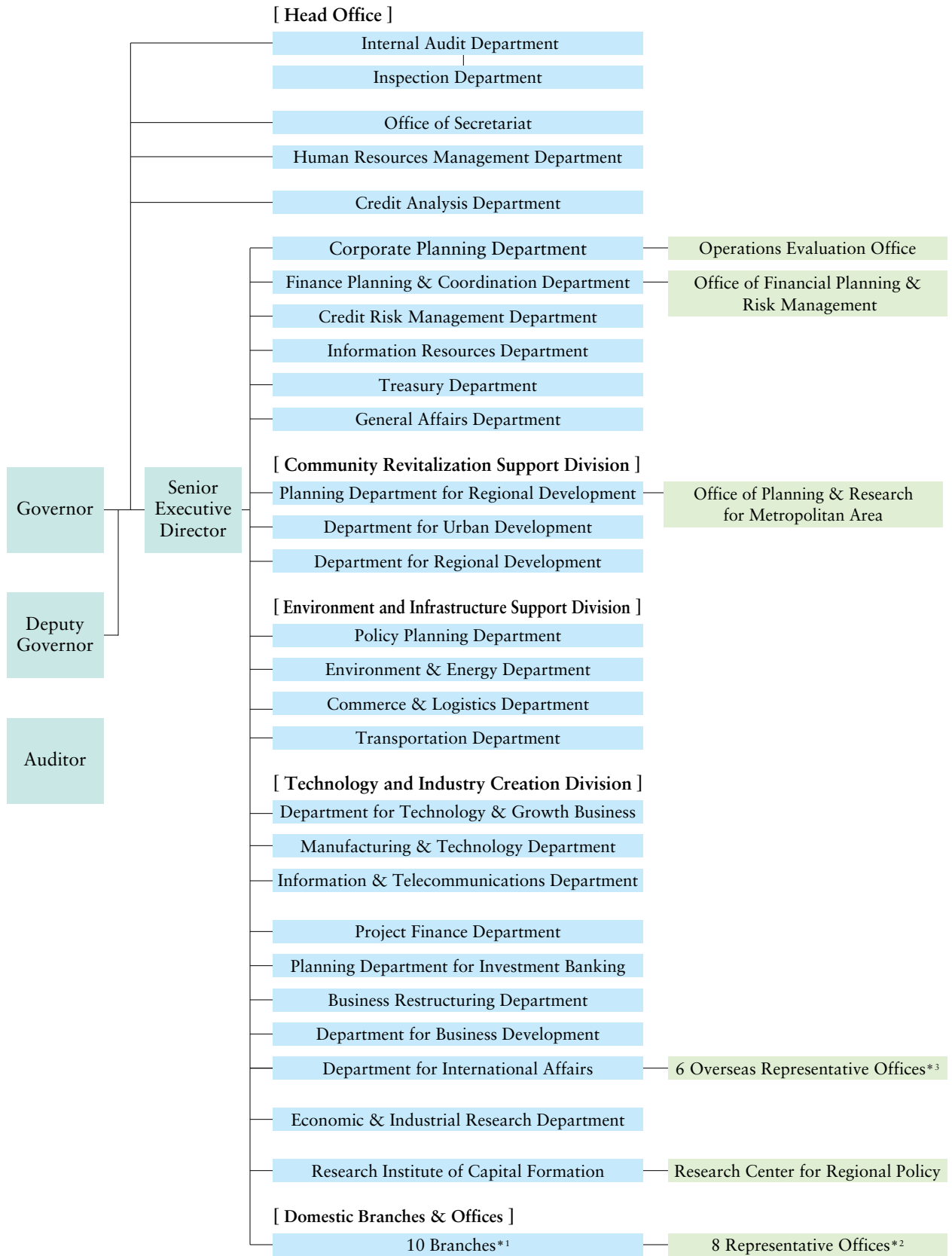
Senior Executive Director  
**Keiji Taga**

Senior Executive Director  
**Fumio Matsubara**

Senior Executive Director  
**Toshiharu Kitamura**

Auditor  
**Shigeru Kobayashi**

# ORGANIZATION CHART (as of April 1, 2004)

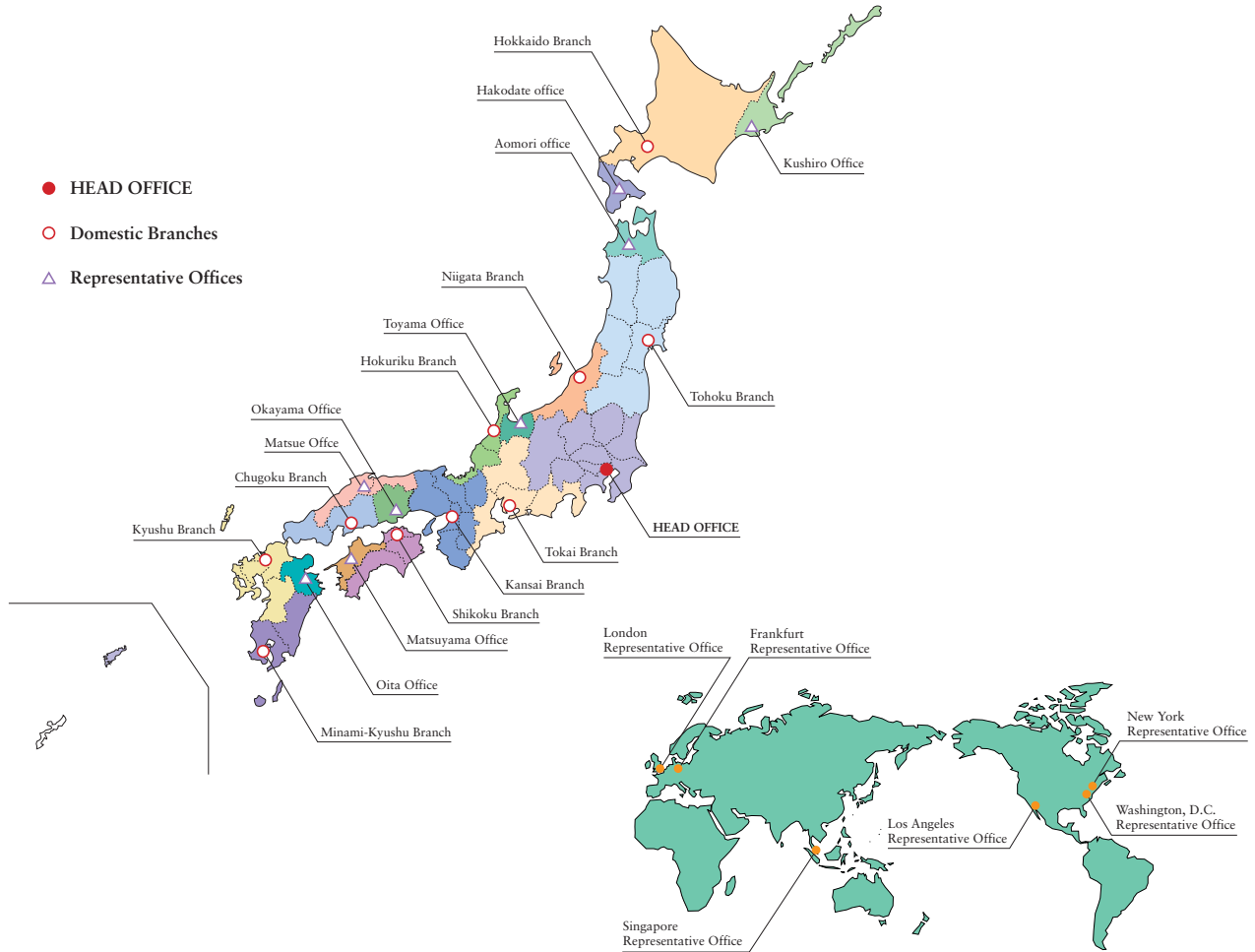


\*1 Branches : Hokkaido Tohoku Niigata Hokuriku Tokai Kansai Chugoku Shikoku Kyushu Minami-Kyushu

\*2 Representative Offices : Hakodate Kushiro Aomori Toyama Matsue Okayama Matsuyama Oita

\*3 Overseas Representative Offices : Washington, D.C. New York Los Angeles London Frankfurt Singapore

# Location of Head and Branch Offices and Directory



## Head Office

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Tokyo 100-0004, Japan  
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<http://www.dbj/go.jp/english/index.html>



## Overseas Representative Offices

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