

# Contributing to the Future of Japan

DBJ provides both financial and knowledge-based solutions to support development that will make life brighter and more rewarding for today's citizens and their children.

## Community Development

Contributing to the revitalization of local economies by joining regions in supporting solutions that draw on the advantages of each area



## Environmental Conservation and Sustainable Societies

Helping to realize a sustainable, safe and secure society by supporting businesses that are committed to social responsibility



## Creation of New Technologies and Industries

Stimulating the Japanese economy by utilizing knowledge and innovative financial methods to create new industries that will be the source of future prosperity

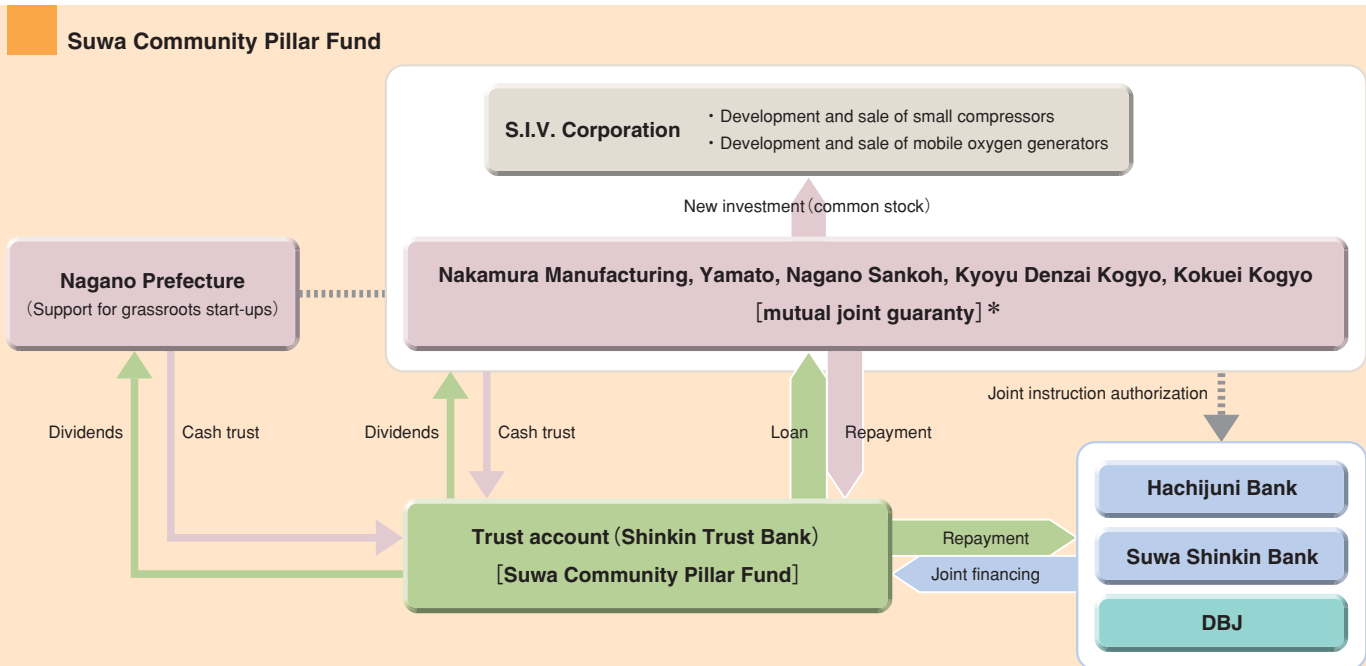


# Aid for joint development efforts by local companies

## Suwa Community Pillar Fund

DBJ has created an independent financing scheme called the Suwa Community Pillar Fund in cooperation with the Shinkin Trust Bank, Ltd., local government bodies and other financial institutions. The Fund's goal is to support joint development projects carried out by small and medium-sized enterprises based in Nagano Prefecture's Suwa region, which has built up an expertise in precision machinery. This scheme supports the initiative of small and medium-sized companies which pool their technologies to develop and commercialize new products. To make the most of Nagano Prefecture's support system, a joint fund (trust) was structured in collaboration with the S.I.V.

Corporation, a venture capital firm that invests in local companies; five major shareholding companies; and Nagano Prefecture. Hachijuni Bank, Ltd., Suwa Shinkin Bank and DBJ provided financing for the fund's principal. This platform eased the difficulties that companies had been facing in developing new products and entering new markets on their own. DBJ will continue to encourage the independent development of local economies through joint development projects by local companies.



\* Having the five relevant companies adopt partial joint guaranties clarifies the risk exposure of those involved and facilitates the smooth supply of funds.



# Support for business based on a community development plan

## Product development and production through the affiliation of Sakai Ovex Co., Ltd., with academia, business and government

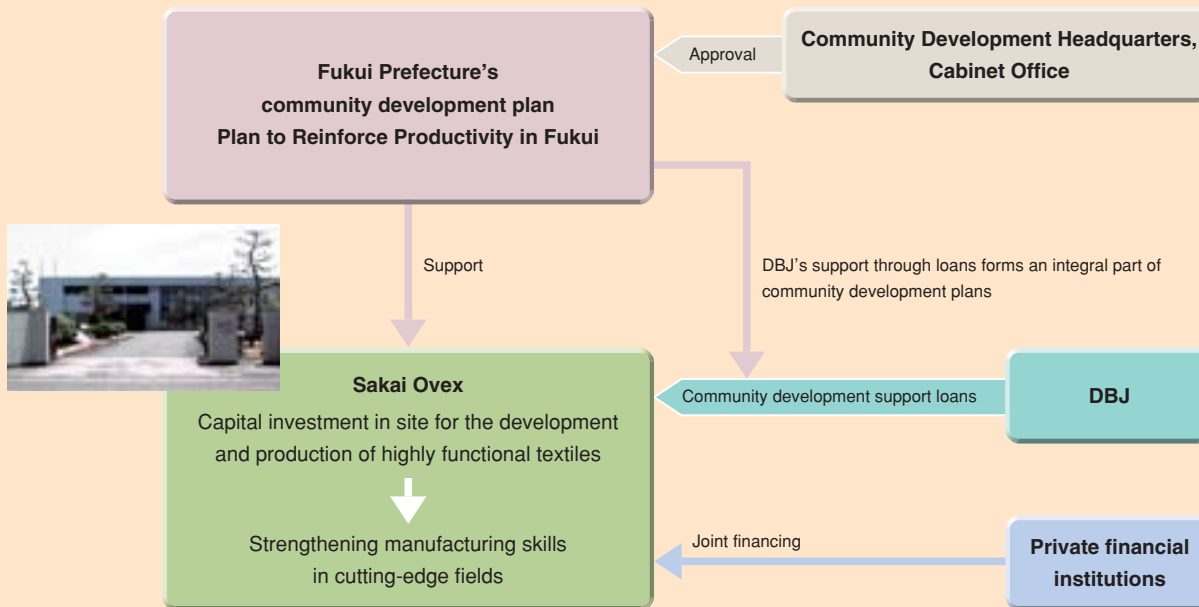
In accordance with Fukui Prefecture’s Plan to Reinforce Productivity in Fukui, DBJ adopted a community development support system to provide loans for the establishment of Sakai Ovex’s new site for the development and production of highly functional textiles, such as carbon fibers. Sakai Ovex is capitalizing on its strong technical skills in dye processing to promote collaborative R&D by industry, government and academia in a variety of fields. Entities taking part include the Industrial Technology Center of Fukui Prefecture, the University of Fukui and the Japan Science and Technology Agency. The capital investment is intended to result in the development and

production of new products based on cutting-edge technology devised in this partnership and to reinforce Fukui Prefecture’s competitiveness in the industry.

DBJ will continue to work with local public bodies in establishing community development plans. Investment and loans to businesses conforming with the intent of these plans is expected to encourage the spread of such community development projects throughout the nation.



### Loans for Community Development Support



### Progress in community development

To promote further community development, DBJ is using its “Program to Encourage Community Development,” which systemizes the methods it has developed for supporting community projects, to provide comprehensive support from framing through operation. As part of this process, DBJ plays an active role in community development plans approved by the Community Development Headquarters. These services include:

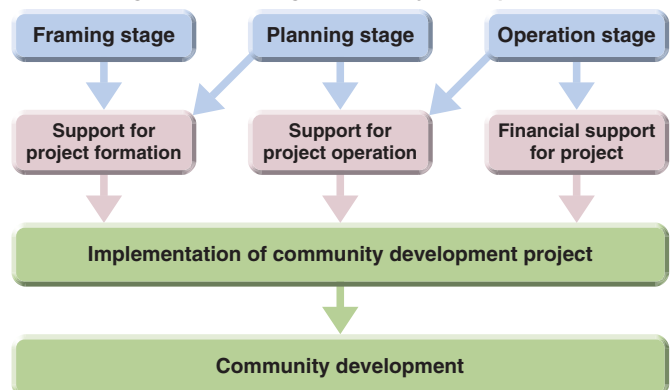
#### 1. Advice on project formation and operation

DBJ provides advice on business plans, cash flow plans and fundraising plans to projects consistent with approved plans that include the Bank’s support measures.

#### 2. Fund support

DBJ provides financial support to the aforementioned projects.

#### DBJ’s Program to Encourage Community Development



# Creation of business revitalization fund

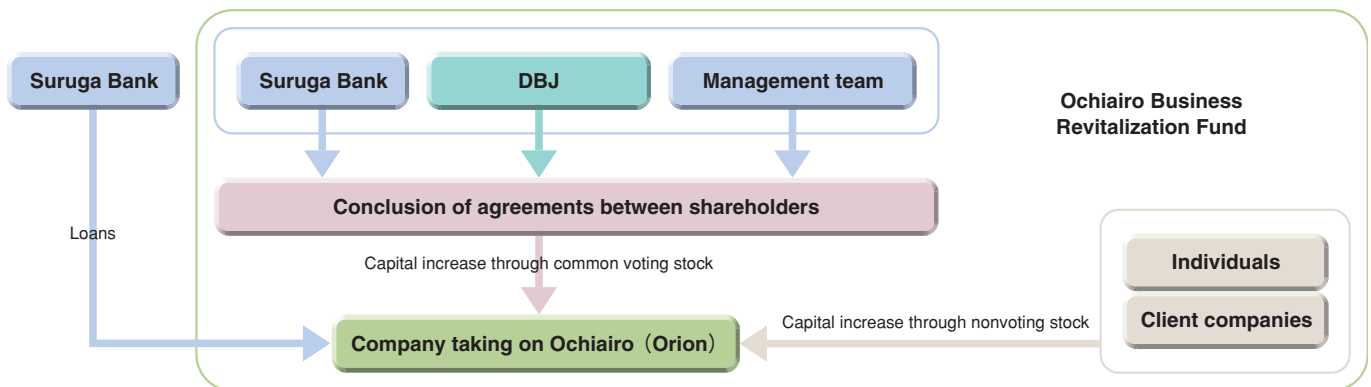
## Revitalization of long-established Ochiairo inn

In cooperation with Suruga Bank Ltd., DBJ established the Ochiairo Business Revitalization Fund to provide support for the renewal of Ochiairo, a Japanese-style inn of long standing in Izu Amagi Yugashima. Ochiairo filed to begin civil rehabilitation procedures in May 2002, aiming to renew its business by transferring it to Orion Corporation. The Ochiairo Business Revitalization Fund undertook Orion’s allocation of new shares to a third party in September 2003. DBJ became a shareholder in the company, providing advice and monitoring operations by

using shareholder agreements, with the goal of rejuvenating Ochiairo and improving corporate value. This old and long-established inn has a large impact on the local economy and its revitalization will go far in energizing the region. In order to facilitate smooth business reconstruction in Japan, DBJ will continue using DIP finance and reconstruction fund schemes to provide funds to businesses that have the potential to revitalize their local communities, and will continue to work with local banks toward the same goal.



■ Ochiairo Business Revitalization Fund

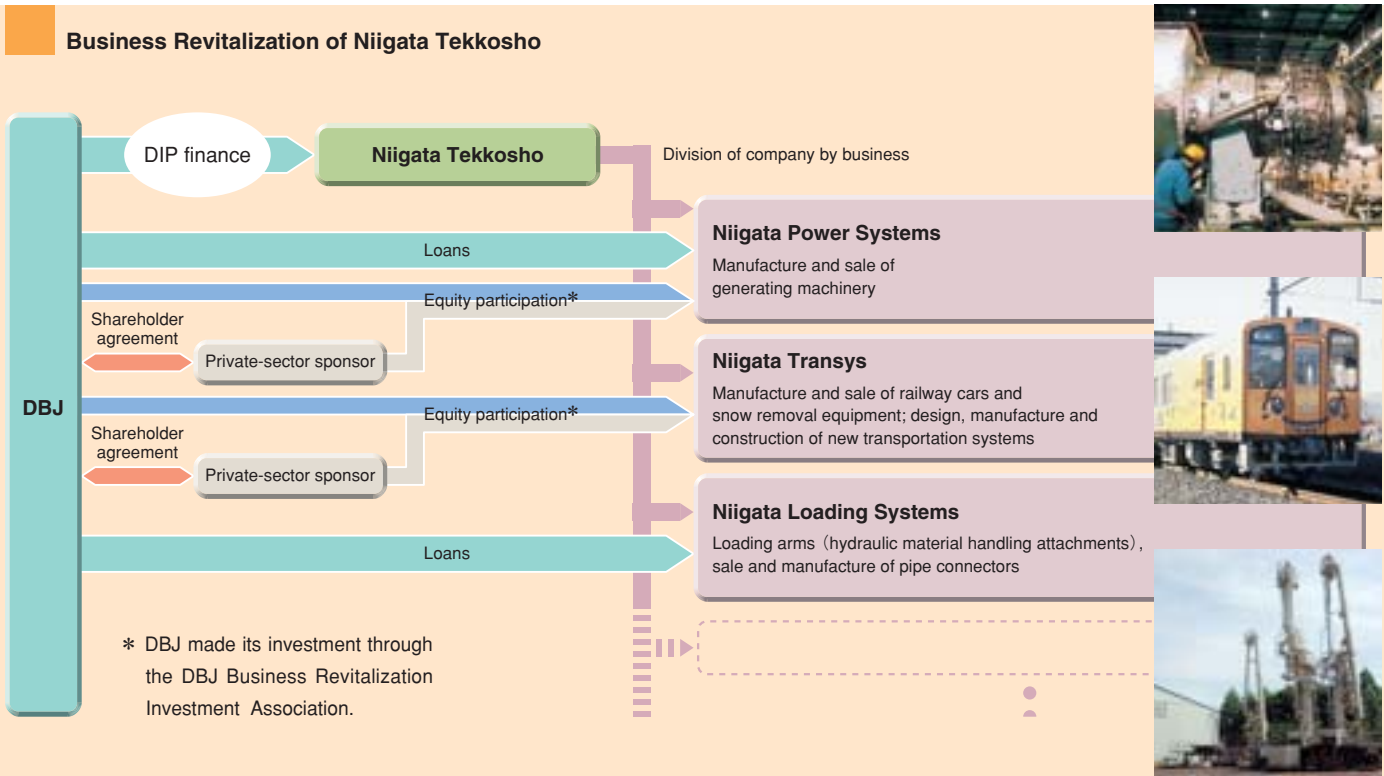


# Business revitalization for local companies

## Business revitalization of Niigata Tekkosho Co., Ltd.

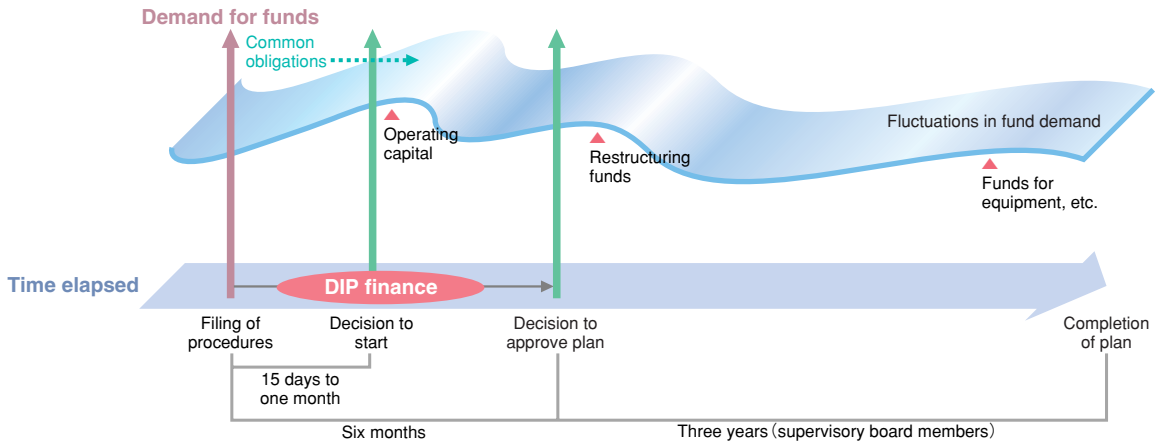
Comprehensive support measures like those used here are important means of revitalizing local economies. DBJ used the methods of DIP finance, M&A and business revitalization funds to support the business revitalization efforts of Niigata Tekkosho, which had filed for corporate reorganization. Since one of the company's business divisions was generating cash flow, DBJ provided DIP financing to maintain the company's business value while it was being reorganized. Subsequently, the administrator found companies to sponsor almost all of the

business divisions, and as a result of these efforts the Tokyo District Court approved the reorganization plan. DBJ supported the reorganization of some of these business divisions (new companies) with equity participation (the conclusion of shareholder agreements with private-sector sponsors) and endeavored to sustain technology and employment at these local companies. This project serves as a model for business reorganization in Japan.



### Schematic Diagram of DIP Finance

\* Time elapsed pertains only to cases in which a petition has been made for civil rehabilitation.



# Efforts to enhance functions of community-oriented financing

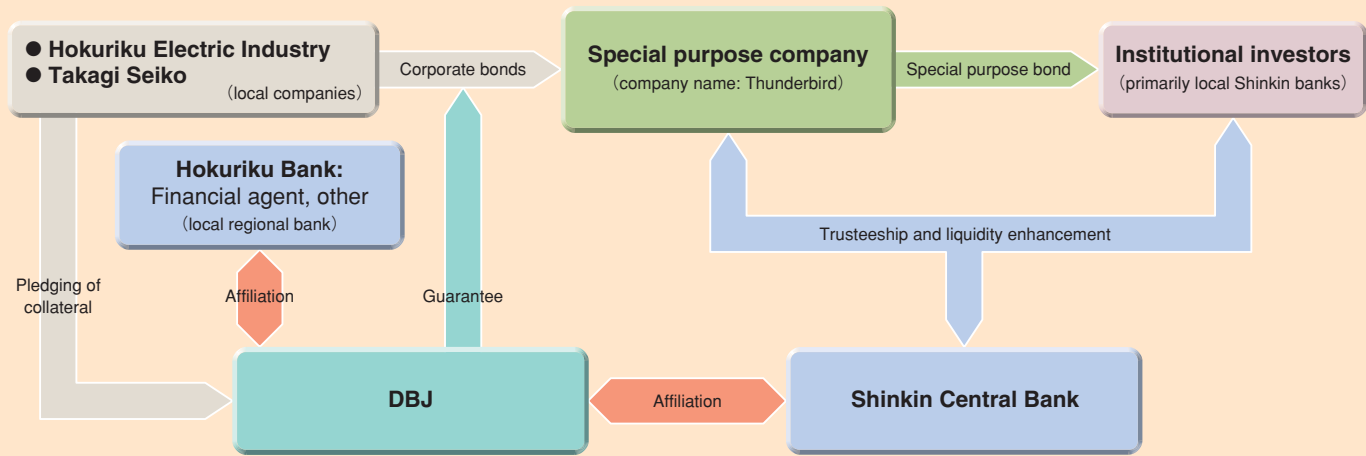
## Sophistication of local financial functions

DBJ has coordinated and collaborated with local banks to provide financial support for diverse initiatives in regions throughout Japan. In March 2003, the Financial Services Agency issued its Action Program concerning Enhancement of Relationship Banking Functions, followed in March 2005 by its Action Program for Ensuring Further Promotion of Region-based Relationship Banking. In these programs the agency called on local banks to strengthen their region-based relationship banking\* services as well as their ties to government-affiliated financial institutions such as DBJ. In light of this call to action, DBJ has established liaison conferences with regional financial institutions and

concluded agreements for cooperative operations (93 as of the end of June 2005). DBJ uses its accumulated knowledge to bring a greater sophistication to local financial services and works with regional financial institutions to provide the capital and information so essential to community development.

**\* Principles of region-based relationship banking**  
Utilizing information gained from long-standing client relationships and a high standard of communication that includes face-to-face discussions, financial institutions accurately assess the business status of their corporate borrowers. This strengthens their role as mediators for small and medium-sized companies and improves the revenue of the financial institutions themselves (from the FSA's promotion plan for region-based relationship banking, *the Action Program Concerning Enhancement of Relationship Banking Functions*, March 2005).

### Case Study: Support for Corporate Bond Issues by Local Companies



As part of its efforts to enhance the promotion of region-based relationship banking, DBJ worked with Shinkin Central Bank and Hokuriku Bank, Ltd., to devise a new scheme for the issuance of corporate bonds by local companies. The scheme was used for corporate bonds issued by Hokuriku Electric Industry Co., Ltd., an electronic component manufacturer with its headquarters in Toyama City, Toyama Prefecture, and Takagi Seiko Co., Ltd., a plastic component manufacturer based in Takaoka City, Toyama Prefecture. Under this scheme, DBJ guarantees the redemption of the corporate bonds issued by these companies. A newly established special purpose company, Thunderbird, buys up the

corporate bonds, which are then used as underlying assets when the special purpose company issues new bonds. The bonds are entrusted to the Shinkin Central Bank for sale primarily to local Shinkin banks (credit associations). The money to purchase these corporate bonds comes primarily from local deposits held by local Shinkin banks, resulting in capital generated by goods that are produced and consumed locally. DBJ believes that similar schemes will ensure the self-sustaining development of local economies.

# Advice on local M&A

## Yasufuku Rubber Industries Co., Ltd.

DBJ worked with San-in Godo Bank Ltd. in an advisory capacity to provide assistance for the purchase of Marusei Rubber Industries Co., Ltd., a subsidiary of Fuji Kiko Co., Ltd., by Yasufuku Rubber Industries Co., Ltd., a manufacturer of industrial rubber and plastic products.

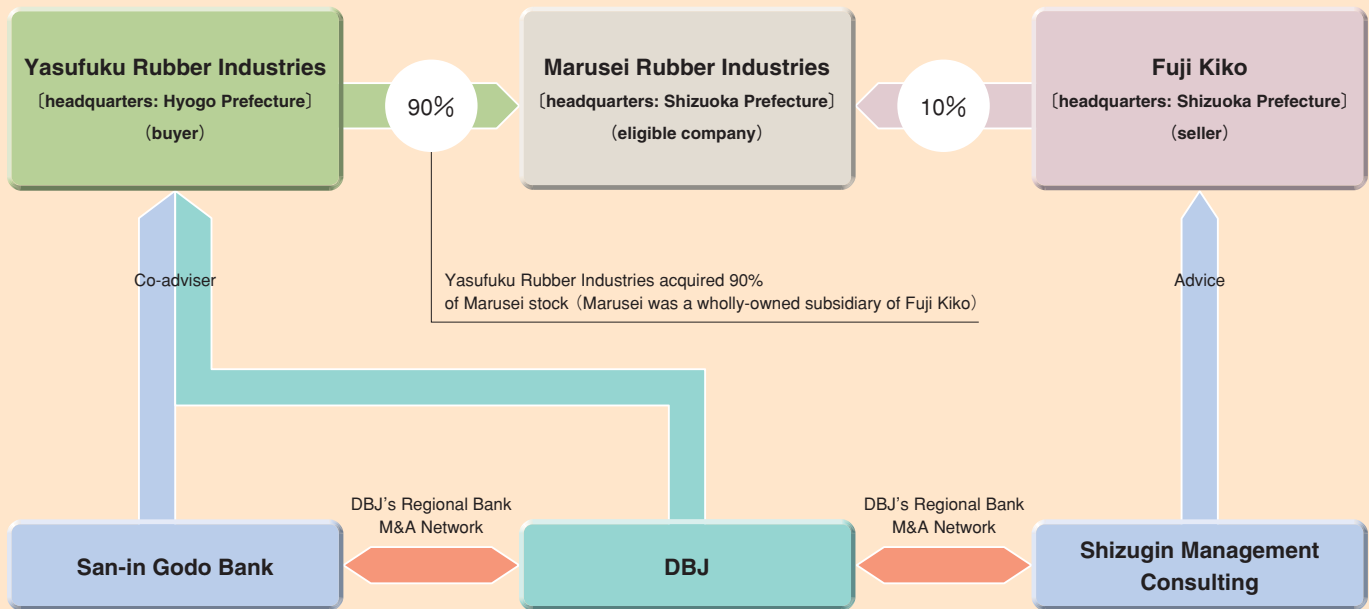
In this case, the seller, Fuji Kiko, wanted to split off its non-core business, and the buyer, Yasufuku Rubber Industries, wanted to enhance its competitiveness by obtaining manufacturing bases, enlarging its market area and utilizing its business expertise. This

M&A was undertaken in an effort to reconstruct these businesses and develop the community.

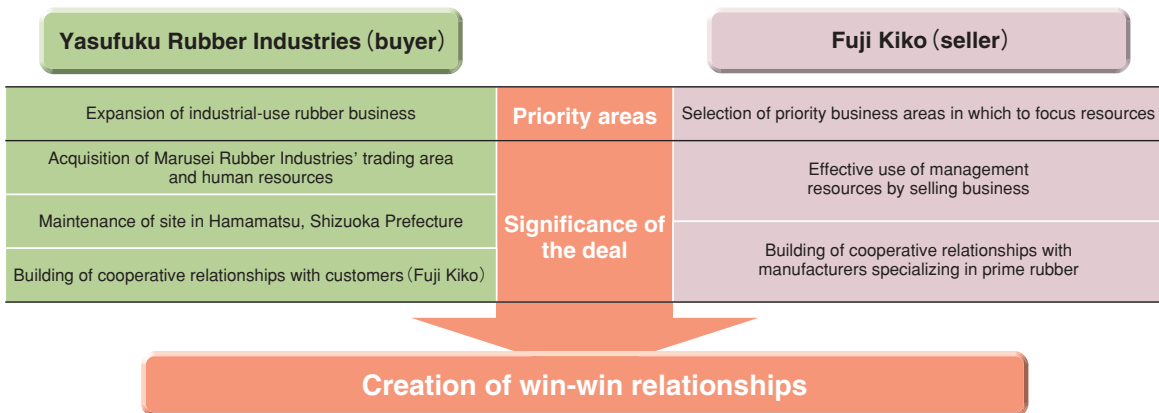
DBJ's Regional Bank M&A Network, used in regions in which corporate information is unevenly distributed and specialized services are inadequate, is particularly effective in projects, like this one, which extend across several regions.

DBJ plans to use similar projects to enhance the region-based relationship banking functions of local financial institutions and to promote wider access to its own expertise.

### Yasufuku Rubber Industries' Acquisition of Marusei Rubber Industries



### Background of Project Formation and Significance (Schematic Diagram)



# New efforts to establish urban redevelopment funds

## MUZA Kawasaki Project

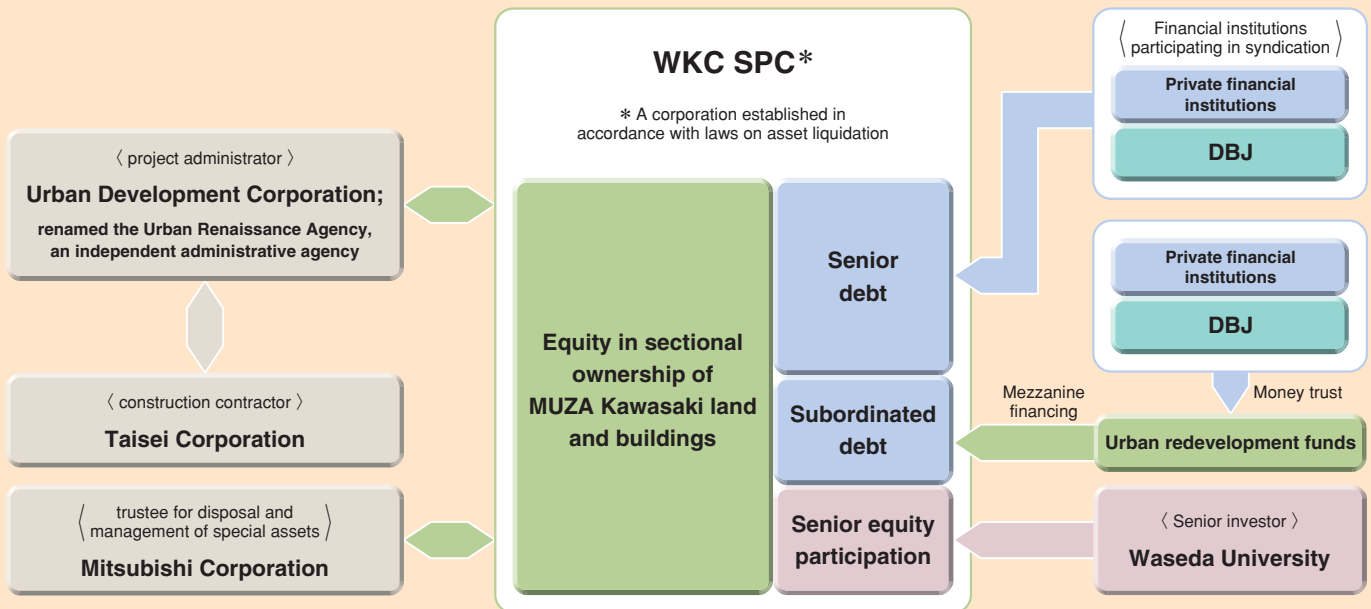
DBJ worked with Mizuho Corporate Bank, Ltd. (Mizuho CB) in arranging non-recourse refinancing\* using a special purpose company (SPC) for Muza Kawasaki Central Tower, one of several redevelopment projects at the west entrance of Kawasaki Station. Muza Kawasaki is a landmark multi-use facility that includes a central office tower and a symphony hall. In this deal, Mizuho CB handled the arrangements for the senior debt portion while DBJ established an urban redevelopment fund, invested its own funds and provided financing for the riskier subordinated debt (mezzanine) portion. Waseda University invested in the real estate securitization instrument as a new means of generating

capital for scholarships. Financing methods such as this will continue to be a part of DBJ's efforts to promote urban redevelopment projects in cooperation with private financial institutions.

### \* Non-recourse financing

The parent company does not guarantee repayment on loans provided for a particular project. Rather, financing is extended in consideration of the future cash flow and project assets that a subsidiary SPC will generate from the project.

## Urban Redevelopment Fund



## Mezzanine financing

Mezzanine financing refers to the supply of funds which have a relatively high investment risk (“middle risk funds”) and will be repaid after the senior financing typically arranged by financial institutions. The term derives from the mezzanine floor that may exist between one floor of a building and the next. The introduction of these funds reduces the project sponsor’s financial burden and makes it easier to procure senior financing. Japan’s mezzanine finance market is not as developed as those in the US and Europe, but developing this market — by creating urban redevelopment funds in cooperation with private financial institutions — would facilitate urban and community redevelopment in Japan.





# Project refinancing for PFI project

## PFI project for Ichikawa Middle School 7's Gyotoku interactive facility

DBJ used the project financing method to provide loans for Ichikawa City's PFI Project for Building Improvements, including Ichikawa Middle School 7, a Cafeteria, a Town Hall, and a Daycare Center, with UFJ Bank Ltd. and Chiba Bank Ltd. as joint lead managers.

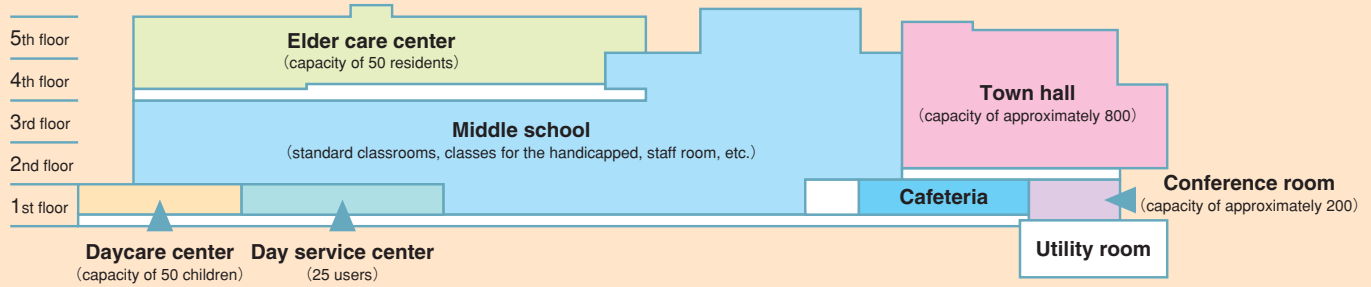
This project benefited from the ingenuity of the private sector in creating an educational environment which was accessible to the

entire community and promoted interaction among different generations. Use of the project refinancing method maximized the resourcefulness of the participants and financing groups and ensured the appropriate allocation of risk exposure, primarily in Ichikawa City.

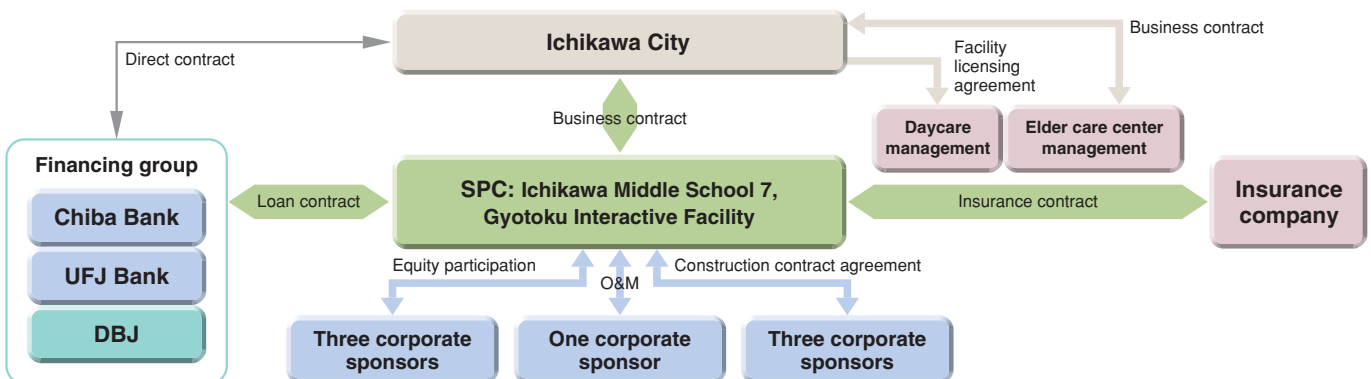
DBJ will continue to form ties with regional financial institutions in order to best meet local needs.



**PFI** This is a method that utilizes private-sector capital, management abilities and technical skills in constructing, maintaining and operating public facilities. The use of PFI reduces the business costs borne by the government and local public organizations and results in higher-quality public services.



### ■ PFI Project for Ichikawa Middle School 7, Gyotoku Interactive Facility



# Public-private partnership (PPP) initiatives

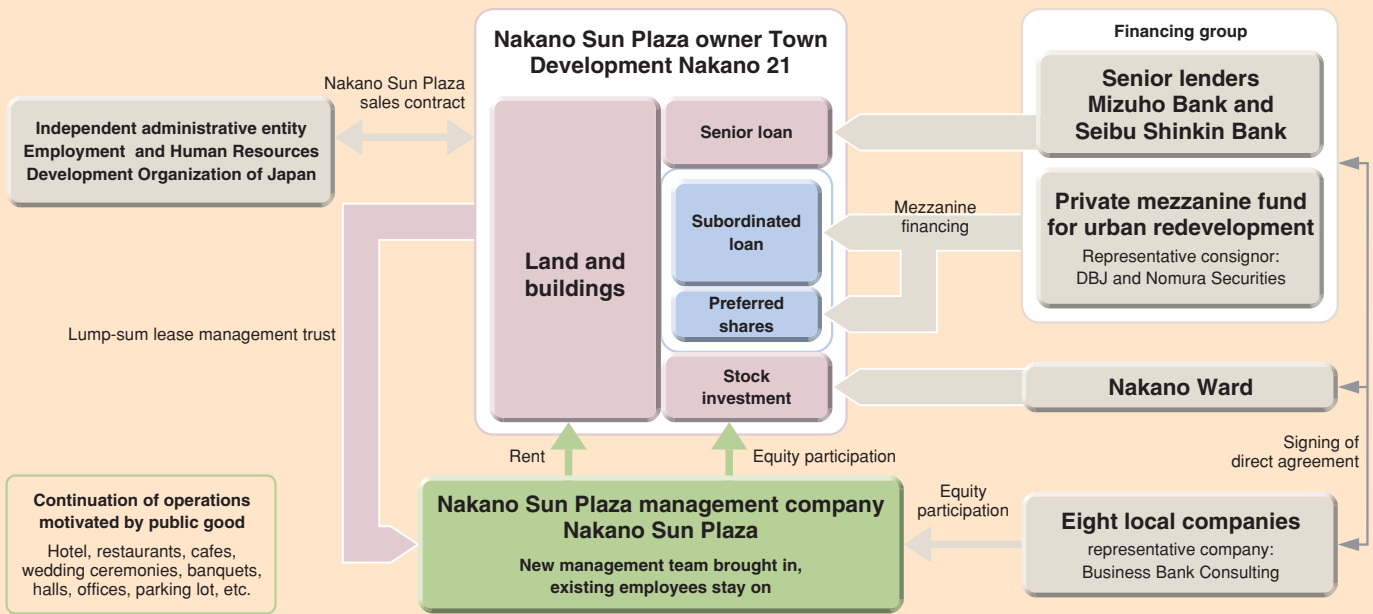
## Nakano Sun Plaza privatization financing

DBJ, Mizuho Bank and Seibu Shinkin Bank provided the financing to privatize Nakano Sun Plaza, held by the independent administrative entity Employment and Human Resources Development Organization of Japan. In this project, Town Development Nakano 21 Ltd., established by Nakano Ward and private companies, bought Nakano Sun Plaza and entrusted its overall operations to the private companies in the group while retaining public involvement. This method ensured both the

public nature and the economic efficiency of the project, one of Japan's first examples of the private-sector outsourcing of public assets (PPP project).

DBJ uses the knowledge it has accumulated to help build infrastructure from an impartial viewpoint, structures mezzanine financing and provides risk capital. With DBJ's support, PPP projects show great promise for the future.

### PPP project to finance privatization of Nakano Sun Plaza



### PPP projects

PPP (Public Private Partnership) projects use private entities to provide social overhead capital and administrative services. Public-private cooperation may take forms such as PFI, privatization and private-sector consignment.



# New model for community development using vacant rooms

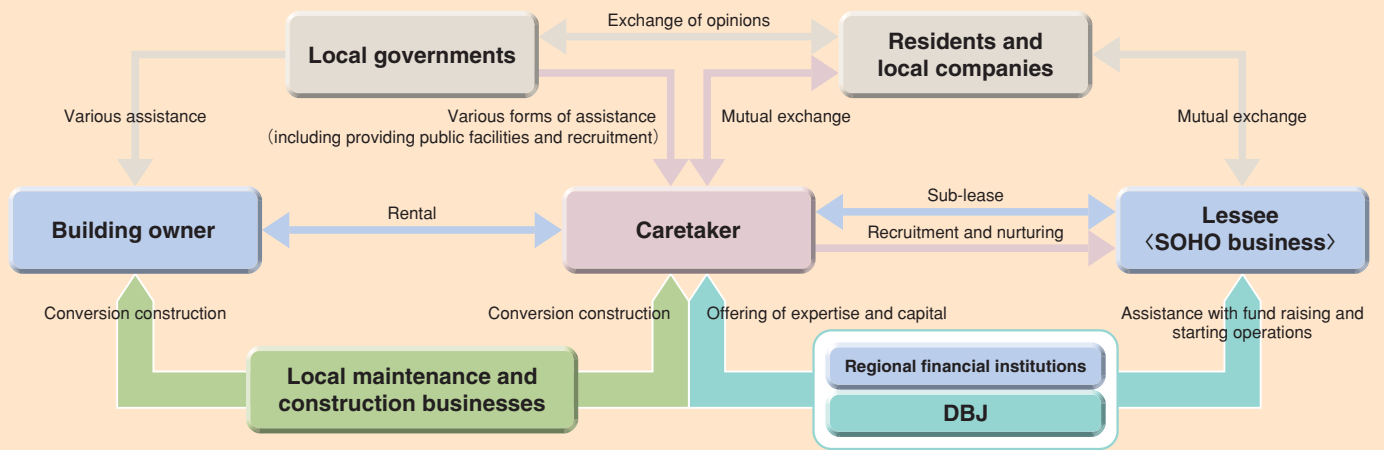
## Support for "SOHO conversions" and caretaking operations

Corporate reorganization has resulted in a growing number of vacant rooms in small and medium-sized office buildings. This is a cause for concern due to its harmful effects on the local economy and on the safety and security of the community. "SOHO conversions," in which unused space is renovated for use by start-up companies and other SOHOs\*, have been attracting considerable attention, not only for their role in supporting the establishment of new companies and revitalizing communities, but also for their ability to ease environmental burdens through the efficient use of existing office stock. Caretaking (*yamori*) operations\* play a crucial role in the

process by providing sophisticated management skills, in real estate and other areas; in recruiting lessees and assisting in establishing companies important to local industry; and in arranging the cooperative use of vacant space in multiple buildings. DBJ established the SOHO Conversion Support Center in November 2003 to provide not only capital, but also assistance with business plans, technology, sales and capital strategies. Creating safe, secure towns with vital local industries is a key factor in community development.

**\*SOHO stands for** "Small Office / Home Office."  
**\*Caretaking operations:**  
 During Japan's Edo period, caretakers (*yamori*) acted as agents for landlords, taking care of matters related to their land and houses. As the landlord's asset manager, the caretaker was responsible for choosing lessees to ensure the proper collection of rents, supporting new businesses, and all other aspects of the town's management. A present-day caretaker performs the modern version of these functions.

### Structure of Traditional Caretaking Business



### Case study of a SOHO conversion loan: Setagaya Ward Manufacturing

School (former ward-administered Ikejiri Middle School)

- This project was undertaken to restore the former Ikejiri Middle School, which had closed following its consolidation with another school. Private-sector expertise (in this case, IDEE R-project Co., Ltd.) was used to restore the school as a center for design and manufacturing.
- The IDEE R-project was established as the core of R-project, a new business that works to revitalize urban areas in cooperation with IDEE Co., Ltd., a furniture retailer, and several designers and creators. This project had many caretaking characteristics, in that the company was in charge of the entire project from its start through its operation.

- After the company consulted with the SOHO Conversion Support Center, DBJ provided it with the capital required for the conversion project after reviewing the risk and refinancing involved in the project's development.



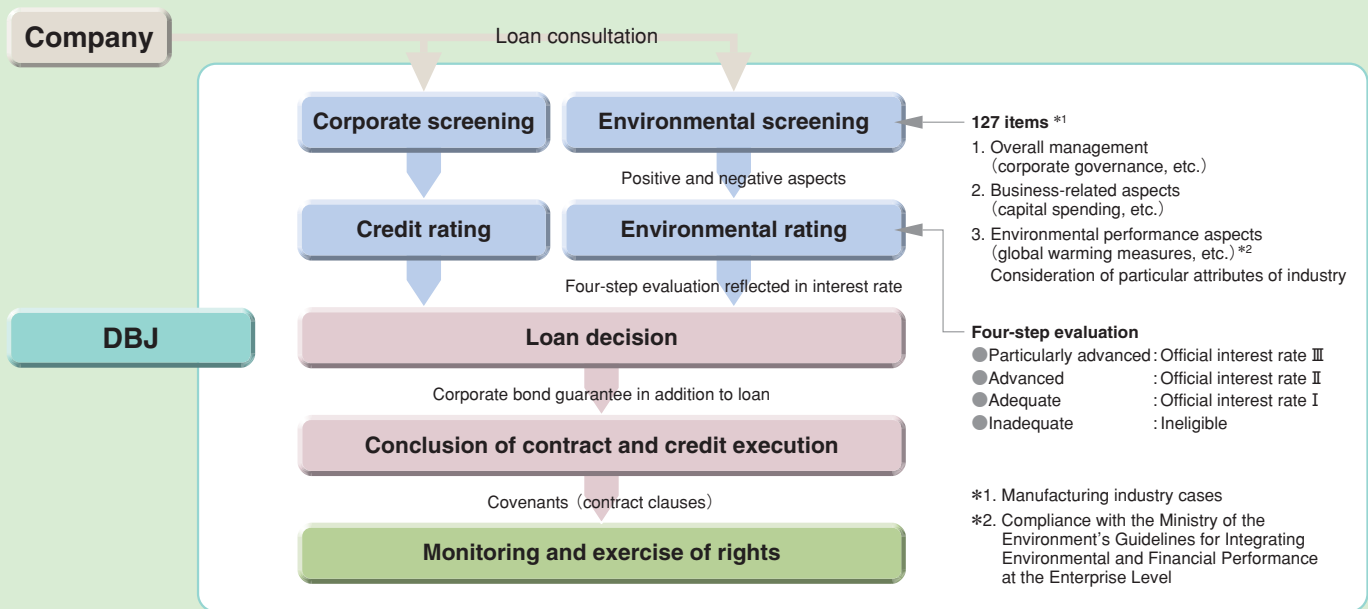
# Regional banking lease company adopts the Loan Program for Promotion of Environmentally Conscious Management

## Shigagin Lease Capital Co., Ltd.

In fiscal 2004, DBJ launched its Loan Program for Promotion of Environmentally Conscious Management, which utilizes environmental rating methods. Shigagin Lease Capital Co., Ltd., a regional banking lease company headquartered in Otsu City, Shiga Prefecture, was the first to use this program to receive loans from DBJ. Shigagin Lease Capital set up a special “Eco Clean Lease” program for use by companies which practice environmentally conscious management, as well as leases for equipment with minimal environmental impact. Some of the revenue generated by this program is donated to an

environmental conservation NPO. With its lease transactions, which function as a platform for regional financing, Shigagin Lease Capital actively supports the efforts of local small and medium-sized companies to protect the environment. A special point system (“engagement”) adopted for medium-sized companies was used in this program for the loans made to Shigagin Lease Capital. DBJ will continue to provide support for regional companies promoting environmentally conscious management.

### Schematic Diagram of Loan Program for Promotion of Environmentally Conscious Management



### Special point system (“engagement”)

DBJ evaluates aspects of overall management, such as corporate governance and compliance; business factors, such as capital spending and product and service development; and environmental performance, such as measures to address global warming and promote the efficient use of resources.

Medium-sized companies that demonstrate a strong motivation to promote environmental management by pledging to further improve their environmental performance indicators receive higher scores in the evaluation. Shigagin Lease Capital pledged to DBJ that it would actively promote Eco Leases and was thus able to take advantage of this program.

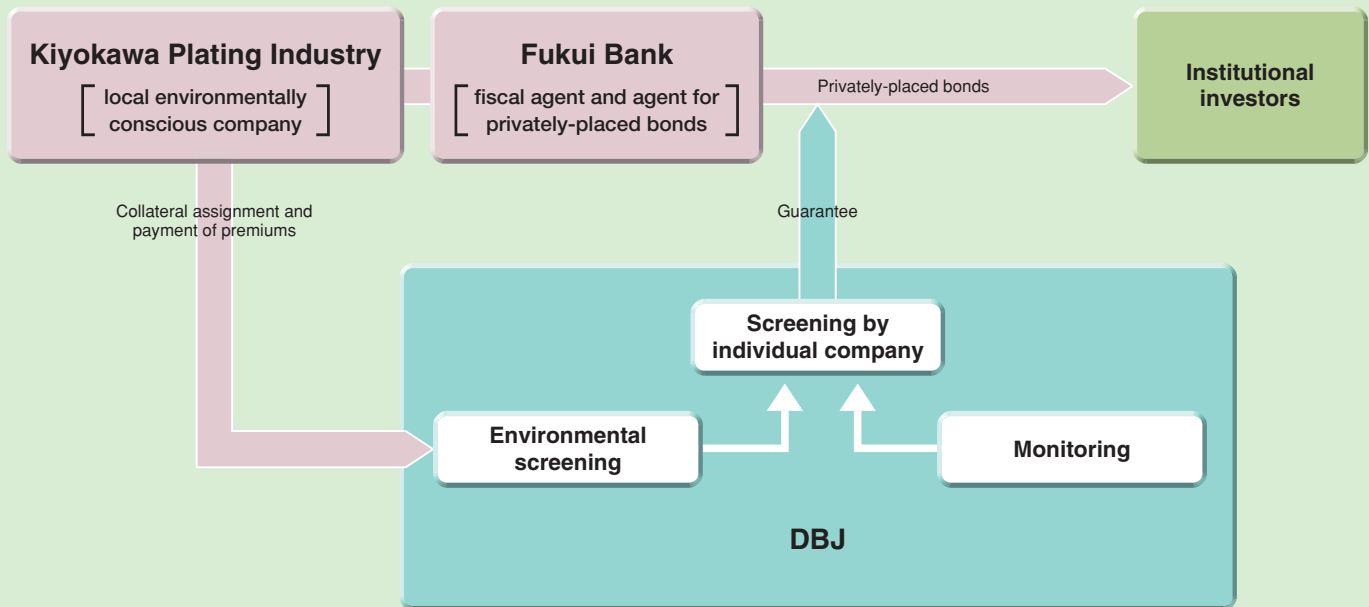
# Guarantees on privately-placed bonds through the Loan Program for Promotion of Environmentally Conscious Management

## Kiyokawa Plating Industry Co., Ltd.

DBJ used the Loan Program for Promotion of Environmentally Conscious Management to provide a 100% guarantee on privately-placed bonds (fiscal agent: Fukui Bank Ltd.) issued by Kiyokawa Plating Industry Co., Ltd., headquartered in Fukui City. Founded in 1963, Kiyokawa Plating Industry is a manufacturer of special plating. The plating industry calls for sophisticated environmental measures, and the company was one of the first in the field to acquire ISO 14001 certification and develop an original management model (Kiyokawa Management System)

suited to its corporate scale. The company boasts an impressive level of environmental efficiency, linking environmental measures directly to the pursuit of high productivity and product yield. As part of its efforts to promote community-oriented financing, DBJ concluded an operations cooperation agreement with Fukui Bank. Utilizing guarantees for privately placed bonds. DBJ will continue to collaborate with regional financial institutions in promoting environmentally conscious management.

### Guarantee of Privately-placed Bonds through the Loan Program for Promotion of Environmentally Conscious Management

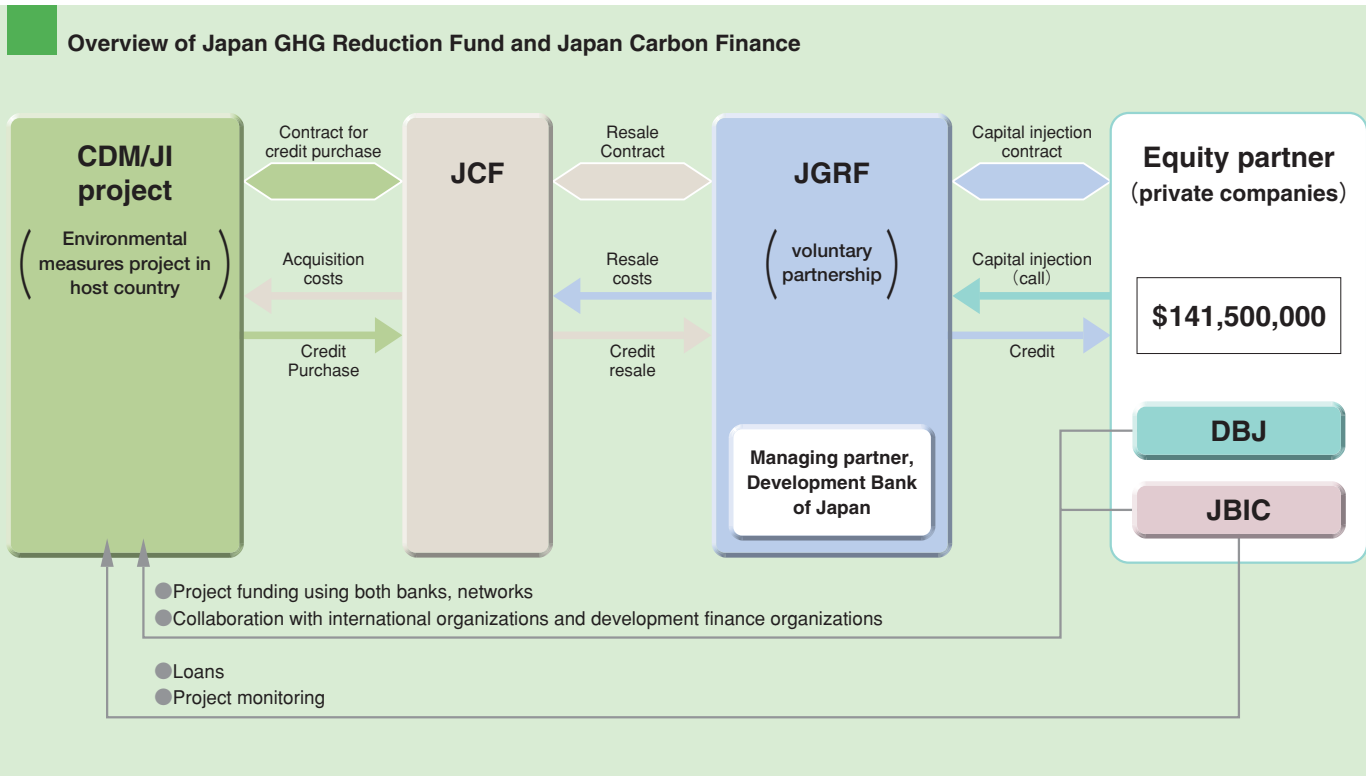


# Programs to promote global warming measures

## Establishment of Japan GHG Reduction Fund and Japan Carbon Finance Ltd.

DBJ established the Japan GHG Reduction Fund (JGRF) and Japan Carbon Finance Ltd. (JCF) with the Japan Bank for International Cooperation (JBIC) and private Japanese banks. JGRF is the first greenhouse gas reduction fund in Asia that uses the Kyoto Mechanism to purchase credits for emissions rights earned in developing nations' greenhouse gas reduction projects for distribution among the fund's investors (JCF buys the credits and sells them to JGRF). The Kyoto Protocol went into effect in February 2005. Given

Japan's limited scope for reducing greenhouse gas emissions, the Kyoto Mechanism is a cost-effective means of contributing to the sustainable development of developing countries. On the other hand, this method has many potential risks, and both the private and public sector must learn more about it and its consequences. By taking full advantage of its network of overseas development finance organizations and its expertise in environmental measures and fund operations, DBJ can play an important role in efforts to prevent global warming.



## Programs promoting global warming measures

Global warming affects the atmosphere, which is a global public asset. Resolving this problem requires a multi-faceted approach and responses that extend decades and even hundreds of years into the future. DBJ has been involved in this problem from an early stage. In 1993 it launched the Research Center on Global Warming to build a model to determine the impact that an environmental tax would have on the Japanese economy. Recently the Center has broadened the scope of

its research to cover shared social capital, including the atmosphere and other aspects of the natural environment, with the ultimate aim of creating a sustainable society. DBJ itself pursues research aimed at promoting a wide range of global warming measures.



[ Study No. 64 ]

Improving global warming measures through life cycle assessment

# Project to build a nuclear fuel cycle

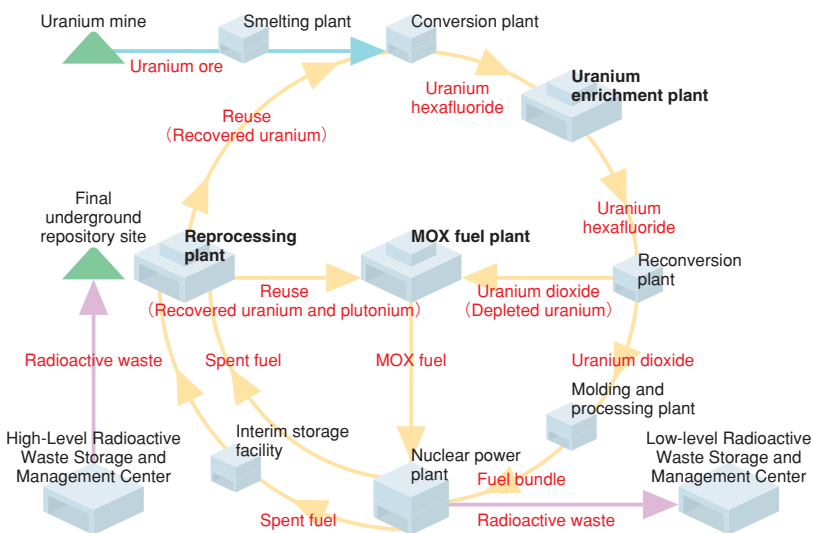
## Japan Nuclear Fuel Limited

Japan depends on other countries for the majority of its energy resources. This is particularly true of oil, which is imported predominately from specific regions. Energy conservation is important for Japan, as is the introduction of reusable energy such as wind and solar power. But energy security measures are also essential to ensure a stable supply of energy for daily life. To counteract global warming, Japan needs energy sources that emit low levels of carbon dioxide. The spent fuel storage facility of Japan Nuclear Fuel Limited is responsible for ensuring Japan's energy security and for

managing and disposing of radioactive waste during the building of a nuclear fuel cycle.

This project was carried out in a massive facility requiring stable operations, and called for large amounts of capital and a long construction period. DBJ joined private financial institutions in providing assistance through the steady supply of long-term loans.

DBJ's support will be instrumental in implementing Japan's energy security measures for the future.



### DBJ addresses energy security measures (main loans for related projects)

#### Resource development and maintenance of supply functions

Offshore extraction of oil and natural gas, development of oil and LPG storage functions

#### Nuclear power development

Nuclear power generation facilities, spent nuclear fuel reprocessing plant

#### Global environmental measures

Thermal, wind, solar power generation facilities; fuel cell facilities; biomass energy facilities; liquid gas generation sites; promotion of natural gas

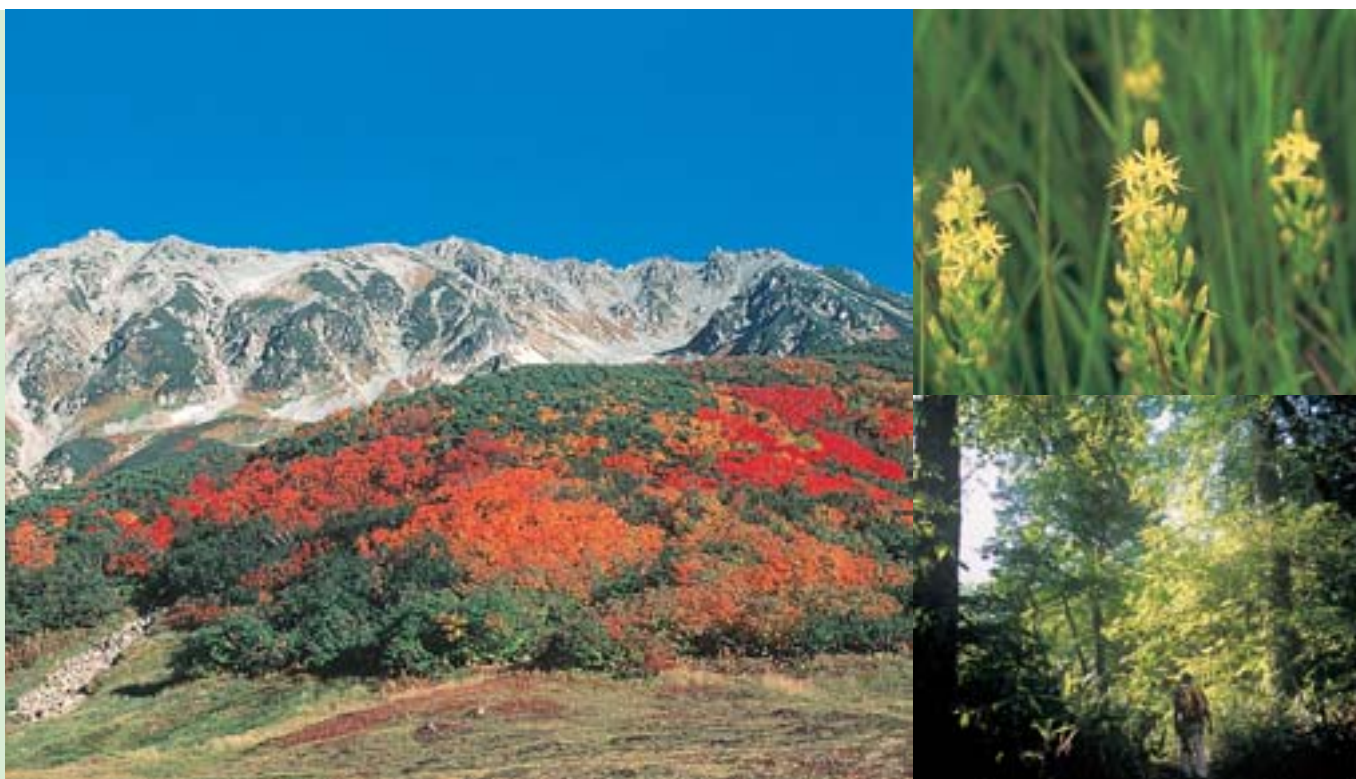
## Introduction of low-emission vehicles at national parks

### 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.

Modes of transportation with low environmental impact are an essential aspect of a sustainable society. Hybrid buses running on a combination of electricity and diesel fuel emit lower levels of

NOx, CO<sub>2</sub> and particulate matter. Hybrid buses are more expensive than conventional ones, and replacing an entire fleet takes considerable time (as of the end of July 2005, 21 of the 40 buses had been replaced with hybrid vehicles). By providing long-term loans, DBJ enables these replacements to be made steadily and systematically. DBJ will continue to support such significant efforts.



Hybrid bus (23km route between Bijodaira and Murodo)



# Aid in maintaining corporate activities after a natural disaster

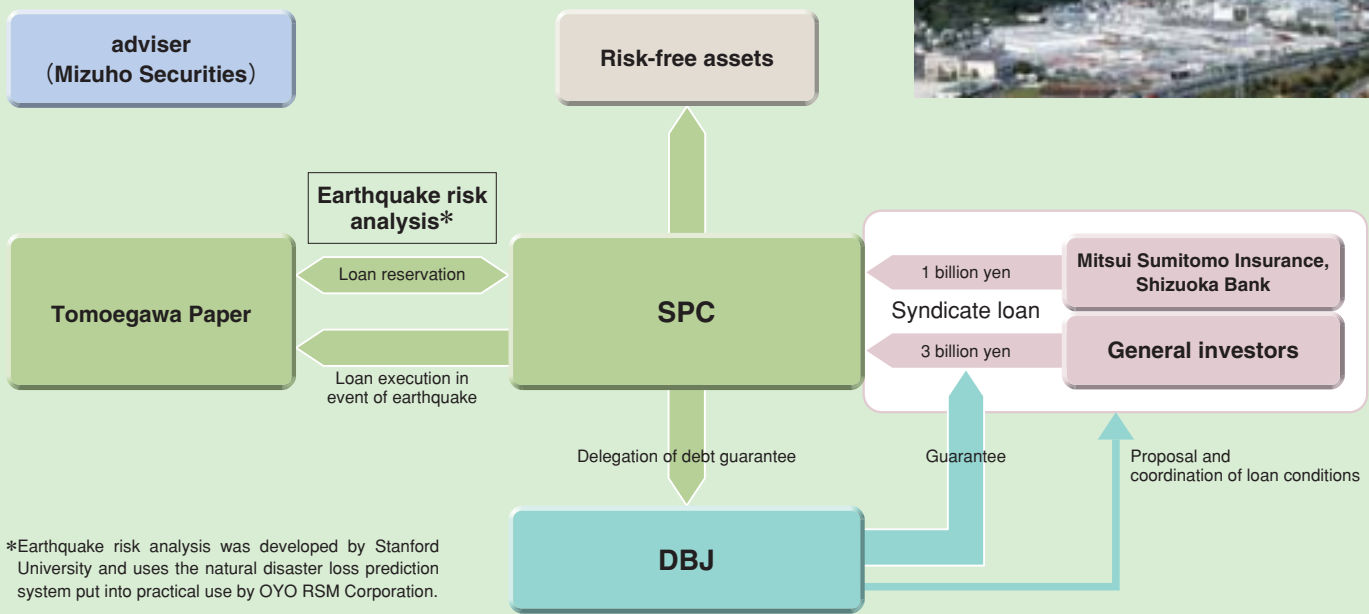
## Tomoe-gawa Paper Co., Ltd.

In cooperation with Mitsui Sumitomo insurance Co., Ltd., Shizuoka Bank, Ltd., and Mizuho Securities Co., Ltd., DBJ structured a contingent debt facility (CDF) to cover Tomoe-gawa Paper Co., Ltd., in the event of a large earth-quake. This project raises the certainty that Tomoe-gawa Paper, located in Shizuoka prefecture, would be able to raise funds for a quick recovery after a large earthquake in the Tokai area. Given the difficulty in securing earthquake insurance for companies in the Tokyo Metropolitan and Tokai areas, part of the requisite earthquake recovery funds will be provided in the form of preemptive borrowing, augmenting the company’s cash flow.

DBJ provides debt guarantees on 3 billion yen of the syndicate loan. DBJ will actively support companies’ efforts to find fundraising methods through diverse affiliations, utilizing its expert knowledge and networks to create earthquake measures appropriate for specific regions.



### Financing Contingent on Earthquake Damage



### Role of adviser and arranger

#### ● Mizuho Securities (adviser)

Mizuho Securities proposed the structure of this scheme to Tomoe-gawa Paper; the company led arrangements with the investors and other parties involved.

#### ● Mitsui Sumitomo Insurance (arranger)

A casualty insurance company, Mitsui Sumitomo offered its knowledge of earthquake risk transaction markets and earthquake risk models to the structuring of the scheme. Mitsui provided capital as an investor in the syndicate group.

#### ● Shizuoka Bank (arranger)

Shizuoka Bank devised the loan application to be filed in the event of an earthquake and arranged a cooperative system for the loan’s execution. Shizuoka Bank provided capital as an investor in the syndicate group.

#### ● DBJ (arranger)

Based on the earthquake risk analysis, DBJ ascertained the quantitative earthquake risk of Tomoe-gawa Paper’s balance sheet and directed the process of setting loan terms. In addition, DBJ guaranteed three-quarters of the loan amount, thereby attracting capital from general investors and helping to ensure that the required amount will be obtained.

# Support for PPP for former local government-run hospital

## Medical Corporation Koureikai

In cooperation with Saitama Resona Bank, Ltd., DBJ provided loans to fund the transfer and new construction of Yamanashi Kyoutou Hospital (the former Isawa-cho National Health Insurance Kyoutou Hospital) carried out by Ageo Central Healthcare System's Medical Corporation Koureikai.

Given worsening business conditions at the former Isawa-cho National Health Insurance Kyoutou Hospital due to a decline in the number of patients and a rise in expenses, the hospital's business was transferred to the Ageo Central Healthcare System on the condition that local residents would continue to receive medical care. The System immediately implemented measures to

improve business and was able to restore profitability in fiscal 2003. Work began on transferring the business and building a new hospital so as to further stabilize the enterprise and augment acute care services. To complete the transfer, more hospital beds were added than had initially been planned.

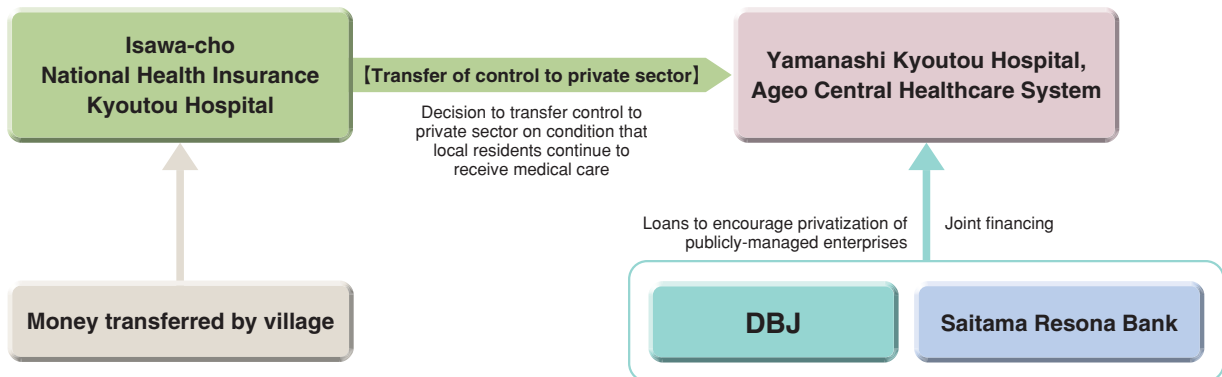
DBJ provided a long-term, fixed-rate loan since it will take considerable time for this particular project to yield an investment return. DBJ foresees active involvement in financing the medical and social welfare projects that local communities will need in the future.



< Diagram of completed building >

< Current facilities >

■ PPP for former local government-run hospital



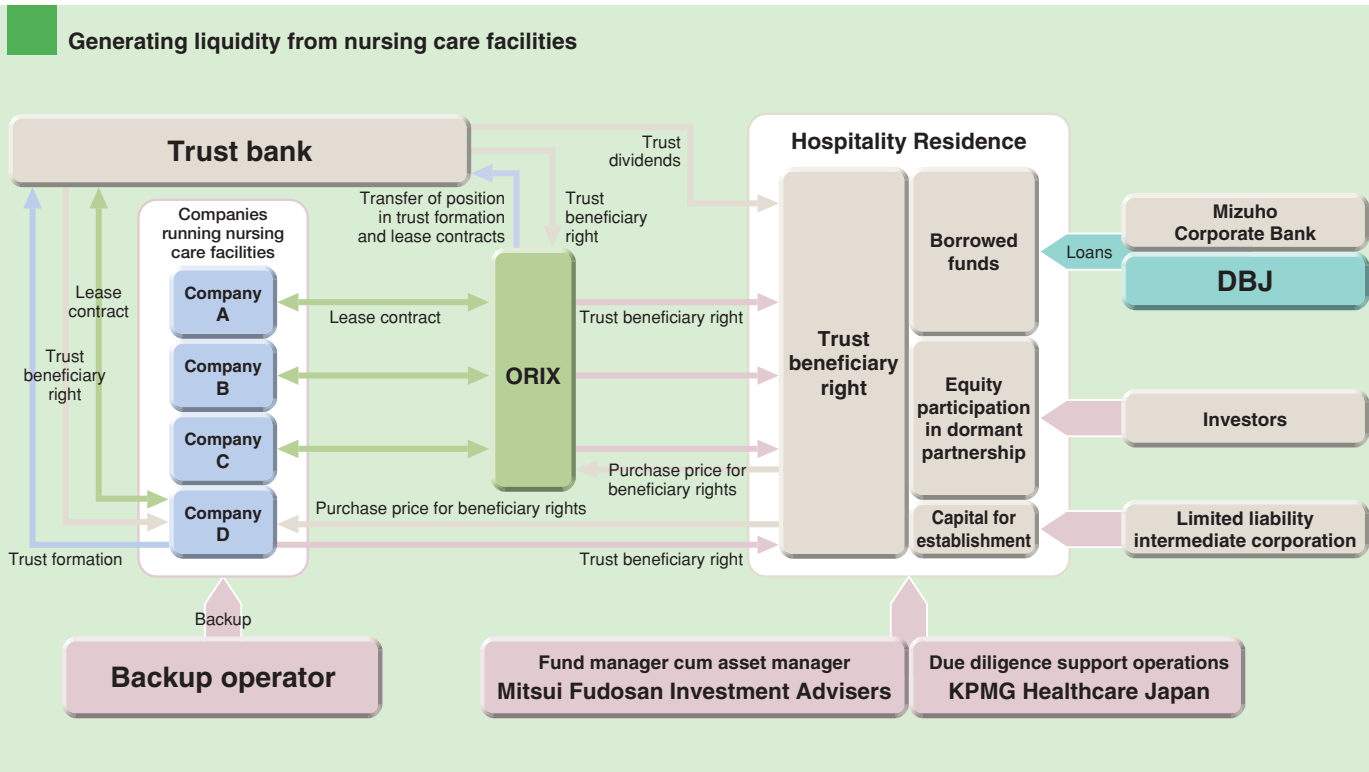
# Generating liquidity from nursing care facilities

## Hospitality Residence Fund

DBJ worked with Mizuho Corporate Bank, Ltd. in providing a non-recourse loan for a private placement real estate fund structured by Mitsui Fudosan Co., Ltd. and the ORIX Group to facilitate investment in nursing care facilities.

Assessing the business viability of funds is more difficult for nursing care facilities than for general real estate investments, and there are only a few such funds in Japan. Nevertheless, the participants in this project assessed the viability of the eligible properties and structured a real estate fund on that basis.

With a backup operator set up to ensure the facility's continued operation, the fund was designed to best ensure regular services for nursing home residents. DBJ utilized its expertise in structuring funds to assist in this scheme. Although capital accumulation will be low, the popularization of this kind of fund will make it easier for management companies capable of providing high-quality services to lease facilities from a fund for operation.



## Information on social welfare and healthcare

DBJ has prepared the following reports on social welfare and healthcare.

- **The future of hospital management**  
Central role of fund-raising
- **Diagnostic imaging centers**  
Business models and issues for PET examination centers
- **Development of new for-profit nursing home business**  
Focus on use of nursing care insurance program
- **New developments in residences for the elderly**  
America's "active seniors": revitalizing communities by attracting the elderly



Nursing care facility "Hyldemoer Kodomono Kuni"

# Support for technology-oriented development

## DBJ's Practical Application Support Center for Technology

Fostering technology is an important aim at DBJ. Working in affiliation with regional financial institutions, the Bank has opened a Practical Application Support Center for Technology at both its headquarters and its Kansai branch. The center supports practical applications for the results of technological development at medium-sized companies.

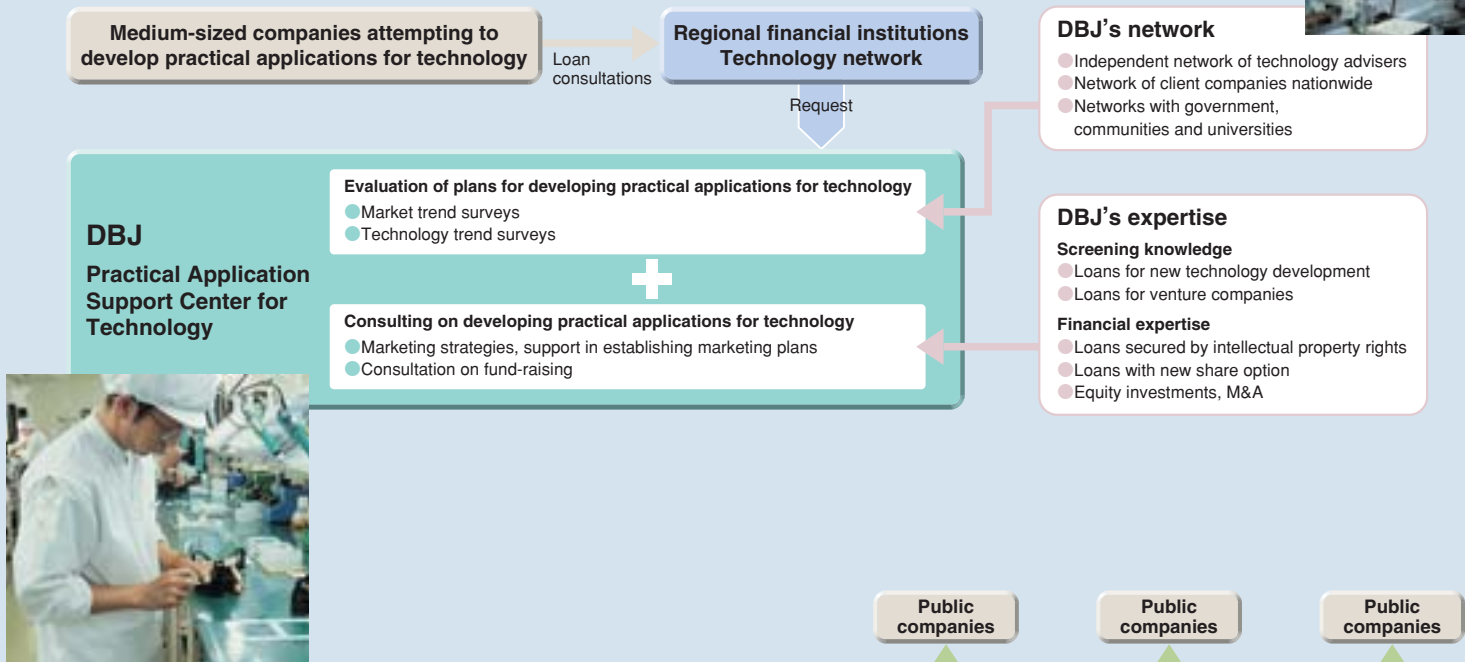
The Center takes advantage of the networks and screening expertise that DBJ has built up over the years to evaluate the technology-related business plans of local medium-sized companies and provide consulting on practical applications for

technology. In fiscal 2004, the Center carried out 43 studies and provided feedback to companies in 25 cases.

By supporting practical applications for technology and fund-raising through the Center, DBJ has helped enhance the manufacturing capability of medium-sized companies, a vital factor in creating new local industries. The Center also provides an effective way for DBJ to share its expertise. By reinforcing ties with regional financial institutions in this way, DBJ helps to strengthen the functions of region-based relationship banking.

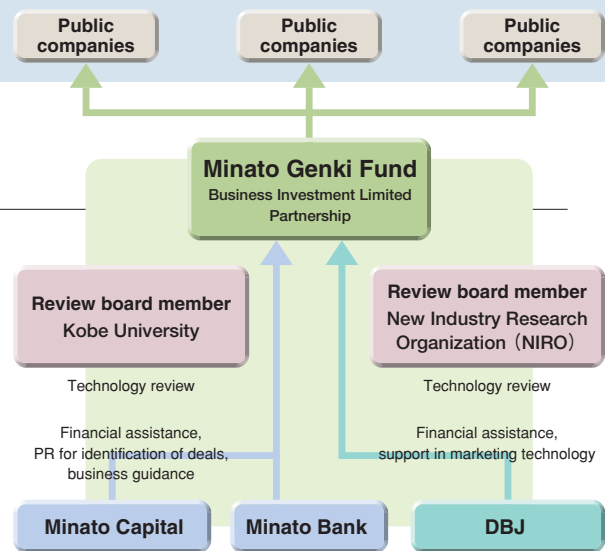


### Overview of Practical Application Support Center for Technology



### Case study of use of Practical Application Support Center for Technology: Cooperation with Minato Genki Fund

- To assist local companies founded after the Great Hanshin-Awaji Earthquake, DBJ invested in the Minato Genki Fund structured by the Kobe-based Minato Bank Ltd. Group, helping as well with business evaluations and marketing.
- DBJ used the expertise and networks of the Practical Application Support Center for Technology to screen potential investments and evaluate businesses in cooperation with the New Industry Research Organization (NIRO) and Kobe University. DBJ also provided marketing support such as management guidance and fund-raising consultation after the investment.
- This project helped local companies develop applications for their technology and enhanced the functions of region-based relationship banking at local financial institutions. DBJ will continue to participate in such efforts.



# Accelerating growth by “carving out” businesses

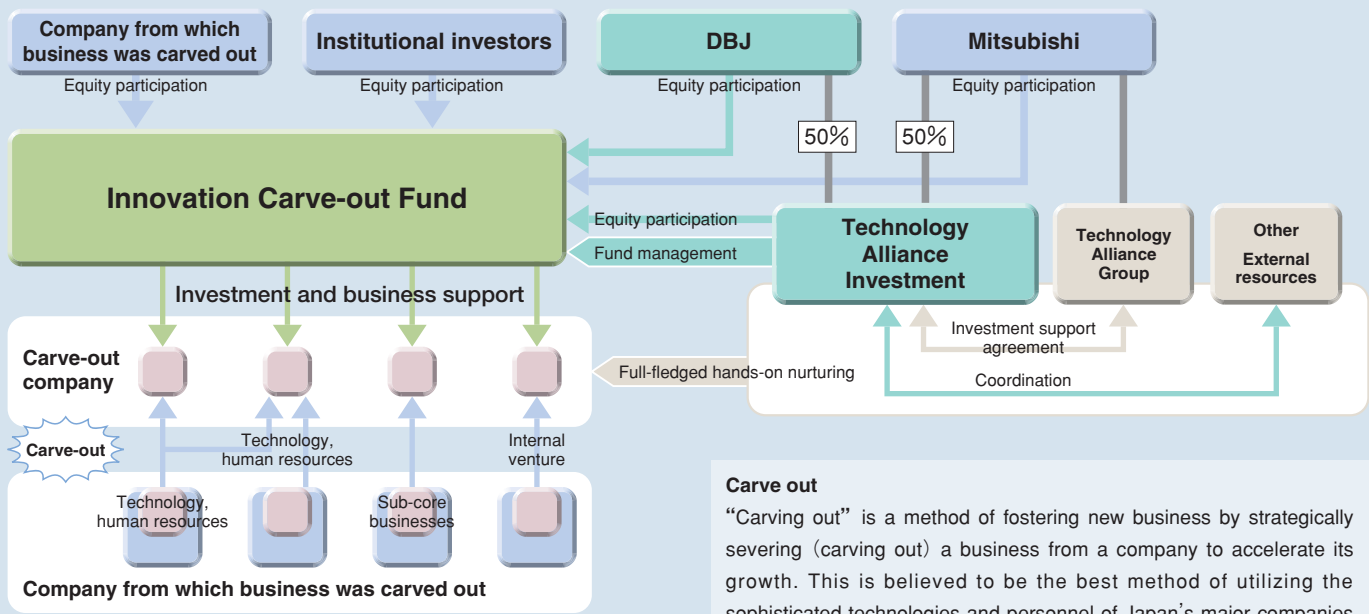
## Carve-out Fund

In cooperation with Mitsubishi Corporation, DBJ agreed to found Japan’s first carve-out fund to bolster the competitiveness of the electronic and high-tech industries, and established Technology Alliance Investment, Ltd., to manage the fund.

This fund focuses on “carving out,” a method by which a business that has been strategically separated from its company is evaluated and invested in by third parties in order to accelerate its growth. DBJ plans to make diversified investments in about 15 businesses over the next five years, utilizing Mitsubishi

Corporation’s wide-ranging network and its own expertise in business marketing to manage the fund and nurture the investments. In addition, DBJ will work closely with the companies in which it invests by seconding management specialists and devising business strategies. Through this fund, DBJ will help to cultivate superior technology and human resources in Japan’s highly competitive electronic and high-tech sectors and thus make an important contribution to the creation of new industry.

### Overview of Carve-out Fund



**Carve out**  
 “Carving out” is a method of fostering new business by strategically severing (carving out) a business from a company to accelerate its growth. This is believed to be the best method of utilizing the sophisticated technologies and personnel of Japan’s major companies to develop practical applications.

### DBJ’s support for new industry creation

DBJ uses the means and methods described below to provide seamless support for a wide range of companies, from venture firms to large corporations, through both capital and knowledge.

Investment Co., Ltd., a government-affiliated venture capital company co-financed by DBJ and private-sector firms, boasts sophisticated technology and innovative expertise in a wide range of industries and sectors including IT, biology, nanotechnology, electronics and services. It invests in venture companies with high growth potential and an interest in going public.

- **Funds to invest in venture and growth companies:**  
 Incubation funds, loans secured by intellectual property rights, loans with new share option, etc.
- **For medium-sized companies:**  
 Practical Application Support Center for Technology, loans to create and activate new industries, etc.
- **For medium-sized and large companies:**  
 Carve-out fund, loans to develop new technology, etc.

# New technology on the brink of realization

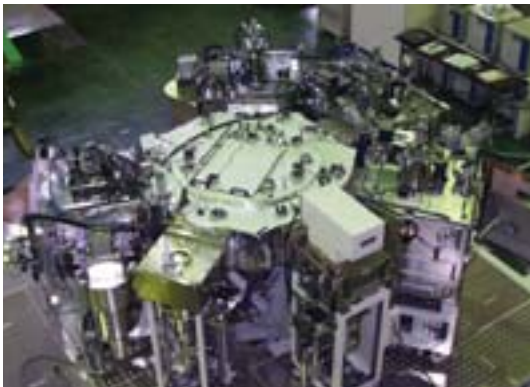
## Tokki Corporation

DBJ provided loans to Tokki Corporation, which has its main factory in Mitsuke City, Niigata Prefecture, to develop practical applications for the technology behind organic electroluminescence (EL) panel manufacturing equipment. Tokki ships its organic EL panel manufacturing devices to electric-appliance manufacturers for use in the research, development and manufacture of organic EL displays.

Since organic EL displays are brighter, easier to see and thinner than previous liquid crystal displays, they are increasingly being

used in mobile phones and portable audio equipment. They are expected to play a major role, moreover, in the intelligent home appliance and illumination sectors in the future.

In general, there are many uncertainties in establishing a manufacturing line and determining demand when developing practical applications for new technology, making business risks particularly high. DBJ works with companies taking up these challenges to bring new technology to the market, create new industries and bring greater convenience to daily life.



Organic EL panel manufacturing equipment

# Loan with new share options for a manufacturing company

## Works Corporation

DBJ provided a loan with new share options to Works Corporation, a precision metal processing manufacturer with a factory in Ongagun, Okagaki, Fukuoka Prefecture. Using metal processing technology at the nano level, Works primarily manufactures molds for semiconductors and ultra-small motors. This project aimed to develop molds for lenses using ultra-hard materials. These would be used in digital cameras and mobile telephones equipped with high-definition cameras, for which demand is increasing sharply. Determining that this was a

superior manufacturing technology, DBJ extended a loan to Works, using new share rights.

While growth companies attempting to enter new industries may have advanced technology, some may encounter problems in raising funds as it is difficult to evaluate the technologies and risks involved. DBJ offers a variety of fund-raising options based on its review of a company's development and investments. These reviews, which include technology evaluations, utilize the wealth of knowledge DBJ has accumulated over the years.



## Loan with new share options for a manufacturing company

It is not easy for venture companies lacking sufficient physical collateral (such as land, buildings and other real estate) and credit strength to obtain loans from financial institutions. DBJ provides loans to these companies in exchange for rights to their new shares.

These loans are thus called "loans with new share options." DBJ took up corporate bonds with warrant rights in fiscal 1998 as one means of supporting the fund-raising efforts of venture companies, but adopted finance schemes using new share options in fiscal 2002 after they were newly defined in the revised Commercial Law issued April 1, 2002. DBJ is building a strong track record in financing with new stock options.



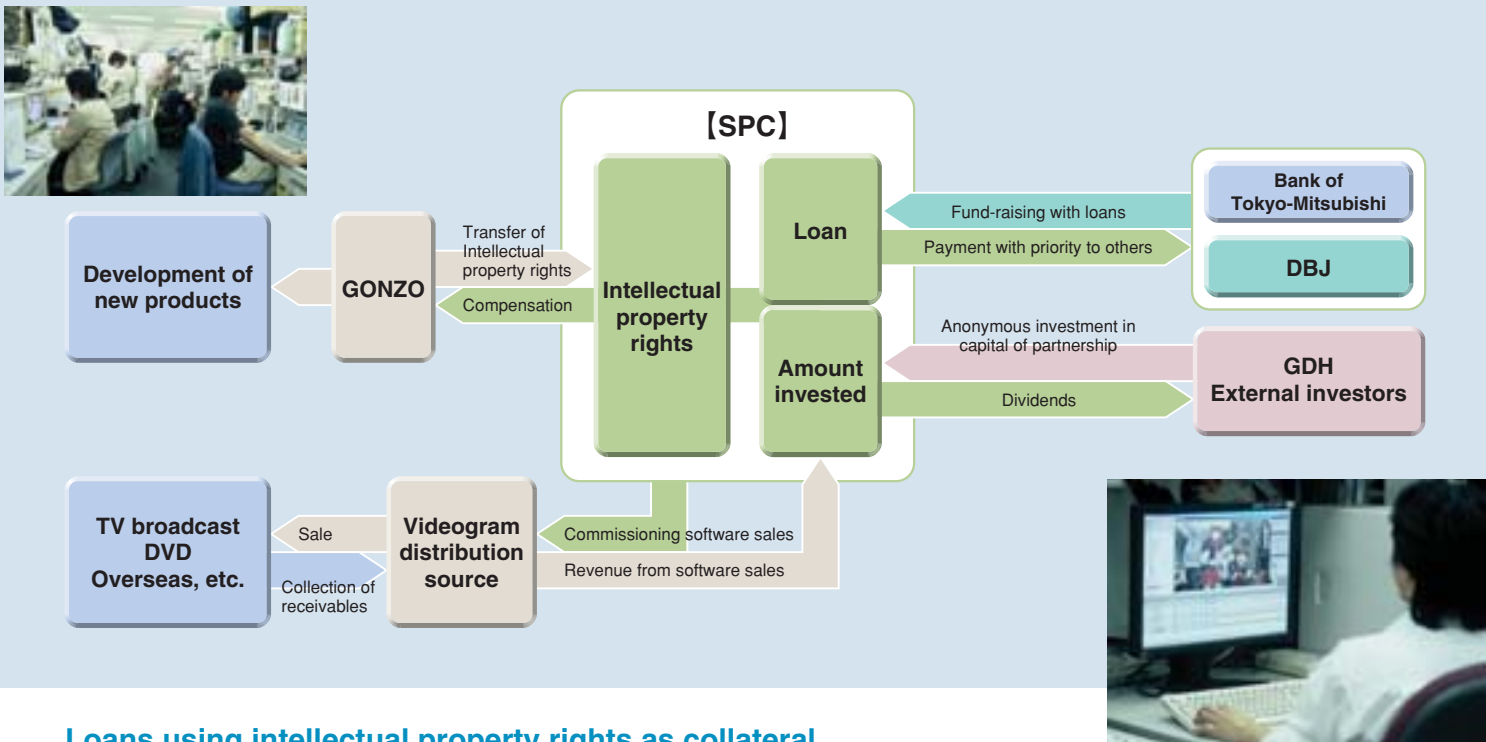
# Supporting content industry using intellectual property rights

## Policy-based loans through SPC method

DBJ cooperated with the Bank of Tokyo-Mitsubishi, Ltd., in providing loans to GONZO K.K. to produce a new animated film. In this project, GONZO transferred the intellectual property rights to a special purpose company (SPC). The SPC raised funds from DBJ and others, and GONZO used the money it received from transferring the copyright to produce a new work. This new fund-raising method – distinct from the “production committee method,” which involves equity – enables the consolidated management and use of the copyright by the SPC as well as the

introduction of non-recourse loans and outside investors, paving the way for the development of content businesses that can compete on a global stage. The key factors behind the success of this project were GONZO’s digital technology for animated productions and the motivation to find a new form for the licensing business run by GDH K.K., GONZO’s parent company and an investor in the project. DBJ will continue to support the creation of finance schemes and other means.

### Use of System Supporting Business with Effective Use of Intellectual Property Rights (SPC method)



### Loans using intellectual property rights as collateral

Venture companies lacking sufficient physical collateral, such as land, buildings and other real estate, and credit strength find it difficult to obtain loans from financial institutions. In these cases, DBJ uses loans secured by intellectual property rights, such as patents and copyrights with market value.

DBJ began offering these loans in fiscal 1995 and has since built up considerable expertise in appraising intellectual property rights.

#### Examples of intellectual property rights serving as collateral

- Patents that have been approved, patents that have been filed (in principle, patents cannot be used as collateral before they have been filed for approval)
- Program copyrights (computer programs), copyrights applying to content
- Other intellectual property rights



# Fostering ventures originating in universities

## Tohoku Incubation Investment Limited Partnership

DBJ invested in the Tohoku Incubation Investment Limited Partnership, a fund aiming to develop the seeds of new business at universities in the Tohoku region. The fund identifies promising fledgling technologies, particularly in the IT, nanotechnology, new materials, biology and advanced medical and welfare fields, that have been developed at universities and research institutions in Tohoku. In this hands-on incubation fund, private-sector fund managers with strong expertise provide business advice to the companies that the fund invests in, thus supporting the launch of venture companies originating at universities.

DBJ invested in this fund to support the development of practical

applications for cutting-edge technology and the revitalization of Japan’s communities. DBJ will remain actively involved in creating and fostering new markets in this way.

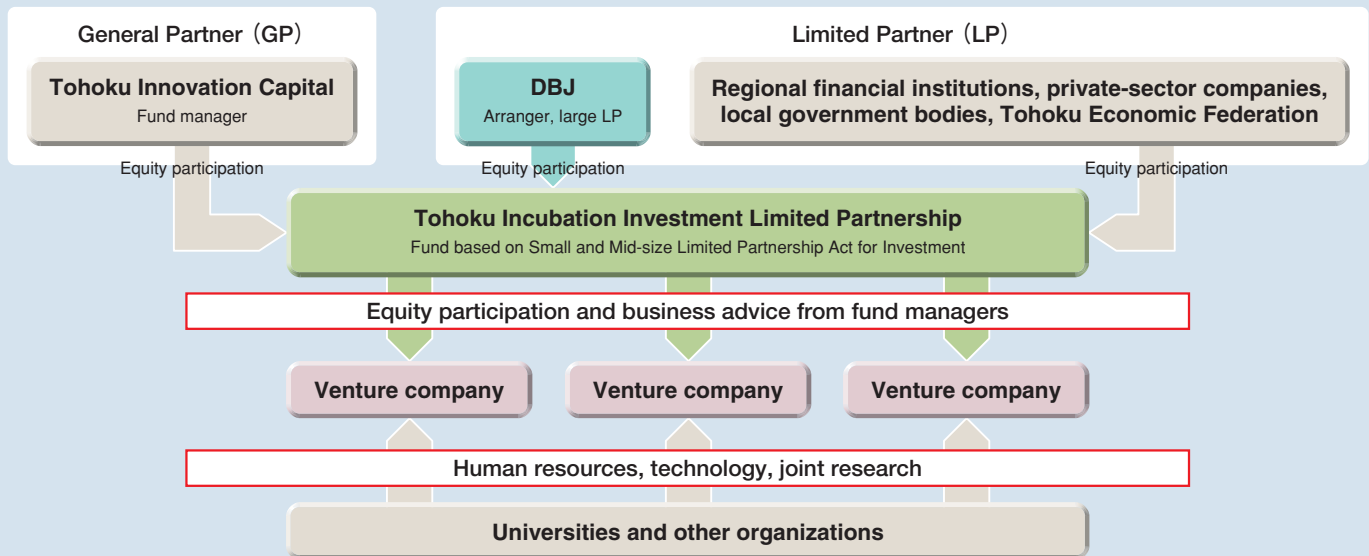
### Hands-on Investment

In “Hands-on Investment”, the investor is closely involved in the management of the target company. The investor directs business planning and financing by appointing executives.

### Incubation fund

(Primarily participation in business planning from the seed start-up stage) An investment fund that aims to foster the company’s growth and enhance its corporate value with hands-on investment and management guidance.

### Tohoku Incubation Investment Limited Partnership



### Collaboration with and support for universities

Universities play an important role in generating a talented workforce and outstanding research results. DBJ supports and collaborates with universities by offering lectures and courses, while also supporting affiliations between academia, business and government.

Given the changes that universities are facing, such as the recent incorporation of national universities, it is essential that they are managed efficiently and have a sound financial foundation and adequate facilities. DBJ will work with universities and support their efforts by sharing the knowledge and expertise in new financing methods that it has built up as a policy-based financial institution.

### ● Agreements on cooperation and collaboration

DBJ has signed a number of agreements with universities to form a basis for cooperation and support.

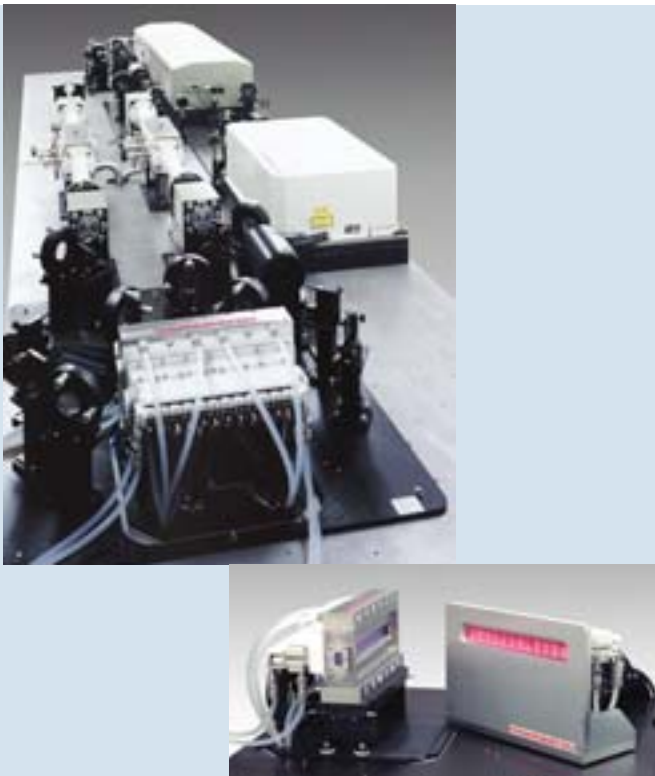
- Academic Interaction Agreement, signed with the Graduate School of Economics, Ritsumeikan University (April 15, 2005)
- Agreement on comprehensive affiliation with Kyushu University (September 30, 2004)
- Agreement on academic, business and governmental affiliation concluded with Tohoku Fukushi University, Sendai City and Sendai City Industrial Promotion Organization (August 31, 2004)
- Agreement on comprehensive affiliation with Hokkaido University (July 21, 2004)
- Agreement with Iwate University and the Bank of Iwate, and establishment of the Iwate Conference on Promoting Affiliations between Industry and Academia (Liaison I) (May 28, 2004)
- Agreement on mutual exchange concluded with Kanazawa University Technology Licensing Organization (April 1, 2004)
- Agreement concluded with Ritsumeikan Asia Pacific University (January 16, 2004)

# Strengthening local technological foundations

## Hamamatsu Photonics K.K.

Hamamatsu Photonics developed practical applications for a high-powered semiconductor laser using proprietary technology for refrigeration and light concentration created after long years of research and development. The laser can be used in a broad range of sectors and is expected to add new value to Japanese industry.

Developing applications for this high-powered semiconductor laser was a pioneering venture, and was also extremely risky in terms of establishing the manufacturing line, maintaining the yield rate and predicting demand.



DBJ will assist in the creation of new industries through continued support for companies that take up these challenges.

## Daito Co., Ltd.

Efficient snow removal and snow melting are major issues for Sapporo, the coldest and snowiest of Japan's major cities.

In light of these conditions, Hokkaido Technology Licensing Office Co., Ltd. worked with universities in Hokkaido to develop a steam-jet snow melting system, then patented the technology and transferred it to Daito Co., Ltd. Daito succeeded in commercializing the technology.

DBJ provided loans for the technology transfer and commercialization project, helping to ensure the safety and comfort of daily life during the winter season and promoting affiliations between industry and academia.



DBJ will continue to provide a support that promotes the development of new businesses suited to local needs.

# 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.

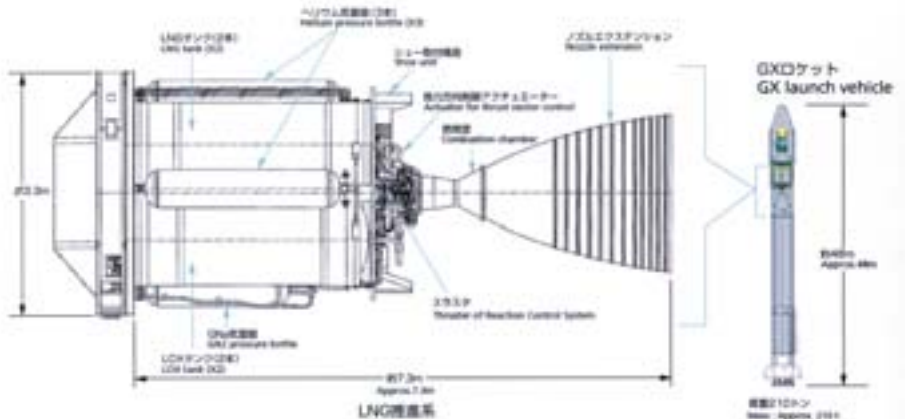
Space technology is expected to be at the core of the next-generation technologies which will be vital to Japan's national interests. With a major trickle-down effect for the manufacturing industry, it will promote both the accumulation and development of technology by domestic manufacturers. The rocket planned for

development uses an engine fueled by liquid natural gas — the first such commercial use in the world. Denser and less costly than the conventional liquid hydrogen, LNG enables the rocket's body to be smaller and lighter in weight.

Owing to massive development costs and a long investment recovery period, rocket development is generally a high-risk venture. DBJ is helping to facilitate this project through its long-term loans.



Rendering, courtesy of JAXA & Lockheed Martin.



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## DBJ's Business Areas and Fiscal 2005 Investment and Loan Plan

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### Business Areas and Fiscal 2005 Investment and Loan Plan

In fiscal 2005, DBJ's activities focused on the following three main areas:

1. Community development
2. Environmental conservation and sustainable societies
3. Creation of new technologies and industries

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

#### Community Development

- Implementing nationwide infrastructure building including transportation, distribution, and information networks
- Carrying out revitalization using the private finance initiative (PFI) and public and private sector partnership (PPP) methods for local redevelopment projects and cities in each region, and promoting infrastructure building from the perspectives of both large regions and individual communities
- Promoting businesses that contribute to new employment and industries that are characteristic of each region

#### Environmental Conservation and Sustainable Societies

- Working toward a sustainable, recycling-oriented society by strengthening initiatives to promote environmental protection and ensure energy security along with economic development
- Actively addressing social welfare and disaster prevention as next-generation policy issues, in order to create a solid social infrastructure and ensure a safe and secure way of life in the face of a declining birthrate and an aging population

#### Creation of New Technologies and Industries

- Promoting technology development as a global social asset with a huge carry-over effect to every social and lifestyle area, as part of next-generation economic development
- Using advanced finance methods to stimulate economic growth through business and industrial redevelopment.

## Loans and Investments by Fiscal Year

Item	Fiscal Year			(billions of yen)
	2002	2003	2004	(Reference) Fiscal 2004 year-end balance
Structural reform and economic revitalization	379.6	416.0	293.0	2,010.7
Economic structural reform	349.7	400.3	273.1	1,756.5
Development of intellectual infrastructure	29.8	15.7	19.8	254.2
Community development	253.2	275.5	369.6	3,577.4
Development of regional social infrastructure	147.4	182.4	164.0	2,233.0
Revitalization of regional economies	105.8	93.0	205.5	1,344.3
Environmental conservation and sustainable societies	573.3	448.1	453.0	8,148.3
Environmental protection, energy, disaster prevention, and welfare measures	269.9	252.1	234.1	4,289.0
Transport and distribution networks	176.7	186.2	206.8	3,321.4
Telecommunication networks	126.7	9.7	12.0	537.8
Sub-total	1,206.2	1,139.7	1,115.6	13,736.5
Improvement of social capital	55.7	43.3	32.3	584.0
Total	1,262.0	1,183.1	1,148.0	14,320.6
(of which capital subscription)	(101.8)	(61.6)	(58.7)	(304.2)
Debt guarantees	2,272.2	15.4	23.3	1,962.6

Notes: 1. Investment and loan categories were revised effective fiscal 2005. Investment and loan amounts in fiscal 2002 and 2003 were adjusted for convenience to conform to fiscal 2004 categories.

2. Investment in funds is based on the agreement amount.

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

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

5. For fiscal 2004, the figures include ¥59.1 billion corresponding to the business activities of the former Hokkaido-Tohoku Development Finance Public Corporation, and ¥16.6 billion corresponding to the former lending business of the Japan Environment Corporation.

6. The fiscal 2004 year-end balance does not include ¥36.0 billion in stock from the Tomakomai East Development Corporation and the Mutsu Ogawara Development Corporation.

7. Debt guarantees in fiscal 2002 include ¥21.0 billion in debt guarantees for borrowings, etc., from private-sector 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 2005 Investment and Loan Plan

### Fiscal 2005 Investment and Loan Amount

In keeping with the reform of special public corporations, DBJ plans to invest or lend a total of ¥1,168.0 billion in fiscal 2005, which is ¥10 billion less than in the initial plan determined in fiscal 2004. These outlays are part of an effort to provide financing in cooperation with private-sector financial institutions in areas critical to the achievement of national economic and fiscal policies on regional economies, the environment, technology, and other issues.

Accordingly, the balance of loans is expected to decline by about ¥5.0 trillion compared to the figure at the time of DBJ's founding (from ¥18.8 trillion at the end of March 2000 to an estimated ¥13.8 trillion at the end of March 2006).

(Reference) Comparison of Fiscal 2005 Investment and Loan Plan and Initial Amounts Planned in Recent Years

		(billions of yen)	
Fiscal year	Initial amount planned	Comparison with fiscal 2000 plan	
2000	2,230.0	---	
2001	1,600.0	▲	630.0
2002	1,200.0	▲	1,030.0
2003	1,178.0	▲	1,052.0
2004	1,178.0	▲	1,052.0
2005	1,168.0	▲	1,062.0

### Decrease in Borrowing from the Fiscal Loan Fund and Marketization of Procurement

DBJ decreased its borrowings from the Fiscal Loan Fund by ¥9 billion compared to the initial fiscal 2004 plan, to ¥568 billion (a decrease of approximately ¥1 trillion compared to the initial fiscal 2000 plan) and accordingly reduced its dependence on the Fiscal Loan Fund to an investment and loan level of 50%. On the other hand, DBJ plans to issue ¥240 billion in Fiscal Investment and Loan Program (FILP) agency bonds, as in fiscal 2004, so that the Bank can raise funds independently. As a result, capital raised in the market (FILP agency bonds, government guaranteed bonds, and foreign bonds) will make up 46.3% of the funds raised externally in fiscal 2005, excluding capital contributions.

### Clarifying Initiatives for Three Priority Areas

In light of economic and financial policies developed by the government of Japan, DBJ continued to clarify pressing policy issues regarding regional economies, the environment, and technology, and prioritized the relevant investment and loan programs. Particular emphasis was placed on the support measures below.

## Contributions to Community Development

- **Employment creation initiatives**

In addition to creating a support system for core regional businesses that contribute to the employment of young people, DBJ extended the period of preferential treatment for businesses that help to expand employment opportunities in under-populated and disadvantaged regional economies.

- **Community renewal and tourism promotion initiatives based on regional characteristics**

To promote community renewal focusing on landscapes and streetscapes, DBJ enhanced its support for the construction of accommodation facilities to help bring in outside visitors. The Bank also expanded its criteria for loan eligibility to include structures important for scenic beauty under the Landscape Protection Law.

- In cooperation with local financial institutions, DBJ established a new system to provide financing necessary to maintain credit payments for accounts receivable or payable in ongoing transactions between regional companies.
- DBJ extended the deadline for an investment system administered in cooperation with regional financial institutions to help rationalize and streamline regional medium-sized companies.
- DBJ created a low-interest, limited-time financing system for terrestrial digital broadcasting and is taking appropriate measures for its promotion.
- Manufacturing businesses that utilize technology developed to take advantage of local resources in cold-winter regions were made eligible for DBJ financing.

## Initiatives for Environmental Conservation and Sustainable Societies

- By focusing on a major government initiative, the Global Warming Mitigation Master Plan, DBJ created a new system to assist all kinds of businesses that contribute to the prevention of global warming.
- DBJ created a system that supports comprehensive measures for energy saving.
- DBJ expanded the scope of eligibility for interest rates based on an environmental scoring system to include individual businesses that contribute to environmental efforts.
- DBJ improved support measures for companies that supply high-quality petroleum with low sulfur content for environmental reasons.
- **DBJ worked to ensure public safety and security through the promotion of disaster prevention.**

After the major destruction caused by earthquakes in the Tokai, Tonankai, and Nankai regions of Japan, DBJ improved its support measures for businesses that contribute to disaster prevention through means such as the earthquake-resistant reinforcement of buildings and harbors.

## Promotion of Economic Revitalization through Technological Advancement

- **Industrial promotion through new industry creation and new technology development**

DBJ improved support measures for businesses with a significant potential to create employment and technology in the seven priority fields relating to the new industry creation strategy: (1) fuel cells, (2) home IT devices, (3) robots, (4) content, (5) health and welfare devices and services, (6) environment and energy devices and services, and (7) business support services.

The deadline was extended for special interest rates on new technology.

- **Further improvement of market-type indirect financing functions to generate economic revitalization**

DBJ has extended loan eligibility to include securitization services by financial institutions. Another means by which it is promoting market-type indirect finance transactions is through the broad undertaking of syndicate loans with attention to company-generated cash flow.

- **Support measures for the use of information technology to ensure a safe and secure society**

DBJ extended eligibility to businesses that, through the use of electronic tags and other means, improve product safety and consumer confidence through dedicated quality and product management from production to distribution.

## Fiscal 2005 Investment and Loan Plan and Examples of Target Businesses in Each Field

(billions of yen)

	Initial amount	Chief loan targets (examples)
<b>Community Development</b>	<b>549</b>	
Revitalization of regional economies	140	Strengthening of regional competitiveness, encouragement of cold-winter region business activities, employment promotion
Development of regional social infrastructure	170	Regional revitalization, urban redevelopment, improvement of social capital using private finance initiatives (PFI), promotion of the privatization of public enterprises, urban renewal projects, support for community renewal based on local character
Creation of broad regional networks	239	Construction of core transportation networks, air transport systems, and information and telecommunication networks
<b>Environmental Conservation and Sustainable Societies</b>	<b>300</b>	
Environmental protection, energy, disaster prevention and welfare measures	300	Promotion of environmentally friendly management using environmental scoring, promotion of businesses utilizing the Kyoto mechanisms, energy and security measures, development of new energy sources, urban flood control businesses
<b>Creation of New Technologies and Industries</b>	<b>300</b>	
Advanced technology and economic revitalization	45	New technology development, new industry creation, revitalization
Creation of socio-economic infrastructure	255	Business and industry rehabilitation, facilitation of access to Japan, creation of systems for improved product reliability support for security measures
<b>Sub-total</b>	<b>1,149</b>	
Promotion of social capital creation	19	
<b>Total</b>	<b>1,168</b>	
Procurement	Fiscal Loan Fund	848
	(FILP borrowing portion)	(568)
	(Government-guaranteed bond (domestic bond) portion)	(60)
	(Government-guaranteed bond (overseas bond) portion)	(190)
	Self financing	320
	(FILP agency bond portion)	(240)

Note: The initial fiscal 2005 plan includes the following business activities:

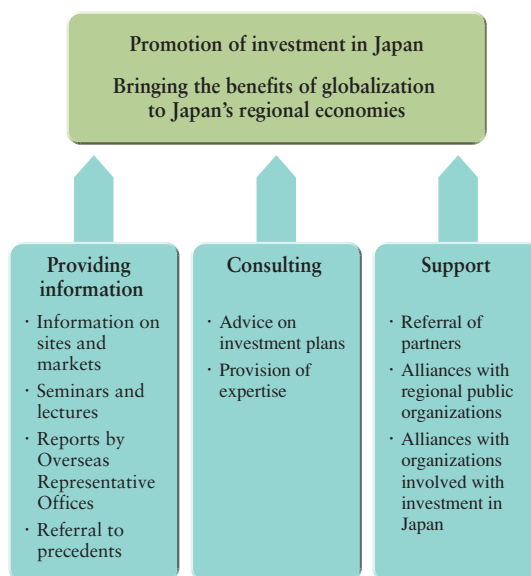
¥120.4 billion for the former Hokkaido-Tohoku Development Finance Public Corporation, ¥9.4 billion for the former lending business of the Japan Regional Development Corporation, and ¥7.1 billion for the former lending business of the Japan Environment Corporation.



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

The investment of foreign capital in Japan facilitates the exchange of advanced technology and knowledge, creates jobs, and vitalizes the Japanese economy.

DBJ's Department for International Affairs and its Overseas Representative Offices support inward investment that brings the benefits of globalization to Japan's regional economies. This is done in a variety of ways: information provided through seminars and in reports issued by the Overseas Representative Offices; consulting services for corporate investment plans; and alliances with regional public institutions and organizations.



### Case study: SENDAI-FINLAND Wellbeing Center Project

This project aims at introducing IT-based health and welfare equipment commonly used in Finland to Japan's nursing homes. The goal is to create a new type of elder care business that provides an environment in which the elderly can live independently within a community. Special homes for the elderly and R&D facilities, the core of the project, were opened at the end of fiscal 2004. The project is particularly notable for the alliances and cooperation created between Finland and the administration, academic organizations and private companies of Sendai City. Requests for cooperation from the Finnish government resulted in DBJ's supporting this project from its initial stage through completion.



Special home for the elderly



R&D center

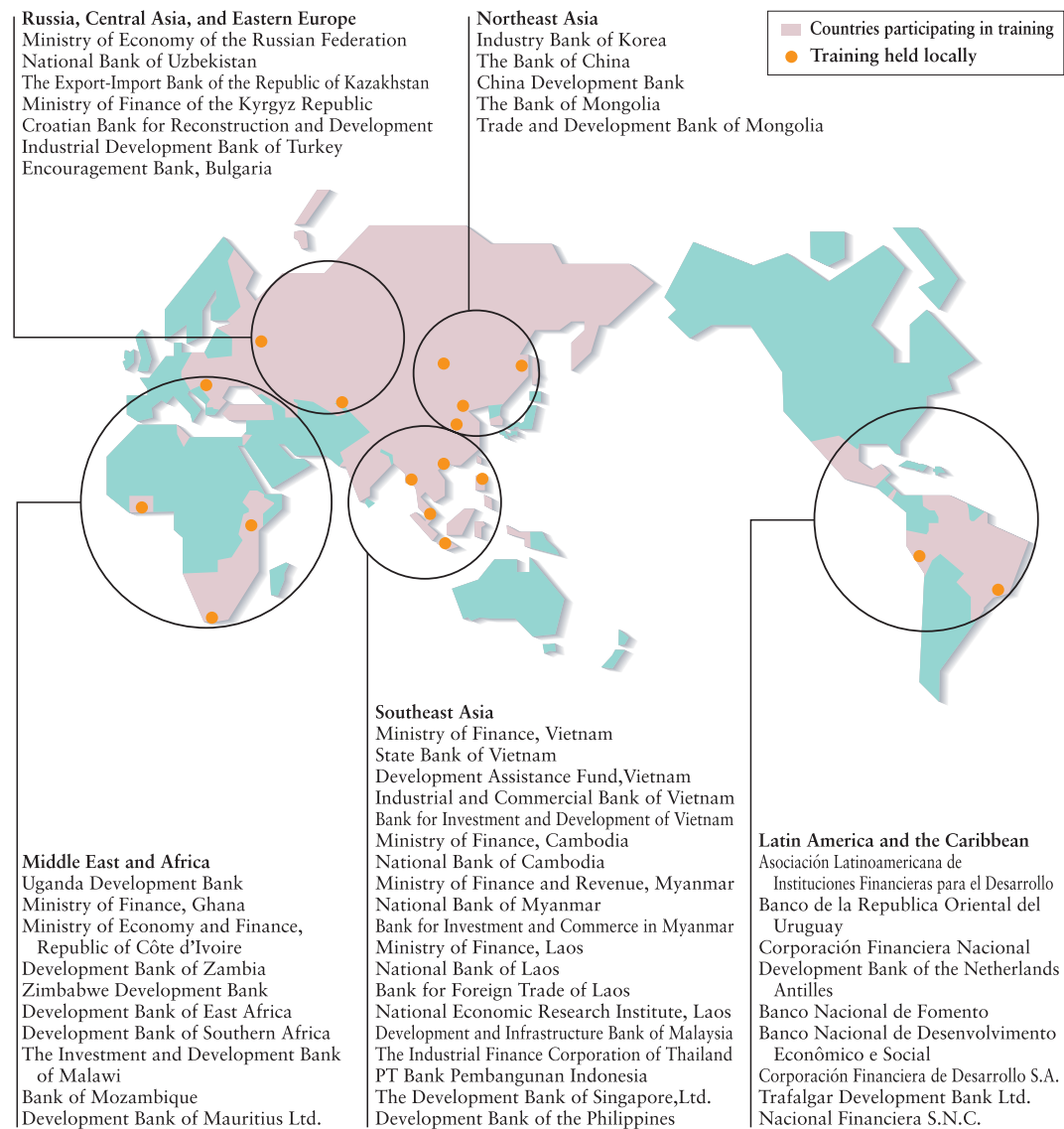
## International Cooperation Activities

### Significance of International Cooperation

People in developing countries, especially in Asia, are becoming aware of the importance of sound policy-based financing and development finance in addressing economic development challenges that cannot be met adequately by private-sector finance. 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 by the Bank in the process of assisting in Japan's postwar economic growth.

To meet these needs, DBJ has held a Developmental Finance Course in Tokyo each 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 bases its international cooperation on high-quality training courses, surveys, and other programs which serve recipients while enhancing Japan's presence in the international community.

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

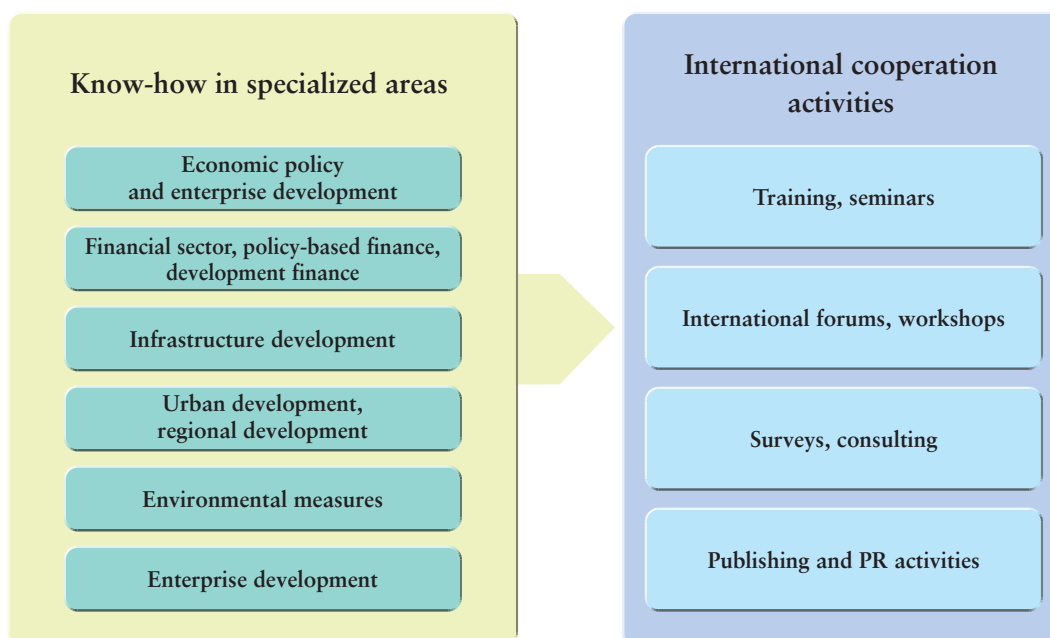


## Status of Fiscal 2004 Activities

While addressing the theme of the global environment and sustainable development in the area of development finance education, DBJ engaged in a diverse debate concerning the role to be played by financial institutions in sustainable development. The Bank held lectures and workshops on topics pertaining to small and medium enterprise promotion and bank management, which are common issues for the four Southeast Asian countries of Cambodia, Laos, Myanmar, and Vietnam (the “CLMV nations”) participating in its training program for nations transitioning to a market economic system.

DBJ has carried out surveys in cooperation with numerous development assistance institutions and government agencies, including the CLMV Industrial Cooperation Programs; provided economic policy support for Laos and Cambodia; and mapped out Economic Development Strategies for the Nations of the Mekong Basin: The Possibilities and Limits of Market Economy Transition, which addresses the economic, industrial, and development issues of the CLMV nations. Separate opportunities were created for the discussion of shared policy issues with Kreditanstalt für Wiederaufbau (the German Development Bank) and the China Development Bank.

### ■ Specialized areas and areas of activity



Discussions on the environmental protection programs of national development banks.

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



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

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## Operation 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.

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### Management Council

The Management Council is comprised of outside experts, assembled in accordance with Article 24 of the Development Bank of Japan Law. Council members examine the status of operations in relation to 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 : Maximum of eight members
- Appointment : Scholars and other experts, appointed by the DBJ governor and subject to approval by the Minister of Finance
- Term of office : Four years
- Chair : Designated by the Governor; presides over council affairs

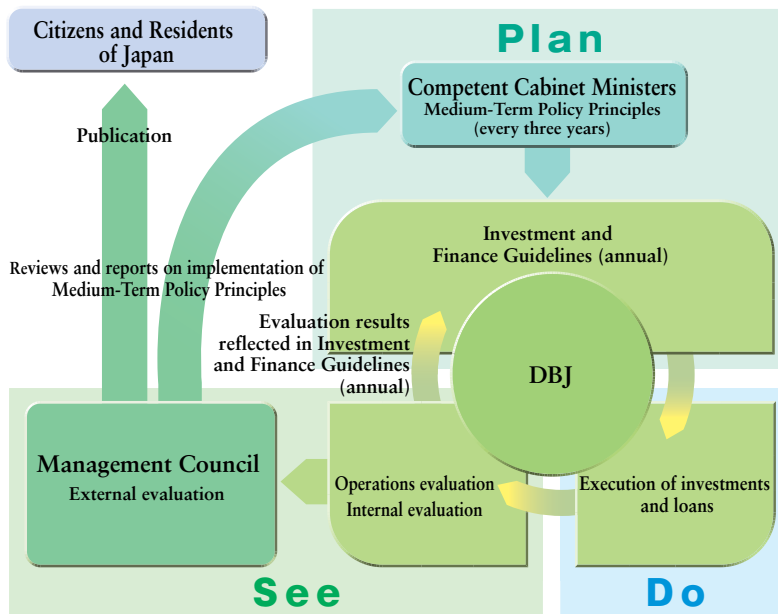
#### Management Councilors (As of the end of June 2005. \*indicates the Chairman)

- Satoru Kishi** Senior Advisor, The Bank of Tokyo-Mitsubishi, Ltd.
- Shigeru Morichi** Professor, National Graduate Institute for Policy Studies
- Shinobu Shimizu** Chairman of the Board and Representative Director, Tokyu Corp.  
Former Chairman, The Association of Japanese Private Railways
- \*Shoichiro Toyoda** Honorary Chairman and Director, Toyota Motor Corp.  
Honorary Chairman, Nippon Keidanren
- Yasuko Niimura** Advisor, Niimura Law Office
- Yasuo Shingu** Honorary Chairman, Sumitomo Metal Industries, Ltd.  
Former Chairman of the Board of Directors,  
Kansai Economic Federation
- Yoichi Kaya** Director General, Research Institute of Innovative Technology  
for the Earth (RITE)
- Yoshio Matsui** Chairman, The Yomiuri Shimibun

#### Report of the Management Council of the Development Bank of Japan (December 2004)

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 improve operations management. The operations evaluation system was introduced to achieve this end.

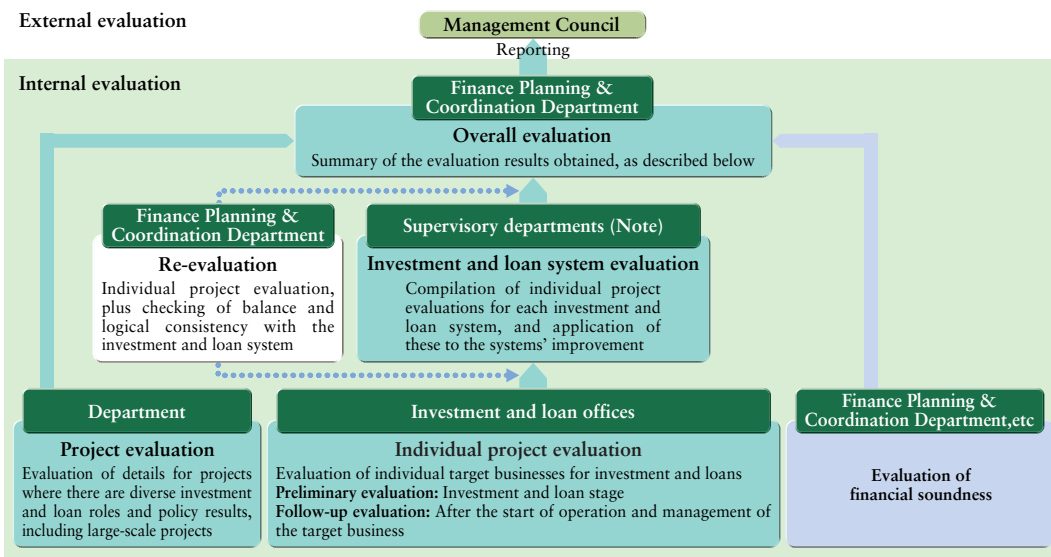
### Mechanism for operations evaluation

DBJ conducts its operations in line with the Medium-Term Policy Principles formulated by the competent ministers. The law 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 its deliberations. The operations evaluation mechanism assesses individual investment and loan proposals (individual proposals) as well as the internal investment and loan system, and 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 the policy significance of individual proposals); (2) evaluation of the investment and loan system (an assessment of its effectiveness); (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 notification of the Management Council.

To ensure optimal functioning of the evaluation system, DBJ has established the Operations Evaluation Office as an internal organization dedicated to ensuring that internal evaluations generate accurate results. There is also a committee consisting of scholars and other experts to provide suggestions on improving the system.

## Evaluation System



■ Sections performing internal evaluations within DBJ

[Note] Supervisory departments: Sections that are in charge of drafting policies and plans for investment and loans for each investment and loan system. For example, the Department for Urban Development is the supervisory department for the investment and loan system dealing with urban development.

**Evaluation perspectives**

- **Policy aspects of target business:**  
Whether or not the target business for an investment and loan can actually realize the policy objectives; what kind of validity it has for the people of Japan and local residents; and what level of results can be achieved
- **Role of investment and loans:**  
Whether DBJ investment and loans continue to be based on the principles of supplementing and encouraging investment by the private sector, and what kind of role they play at the time of a target business's implementation

## Internal Management System

The DBJ budget is submitted to the Diet for approval each year. Diet approval is also required for the bank's financial statements. Overall operations are reviewed by the Board of Audit, the Ministry of Finance and the Financial Services Agency. Under the DBJ Law, the executive serving as the auditor monitors operations, and the organization-wide measures described below are applied to internal management.

## Legal Compliance System

DBJ regards 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. The Bank is currently undertaking the following organization-wide efforts.

### Development of a compliance system

DBJ has established a general risk management committee 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, compliance officers in each departments and branch office are responsible for verifying their section's compliance, reporting on compliance-related matters and serving as liaisons.

### Internal dissemination of compliance information

DBJ has prepared a Compliance Manual containing specific behavior guidelines for ensuring compliance. The manual, which also includes related laws and regulations, is distributed to all executives and employees. The Bank also holds 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 detailed compliance programs for each fiscal year. These "action plans" are adopted after discussion by the Compliance Committee.

## ALM and Risk Management System

In order to ensure appropriate management of individual risk categories, DBJ has developed an asset/liability and risk management system that clarifies which department is responsible for each type of risk. The Finance Planning & Coordination Department is 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 a deterioration in the financial condition of the borrower. Credit risk management requires credit management of individual loans as well as bank-wide portfolio management.

- Credit administration of individual loans

When making an investment or loan, DBJ examines the primary entity's project viability and profitability from a fair and neutral standpoint, in addition to considering the project's policy significance and benefits. Loan amounts are determined according to an internal rating system. DBJ is not subject to the Banking Law or the Law concerning Emergency Measures for the Revitalization of the Functions of the Financial System (Financial Revitalization Law), but carries out independent asset assessments in line with 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 auditing 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 to the ALM Committee on the internal ratings, the results of the self-assessment, and the status of unexpected losses. Thorough monitoring and consideration of countermeasures allows DBJ to control risk and devise effective measures to improve risk return.

### Market risk

*Market risk* can be broadly classified into interest rate risk and exchange risk. DBJ takes 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. A portion of the interest rate risk associated with lending operations is covered through interest rate swaps, which are used solely for hedging purposes. DBJ does not have any trading-related risk because it does not engage in trading (specified transactions).

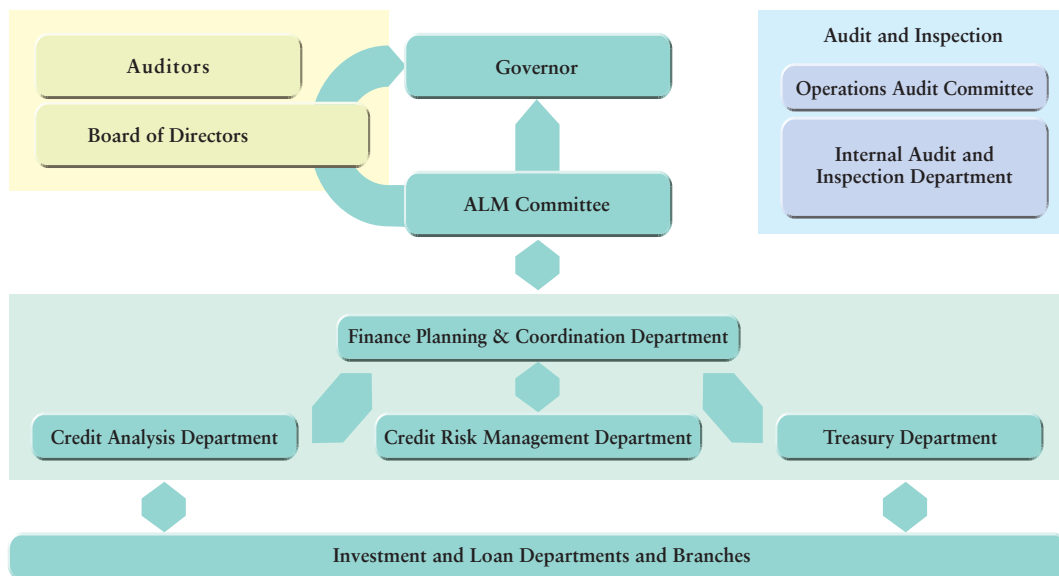
- Exchange risk

Exchange risk derives from the extension of foreign currency loans and the issuing of foreign currency bonds. DBJ uses currency swaps to hedge this risk. The Bank manages counterparty risk in swap transactions (the risk that the counterpart in the swap transaction will be unable to fulfill its obligations) by continually monitoring the creditworthiness of all parties to swap transactions and by diversifying transactions among several institutions.

### Liquidity risk

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

## ■ Asset/Liability and Risk Management System



## Operational Risk Management

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

## 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 that the ongoing growth of networks, among other factors, is making systems risk management ever more important for financial institutions. 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 a uniform Information Security 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 basic policies for 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 to be responsible for implementing security measures in each department and branch office.



## Internal Audit Systems

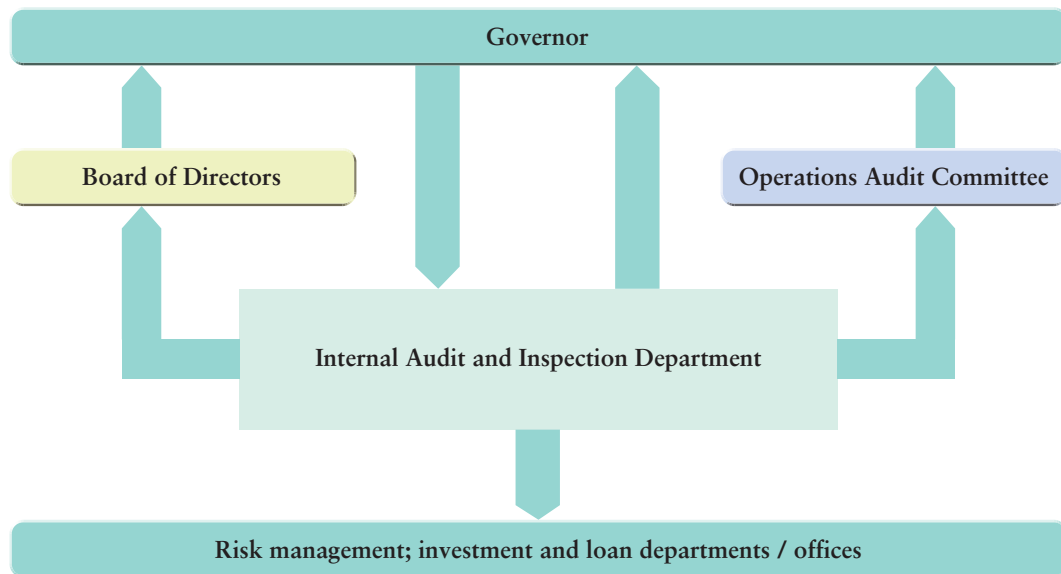
Independent from other management and operational departments, internal audits comprise a series of processes involving not only a comprehensive and objective evaluation of the organization's internal management conditions, but proposals and follow-up measures to improve the issues identified.

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

To facilitate this process, DBJ has established an Internal Audit Department and an Inspection Department under the direct supervision of the DBJ Governor and independent from the operational departments. This department performs internal auditing and inspections in order to ensure effective and efficient risk management, reliable financial reports, and compliance with laws and regulations. Specifically, the department verifies the appropriateness and effectiveness of operations management with respect to risk management and to compliance with laws and regulations. This is done through onsite audits and inspections. Verification is also made of calculation procedures for assets self-assessment and allowance for loan losses.

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

### Internal Audit System



## Disclosure

DBJ strives to conduct proper information disclosure in order to ensure that all interested parties can accurately determine the condition of the Bank. Information available for disclosure may be obtained from DBJ's head office.

### Materials legally required for disclosure

- Balance sheets (June and November)
- Operation report (July)
- Financial statements (August)
- Administrative costs report (June)

### Principal information disclosed

- Disclosure report (July)
- Annual Report (August)
- Bank profile brochure
- Bond report, based on the financial report (June and December)  
(Months in parentheses indicate the issue dates)

## 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/>



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Investor relations