

# Overview

## Overview of the Investment and Loan Plan

- ◆ **Business Areas and Fiscal 2006  
Investment and Loan Plan**
- ◆ **Features of the Fiscal 2006  
Investment and Loan Plan**

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## Business Areas and Fiscal 2006 Investment and Loan Plan

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### Business Areas and Fiscal 2006 Investment and Loan Plan

In fiscal 2006, DBJ's activities focuses 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

- Building a nationwide infrastructure including transportation, distribution, and information networks
- Revitalizing local redevelopment projects and cities in each region using the Private Finance Initiative (PFI) and Public and Private Sector Partnership (PPP) methods, as well as 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 that promote environmental protection and ensure energy security along with economic development
- Actively addressing social welfare and disaster prevention as next-generation policy issues, creating a solid social infrastructure, and ensuring a safe and secure livelihood for the people in the face of a declining birthrate and an aging population

#### Creation of New Technologies and Industries

- Promoting technology development as part of next-generation economic development and as a global social asset with a huge carry-over effect to all social and lifestyle areas
- Using advanced financing methods to stimulate economic growth through business and industrial redevelopment

# Overview

## Loans and Investments by Fiscal Year

Item	Fiscal year	(Billions of yen)			
		2003	2004	2005	(Reference) Fiscal 2005 year-end balance
<b>Community Development</b>		<b>469.0</b>	<b>585.3</b>	<b>624.9</b>	<b>6,987.2</b>
Revitalization of regional economies		106.3	210.9	258.4	1,420.8
Development of regional social infrastructure		170.7	157.3	155.5	1,985.9
Creation of a widespread network		191.9	217.0	210.8	3,580.4
<b>Environmental Conservation and Sustainable Societies</b>		<b>254.6</b>	<b>237.2</b>	<b>240.2</b>	<b>4,016.7</b>
Environmental protection, energy, disaster prevention, and welfare measures		254.6	237.2	240.2	4,016.7
<b>Creation of New Technologies and Industries</b>		<b>416.0</b>	<b>293.0</b>	<b>265.6</b>	<b>1,845.8</b>
Advanced technology and economic revitalization		106.7	23.4	102.8	309.6
Development of a socio-economic base		309.3	269.5	162.8	1,536.1
<b>Sub-total</b>		<b>1,139.7</b>	<b>1,115.6</b>	<b>1,130.8</b>	<b>12,849.7</b>
Improvement of social capital		43.3	32.3	12.6	511.6
<b>Total</b>		<b>1,183.1</b>	<b>1,148.0</b>	<b>1,143.5</b>	<b>13,361.4</b>
(of which capital subscription)		(61.6)	(58.7)	(55.8)	(346.4)
Debt guarantees		15.4	23.3	70.1	161.6

- Notes: 1. Investment and loan categories were revised effective fiscal 2005. Investment and loan amounts in fiscal 2003 and 2004 were adjusted for convenience to conform to fiscal 2005 categories.
2. Investment in funds is based on the agreement amount.
3. 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.
4. 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.
5. For fiscal 2005, the figures include ¥67.4 billion corresponding to the business activities of the former Hokkaido-Tohoku Development Finance Public Corporation, and ¥14.4 billion corresponding to the former lending business of the Japan Environment Corporation.
6. The fiscal 2005 year-end balance includes ¥35.9 billion in stock from the Tomakomai East Development Corporation and the Mutsu Ogawara Development Corporation.

## Features of the Fiscal 2006 Investment and Loan Plan

### Fiscal 2006 Investment and Loan Amount

In keeping with the reform of special public corporations, DBJ plans to invest or lend a total of 1,110.0 billion yen in fiscal 2006, which is 58.0 billion yen less than in the initial plan determined in fiscal 2005. These outlays are part of an effort to provide financing in cooperation with private-sector financial institutions to areas critical to the achievement of national economic and fiscal policies on regional economies, the environment, technology, and other issues.

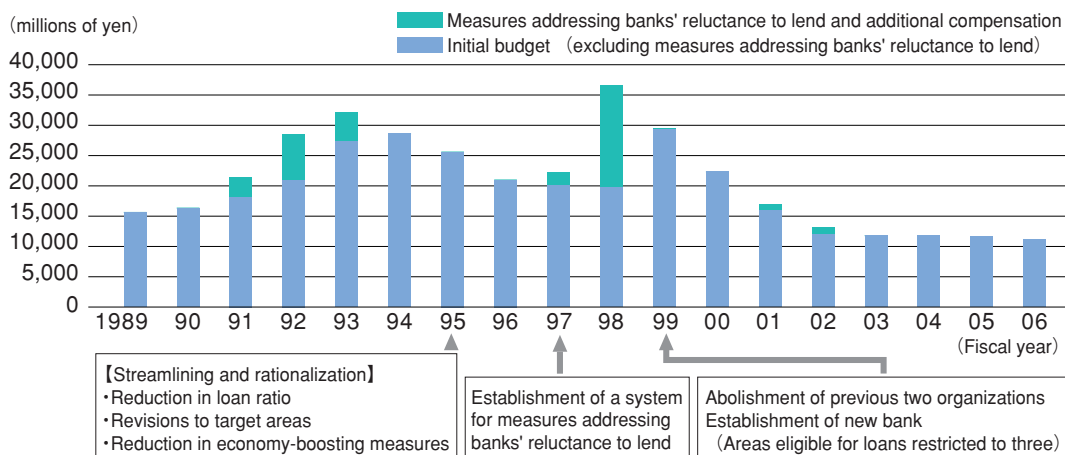
Accordingly, the balance of loans is expected to decline by about 5.8 trillion yen compared to the figure at the time of DBJ's founding (from 18.8 trillion yen at the end of March 2000 to an estimated 13.0 trillion yen at the end of March 2007).

### (Reference)

#### Comparison of Fiscal 2006 Investment and Loan Plan and Initial Amounts Planned in Recent Years

Fiscal year	Initial amount planned	(Billions of yen)	
		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	
2005	1,168	▲ 1,062	
2006	1,110	▲ 1,120	

## Budget Trends (based on total for former two organizations)



### Facilitating Use of Market for Fund Procurement

The capital that DBJ raised in the market through the Fiscal Investment and Loan Program (FILP) by issuing FILP agency bonds and government guaranteed bonds decreased by 93.6 billion yen compared to the initial fiscal 2005 plan to 754.4 billion yen. In accordance with the Basic Policies on Policy-based Financing Reform, DBJ will increase the proportion of capital raised through bond issuance (government guaranteed bonds and FILP agency bonds), in light of the potential for raising capital in the market. DBJ plans to issue 240 billion yen in FILP agency bonds, as in fiscal 2005.

### Activities in Three Priority Areas and Addressing Critical Areas

In light of economic and financial policies developed by the government of Japan, DBJ will continue to focus on activities in our three priority areas of community development, environmental conservation, and technology. At the same time, however, DBJ will also address critical issues such as disaster prevention measures and the asbestos problem. In developing its response, DBJ will capitalize on its key strengths - impartiality, reliability, longevity, expertise, networks, and ability to fund risky projects - and strive to energize the financial market by creating and popularizing new financing methods and economic value.

#### Addressing Critical Issues

##### ● Efforts to Prevent or Reduce Damage from Natural Disasters

DBJ has created a Loan Program for Promoting Disaster Management based on the Central Disaster Management Council's self-evaluation indicators of the corporate disaster management, and is committed to developing new risk financing methods for projects such as contingent financing in the event of an earthquake.

##### ● Resolving the Asbestos Problem

DBJ has developed a program to support replacement of asbestos with alternative materials in buildings and factories.

#### Contributing to Community Revitalization

- DBJ has augmented our support for projects consistent with community revitalization plans devised by local authorities.
- DBJ will continue to be actively involved with PFI and PPP, and will also add projects for privatizing public enterprises to the list of projects eligible for Loans for the Promotion of the Privatization of Public Enterprises. This is in line with the reform to realize a streamlined and efficient government.

# Overview

## Resolving Environmental Problems

Strengthening efforts to achieve the objectives of the Kyoto Protocol

- Equipment and facilities with low CO<sub>2</sub> emissions were added as eligible loan targets in an effort to promote "network enlargement measures" that will enhance efforts to achieve the Kyoto Protocol objectives.
- The program for residential-use photovoltaic generators was augmented to encourage households in reducing the emission of greenhouse gases.
- DBJ created a loan program for nuclear waste at interim storage facilities to promote the implementation of the nuclear fuel cycle.

## Promoting the Creation of Technology and New Industries

- DBJ increased our support for the development of technology contributing to a safe and reliable society and technology essential to the nation. The government's Third Science and Technology Basic Plan identifies these as priority areas.
- DBJ will continue our efforts to create and revitalize new industries based on the New Industry Promotion Strategy of the Ministry of Economy, Trade and Industry. We will encourage the further development and utilization of intellectual assets.

## Active Use of New Financing Techniques

- DBJ will encourage more active use of financial and capital markets through the securitization business of private financial institutions and securities companies, and will introduce a warehousing function for project financing to reinforce our ability to arrange new financial schemes.
- DBJ contributes to the development of new financial techniques, to help develop high-quality projects and vitalize the financial market. In addition, DBJ will strengthen our equity financing programs to provide valuable financing for projects that face risks.

## Fiscal 2006 Investment and Loan Plans, and Examples of Target Businesses in Each Field

(Billions of yen)

	Initial amount	Chief loan targets (examples)
<b>Community Development</b>	<b>521.0</b>	
Revitalization of regional economies	140.0	Regional revitalization, strengthening of regional competitiveness, encouragement of cold-winter region business activities, employment promotion, support for community renewal based on local character, promotion of tourism
Development of regional social infrastructure	130.0	Urban renaissance program, improvement of social capital using Private Finance Initiative's (PFI), promotion of the privatization of public enterprises, redevelopment of urban area
Creation of a widespread network	251.0	Construction of core transportation networks, air transport systems, information and telecommunication networks
<b>Environmental Conservation and Sustainable Societies</b>	<b>2,965</b>	
Environmental protection, energy, disaster prevention, and welfare measures	296.5	Promotion of environmentally friendly management using environmental ratings, promotion of stronger disaster prevention measures via disaster prevention ratings, promotion of businesses utilizing the Kyoto Protocol mechanisms, energy and security measures, development of new energy sources, urban flood control businesses
<b>Creation of New Technologies and Industries</b>	<b>280.0</b>	
Advanced technology and economic revitalization	70.0	New technology development, new industry creation and revitalization
Development of a socio-economic base	210.0	Business and industry rehabilitation, facilitation of easy access to Japan, support for security measures, promotion of the spread of financing for risk management
<b>Sub-total</b>	<b>1,097.5</b>	
Promotion of social capital creation	12.5	
<b>Total</b>	<b>1,110.0</b>	
<b>Procurement</b>		
<b>Fiscal Loan Fund</b>	<b>754.4</b>	
(FILP borrowing segment)	(374.4)	
(Government-guaranteed domestic bond segment)	(190.0)	
(Government-guaranteed overseas bond segment)	(190.0)	
<b>Self financing</b>	<b>355.6</b>	
(FILP agency bond segment)	(240.0)	

Note: The initial fiscal 2006 plan includes the following business activities—¥114.4 billion for the former Hokkaido-Tohoku Development Finance Public Corporation, ¥8.9 billion for the former lending business of the Japan Regional Development Corporation, and ¥6.7 billion for the former lending business of the Japan Environment Corporation.

# 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.

## Project

### Introduction of Finance Projects

#### ◆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

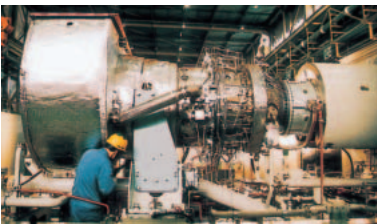
Helping to realize a sustainable, safe and secure society by supporting businesses that are committed to social responsibility

#### ◆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

## Business Revitalization for Local Companies

### Niigata Tekkosho Co., Ltd.



Even local companies with sophisticated technology and expertise may be forced to file for corporate reorganization when confronted with deteriorating economic conditions. To aid companies faced with these challenges, DBJ applies its knowledge of structured financing. Through DIP finance, M&A, and business revitalization funds, DBJ can sustain technology and employment within such local companies. This comprehensive support scheme serves as a model for business reorganization throughout Japan.

## Project Financing for PFI Projects

### Chiba City Omiya School Meal Service Center: Development and Operation

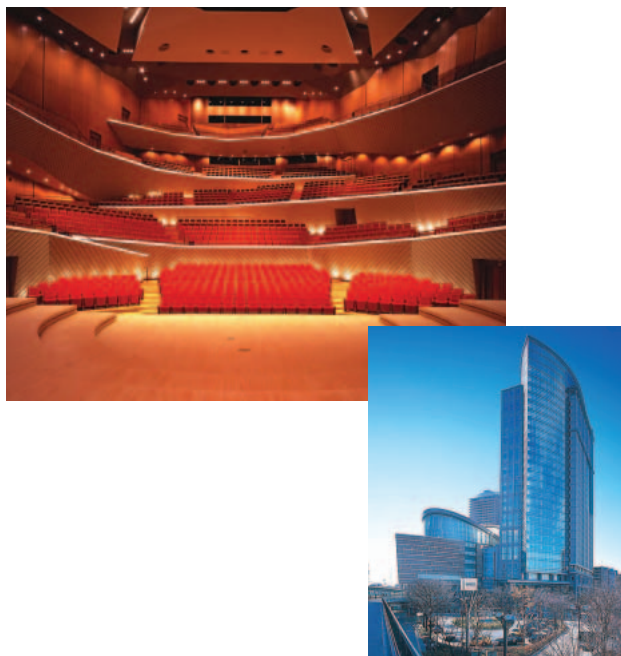


The private finance initiative (PFI) method of financing utilizes private-sector competence in constructing, maintaining, and operating public facilities. The use of PFI reduces business costs for the government and local public organizations, and provides higher-quality public services. DBJ has introduced this method to Japan, and drawing on experience with wide-ranging networks between the private - and public sectors as well as know-how on structured financing, the Bank has supported an extensive variety of PFI projects. For example, DBJ and Chiba Bank served as joint lead managers in a PFI project for a school meal service center contracted by the city. Keiyo Bank also participated in the project. The project, benefiting from the private sector's expertise in food sanitation, resulted in an appetizing and safe school meal service.

## New Efforts to Establish Urban Redevelopment Funds

### MUZA Kawasaki Project

Urban revitalization requires financial solutions that allow risk to be controlled. In one such example, DBJ structured non-recourse financing to fund the construction of a multi-use facility in the redevelopment of the west entrance of Kawasaki Station. DBJ established an urban revitalization fund, and in cooperation with local banks, provided financing for the riskier subordinated debt portion (mezzanine or "middle risk funds"). From its neutral standpoint, DBJ will continue using this method of finance to galvanize middle risk markets and for further revitalization of urban areas.

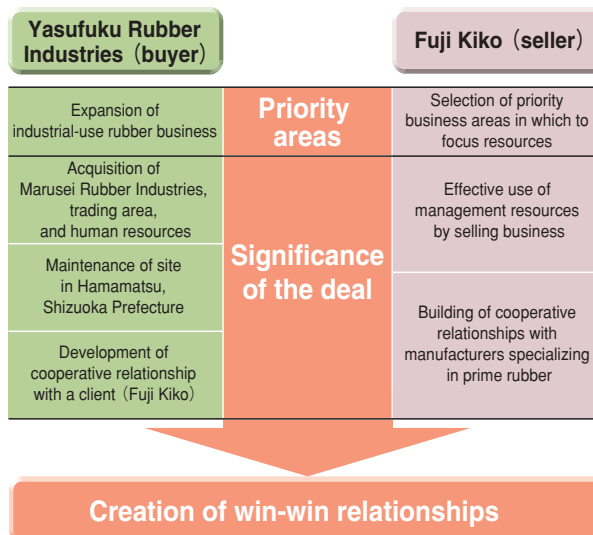


## Advice on Local M&A

### Yasufuku Rubber Industries Co., Ltd.

M&As are important tools in raising the business value of local medium-sized companies facing further globalization, heightened competition, and a shortage of successors. To assist Yasufuku Rubber Industries with the acquisition of another local company's non-core business, DBJ worked as advisory with the San-in Godo Bank Ltd. This type of project extends across several regions, making DBJ's Regional Bank M&A Network, which is used in areas where corporate information is unevenly distributed or specialized services are inadequate, particularly effective. DBJ plans to use diverse financing methods such as M&A to enhance the region-based relationship banking functions of local financial institutions.

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





## Multi-Level Support for Environment-Friendly Management of Distributor

### Nippon Express Co., Ltd.

DBJ offers a wide array of financial options to support companies that adopt environmental conservation measures. DBJ offers two environmental loan programs. The Loan Program for Promotion of Environmentally Conscious Management comprehensively evaluates a company's environmental protection measures according to a score sheet developed by DBJ. The program awards preferential loan rates based on the environmental rating. The second program, the Loan Program for Promotion of Plans to Achieve Kyoto Protocol Objectives, grants preferential loan rates to projects that are effective in reducing greenhouse gases. Nippon Express, a leading company in the Japanese distribution business, was the first to qualify. DBJ recognized the company for its pursuit of environmental management, as well as its measures to reduce global warming. The good example set by Nippon Express is expected to serve as a model for the entire industry.



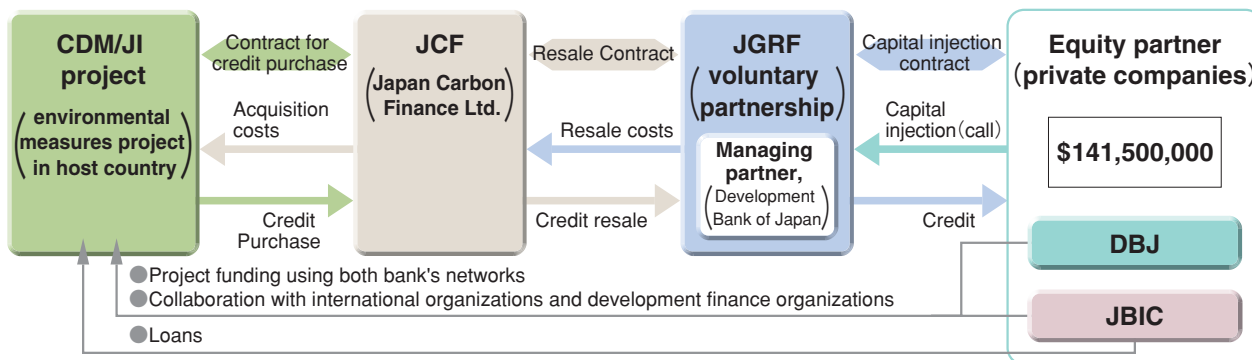
## Programs to Promote Global Warming Reduction Measures

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

To reduce greenhouse gas (GHG) emissions, DBJ has established the Japan GHG Reduction Fund (JGRF) with the Japan Bank for International Cooperation (JBIC), and various other private Japanese companies. JGRF is the first greenhouse gas reduction fund in Asia that uses the Kyoto Mechanism to purchase credits for emission rights earned in developing nations' greenhouse gas reduction projects for distribution among the fund's investors. For

Japan, a country with limited capacity for reducing greenhouse gas emissions, utilizing the Kyoto Mechanism can be a cost-effective solution, while at the same time contributing to the sustainable development of developing countries. DBJ remains committed to this project by taking full advantage of its network of overseas development finance organizations, as well as its expertise in environmental measures and fund operations.

#### Overview of Japan GHG Reduction Fund and Japan Carbon Finance



※CDM/JI projects : Clean Development Mechanism (CDM) and Joint Implementation (JI), measures to prevent global warming based on the Kyoto Protocol

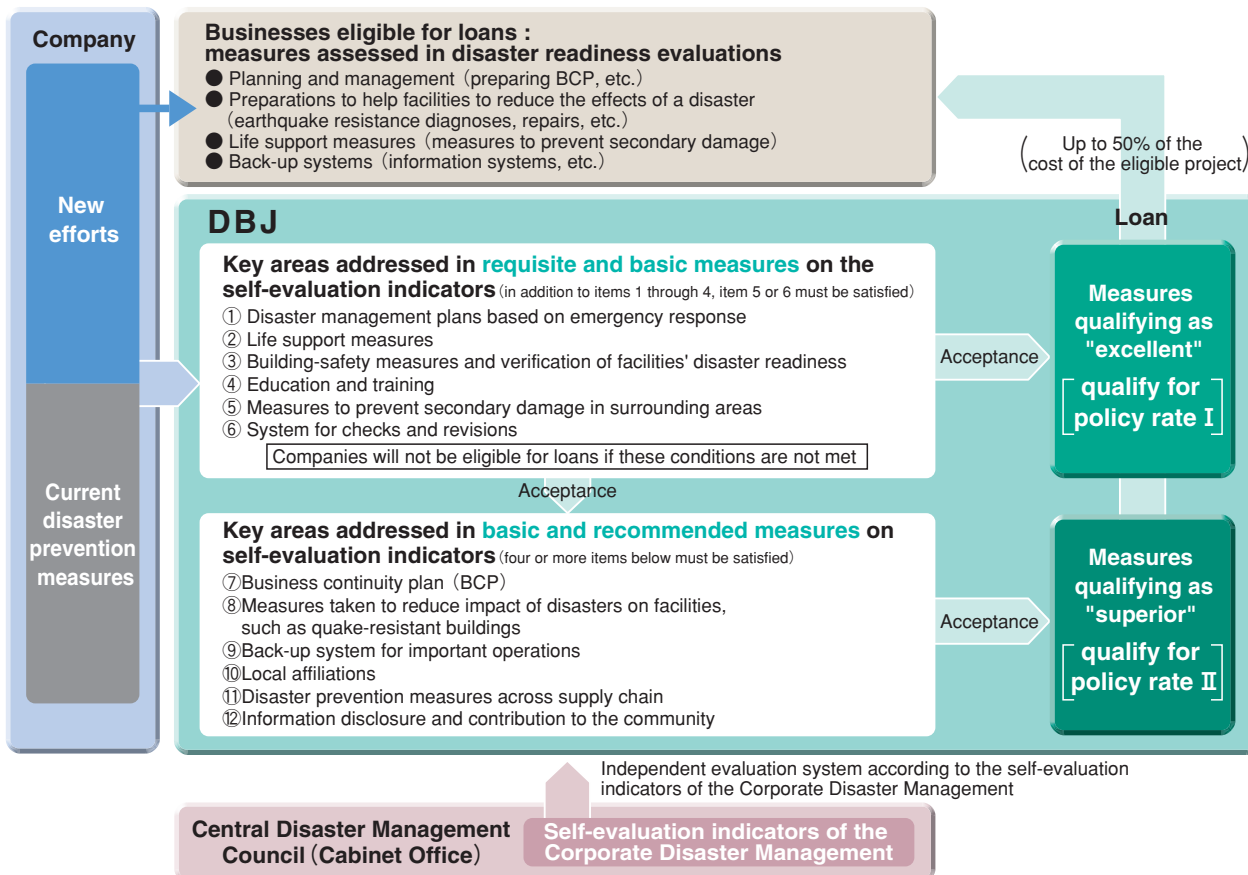
## Creation of the World's First Loan Program Using Disaster Prevention Ratings

### Yasuda Warehouse Co., Ltd.

The Loan Program for Promoting Disaster Management evaluates a company's disaster readiness using DBJ's own rating system. The system is based on the Central Disaster Management Council's Self-Evaluation Indicators of the Corporate Disaster Management. Companies with particularly impressive measures receive preferential loan rates. Yasuda Warehouse was the first to receive a loan through this program, and was chosen for its impressive disaster prevention system. Their system is based on a disaster prevention committee running across all departments. The loan was granted to Yasuda Warehouse to back up the company's information system and rebuild an outdated warehouse. Yasuda Warehouse is currently establishing a business continuity plan (BCP), and DBJ expects this to become a leading example in the distribution industry.



### Loan Program for Promoting Disaster Management



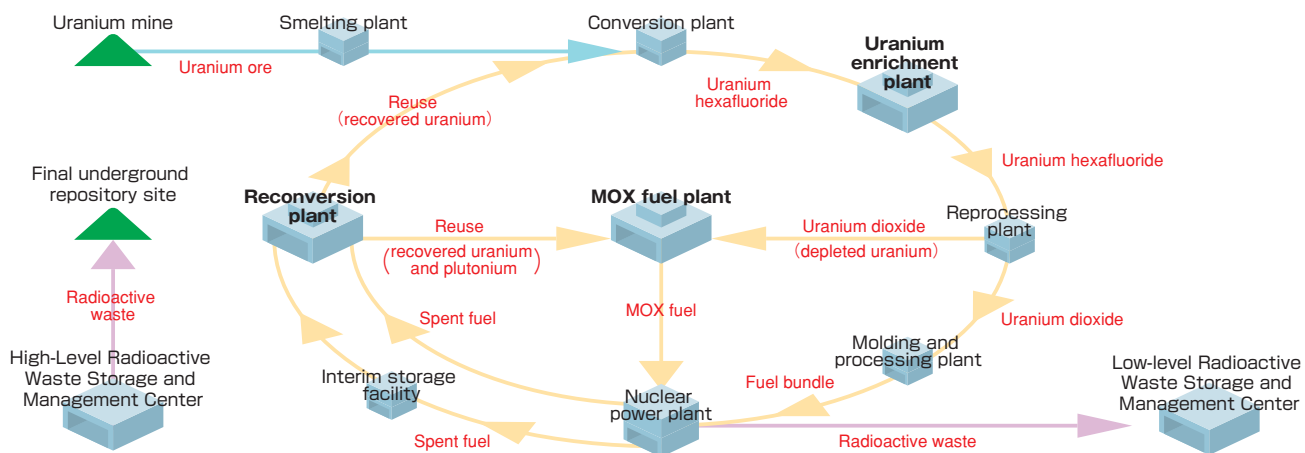
# Project to Build a Nuclear Fuel Cycle

Japan Nuclear Fuel Limited



Spent fuel storage facilities are responsible for ensuring Japan's energy security, managing the disposal of radioactive waste and the nuclear fuel cycle, and curbing greenhouse gas emissions. They play an essential role in

Japan's energy policy. The project requires massive facilities, calling for large amounts of capital and a long construction period. DBJ has assisted in promoting the project through a steady supply of long-term loans.



**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-, and solar-power generation facilities; fuel cell facilities; biomass energy facilities; liquid gas generation sites; promotion of natural gas

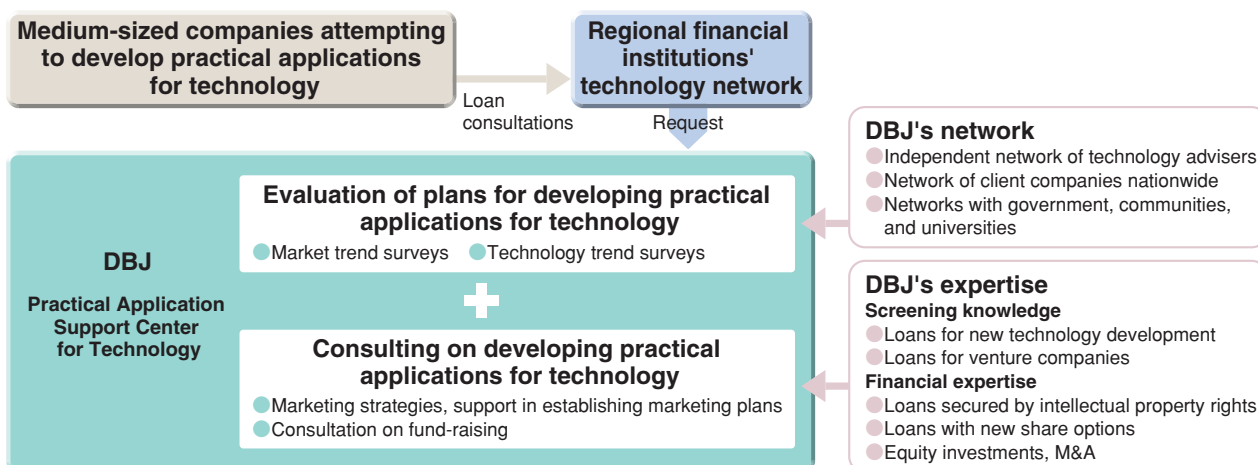
# Support for Technology Development

## DBJ's Practical Application Support Center for Technology

Fostering technology is an important aim for DBJ. Working in affiliation with regional financial institutions, the Bank has opened a Practical Application Support Center for Technology at its headquarters, the Kansai branch, and the Tohoku branch. The Center supports commercial application or technological development results within medium-sized

companies. Taking advantage of its networks of technology, specialists, and client companies, as well as its expertise in business evaluation and finance, the Center evaluates technology-related business plans and provides consulting. By fiscal 2005, the Center carried out a total of 53 studies and provided feedback to companies in 49 cases.

### Overview of the Practical Application Support Center for Technology



### Start of Manufacturing Management Index™ Assessment

The Practical Application Support Center for Technology strengthened its support of technology management within companies by introducing the Manufacturing Management Index™ in June 2006. The Index identifies the strengths and weaknesses in a company's capacity to administer technology - the driving force behind a manufacturer's potential for growth - and makes a quantitative assessment. This reveals a company's potential in a way that is not evident through financial indicators. The Index also enables an objective assessment of whether or not a company is effectively utilizing its own technical strengths, and how it can optimize these strengths through comparison with its peers. Through this concept, DBJ helps formulate strategic technology management plans.

### Case Study of Minato Genki Fund

DBJ has invested and collaborated with the Minato Genki Fund structured by the Kobe based Minato Bank Ltd. Group to assist local companies founded after the Great Hanshin-Awaji Earthquake. The Practical Application Support Center for Technology screened potential investments and evaluated businesses in cooperation with the New Industry Research Organization (NIRO) and Kobe University. DBJ also provided support such as management guidance and fund-raising after the investment.



## Growing Sophistication of Regional Medical Technology

### ODIC CO.,Ltd.

Supporting the development of new industry in the medical and welfare field is extremely important, not only to energize the economy, but also to address the needs of Japan's aging society. Aiming to enhance the sophistication of local medicine, DBJ donated cutting-edge positron emission tomography (PET) equipment for the early detection of cancer to local medical institutions such as Okayama University Hospital, on the condition that the equipment is shared with other local medical institutions. This is the first such example in Japan. DBJ arranged syndicate loans with local financial institutions, using its neutral standpoint to help the financing of the new business.



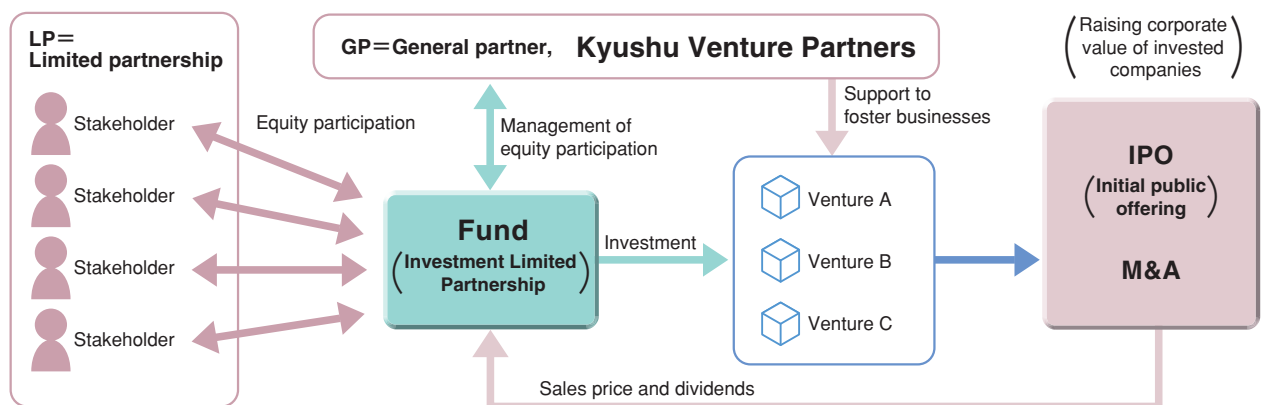
## Hands-on Investment in Local Venture Companies

### Kyushu IT and Semiconductor Investment Limited Partnership

Fostering venture companies requires not only capital, but also practical support including management guidance (incubation). The hands-on venture fund established between Kyushu business circles and Fukuoka Prefecture, based in Kyushu where much of Japan's IT and semiconductor industry is concentrated, aims to nurture new business ideas formed at universities and companies both within and outside the region. New businesses are

created through collaborations between industry, universities, and the government on a nationwide and global scale, with the objective of revitalizing local economies. DBJ provided expertise from a neutral standpoint when working with fund manager Kyushu Venture Partners to set up the fund. Utilizing its national and global networks, DBJ invests in the fund along with local companies.

#### Investment Limited Partnership



## Support for Media Content Industry

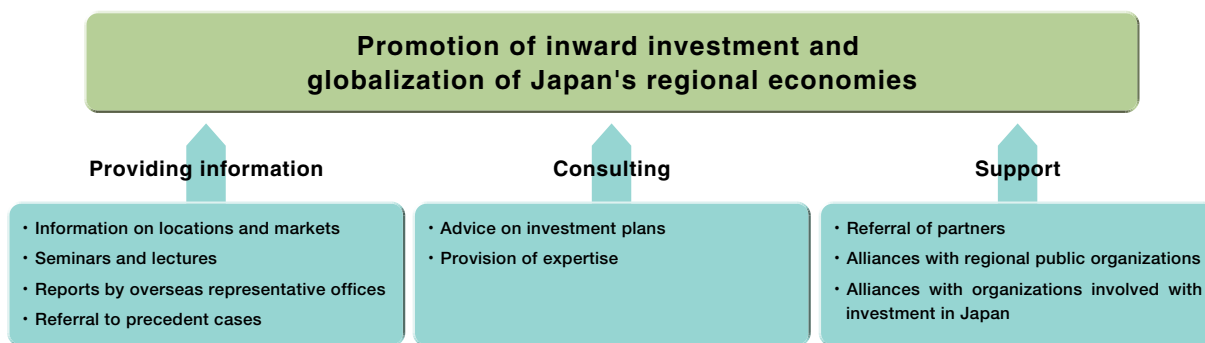
### Anime Innovation Tokyo



Japan is known throughout the world for animation and video, and growth in the Japanese content industry is expected to have a trickle-down effect on other industries such as tourism. However, entertainment projects are usually high risk, making them difficult to finance through regular bank loans. To support animators and the Japanese animation industry at large, DBJ has joined forces with the Tokyo Metropolitan Government in a pilot project that funds world class high-quality productions through limited liability partnerships (LLP).

## Promoting Foreign Direct Investment in Japan and Globalization of Japan's Regional Economies

Foreign capital investment in Japan not only facilitates the exchange of cutting-edge technology and knowledge - creating jobs and vitalizing the Japanese economy - but also helps develop Japan's regional economies. DBJ's Department for International Affairs as well as our overseas representative offices, support inward investments that bring the benefits of globalization to Japan's regional economies. This is done in a variety of ways such as: information provided through seminars and in reports issued by our overseas offices; consulting services for corporate investment plans; and alliances with regional public institutions and organizations such as JETRO.



### Case study ① : Business Transfer and Business Expansion through M&As

Inergy Automotive Systems K.K. is the Japanese branch of French Inergy Automotive Systems SA, a joint venture between French Plastic Omnium and Belgian Solvay SA. The company was established with Inergy's acquisition of the plastic fuel tank (PFT) business of Nissan Motor Co., Ltd. Automobile manufacturers are increasingly turning to PFTs because they enable flexible molds, reduce the chances of explosion in the event of a fire, have high impact endurance, and improve fuel efficiency. DBJ helped finance the construction of the new Kita Kyushu City factory as well as the business transfer.



#### DBJ's Perspective

This project resulted in a full-scale introduction of PFTs which have superior features compared to steel tanks to the Japanese market. The project also made efficient use of the Japanese automobile companies' manufacturing lines and facilitated its financial restructuring efforts.

### Case study ② : Support for Start-up of Japanese Branch

Shanghai Newtouch Software Company, Ltd., is a private Chinese company established in Shanghai in 1994. Focusing on outsourcing work in software development for companies in Japan and other foreign countries, Shanghai Newtouch Software Company also provides IT solutions for Chinese companies in China and abroad. The company has grown rapidly, setting up Japanese branches in Tokyo and Kobe to build closer relationships with clients and respond more quickly to client needs. DBJ provided the funding needed to launch the Japanese branches, covering the deposit on their office lease and software development costs.



#### DBJ's Perspective

Many foreign companies wishing to establish branches in Japan have a hard time raising initial start-up funds due to insufficient credit and collateral within Japan. Furthermore, language barriers and cultural differences often lead to communication problems. By providing office lease deposits and R&D funds, DBJ actively facilitates start-ups by foreign companies.

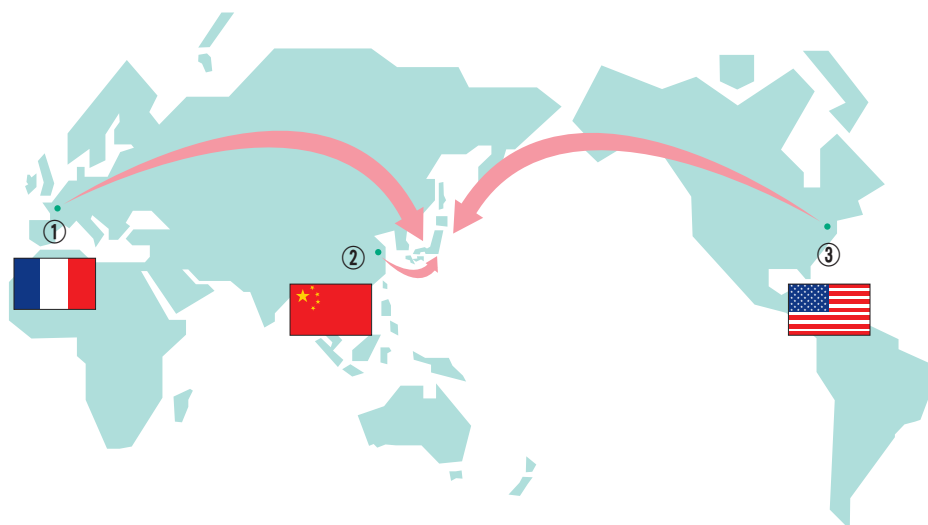
### Case study ③ : Founding of Engineering Center

Greene, Tweed Group is a US company that manufactures rubber and plastic sealants that prevent toxic and high-temperature fluids and vapors from leaking. Their products are used in semiconductor manufacturing equipment, aircrafts, oil rigs, and fluid treatments. The products are considered exceptionally safe, meaning the sealants perform well over a long period in highly toxic situations. The sealants can be expected to enhance efficiency by reducing product replacement frequency and to decrease user maintenance costs. DBJ provided aid for Greene, Tweed to build a new engineering center in Kumamoto Prefecture.



#### DBJ's Perspective

The project ensured that clients in East Asia's fast-growing market for semiconductors would receive urgent services such as product analyses and causal analyses. Kumamoto Prefecture is striving to boost its international competitiveness, particularly in semiconductor manufacturing technology, and DBJ felt this project was consistent with the prefecture's regional revitalization plan.





# Activities

## International Cooperation Activities

### Significance of International Cooperation

People in developing countries, particularly in Asia, are becoming aware of the importance of sound policy-based financing and development financing in addressing economic development challenges that are not adequately met by private-sector finance. Official development assistance organizations, related government agencies, and international development finance organizations all ask DBJ for intellectual cooperation. DBJ draws on our experience, knowledge, and the domestic networks we have built in assisting Japan's economic growth to answer these needs. DBJ has held an annual Developmental Finance Course in Tokyo since 1967, inviting development finance organizations from South Korea, China, the Association of Southeast Asian Nations (ASEAN), Latin America, Africa, and Eastern Europe. As part of our knowledge creation capacity, DBJ bases our international cooperation on high-quality training courses, surveys, and other programs that serve recipients while enhancing Japan's presence in the international community.

### Fiscal 2005 Activities

The Bank held lectures and workshops on topics pertaining to small and medium enterprise promotion and the creation of new businesses; common issues for the ten countries in Asia, Latin America, and Eastern Europe participating in the training program on development finance.

DBJ also provided training programs for Cambodia, Laos, Myanmar, Vietnam, Kazakhstan, Uzbekistan, and Mongolia, which are all transitioning to a market economic system. Participants working in the finance sector attended lectures on DBJ's operations and essential financial practices such as risk management, and also discussed development financing methods suited to their country's conditions.

In addition, DBJ conducted surveys in cooperation with numerous development assistance institutions and government agencies. The research included a study on industrial revitalization in regions along the borders of Thailand and Laos, and the possibility of industrial affiliations between these two countries. Further research was done on human resource development related to China's intellectual property, as well as aid for The Cambodia Garment Training Center. DBJ also provided advice on previous aid evaluations and future efforts.



Training in development finance: Discussing risk management for financial institutions.

# Governance

## Optimal Operations Management Framework

- ◆ Operations Management Cycle
- ◆ Internal Management System
- ◆ Disclosure
- ◆ Corporate Social Responsibility (CSR) Activities

# Governance



- 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

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.

## Operations Management Cycle

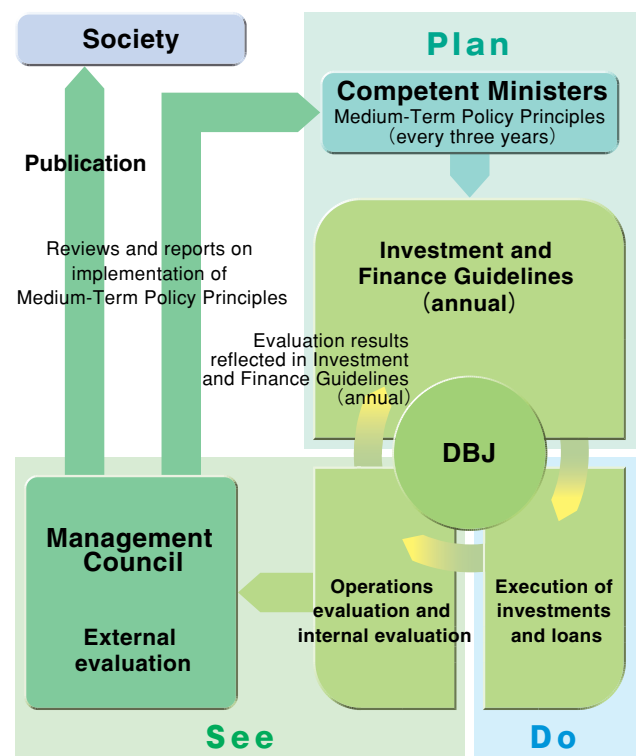
### Preparation and Publication of Investment and Finance Guidelines Based on the Medium-Term Policy Principles

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

### Management Council

The Management Council is comprised of outside experts, assembled in compliance 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 the examination are then published to enhance DBJ's transparency.

### Operations Management Cycle Based on the DBJ Law



**Management Council Profile**

Membership:	Maximum of eight members
Appointment:	Scholars and 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 end of June 2006) (◎ indicates the Chairman)**

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

◎ Shoichiro Toyoda Honorary Chairman and Director, Toyota Motor Corp.; Honorary Chairman, Nippon Keidanren

**Report of the Management Council of the Development Bank of Japan (December 2005)**

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

**Operations Evaluation**

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

**Mechanism for Evaluating Operations**

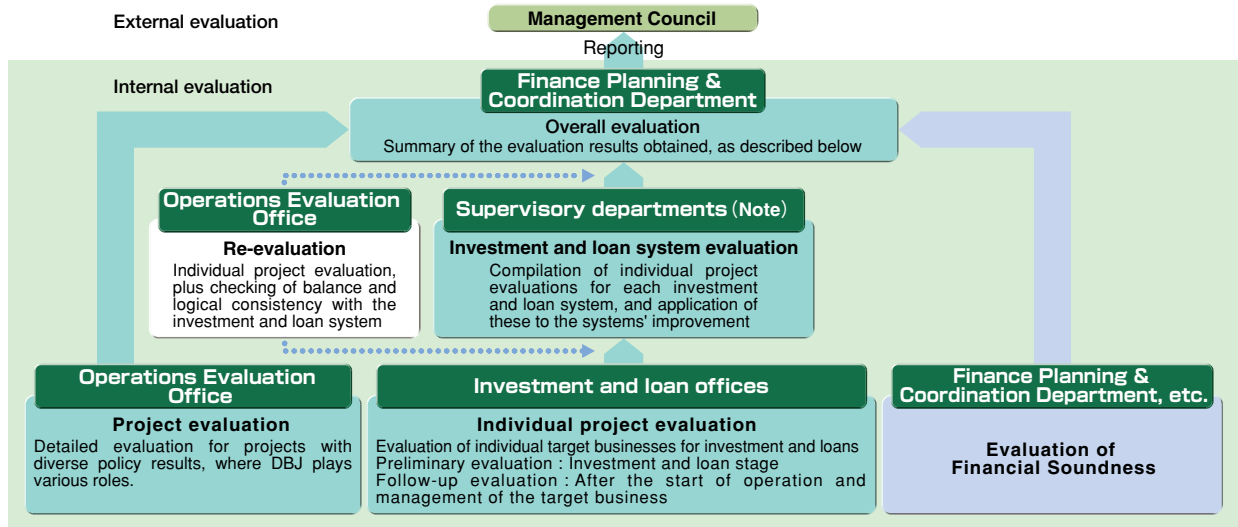
DBJ conducts its operations in line with the Medium-Term Policy Principles formulated by the competent ministers. The law stipulates that the Management Council discuss the realization and status of these policies. For this framework to work effectively, DBJ must evaluate its own operations and maintain an internal evaluation mechanism that can provide the Management Council with the information needed for deliberations. The operations evaluation mechanism assesses individual investment and loan 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 (please refer to the left figure, "Operations Management Cycle Based on the DBJ Law").

Specifically, the procedure consists of the following steps:(1) evaluation of individual investment and loan projects, i.e., an assessment of the policy significance of individual proposals;(2) evaluation of the investment and loan system, i.e., an assessment of its effectiveness;(3) evaluation of projects, i.e., a detailed evaluation of specific proposals; and(4) compilation of the results in a comprehensive Operations Evaluation Report, and release of the report after notifying the Management Council (please refer to the bottom figure, "Evaluation System").

To ensure an optimal evaluation system, DBJ has established the Operations Evaluation Office. The goal is to ascertain that internal evaluations generate accurate results. An additional committee of scholars and experts has been established to provide suggestions on improving the system.

# Governance

## 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.

### Factors Evaluated

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

### Legal Compliance System

DBJ regards the legal compliance system as an essential component of management in fulfilling the Bank's social missions and responsibilities as a policy-based financial institution. The Bank is currently undertaking organization-wide efforts as described below.

#### Development of a compliance system

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

#### Internal dissemination of compliance information

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

## Formulation of compliance programs

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

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## 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 oversees comprehensive asset/liability and risk management activities. The ALM Committee, consisting of executives and the DBJ Governor, determines basic policies related to comprehensive asset/liability and risk management, and conducts regular monitoring for each type of risk.

※ALM (Asset Liability Management)

Financial institutions manage their assets and liabilities in an integrated manner, and also control the risk posed by these assets and liabilities.

## Credit risk

Credit risk refers to the potential for losses due to decline or complete loss in asset value because of 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 administering a loan, DBJ examines the primary entity's project viability and profitability from a fair and neutral standpoint, and applies 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 evaluations in line with the Self-Assessment Criteria based on the Financial Services Agency's Financial Inspection Manual. The results of internal rating assessments and self-assessments are subject to auditing 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). The results are also reported to the ALM Committee and used to monitor borrowers in accordance with their credit risk and credit amount.

### ● Portfolio management

DBJ performs a comprehensive analysis of data used in internal ratings and self-assessment such as loan defaults, and calculates the loan portfolio's overall exposure to credit risk. Credit risk exposure can be classified as expected loss (EL), the average loss expected during a specific loan period, and unexpected loss (UL), the maximum loss that could incur at a certain rate of probability. The EL and UL calculations are reported to the ALM committee. 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 steps described below to control market risk.

### ● Interest rate risk

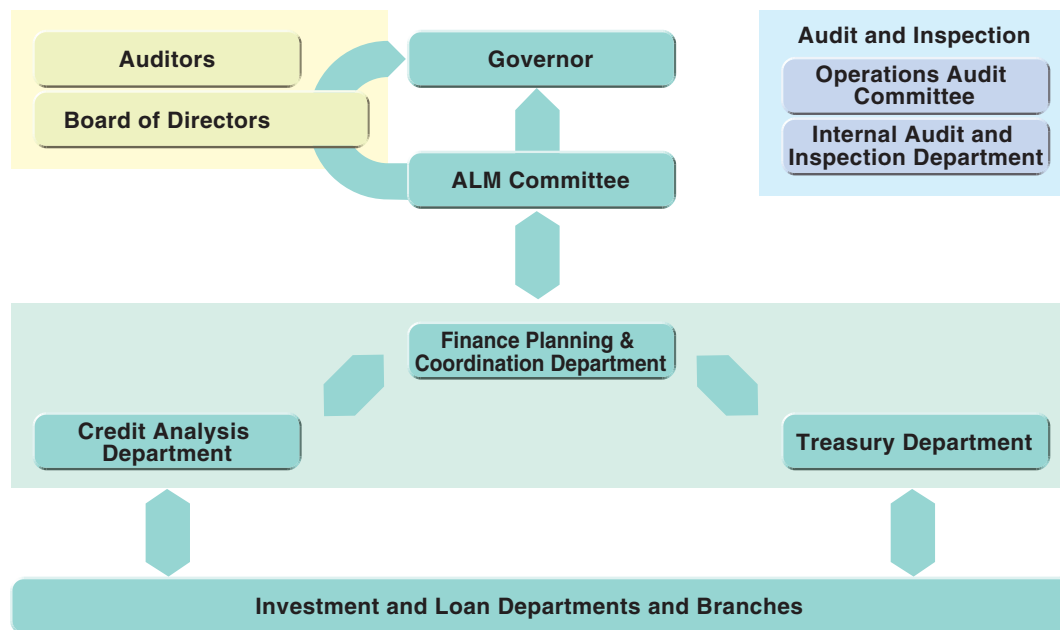
Interest rate risk refers to the threat of fluctuations in interest rates, which can reduce the economic value of DBJ's assets or interest income. DBJ calculates and analyzes risk exposure with cash flow ladder analyses (gap analysis), value at risk (VaR), interest rate sensitivity analyses (basis point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

# Governance

## ● Exchange risk

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

### Asset / Liability and Risk Management System



## 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.

## 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 loss due to a breakdown or malfunction of computer systems, system defects, or improper computer usage. To properly manage systems risk, DBJ is taking the following steps, an internal system to optimize systems risk management.

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

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

### Internal Audit Systems

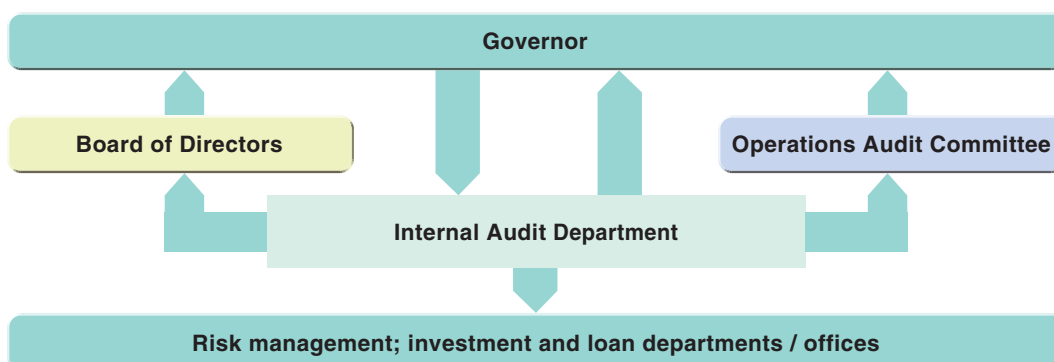
Independent from other management and operational departments, internal audits comprise a series of processes involving not only a comprehensive and objective evaluation of the organization's internal management conditions, but proposals and follow-up measures to improve the issues identified.

DBJ must fulfill our mission as a policy-based financial institution of the Japanese government, while maintaining our fiscal soundness as a financial institution. 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. Through onsite audits and inspections the department verifies the appropriateness and effectiveness of operations management with respect to risk management and to compliance with laws and regulations. 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





# Governance

## Disclosure

DBJ is committed to proper information disclosure, enabling all stakeholders to accurately determine the condition of the Bank. Information available for disclosure may be obtained from DBJ's head office and branches.

### Materials legally required for disclosure

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

### Voluntary disclosed information

Annual Report (August)  
 CSR Report (August)  
 Financial Report, in accordance with the Securities and Exchange Law of Japan (June and December, Japanese only)  
 (Months in parentheses indicate the issue dates)

### ◆ Website Information ◆

DBJ's website offers a wide array of 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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## Corporate Social Responsibility (CSR) Activities

### CSR Activities As An Integral Part of Everyday Operations

As a policy-based financial institution we strive to apply our long range perspective in accurately assessing the issues facing the Japanese economy. Our mission is fulfilled by identifying and helping projects that are not merely profitable but also meaningful for the Japanese economy and society. We help develop these projects by assessing risk and offering high quality financing solutions. We believe pursuing these daily operations in cooperation with businesses, private financial institutions, and the public sector is the most important CSR activity for us.

### Three Priority Areas for Loans and Investments

The three sectors below are priorities in DBJ's loan and investment program.

**Community Development:**

**Helping to create unique, self-sustaining regions**

**Environmental Conservation and Sustainable Societies:**

**Contributing to the creation of a harmonious, sustainable society, and a safe, prosperous living environment**

**Creation of New Technologies and Industries:**

**Supporting the creation of economic vitality based on technology, Japan's core strength**

DBJ applies a long range perspective in using sophisticated financing methods to provide loans and investments. Moreover, the Bank also makes recommendations on plans, supports business formation, and serves in an advisory capacity. In this way, DBJ supports projects with socio-economic significance (please refer to pages 14-22). DBJ's recent noteworthy efforts include its environmental rating system, initiated in April 2004, and its disaster management rating system, started in April 2006 (please refer to pages 17-18). By providing loans and privately-subscribed bond guarantees with preferential rates reflecting these ratings and feeding back the screening results of the rating process, DBJ encourages companies to promote environmental management and disaster management measures. This is a way of supporting the CSR activities of clients through information transmission.

### Three Priority Areas for Loans and Investment, and the Triple Bottom Line \*



※The triple bottom line is a concept that considers corporate activities and people's livelihoods from the three vital perspectives of society, the environment, and the economy. DBJ's three priority areas coincide with this concept.

### Alignment with UNEP FI

The activities of financial institutions have a significant indirect effect on the environment and society, via the medium of business activities. Thus financial institutions have a responsibility that goes beyond mere economic activities. In June 2001, DBJ became the first Japanese bank to sign the UNEP Statement by Financial Institutions on the Environment and Sustainable Development, pledging to strive for harmony between economic development and environmental conservation, and to cooperate in resolving environmental problems. Since joining UNEP's Finance Initiative (FI), DBJ has continued to work with UNEP FI and other institutions to pursue the Statement's intent of encouraging financial institutions' commitment to CSR. As part of these efforts, DBJ has served as chairman of the Asia Pacific Task Force and the Japan Group, established in January 2005.

## Environmental Activities and Communication

DBJ's role as a policy-based financial institution is based on the premise that DBJ will act as a responsible and reliable member of society, in addition to fulfilling its CSR obligation through loan operations. To meet this expectation, DBJ is involved with a wide variety of environmental activities and communicates closely with the community, as summarized below.

### ● Promotion of Environmental Management

The Development Bank of Japan Environmental Policy describes environmental conservation measures that can be carried out in the office, such as reducing paper and other waste, and using less electricity. The Policy also advocates the promotion of environmental measures and environmental education within everyday DBJ operations. The Policy aims to create an environmentally aware society and economy. Furthermore, DBJ obtained ISO 14001 certification in November 2002 (head office).

### ● Green Purchasing

Following Japan's Green Purchasing Law, which went into effect in April 2001, DBJ has set annual numerical targets for purchasing products and services that are not harmful to the environment.

### ● Support for Operation of Environmentally Friendly Buses

Since fiscal 2003, DBJ has co-sponsored the operation of environmentally friendly buses carrying passengers free of charge between the Otemachi, Marunouchi, and Yurakucho areas of Tokyo's business district. These buses help raise awareness around environmental issues all along their route.



### ● Presentations at Environmental Events

As part of its environmental communication, DBJ makes presentations at environmental events such as Eco Products, Japan's largest environmental fair. This helps deepen the understanding of the relationship between finance and the environment.

### ● Cooperation with Environmental Education

DBJ regularly cooperates with workshops on energy conservation and environmental problems at a middle school. The students take a quiz on the environment to improve their understanding of environmental issues.

## Assessing the Social Contributions of Operations, Using Policy-Based Financing Evaluation

DBJ has carried out policy-based financing evaluations since fiscal 2000 to ensure accountability as a policy-based financial institution, and to enable employees to keep learning. In addition to monitoring whether DBJ's activities observe the laws and systems in place, the evaluations also assess each project's socioeconomic effects. In this way, the evaluation is useful as a tool for measuring the extent to which DBJ's loans and investments have fulfilled our responsibility to the society. Please refer to the management cycle for operations (please refer to page 27) for information on the structure of the evaluation and the results of the calculations.

## CSR Reports

DBJ has issued a CSR related report every year since it first published the DBJ Sustainability Report in 2003. For more information, please refer to the DBJ website (<http://www.dbj.go.jp/english/index.html>).