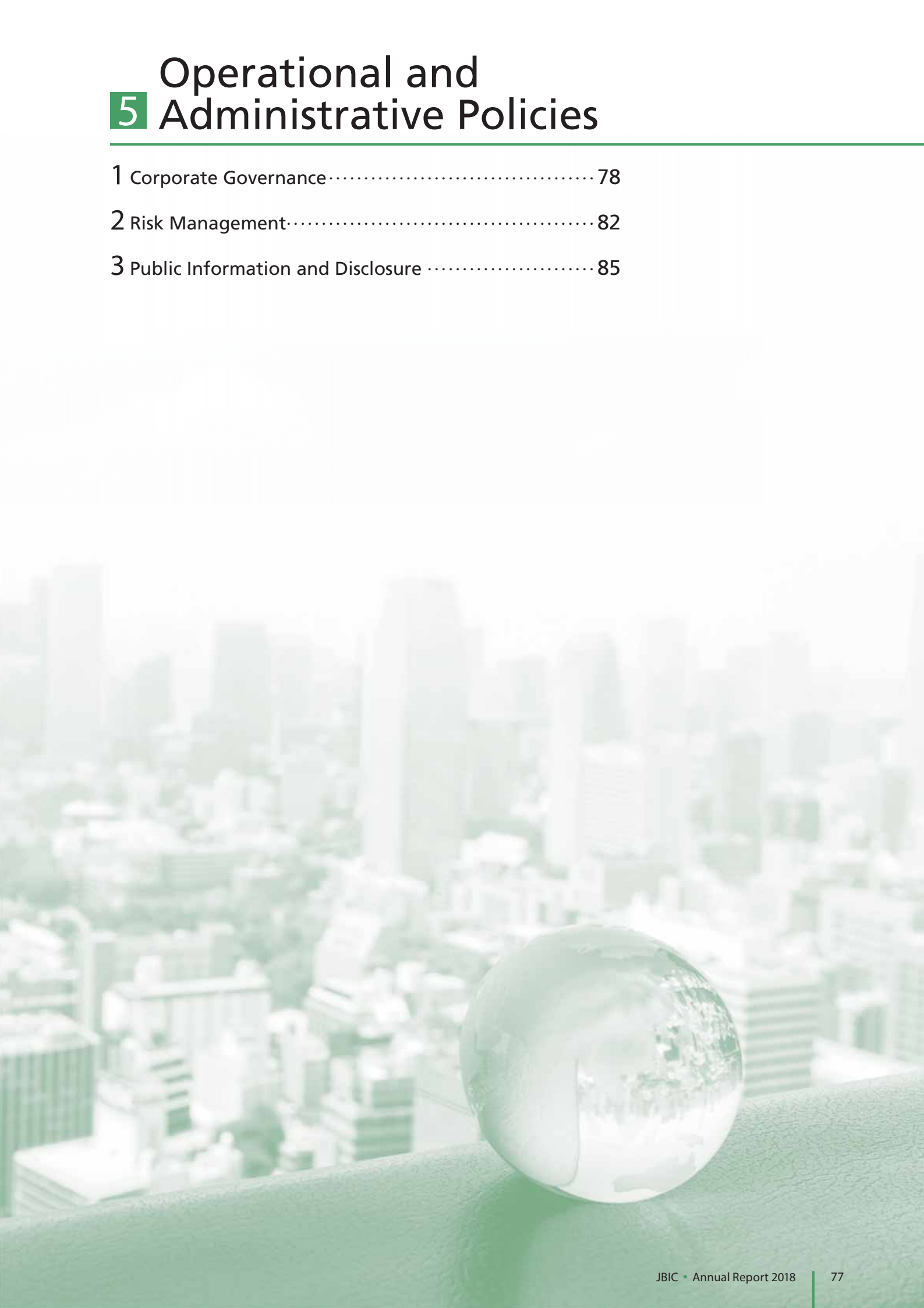


# 5 Operational and Administrative Policies

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1 Corporate Governance.....	78
2 Risk Management.....	82
3 Public Information and Disclosure .....	85

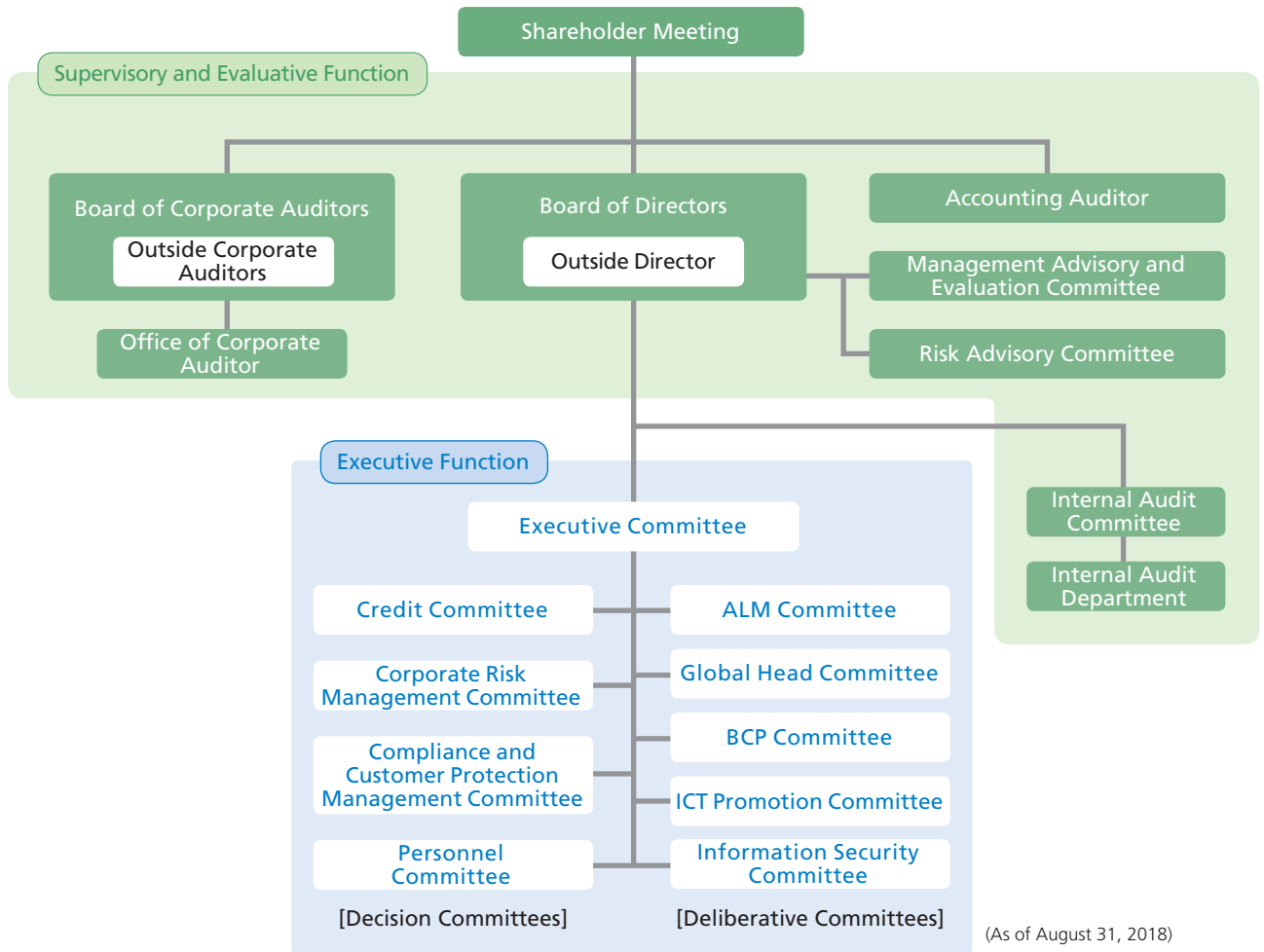


# 1 Corporate Governance

## ■ Fundamental Approach to Corporate Governance

JBIC is making efforts to build corporate governance structure in conducting operations with particular attention

to integrity and efficiency, as it seeks to fulfill the mission set out under the JBIC Act (Law No. 39, 2011) and realize its corporate philosophy.



## ■ Involvement of Japanese Government

As JBIC has its shares wholly owned by the Government of Japan, it is subject to the control of the Japanese government, its sole shareholder. Additionally, it is subject to the budget passed in the Diet, inspections by the Board of Audit of Japan, by the Competent Minister, and by the Financial Services Agency whose inspection is delegated by the Competent Minister.

## ■ Supervisory and Evaluation Function and the Conduct of JBIC Operations

To strengthen the supervisory and evaluative function of the Board of Directors as well as conduct speedy and flexible operations, JBIC has established, in addition to the Board of Directors, the Board of Corporate Auditors and other organs required by the Companies Act, the Management Advisory and Evaluation Committee, the Risk Advisory Committee, the Internal Audit Committee,

and the Executive Committee. Furthermore, a variety of committees were set up by the Executive Committee that delegates specific tasks to them.

### (1) Board of Directors

The Board of Directors consists of eight members, of which two members are outside directors as set forth in the Companies Act. The outside directors supervise the conduct of JBIC operations from the point of view of a corporate outsider, apart from representative directors of JBIC. In addition, the outside directors contribute to improving the governance of JBIC as a member of the Management Advisory and Evaluation Committee as well as the Risk Advisory Committee.

### (2) Board of Corporate Auditors

The Board of Corporate Auditors consists of three auditors, of which two are outside corporate auditors, as set forth in

the Companies Act. Outside corporate auditors contribute to improving the governance structure of JBIC, as they cooperate with the full-time auditor in auditing the conduct of its operations. As a section helping them execute their responsibilities, there is the Office of Corporate Auditor.

**(3) Management Advisory and Evaluation Committee**

The Management Advisory and Evaluation Committee consists of external experts, including the outside director. They make assessment and offer advice on the matters referred to them by the Board of Directors pertaining to the business operations and management of JBIC.

**(4) Risk Advisory Committee**

The Risk Advisory Committee consists of external experts, including the outside director. They offer advice on the matters referred to them by the Board of Directors pertaining to risk management and assessment framework associated with large-lot obligors and risk exposure to large-scale projects.

**(5) Internal Audit Committee**

The Internal Audit Committee consists of representative directors and the outside director. They make decisions and deliberations concerning important matters pertaining to internal audit, as delegated by the Board of Directors.

**(6) Executive Committee**

The Executive Committee consists of representative directors, executive directors, and all the managing executive officers. They make decisions and deliberations concerning important managerial matters, thereby taking responsibility for conducting flexible JBIC operations, as delegated by the Board of Directors. Certain decisions such as financing to a specific project are delegated to the following committees.

**(i) Credit Committee**

The Credit Committee makes decisions and deliberations concerning important matters on loans, equity participations, and guarantees by JBIC, as delegated by the Executive Committee.

**■ List of Members of the Management Advisory and Evaluation Committee**  
(As of July 31, 2018)

Name	Occupation
Shujiro Urata	Professor, Graduate School of Asia-Pacific Studies, Waseda University
Noriko Endo	Project Professor, Graduate School of Media and Governance, Keio University
Yoshinori Kawamura	JBIC Managing Director (Outside Director)
Shinichi Koizumi	JBIC Managing Director (Outside Director)
Yoshikatsu Suzuki	Journalist (formerly editor-in-chief <i>Diplomacy</i> )
Yuzo Takagi	Chairman & Representative of Audit Corporation GODAI, Certified Public Accountant
Takeshi Niinami	President & Chief Executive Officer, Member of the Board, Representative Director, Suntory Holdings Limited

(Listed in the order of 50 character kana syllabary, name listed without honorifics)

**(ii) Corporate Risk Management Committee**

The Corporate Risk Management Committee makes decisions and deliberations concerning important matters pertaining to the corporate risk management of JBIC, as delegated by the Executive Committee.

**(iii) Compliance and Customer Protection Management Committee**

The Compliance and Customer Protection Management Committee makes decisions and deliberations concerning important matters pertaining to the compliance and customer protection management of JBIC, as delegated by the Executive Committee.

**(iv) Personnel Committee**

The Personnel Committee makes decisions and deliberations concerning important matters pertaining to the personnel of JBIC, as delegated by the Executive Committee.

**(v) ALM Committee**

The ALM Committee makes deliberations concerning important matters pertaining to the asset-liability management (ALM) of JBIC, as delegated by the Executive Committee and the Corporate Risk Management Committee.

**(vi) Global Head Committee**

The Global Head Committee makes deliberations concerning cross-cutting matters among internal groups, including operational policy for each country or region, as delegated by the Executive Committee.

**(vii) BCP Committee**

The BCP Committee makes deliberations concerning enhancement of JBIC's business continuity plan (BCP) to be carried out, for example, upon the occurrence of large-scale disasters, as delegated by the Executive Committee.

**(viii) ICT Promotion Committee**

The ICT Promotion Committee makes deliberations concerning matters for achieving effective, efficient, and steady ICT (information and communication technology)

**■ List of Members of the Risk Advisory Committee**  
(As of July 31, 2018)

Name	Occupation
Shuhei Abe	President, CEO & CIO of SPARX Group Co., Ltd.
Eiji Ogawa	Professor, Graduate School of Commerce and Management, Hitotsubashi University
Akihiko Kagawa	Partner, Deloitte Touche Tohmatsu LLC
Yoshinori Kawamura	JBIC Managing Director (Outside Director)
Shinichi Koizumi	JBIC Managing Director (Outside Director)
Toshiki Tomita	Guest Scholar, Nomura Institute of Capital Markets Research
Mikiko Fujiwara	CEO of Alpha Associates Co., Ltd.
Chieko Matsuda	Professor of Management, Graduate School of Social Sciences, Tokyo Metropolitan University
Keisuke Yokoo	Vice Chairman & President, Japan Association of Corporate Executives

(Listed in the order of 50 character kana syllabary, name listed without honorifics)

when carrying out various measures required for the ICT plans and policies which had been determined by the Board of Directors and Executive Committee, as delegated by the Executive Committee.

**(ix) Information Security Committee**

The Information Security Committee makes deliberations concerning important matters pertaining to the use and management of JBIC's information assets, as well as information security, as delegated by the Executive Committee.

**Mission/Sector-Specific Group Structure**

JBIC reconstituted its organization and adopted a mission/sector-specific group structure. Its objective is to strengthen the capacity to formulate projects by bringing together

knowhow and expertise in each sector and area, thereby facilitating JBIC to perform the functions in its mission more flexibly and strategically.

Specifically, the Corporate Planning Group; Credit, Assessment and Risk Management Group; Treasury and Systems Group; Energy and Natural Resources Finance Group; Infrastructure and Environment Finance Group; Industry Finance Group; and Equity Finance Group were set up, with each Group having departments with special expertise.

For each Group, the responsible board member is appointed, and the managing director or a managing executive officer serves as the Global Head of each Group. Each Group is managed in an integral manner under the Global Head of the Group in an effort to conduct speedy, flexible and efficient operations.

**Members of Board of Directors**

Governor	Tadashi Maeda
Deputy Governor	Nobumitsu Hayashi
Executive Managing Director	Kazuhiko Amakawa
Senior Managing Director	Yasushi Hasegawa
Senior Managing Director	Kuninori Kuroishi
Senior Managing Director	Tatsuhiko Takesada
Managing Director (Outside Director)	Shinichi Koizumi
Managing Director (Outside Director)	Yoshinori Kawamura

**Managing Executive Officers**

Global Head of Corporate Planning Group	Shigeto Hashiyama	Corporate Planning Group
Global Head of Credit, Assessment and Risk Management Group	Yutaka Funada	Credit, Assessment and Risk Management Group
Global Head of Treasury and Systems Group	Tsuyoshi Nishitani	Treasury and Systems Group
Global Head of Energy and Natural Resources Finance Group	Masaaki Yamada	Energy and Natural Resources Finance Group
Global Head of Infrastructure and Environment Finance Group	Kazuhisa Yumikura	Infrastructure and Environment Finance Group
Global Head of Industry Finance Group	Kazuhiko Tanaka	Industry Finance Group
Global Head of Equity Finance Group	Shinji Fujino	Equity Finance Group

Member of Board of Directors    Member of Internal Audit Committee    Member of Executive Committee

### ■ Fundamental Policy on Internal Control

Pursuant to the Companies Act, JBIC has put in place an institutional structure, including internal regulations, to ensure the proper conduct of its operations and activities, based on the Basic Policy for the Internal Control System decided by the Board of Directors.

### ■ Compliance

JBIC has set forth in its Code of Conduct to “Maintain high ethical standards and a law-abiding spirit. Observe our moral code as a JBIC member at all times.” Its management and staff members are keenly aware of the public missions and social responsibilities called for in the international community and in civil society. It is also well recognized that any act in violation of laws, regulations, or rules by its management and staff will lead to denigrating confidence in JBIC as a whole and have a materially adverse effect on its operations. Attentive to these needs, JBIC is constantly striving toward compliance and operational integrity.

JBIC makes efforts to improve compliance, primarily through the Compliance and Customer Protection Management Committee and has established the Legal Affairs and Compliance Office as an integrated compliance management unit.

Each Group and Overseas Representative Office serving as a regional headquarter has an Integrated Compliance Officer, while each department and overseas representative office has a Compliance Officer for making efforts in compliance, such as fostering such awareness among JBIC employees.

To foster an in-depth understanding of compliance, JBIC makes good use of its Compliance Manual and provides training sessions for its management and staff members. It also develops a compliance program every fiscal year as a basis for making necessary compliance arrangements and providing relevant training, and follows up on the progress and completion.

In addition to the reporting procedures in its ordinary line of business, JBIC has put in place and is properly operating an internal reporting system such that it is capable of finding significant compliance issues at an early stage and taking appropriate remedial action.

### ■ Internal Audit

As an internal control system for overall operations, JBIC has appropriate internal audit procedures to review as well as evaluate their appropriateness and effectiveness and make recommendations to improve them. For these purposes, JBIC has the Internal Audit Committee, which includes the outside director, as a decision-making body independent of the Executive Committee that is responsible for conducting operations. There is also the Internal Audit Department, independent of the line departments and directly reporting to the Governor.

The Internal Audit Department exchanges relevant information and cooperates with the Corporate Auditors and an Accounting Auditor for executing efficient internal audit.

### ■ Maintenance and Control of Information Assets

JBIC sets forth its fundamental “Security Policy” concerning the use and management of information assets (see page 189) in order to secure high standard information security and implement proper and efficient operations. Based on the standard, JBIC properly handles, manages, protects, and maintains information assets.

### ■ Protection of Private Information

JBIC has drawn up and disclosed its Privacy Policy (see page 191) which stipulates appropriate management of private information held by JBIC pursuant to the provisions of the Act on the Protection of Personal Information Held by Independent Administrative Agencies, etc.

### ■ Conflict of Interest Management Policy

In accordance with the Financial Instruments and Exchange Act, JBIC has formulated the Conflict of Interest Management Policy and disclosed the outline of its content (see page 190).

# 2 Risk Management

In general, the operations of financial institutions involve various risks, including credit risk, market risk (such as interest rate and exchange rate risk, etc.), liquidity risk, and operational risk. As a policy-based financial institution, JBIC conducts financial operations to achieve policy objectives. Thus, JBIC differs from private financial institutions in its nature as well as the extent of risks involved in its operations and ways to deal with them. Nonetheless, recognizing the importance of appropriate risk management as a financial institution, JBIC has put in place an institutional system for risk management commensurate with different types of risks and for addressing integrated risk management.

More specifically, JBIC defines the objective of risk management as identifying, measuring, and monitoring various risks JBIC is exposed to in the process of conducting operations to ensure the soundness and integrity of operations and increase transparency. For this purpose, JBIC has designated the staff responsible for managing

various risks and has a department working on the overall risk management. In addition, there are the Corporate Risk Management Committee and the ALM Committee that hold discussions and make considerations for the effective functioning of risk management. JBIC has also set up the Risk Advisory Committee, which consists of external experts, to provide the JBIC Board of Directors with advice on the risk management and assessment system with respect to large-lot debtors and on issues referred to by the JBIC Board of Directors with respect to risks associated with large-scale projects.

JBIC has conducted risk management separated into the Ordinary Operations Account and Special Operations Account. The following sections describe how JBIC manages representative risks JBIC is facing, among various other operational risks, in conducting operations as a policy-based financial institution.

## Credit Risk

Credit risk refers to the potential loss from a decline or loss of the value of credit assets due to deterioration in the financial conditions of a debtor. This risk is inherent in JBIC's operations as it primarily engages in lending activities. Credit risk exposure to JBIC may be classified into: sovereign risk, which involves financing foreign governments; corporate risk, which involves financing business firms; project risk, which occurs when a project financed in project financing—a financing structure in which a loan is primarily secured on the cash flow generated from the project—fails to generate the planned cash flow; and country risk, which involves financing foreign firms as well as projects located in foreign countries (collateral risk arising from political and economic situations of countries where debtor companies are located or projects are under way). Given the very nature of financial support JBIC provides for promotion of overseas development and securement of strategically important resources to Japan, for maintaining and improving the international competitiveness of Japanese industries, and for promoting the overseas business for preserving the global environment, such as preventing global warming, JBIC frequently extends loans to foreign governments, government agencies, and companies. Therefore, sovereign and country risks account for a considerable share of the credit risks accompanying JBIC's operations.

### ■ Managing Credit Risk

The cornerstone of credit risk management at JBIC is the evaluation of an individual borrower's creditworthiness in the process leading to credit approval. When a new loan application is being processed, the relevant finance department and the Credit Department collect and analyze information on the borrower. The overseas representative offices also play a part in collecting information on foreign governments and companies. It is based on this information and its analysis that credit appraisal takes place, with checks and balances at work between these different departments throughout this process, leading to the final decision by management.

In providing credit for foreign governments and companies, JBIC makes the most of its unique position as an official financier, as it exchanges views and information with the governments and relevant authorities in the recipient countries, multilateral institutions such as the International Monetary Fund (IMF) and the World Bank, other official export credit agencies and, furthermore, with private financial institutions in developed countries. Using all these channels, JBIC evaluates sovereign and country risks based on a broad range of information collected on borrowing governments, government agencies, and political and economic conditions in their countries.

In providing credit for domestic and foreign companies, there is a need to evaluate their creditworthiness and the appropriateness of the collateral they offer. In particular, for credit provision related to overseas projects, credit evaluation involves checking and examining the certainty of conducting transactions to be financed, feasibility studies of the projects, and the industry in which the borrower operates.

### ■ Internal Credit Rating

JBIC has established an internal credit rating system which covers, in principle, all the borrowers. Internal credit ratings are the cornerstone of credit risk management, being used for conducting individual credit appraisals and quantifying credit risks.

### ■ Internal Assessment of Asset Portfolio

Japanese private financial institutions undertake the internal assessment of asset portfolios in accordance with *Inspection Manual for Deposit-Taking Institutions* (the "Financial Inspection Manual") of Japan's Financial Services Agency. JBIC is similarly undertaking the internal assessment of its loan portfolio referring to the Financial Inspection Manual so that the characteristics of its loan assets will be accurately reflected on its assessment. In this process, the first-stage assessment is conducted by the relevant financing departments, while the second-stage assessment is conducted by the Credit Department and



the Country Credit Department, which is then inspected by the Audit Department. The results of internal assessment conducted on the portfolio are not only used internally for the continuous reviews of the loan portfolio but are also reflected in the disclosure of asset quality to enhance the transparency of JBIC's financial position.

### ■ Quantifying Credit Risk

In addition to individual credit risk management, JBIC is working on quantifying credit risks with a view to evaluating the risk of the overall loan portfolio. To quantify credit risks, it is important to take into account the characteristics of JBIC's loan portfolio, which holds a significant proportion of long-term loans and loans

involving sovereign and country risks. Also to be taken into account are mechanisms for securing assets, such as the Paris Club<sup>1</sup>, a unique framework for debt management by official creditor countries. The credit risk quantification model incorporating these factors measures credit risks and is utilized for internal control.

1. The Paris Club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor nations. Since the first meeting took place in 1956 to resolve the debt problem of Argentina, the meeting has been held in Paris, with the French Treasury acting as its secretariat. Hence, it has come to be called the Paris Club.

## Market Risk

Market risk refers to the potential loss from changes in the value of assets and liabilities as a result of fluctuations in interest rates and foreign exchange rates. JBIC manages specific market risks as follows.

### ■ Exchange Rate Risk

Foreign currency-denominated loans involve the risk associated with exchange rate fluctuations. JBIC has a consistent policy of hedging the full amount of such exposure through currency swaps and forward exchange transactions.

### ■ Interest Rate Risk

Funding for yen-denominated loans is mainly managed at fixed-rate interest. Interest rate risk for yen-denominated loans, however, is limited since derivative transactions such as interest rate swaps are used to hedge interest rate risk for portions of loans that are thought to have high exposures to interest rate fluctuation risk. Interest rate risks associated with foreign currency-denominated loan operations and relevant fundings are generally hedged by managing the funds with floating interest rates with the use of interest rate swap transactions. In addition, JBIC carefully calculates and analyzes projections of its future asset/liability structure and profits and losses.

### ■ Derivatives Transactions

#### (1) Basic Policy for Derivatives Transactions

JBIC engages in derivatives transactions exclusively for the purpose of hedging exchange rate and interest rate risks.

#### (2) Transactions

Derivatives transactions of JBIC include interest rate and currency swaps and forward exchange contracts. The following table gives a summary of these transactions as of March 31, 2018.

#### Credit Risk of Derivatives, etc.

(As of March 31, 2018; unit: 100 million yen)

	Contract Amounts / Notional Amounts	Credit Risk Amounts
Interest Rate Swaps	50,074	586
Currency Swaps	32,744	3,349
Forward Exchange Contracts	948	8
Other Derivatives	—	—
Credit Risk Reductions through Netting		(2,359)
Total	83,767	1,585

"The credit risk amounts" are calculated under Uniform International Standards in accordance with the Banking Act of Japan and the related regulations.

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

Derivatives transactions involve the following risks.

##### ◆ Counterparty Credit Risk

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

##### ◆ Market Risk

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

#### (4) Measures to Address These Risks

##### ◆ Counterparty Credit Risk

JBIC constantly monitors the fair value of a derivative in conducting a transaction with each counterparty, credit risk exposure to it, and its creditworthiness. Such information is then used to assess the eligibility of the counterparty.

##### ◆ Market Risk

JBIC utilizes derivatives transactions exclusively for the purpose of hedging. Therefore, the market risk on derivatives transactions and the risk on hedged (lending or funding) transactions, in principle, offset each other.

## Liquidity Risk

Liquidity risk refers to the potential loss resulting from difficulties in funding due to a maturity mismatch between financing and funding caused by unexpected cash-outs or from being forced to fund at an interest rate significantly higher than in normal circumstances, as well as the potential loss resulting from a failure to make transactions in the market due to market turmoil or from being forced to make transactions at a significantly disadvantageous

price compared to normal circumstances.

JBIC is minimizing liquidity risk through effective cash flow management and the diversification of its funding sources, including borrowings under the Fiscal Investment and Loan Program (FILP), government-guaranteed bond issues in international capital markets, and FILP agency bond issues in the domestic capital market.

## Operational Risks

Operational risk refers to the potential loss resulting from inadequate or failed internal processes, people, and systems or from external events. Apart from administrative, computer system, and information security risks, JBIC recognizes that its operations involve various direct and indirect risks. JBIC will proactively identify, assess, and manage such risks.

### ■ Administrative Risk

Administrative risk refers to the potential loss resulting from the neglect by officers and employees to conduct administrative work properly, accidents caused by them, and violation of laws and regulations caused by them, etc., conducted in the course of the administrative work process.

JBIC has been minimizing this risk by ensuring sound operations through scrupulous checks on work processes, creating operational manuals, improving training programs, and streamlining and adopting systematic procedures.

### ■ Computer System Risk

Computer system risk refers to the potential loss from a breakdown or malfunction in computer systems as well as from their misuse. JBIC has been minimizing computer system risk by increasing its readiness to respond effectively to emergency situations. Specifically, (a) measures have been taken to prevent system malfunctions and leakage of client information; and (b) contingency plans have been prepared to respond to system malfunctions caused by accidents and other causes, and disaster-response drills have been conducted.

### ■ Information Security Risk

Information security risk refers to the potential loss due to threats to the confidentiality, integrity, and availability of information assets. JBIC has taken all possible measures to maintain information security by establishing information security regulations and a structure encompassing information management as well as by providing comprehensive education to management and staff members.



# 3 Public Information and Disclosure

JBIC is providing and disseminating information to a broad range of the domestic and overseas public in an effort to promote further understanding of its operations and activities.

The JBIC Information Center at the Head Office and the West Japan Office produce various brochures, annual reports, public relations magazines, and other materials available to the general public. In addition, a variety of information about JBIC is provided publicly in Japan and overseas through the JBIC website (<https://www.jbic.go.jp/en/>).

## ■ Publications

JBIC publishes its annual operations and activities as well as its financial conditions in various disclosure materials, including annual reports, business reports, financial statements, and Form 18-K, which is submitted to the U.S. Securities and Exchange Commission.

Other publications available to the public include *JBIC Today*, a public information magazine that reports on JBIC's latest activities and topics on its operations and other relevant issues; *JBIC Profile: Role and Function*, a brochure describing JBIC operations; and pamphlets for project finance and other publications.



JBIC Today

## ■ Website

The website provides access to JBIC information, including its financial instruments, introduction of each business area, press releases, invitations to seminars, reports on various studies, annual reports, various brochures, IR information for investors, and various other types of information.

In January 2018, JBIC renewed its website to make it easier to read and use. Not only was the design wholly revamped but the website is now easily accessible from multiple devices such as smartphones.

JBIC aims to enhance the content to keep it up to date.



JBIC website PC site



Smartphone site

## ■ Information Dissemination for the Media

Aside from information disseminated through various publications, the website, and other means, JBIC informs the news media about its operations and activities through press conferences, meetings, etc.

## ■ Disseminating Information from Overseas Representative Offices

JBIC's overseas representative offices are actively contributing reports and articles to the news media to provide information, such as political, economic, and business trends in overseas development, etc.

### ■ Promoting International Exchange

Since 1976, JBIC has held annual JBIC Seminars in Japan to promote mutual understanding with its overseas business partners and relevant organizations by inviting officials from foreign governments, government agencies, private companies, financial institutions, etc. The cumulative number of seminar participants is approximately 690 to date.



Participants at a JBIC Seminar

### ■ Participating in Various Events

JBIC actively takes part in events held both in Japan and overseas in order to explain its role and functions, its support in the environmental field, etc.

JBIC set up a JBIC Booth at the Asian Development Bank (ADB) Annual Meeting held in Yokohama in May 2017. In December 2017, JBIC exhibited at Eco-Products 2017, which was held at Tokyo Big Sight. Overseas, in

February 2018 JBIC participated in Mining Indaba in South Africa, one of the world's largest mining conferences.



Eco-Products 2017

### ■ Disclosure

JBIC discloses to the public its operational and financial information to promote further understanding of its current activities, as follows.

Source of Information	Access
Report on Settlement of Accounts	<ul style="list-style-type: none"> <li>● Available at the Head Office and the West Japan Office</li> <li>● Distributed to the National Diet Library and economic organizations, etc.</li> </ul>
Annual Report, Public Relations Magazine, etc.	<ul style="list-style-type: none"> <li>● Available at the Head Office, the West Japan Office, and Representative Offices</li> <li>● Distributed to interested persons/institutions</li> </ul>
Website: ● Type of Business Operations, Operational Results, Overview of Organization, Financial Composition, etc.	<ul style="list-style-type: none"> <li>● On the internet Address: <a href="https://www.jbic.go.jp/en/">https://www.jbic.go.jp/en/</a></li> </ul>