

# 2017 Annual Report

日本の力を、世界のために。  
Supporting Your Global Challenges



**JAPAN BANK FOR  
INTERNATIONAL COOPERATION**

# JBIC 2017

Japan Bank for  
International Cooperation  
Annual Report

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## Numerical figures in this report

1. Numerical figures, other than percentages, in this report are truncated to the nearest whole number. (Figures prior to FY2008 were rounded off.) Percentage figures are rounded off. Thus numerical and percentage figures may not add up to the totals given. Amounts denominated in foreign currencies are treated as follows. Commitments are converted into yen at the Basic Rate of Exchange (revised semi-annually by the Minister of Finance, based on the prevailing market rates during the preceding six months) at the time financing contracts are concluded. Disbursements, repayments, and outstanding balances are calculated based on book value.
2. Numerical figures less than the specified units are denoted by "0"; "—" denotes that data is not available.
3. Until FY1998, the data of the Export-Import Bank of Japan (JEXIM) was used. Data in FY1999 is the sum of the data from JEXIM in the first half and that from the International Financial Account of the then-JBIC in the second half. From FY2000 to FY2007, data came from the International Financial Account of the then-JBIC. Data for FY2008 is the sum of the data from the International Financial Account of then-JBIC in the first half and the data from the Account for JBIC operations under the Japan Finance Corporation in the second half. From FY2009 to FY2011, data came from the Account for JBIC operations under the Japan Finance Corporation. Data for FY2012 and after is that of JBIC.
4. Due to the launch of the newly established Special Operations, JBIC started to perform separate accounting procedures for the Ordinary Operations and the Special Operations on October 1, 2016. Data for JBIC operations during the period until the day before October 1, 2016, was recorded in the Ordinary Operations Account. In this annual report, financial data after October 1, 2016 is presented separately in the Ordinary Operations Account and the Special Operations Account. For financial reporting in FY2016, data from the Ordinary Operations Account covers the period from April 1, 2016 to March 31, 2017, while that from the Special Operations Account covers the period from October 1, 2016 to March 31, 2017. In the supplementary document "Data 1: Statistics," which can be found later in this annual report, JBIC's business data is presented without separating the Ordinary Operations Account and the Special Operations Account.

# Profile of JBIC

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## The Purpose of JBIC

Japan Bank for International Cooperation (JBIC) is a policy-based financial institution wholly owned by the Japanese government, which has the objective of contributing to the sound development of Japan and the international economy and society, by conducting financial operations in the following four fields:

- Promoting the overseas development and securement of resources which are important for Japan
- Maintaining and improving the international competitiveness of Japanese industries
- Promoting the overseas business having the purpose of preserving the global environment, such as preventing global warming
- Preventing disruptions to international financial order or taking appropriate measures with respect to damages caused by such disruptions

## Corporate Slogan

日本の力を、世界のために。

Supporting Your Global Challenges

## Corporate Philosophy

The objective of JBIC, as set forth in its statutory law, is to “contribute to the sound development of Japan and the international economy and society” by executing a variety of financial functions. To pursue this objective, we have set out the following corporate philosophy, which espouses three core values: “Hands-on Policy,” “Customer-1st Approach,” and “Forward-looking Action.”

**Positioned at the crossroads of global business opportunities,  
JBIC is opening new venues to the future for the Japanese and global economy.**

**Hands-on Policy:** Pioneering new value by participating at the forefront of overseas project development, and by engaging proactively in projects from the early stages

**Customer-1st Approach:** Offering customers one-of-a-kind solutions by adopting their perspectives and integrating their views into policy development

**Forward-looking Action:** Contributing to the sustainable development of Japan and the world as a whole by deploying highly professional skills, with a view to realizing a secure and affluent future society

## Operational Principles

JBIC, as a policy-based financial institution and in accordance with the following principles, conducts speedy and well-focused operations based on policy needs in response to economic and financial situations in Japan and abroad.

### 1. Supplementing the financial transactions implemented by private-sector financial institutions

To effectively perform the functions required for policy-based financing, JBIC shall take account of situations where private-sector financial institutions are placed in their international finance activities and supplement their operations.

### 2. Ensuring financial soundness and certainty of repayment

Pursuant to the JBIC Act, JBIC shall make efforts to maintain the financial soundness of its operations, and when making financial decisions, to conduct adequate screening regarding the outlook for the recovery of funds.

### 3. Maintaining and improving international creditworthiness and confidence

In order to conduct adequate operations and effective overseas funding operations, JBIC shall maintain and improve the international creditworthiness and confidence gained by JBIC over the years.

### 4. Conducting business operations by drawing on its expertise and initiatives

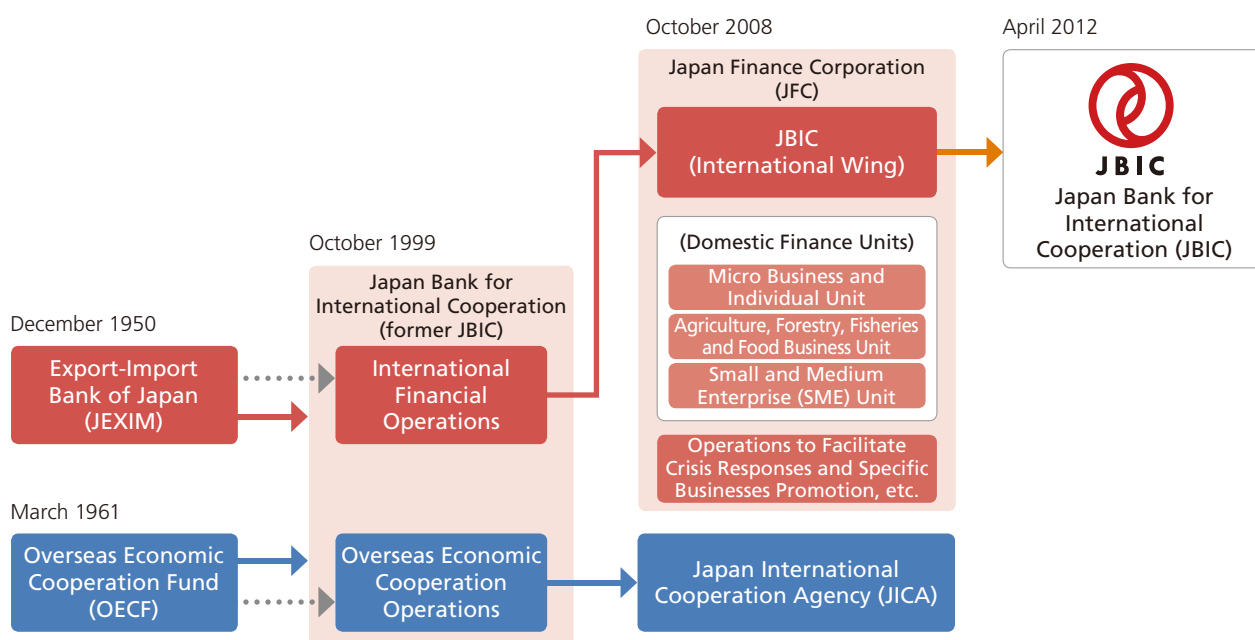
JBIC shall conduct operations by drawing on its own expertise and initiatives on international finance.

## JBIC Code of Conduct

- Act consistently in the public interest. Contribute to Japan and the international community by pursuing our Mission.
- Prioritize client satisfaction. Deliberate, decide, and act from the client's perspective.
- Accept responsibility as a professional. Perform every task based on your own initiative.
- Undertake challenges daringly. Create new value without fear of failure.
- Work quickly and cost-effectively. Enhance your work quality with an eye to efficiency.
- Focus on teamwork. Share unified objectives with your colleagues to achieve significant successes.
- Maintain high ethical standards and a law-abiding spirit. Observe our moral code as a JBIC member at all times.

## History

JBIC was established on April 1, 2012 in accordance with the Japan Bank for International Cooperation Act (JBIC Act), which was promulgated and came into effect on May 2, 2011.



## Profile

Name	Japan Bank for International Cooperation (JBIC)
Office	4-1, Ohtemachi 1-chome, Chiyoda-ku, Tokyo 100-8144, Japan
Capital*	¥1,683.0 billion (wholly owned by the Japanese government)
Outstanding Loans and Equity Participations*	¥14,657.4 billion
Outstanding Guarantees*	¥2,385.0 billion

\* As of March 31, 2017



# 2 Interview with the Governor

1

Profile of JBIC

2

Interview with the Governor

On behalf of the Japan Bank for International Cooperation (JBIC), I would like to express my sincerest appreciation for your continued support for and understanding of JBIC.

In 2016 the global economy was exposed to several downside risks to economic growth. These included the impact of monetary policy normalization in the U.S. and decelerating economic growth in China and other emerging countries.

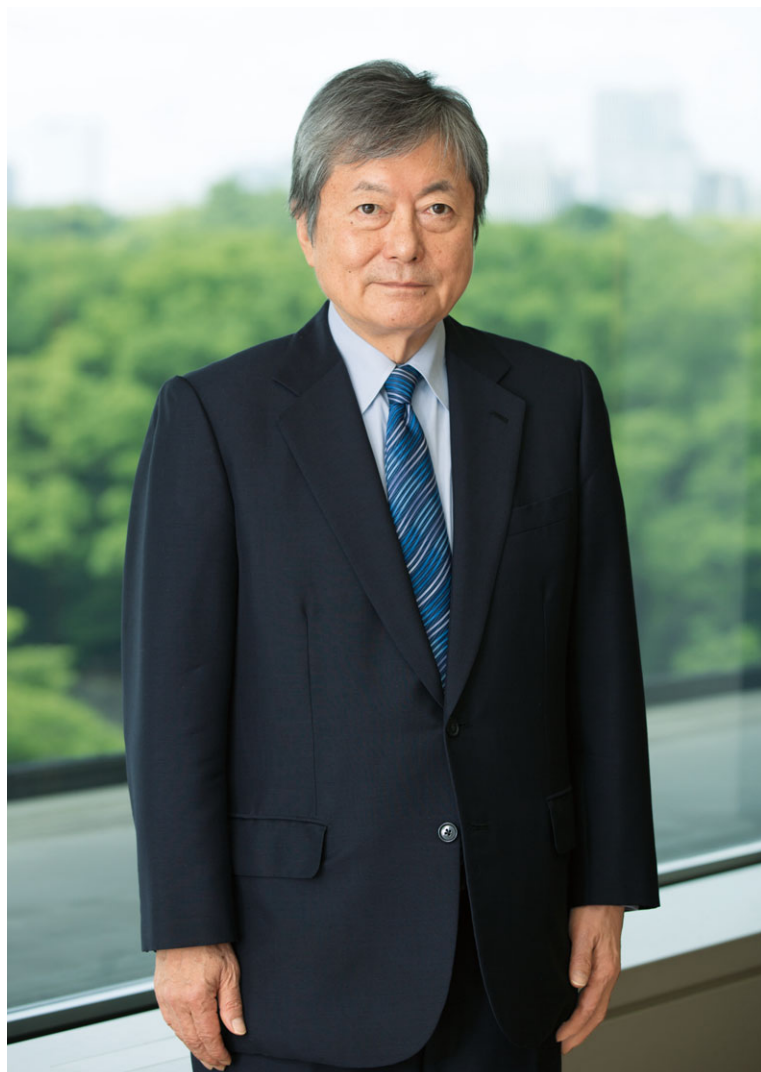
Under these conditions, the international environment surrounding the Japanese economy is further changing. In the energy and natural resources sector, it is an important challenge that resource-poor Japan develops energy and mineral resources and secures a medium-to-long-term supply of those resources by increasing its self-development ratio of the resources, which can be achieved through intensified joint efforts of the public and private sectors in resource diplomacy and energy cooperation while watching changes in the international geopolitical structure.

Meanwhile, Japanese industries are accelerating their pursuit of income-earning opportunities overseas to respond to an expected decline in domestic demand as a result of declining birth rates and aging population. It is a key task to promote the investment in quality infrastructure with outstanding economic efficiency, such as a reduction in lifecycle costs, and safety by making the best use of Japan's leading technologies and know-how, with an eye to Japan's strong economic growth in the future. Therefore, instead of merely exporting machinery and facilities, it is important to promote public-private partnerships (PPP) and undertake diverse business development, such as expanding project investments and securing orders for systems encompassing design, operation, and management. Furthermore, achieving a balance between environmental conservation and economic development is a universal challenge. In addition to developing projects that respond to the need for reduced environmental and social impacts, there is an increasing expectation to form renewable energy projects that employ Japan's

advanced environmental technologies as well as projects that contribute to improving and protecting the natural environment.

The Act for Partial Amendment of the Japan Bank for International Cooperation Act (Amendment Act of the JBIC Act) was enacted in May 2016 to enhance JBIC's functions in providing further support toward Japanese companies' overseas businesses. As part of the enhancement of functions, in October 2016, JBIC launched the Special Operations to strengthen its risk-taking ability for overseas infrastructure projects.

As Japan's policy-based financial institution, JBIC will continue to focus on developing sophisticated and diverse financial techniques to better support Japanese companies as their presence overseas grows.



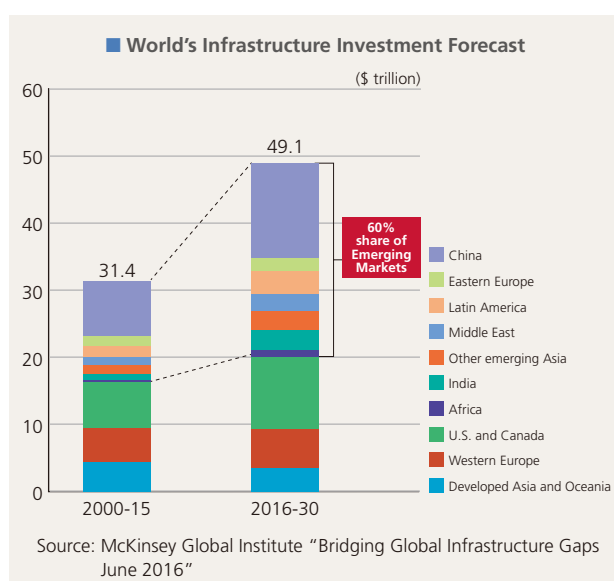
## Akira Kondoh

Governor  
Japan Bank for International Cooperation (JBIC)

### — How would you describe the global economy and the international environment surrounding Japan in 2016?

The global economy was relatively stable in 2016, but still remained sluggish overall. I believe that any assessment of the global environment surrounding Japan should be made from a medium- to long-term perspective, with particular focus on global infrastructure investment.

Global infrastructure investment during the 15-year period from 2016 to 2030 is forecast to increase around 1.5 times to \$49.1 trillion. This compares with cumulative investment of \$31.4 trillion from 2000 to 2015. Also noteworthy, the share of this investment by emerging markets is expected to grow from about 50% in the past 15-year period to around 60% of total investment during the next 15 years (Source: McKinsey Global Institute).



Breaking this down further, infrastructure investment demand in Asia is forecast to total \$26 trillion over the next 15 years (\$1.7 trillion/year) (Source: Asian Development Bank).

To drive growth within the ASEAN region, it is important to facilitate economic activities by maintaining the connectivity of such infrastructure as electric power, railways, roads, and information and communications networks. In 2010, ASEAN adopted a Master Plan to strengthen connectivity among infrastructures, systems, and people and is steadily progressing with an infrastructure plan that includes cross-border highways, gas pipelines, and power transmission lines based on a wide-region infrastructure scheme. In 2016, ASEAN members revised this Master Plan to accelerate infrastructure development. Going forward, it is certain that 1) increased domestic demand driven by growth in emerging market economies will be materialized and 2) liquefied natural gas (LNG) markets will be expanded in tandem with rising needs for low-carbon gas-fired thermal power generation as a measure to combat global warming. LNG demand is expected to outpace supply over the medium to long term, with especially pronounced growth in demand in Asian emerging markets.

### — JBIC responded to these trends by launching the Special Operations in October 2016.

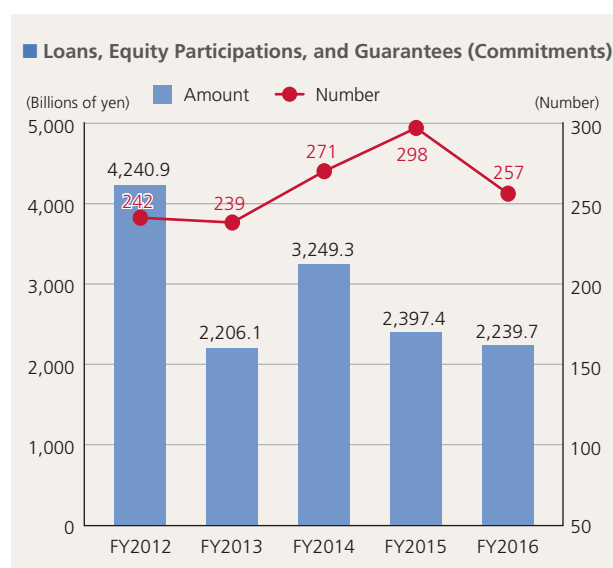
The Amendment Act of the JBIC Act was enacted on May 11, 2016 to provide further support to Japanese companies' overseas businesses with a view to the "Partnership for Quality Infrastructure" promoted by the Japanese government. This amendment enhances JBIC's functions in a way that enables JBIC to finance a wider range of countries and infrastructure projects by expanding its risk-taking ability.

In response to this amendment, we launched the Special Operations in October 2016. As the first project under the Special Operations, in March 2017, JBIC provided a buyer's credit to the government of Iraq to support the export of substation facilities of Japanese companies. Using this project as a springboard, JBIC will identify the needs of Japanese companies in detail and appropriately control risk while steadily building on its achievements in project formation.

### — Can you please explain JBIC's business results for FY2016?

In FY2016, JBIC made financial commitments totaling ¥2,239.7 trillion in loans, equity participations, and guarantees, a decrease of 6.5% from the previous year, with 257 commitments. Both the amount and number of commitments in loans, equity participations, and guarantees declined from the previous fiscal year due to sluggish global energy-related investments. On the other hand, large-scale project finance in the field of infrastructure investment grew and the amount and number of commitments for infrastructure-related investment was maintained above ¥2 trillion and 200 commitments for the fifth consecutive fiscal year.

Of particular note, commitments for loans, equity participations, and guarantees for Asia surged approximately 2.5 times over the previous fiscal year to around ¥840.0 billion on the back of successive large-scale projects such as for the construction of thermal power-generating facilities and LNG development projects. This amount represented an all-time high following the launch of the new JBIC in 2012.



### — Could you explain the results of your activities in each business sector?

In the energy and natural resources sector, the number of financial commitments for loans, equity participations, and guarantees declined, owing to sluggish market conditions. In FY2016, JBIC approved financial commitments for four projects in the form of loans, equity participations, and guarantees, totaling ¥250.5 billion. These included a loan for: i) the Tangguh LNG 3 Project in Indonesia (additional development and production of gas fields while expanding the existing natural gas liquefaction facilities), ii) the Hail Oilfield development project in Abu Dhabi, and iii) the acquisition of an interest in the Morenci Copper Mine in the U.S.

In the infrastructure sector, I believe it is also important that JBIC is actively involved in projects from the early stage of project formation in order to encourage Japanese companies to obtain orders in overseas infrastructure projects. Under this policy, capitalizing on its status as a policy-based financial institution, JBIC conducted policy dialogues with the governments of Indonesia, Mexico, and Vietnam in order to discuss the issues and challenges that Japanese companies come across when they participate in infrastructure projects in those countries. As a result, in this sector, JBIC approved financial commitments to the Muara Laboh geothermal power project in Indonesia and to a waste treatment and power generation project in the U.S.

In the industrial sector, there were continued needs for supporting the overseas M&A activities of Japanese companies. In FY2016, JBIC made 108 commitments for M&A, reaching a total amount of ¥984.1 billion. This marked the second consecutive year that the number of commitments exceeded 100. As main achievements, JBIC provided credit lines to Japanese financial institutions which supported Japanese companies in acquiring a

pharmaceuticals company in the U.S. and a railway business in Italy.

In the mid-tier enterprises and small and medium-sized enterprises (SMEs) sectors, to provide highly detailed support for their overseas business deployment, JBIC established the Finance Office for SMEs in October 2016. In FY2016, the number of financial commitments grew steadily to 114. These included loans for a solar power generation project in Mongolia and automotive parts manufacturing and sales businesses in Indonesia. Besides support for overseas M&A by mid-tier enterprises and SMEs, JBIC established credit lines with Japanese regional financial institutions as well as with overseas subsidiaries of Japanese leasing companies to provide financing to mid-tier enterprises and SMEs which wish to enter into overseas markets.

In FY2016, JBIC signed memoranda of understanding (MOUs) with Mexico's local governments and financial institutions for supporting Japanese mid-tier enterprises and SMEs in expanding their business to Mexico. Under those MOUs, a financial support framework was created, in which 67 Japanese financial institutions in total will provide support to those companies which wish to enter into the Mexican market.

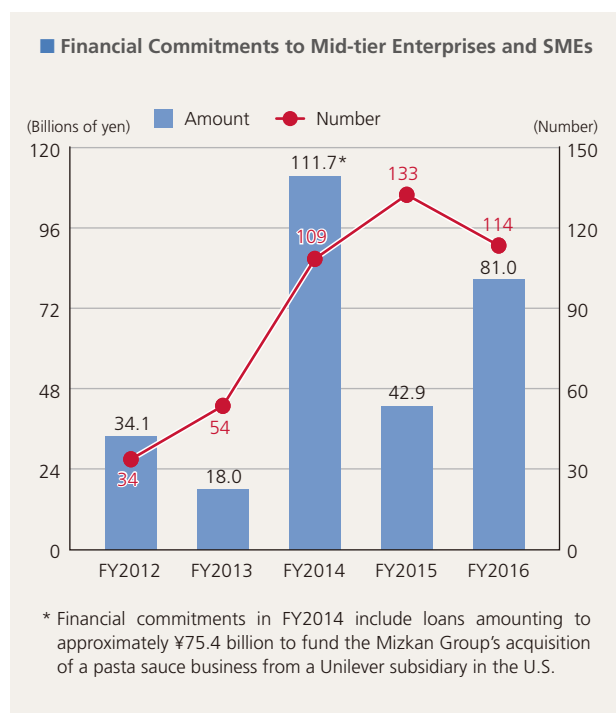
In the environmental field, under the "Global action for Reconciling Economic growth and ENvironmental preservation" (GREEN) operations, JBIC supported an energy efficiency project, which is its first credit line provided to the government of Ecuador. This is the first project which was co-financed with the Inter-American Development Bank (IDB) under the GREEN operations. JBIC also provided financing using the Joint Crediting Mechanism (JCM). As Japan's policy-based financial institution, JBIC will closely monitor and ascertain global trends in climate change policies and will utilize its ties with Japanese and overseas government-related parties and international institutions to continue providing finance support to address environmental issues.

In the equity investment sector, in October 2016, JBIC newly established the Equity Finance Group and the Equity Investment Department to strengthen its institutional capacity of equity investments in line with various government initiatives. Under loan facilities to support overseas business deployment, JBIC invested in: i) a private equity fund that invests in companies with operations in Mexico, Canada, and the U.S. and ii) an investment fund that invests in microfinance institutions in ASEAN countries. JBIC also acquired preferred shares of a Japanese company which operates an industrial park in India. JBIC will expand, upgrade, sophisticate, and strategically deploy its investment business.

### — Can you update us on the progress of the Medium-term Business Plan?

JBIC's business is significantly influenced by trends in large-scale natural resources, infrastructure, and M&A projects as well as changes in the environment surrounding these areas. I am confident that we have achieved steady progress overall during the past two years of this business plan.

The Amendment Act of the JBIC Act was enacted in May 2016 and along with this, we launched the Special





Operations in October 2016. Under our Medium-term Business Plan, JBIC added the following new challenges in its Key Action Plans: “Strengthening Support for Overseas Infrastructure Projects by the Special Operations” and “Increasing Supply of Funding through Equity Participation.” JBIC is also making efforts toward the establishment and enhancement of risk management in the Special Operations Account.

— Would you explain your initiatives for FY2017, the final year of the plan, and tell us about the next Medium-term Business Plan?

JBIC’s business environment is set to change dramatically. JBIC recognizes the large needs for its support, not only for large-scale projects but also for support for Japanese mid-tier enterprises and SMEs which wish to start business abroad. During FY2017, JBIC will accurately respond to these needs and link these efforts to the next Medium-term Business Plan. Regarding the Special Operations, we will work hard to build a solid business record in fields where JBIC is involved, while supplementing the ordinary transactions conducted by private-sector financial institutions. In formulating our next Medium-term Business Plan, we will focus on creating a plan that can respond flexibly to the major changes in the global economy and the Japanese economy.

— What initiatives will you promote in the future?

On June 22, 2017, JBIC partially realigned the organizational structure and renamed some of the Groups with a view to new business deployment. JBIC has also selected its first female director.

For strengthening the governance framework, JBIC newly established the Credit, Assessment and Risk Management Group and placed the Credit Department, Country Credit Department, and Risk Management Department within this Group. This reorganization aimed to enhance governance by appointing a Senior Managing Director and a Managing Executive Director who supervise the operations of the front office.

To enhance management control, we placed the Treasury Department, Administration and General Services Department, and the IT Planning and Operations Administration Department within the Treasury and Systems Group. As our business operations become more sophisticated and diverse with limited human resources, we will focus efforts on utilizing IT more effectively and efficiently to undertake our main business to the greatest degree possible.

Developing human resources who will lead the way in the next generation is a high priority. I joined JBIC from a private-sector company. Looking at JBIC’s history, JBIC began its operations by providing export loans. As it then gradually expanded the scope of business to import loans, overseas investment loans, and project finance, JBIC accumulated sophisticated skills and nurtured outstanding human resources. Nonetheless, intense global investment competition requires that we now further need to raise our capabilities to provide support that will enable Japanese companies to prevail. One such example is our efforts to



enhance knowledge regarding taxation affairs. We are making various efforts to improve skills in this area, such as organizing workshops on international taxation. This will enable us to provide optimal financial support in consideration of the different tax systems in each country. Capital markets in emerging countries are growing, making it important that we sophisticate our responses such as with local currency loans and swaps. In natural resources development and infrastructure investments, it is also important to cooperate with other export credit agencies, international development financial institutions, and governments of partner countries. For this reason, I hope to develop world-class, multi-skilled human resources who can play active roles on the global stage.

— Finally, what is your message to stakeholders in Japan and overseas?

Infrastructure investment is expected to grow sharply and needs for procuring energy and mineral resources are forecast to rise further. To support the overseas business deployment of Japanese companies, JBIC will actively provide financing as Japan’s policy-based financial institution. To this end, we will work toward well-balanced and sound organizational management by strengthening risk management and other areas of governance.

In addition, securing financing sources is a major issue amid growth in global investment demand. In large-scale projects, it is important to cooperate with a variety of players such as other official export credit agencies, international development financial institutions, the governments of each country, and private-sector financial institutions. JBIC will strive to meet the diversified financing demands from our clients by further strengthening the cooperative ties with global financial institutions, government agencies of countries in the world, and private-sector financial institutions inside and outside of Japan.

# 3 Directors, Managing Executive Officers, and Corporate Auditors (As of August 1, 2017)

1

Profile of JBIC

3

Directors, Managing Executive Officers, and Corporate Auditors



(Back row, from left)	Senior Managing Director <b>Tatsuhiko Takesada</b>	Senior Managing Director <b>Yasushi Hasegawa</b>	Senior Managing Director <b>Kenichiro Hayashi</b>	Managing Director <b>Shinichi Koizumi</b>
(Front row, from left)	CEO, Executive Managing Director <b>Tadashi Maeda</b>	Governor <b>Akira Kondoh</b>	COO, Senior Managing Director <b>Nobumitsu Hayashi</b>	



Corporate Auditor <b>Mitsuaki Tsuchiya</b>	Corporate Auditor <b>Yasuo Ota</b>	Corporate Auditor <b>Yuko Tamai</b>
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## ■ Directors

Governor	<b>Akira Kondoh</b>
CEO, Executive Managing Director	<b>Tadashi Maeda</b>
COO, Senior Managing Director	<b>Nobumitsu Hayashi</b>
Senior Managing Director	<b>Yasushi Hasegawa</b>
Senior Managing Director	<b>Kenichiro Hayashi</b>
Senior Managing Director	<b>Tatsuhiko Takesada</b>
Managing Director (Outside Director)	<b>Shinichi Koizumi</b>

## ■ Corporate Auditors

Corporate Auditor (Full-Time Corporate Auditor)	<b>Yasuo Ota</b>
Corporate Auditor (Outside Corporate Auditor)	<b>Mitsuaki Tsuchiya</b>
Corporate Auditor (Outside Corporate Auditor)	<b>Yuko Tamai</b>

## ■ Managing Executive Officers

Managing Executive Officer, Global Head of Corporate Planning Group	<b>Kazuhiko Amakawa</b>
Managing Executive Officer, Global Head of Credit, Assessment and Risk Management Group	<b>Yutaka Funada</b>
Managing Executive Officer, Global Head of Treasury and Systems Group	<b>Kuninori Kuroishi</b>
Managing Executive Officer, Global Head of Energy and Natural Resources Finance Group	<b>Masaaki Yamada</b>
Managing Executive Officer, Global Head of Infrastructure and Environment Finance Group	<b>Kazuhisa Yumikura</b>
Managing Executive Officer, Global Head of Industry Finance Group	<b>Kazuhiko Tanaka</b>
Managing Executive Officer, Global Head of Equity Finance Group	<b>Shinji Fujino</b>

# 4 Medium-term Business Plan (FY2015–2017)

1

Profile of JBIC

JBIC has carried out its business activities in keeping with our goal: “JBIC will contribute to exploring and creating new business opportunities that will lead to the sustainable growth of Japan, through supporting the strengthening of Japanese companies’ overseas business deployment and resource acquisition, by exercising the financial intermediary functions unique to JBIC” under its Medium-term Business Plan (FY2015–2017) formulated in June 2015.

The Amendment Act of the JBIC Act was enacted on May 11, 2016 to strengthen JBIC’s functions in order to further support the overseas business expansion of Japanese companies for overseas infrastructure projects that utilize private-sector finance and know-how. In accordance with this Amendment Act of the JBIC Act, on October 1, 2016 JBIC launched the Special Operations, enabling JBIC to

take further risks regarding overseas infrastructure projects. Concurrently, JBIC newly established the Equity Finance Group in order to increase the supply of funding in line with the government policies and to strengthen its corporate structure for equity participations.

On this basis, JBIC also added “Strengthening Support for Overseas Infrastructure Projects by the Special Operations” and “Increasing Supply of Funding through Equity Participation” as new Key Action Plans within its Medium-term Business Plan. JBIC will also continue efforts toward the establishment and enhancement of risk management in the Special Operations Account taking into consideration the business scale of the Special Operations and that the Special Operations exclusively targets businesses related to overseas infrastructure projects.

4

Medium-term Business Plan (FY2015–2017)

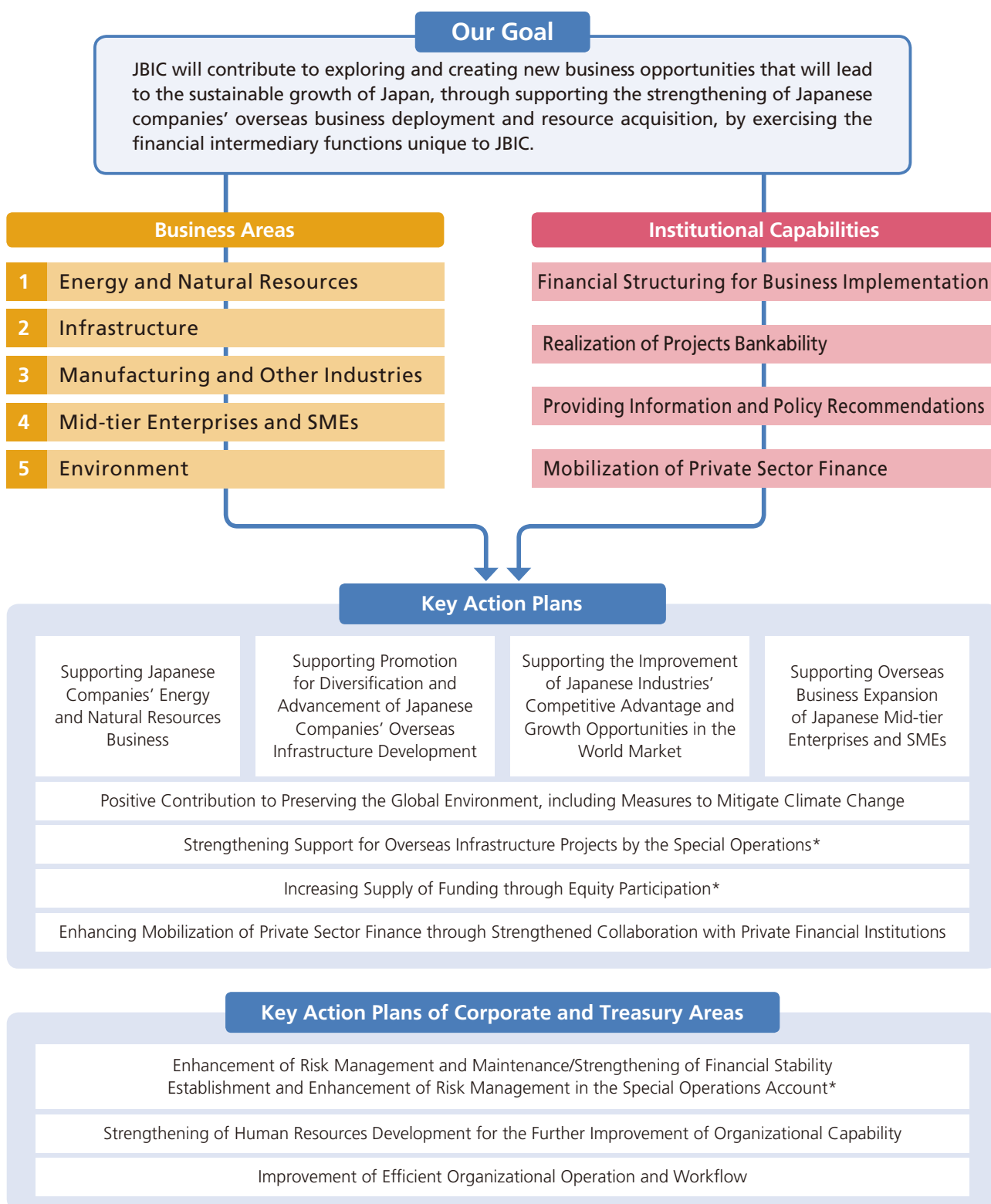
## Our Goal

Establish our *Goal* below to conduct business more proactively and further contribute toward Japan’s sustainable future growth.

“JBIC will contribute to exploring and creating new business opportunities that will lead to the sustainable growth of Japan, through supporting the strengthening of Japanese companies’ overseas business deployment and resource acquisition, by exercising the financial intermediary functions unique to JBIC.”

## Business Areas, Institutional Capabilities, and Key Action Plans

- Identity 5 *Business Areas* which JBIC needs to focus on.
- Identity 4 *Institutional Capabilities* to be demonstrated and strengthened, which are essential to better perform JBIC’s function in the 5 *Business Areas*.
- Identity *Key Action Plans* to “contribute to exploring and creating new business opportunities (country, region, area, sector and etc.) that will lead to the sustainable growth of the Japanese economy” by demonstrating and strengthening our 4 *Institutional Capabilities* in the 5 *Business Areas*.



\*Newly established due to a revision in January 2017



## Details of Key Action Plans\*

### 1. Supporting Japanese Companies' Energy and Natural Resources Business

#### 1-1 Promoting projects that secure and diversify the supply of resources

- JBIC supports project formation and implementation, through taking the country risk of resource-rich countries, utilizing its knowledge of risk management/allocation and developing a dialogue with overseas counterparties such as the governments of host countries, state-owned oil & gas companies, and the international resources majors, by leveraging JBIC's status as a policy-based financial institution. In addition, JBIC supports integrated natural resource projects, which include surrounding infrastructure and/or advanced technology.

#### 1-2 Promoting projects that reduce LNG procurement costs

- JBIC supports the financing and realization of Japanese companies' businesses that reduce Japan's long-term LNG procurement costs in addition to the activities mentioned in the above 1-1.

### 2. Supporting Promotion for Diversification and Advancement of Japanese Companies' Overseas Infrastructure Development

#### 2-1 Strengthening efforts for social infrastructure projects such as railroad and water

- JBIC supports Japanese companies' overseas infrastructure system projects, through developing a dialogue with the overseas counterparties and international key-players by leveraging JBIC's status as a policy-based financial institution, utilizing its knowledge of risk management/allocation and drawing on various financial facilities and schemes, and promoting JBIC's involvement from an early stage in the project's framework development and formation.

#### 2-2 Strengthening efforts for smooth implementation of power generation projects

- JBIC supports the overseas deployment of advanced technology and the participation of Japanese companies in high efficiency and renewable energy power generation projects, etc., beyond existing markets and schemes, by taking advantage of close relationships with and strong influence on host country governments and overseas key players, and utilizing its knowledge of risk control/allocation and drawing on various financial facilities and schemes.

### 3. Supporting the Improvement of Japanese Industries' Competitive Advantage and Growth Opportunities in the World Market

#### 3-1 Strengthening support for the overseas business deployment of various industries, which are the basis of the Japanese economy

- JBIC supports further opportunities for Japanese companies in various industries, which are the basis of the Japanese economy, to increase their earnings through overseas investment, by strengthening overseas risk-taking and communication from the development stage of corporate strategy.

#### 3-2 Contributing to the development of competitive Japanese technologies and business models into growing industries through overseas business deployment

- JBIC supports Japanese companies with competitive technologies/brands/business models, etc., to develop into growth industries on a commercial basis and to capture market share in overseas markets, aiming to create Japan's new growth industries.

### 4. Supporting Overseas Business Expansion of Japanese Mid-tier Enterprises and SMEs

#### Supporting mid-tier enterprises' and SMEs' overseas business expansion utilizing JBIC's characteristics

- In collaboration with private financial institutions, JBIC supports Japanese mid-tier enterprises and SMEs increasing their earning opportunities through overseas business expansion, taking into account JBIC's unique characteristics (e.g., local currency financing).

### 5. Positive Contribution to Preserving the Global Environment, Including Measures to Mitigate Climate Change

#### Strengthening efforts on projects that promote the preservation of the global environment, including measures to tackle climate change

- JBIC supports the efforts of Japanese companies and overseas counterparties to preserve the global environment, including measures to tackle climate change, considering the international discussions and policies of the Japanese and host country governments in this field, by taking advantage of close relationships with host country governments and utilizing its knowledge of risk management/allocation and a wide range of financial facilities and schemes such as Global action for Reconciling Economic growth and ENvironmental preservation (GREEN).

## 6 Strengthening Support for Overseas Infrastructure Projects by the Special Operations

(Newly established due to a revision in January 2017)

### Strengthening Support for Overseas Infrastructure Projects by the Special Operations

- Utilizing the Special Operations launched in October 2016 under the Amendment Act of the JBIC Act, JBIC provides further support to overseas infrastructure projects, including those that have not been considered under the Ordinary Operations, through risk control measures such as dialogues with host country governments and conducting appropriate risk-sharing with concerned parties.

## 7 Increasing Supply of Funding through Equity Participation

(Newly established due to a revision in January 2017)

### Increasing Supply of Funding through Equity Participation

- Under the Equity Finance Group newly established in October 2016, JBIC integrates functions related to equity participation to accumulate know-how and strengthen expertise in order to increase the supply of funding through equity participation, while establishing organizational structure to enable strategic equity participation.

## 8. Enhancing Mobilization of Private Sector Finance through Strengthened Collaboration with Private Financial Institutions

### Further enhancement of private sector finance mobilization

- JBIC expands efforts to promote its initiatives of credit securitization, including assignment of its loan portfolio.
- JBIC promotes the mobilization of private sector finance in a variety of ways, including providing funds in the form of equity, subordinated loans, and providing LBO financing.
- JBIC pursues appropriate cofinancing taking into account the uniqueness of individual projects and the surrounding financial environment.

\*JBIC will make necessary revisions to the Key Action Plans of the Medium-term Business Plan when the surrounding environment or expected role change significantly, and as a result, JBIC determines that it should engage in additional/different fields.

# 5 Outline of Operations in FY2016

## Operational Highlights

The total amount of commitments JBIC made during FY2016 in loans, equity participations, and guarantees was ¥2,239.7 billion, which is 6.5% less than that of FY2015. The outstanding amount of loans and equity participations and guarantees as of March 31, 2017 was ¥17,042.4 billion.

The following is a report on JBIC's major operations in each sector during FY2016.

### Efforts in the Energy and Natural Resources Sector

Securing stable medium- to long-term supplies of energy and mineral resources through increasing the self-development ratio is a vital task in Japan, as a country heavily dependent on imports from overseas for most of its resources. Through financially supporting acquisition of upstream resource interests, diversification of supply sources, enhancement of the fuel value chain, and strengthening of relationships with resource-rich countries, JBIC contributes to securing a stable long-term supply of resources.

As examples, JBIC provided necessary funds to the Tangguh LNG 3 project in Indonesia for additional development and production of gas fields, as well as expansion of existing gas liquefaction facilities. JBIC also financed the Hail Oilfield development project in Abu Dhabi and provided funds required for acquisition of interest in Morenci Copper Mine in the U.S.

### Supporting Overseas Infrastructure Business Deployment by Japanese Companies

In the power sector, JBIC provided loans for the Muara Laboh geothermal power project in Indonesia and for a

waste treatment and power generation project in the U.S., both of which are invested in by Japanese companies. JBIC also supported Japanese companies to export gas-fired combined cycle power plant facilities to PT PLN (Persero), a state-owned power company in Indonesia.

### Supporting Strategic Overseas Business Activities by Japanese Companies

JBIC provided loans for the car sales financing business in Thailand run by a Japanese company, as well as for a steel processing and distribution business in India participated in by a Japanese company.

Furthermore, JBIC contributed to a private equity fund that invests in companies in Mexico, Canada, and the U.S., as well as to a fund which provides loans and equity to microfinance organizations in ASEAN countries. JBIC also acquired preferred shares for a Japanese company's industrial park operation business in India.

### Supporting Exports by Japanese Companies

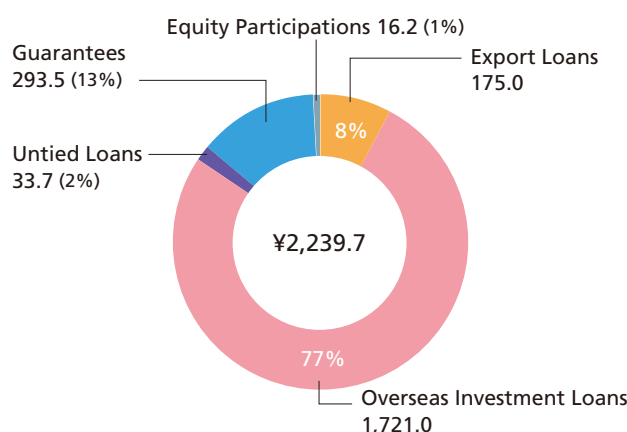
JBIC joined project financing<sup>1</sup> to provide necessary funds for exporting Japanese-made plant facilities to the Yamal LNG project in Russia. JBIC also supported the export of vessels built by Japanese shipbuilding companies.

### Supporting Overseas Business Deployment of Japanese Mid-tier Enterprises and SMEs

To support the overseas business expansion of Japanese mid-tier enterprises and SMEs, JBIC made a total of

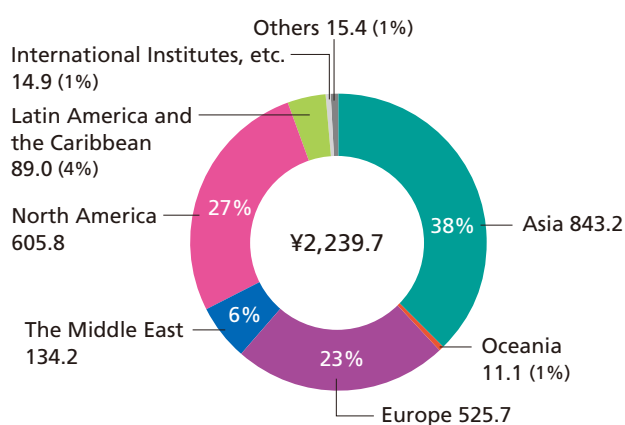
#### Commitments by Purpose of Financing

(FY2016; unit: billions of yen)



#### Commitments by Region

(FY2016; unit: billions of yen)



114 commitments in co-finance with regional financial institutions and Shinkin banks in Japan. The support included loans for a solar power generation project in Mongolia and the automotive parts manufacturing and sales businesses in Indonesia run by Japanese companies.

Furthermore, a total of 67 Japanese financial institutions joined a framework established based on MOUs which JBIC signed with Mexican state governments and Mexican financial institutions to support Japanese mid-tier enterprises and SMEs, which are clients of Japanese regional financial institutions, in expanding their businesses to Mexico.

In addition, JBIC established credit lines with Japanese regional financial institutions, as well as overseas subsidiaries of Japanese leasing companies, to support the overseas business deployment of mid-tier enterprises and SMEs.

### Supporting Japanese Companies with Local Currency Loans

JBIC provided 18 local currency loans<sup>2</sup> totaling the equivalent of approximately ¥16.7 billion. They included JBIC's first Russian ruble loan to fund a car sales financing business in Russia by a Japanese company and a Thai baht loan to fund an automobile exhaust-purifying ceramic product manufacturing and sales business in Thailand.

### Efforts in the Environment-related Sector

JBIC established credit lines for renewable energy and energy efficiency businesses with the Government of Ecuador and a Philippine financial institution under Global action for Reconciling Economic growth and Environmental preservation (GREEN) operations.

### Supporting Samurai Bond Issuance

JBIC agreed to provide a guarantee for the Samurai bonds<sup>3</sup> (privately placed Japanese yen-denominated foreign bonds) issued by the Mexican state-owned petroleum company, and to acquire a part of the bonds issued by the Government of Indonesia.

### Promoting the Liquidation of Loans

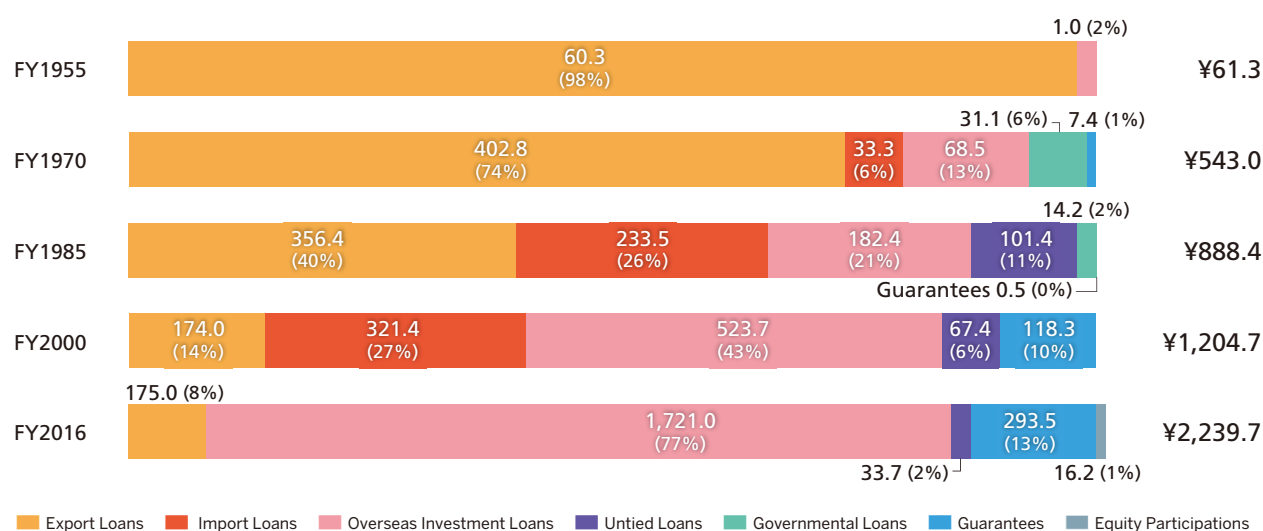
JBIC made partial liquidation of project financing owned by JBIC for power infrastructure projects through a trust account in order to promote active utilization of Japanese private financial institutions.

### Launch of the Special Operations

The Amendment Act of the JBIC Act was enacted on May 11, 2016, enhancing JBIC's functions in order to provide further support toward Japanese companies' overseas businesses, in accordance with the Japanese Government's policy to promote investment in quality infrastructure, such as the "Partnership for Quality Infrastructure." In October 2016, as part of the enhancement of its functions, JBIC launched the Special Operations, which enables financing for a wider range of countries and infrastructure projects. JBIC supported the export of substation facilities to the Iraq government as the first loan provided under the Operations.

1. Project financing is a financing scheme in which repayments for a loan are made solely from the cash flows generated by the project.
2. Currencies other than JPY, USD and EUR
3. Samurai bonds are yen-denominated bonds issued by a foreign government or company in the Tokyo bond market.

■ Changing Composition of Loans, Equity Participations and Guarantees (Commitments) (Unit: billions of yen)



## Operational Results

JBIC made total disbursements of ¥2,200.4 billion in FY2016.

### Planned and Actual Lending and Investments

(Unit: billions of yen)

	FY2013		FY2014		FY2015		FY2016	
	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual
Export Loans	190.0	112.5	200.0	112.0	200.0	148.8	290.0	227.2
Import Loans and Overseas Investment Loans	1,971.0	2,162.5	1,900.0	2,071.2	1,450.0	1,867.9	1,560.0	1,922.4
Untied Loans	50.0	88.5	50.0	64.3	70.0	44.5	90.0	32.2
Equity Participations	100.0	85.4	100.0	30.9	100.0	42.4	120.0	18.5
Total	2,311.0	2,449.0	2,250.0	2,278.6	1,820.0	2,103.8	2,060.0	2,200.4

## Financial Results

### Principles of Accounting

#### (1) Separate Accounting

Pursuant to Article 26-2 of the Japan Bank for International Cooperation Act, JBIC shall apply separate accounting to Operations other than the Special Operations (Ordinary Operations) and Special Operations.

#### (2) Preparation of Financial Statements

Pursuant to the Companies Act and Article 26 of the Japan Bank for International Cooperation Act, JBIC prepares financial statements and submits them to the Minister of Finance. The report on the final settlement of accounts is submitted to the government of Japan, together with the financial statements and, after examination by the Board of Audit of Japan, to the Diet.

### The Fifth Term for JBIC (FY2016)

#### Statement of Operations

(April 1, 2016–March 31, 2017; unit: millions of yen)

Accounts	Amounts
<b>Ordinary Income</b>	<b>294,656</b>
Interest Income	259,250
Fees and Commissions	26,836
Other Ordinary Income	—
Other Income	8,570
<b>Ordinary Expenses</b>	<b>253,118</b>
Interest Expenses	177,433
Fees and Commissions Payments	1,919
Other Ordinary Expenses	3,136
General and Administrative Expenses	16,726
Other Expenses	53,902
<b>Ordinary Profit</b>	<b>41,537</b>
<b>Extraordinary Income</b>	<b>75</b>
<b>Net Income</b>	<b>41,612</b>

#### Balance Sheet

(As of March 31, 2017; unit: millions of yen)

Assets		Liabilities and Net Assets	
Accounts	Amounts	Accounts	Amounts
Cash and Due from Banks	1,526,209	Borrowed Money	9,908,705
Securities Note 3	281,249	Bonds Payable Note 5	3,301,565
Loans and Bills Discounted Note 4	14,309,138	Other Liabilities	461,442
Other Assets	261,790	Provision for Bonuses	519
Property, Plant and Equipment Note 6	27,613	Provision for Directors' Bonuses	6
Intangible Assets	2,711	Provision for Retirement Benefits	6,807
Customers' Liabilities for Acceptances and Guarantees	2,384,997	Provision for Directors' Retirement Benefits	16
Allowance for Loan Losses	(222,036)	Acceptances and Guarantees	2,384,997
		<b>Total Liabilities</b>	<b>16,064,061</b>
		Capital Stock	1,683,000
		Retained Earnings	842,366
		Total Shareholders' Equity	2,525,366
		Valuation Difference on Available-for-sale Securities	2,468
		Deferred Gains or Losses on Hedges	(20,223)
		Total Valuation and Translation Adjustments	(17,755)
		<b>Total Net Assets</b>	<b>2,507,611</b>
<b>Total Assets</b>	<b>18,571,673</b>	<b>Total Liabilities and Net Assets</b>	<b>18,571,673</b>

Note: See Notes 3 to 6 on pages 109 to 110 for details.



## [Ordinary Operations Account]

## Statement of Operations

(April 1, 2016–March 31, 2017; unit: millions of yen)

Accounts	Amounts
<b>Ordinary Income</b>	<b>294,661</b>
Interest Income	259,250
Fees and Commissions	26,836
Other Income	8,574
<b>Ordinary Expenses</b>	<b>253,042</b>
Interest Expenses	177,433
Fees and Commissions Payments	1,912
Other Ordinary Expenses	3,136
General and Administrative Expenses	16,657
Other Expenses	53,902
<b>Ordinary Profit</b>	<b>41,618</b>
<b>Extraordinary Income</b>	<b>75</b>
<b>Net Income</b>	<b>41,693</b>

## Balance Sheet

(As of March 31, 2017; unit: millions of yen)

Assets		Liabilities and Net Assets	
Accounts	Amounts	Accounts	Amounts
Cash and Due from Banks	1,323,789	Borrowed Money	9,908,705
Securities	281,249	Bonds Payable	3,301,565
Loans and Bills Discounted	14,309,138	Other Liabilities	461,359
Other Assets	261,788	Provision for Bonuses	514
Property, Plant and Equipment	27,613	Provision for Directors' Bonuses	6
Intangible Assets	2,711	Provision for Retirement Benefits	6,806
Customers' Liabilities for Acceptances and Guarantees	2,384,997	Provision for Directors' Retirement Benefits	16
Allowance for Loan Losses	(222,036)	Acceptances and Guarantees	2,384,997
		<b>Total Liabilities</b>	<b>16,063,972</b>
		Capital Stock	1,480,500
		Retained Earnings	842,448
		Total Shareholders' Equity	2,322,948
		Valuation Difference on Available-for-sale Securities	2,468
		Deferred Gains or Losses on Hedges	(20,137)
		Total Valuation and Translation Adjustments	(17,669)
		<b>Total Net Assets</b>	<b>2,305,278</b>
<b>Total Assets</b>	<b>18,369,251</b>	<b>Total Liabilities and Net Assets</b>	<b>18,369,251</b>

## [Special Operations Account]

## Statement of Operations

(October 1, 2016–March 31, 2017; unit: millions of yen)

Accounts	Amounts
<b>Ordinary Income</b>	<b>0</b>
Other Income	0
<b>Ordinary Expenses</b>	<b>81</b>
Fees and Commissions Payments	7
General and Administrative Expenses	74
<b>Ordinary Loss</b>	<b>81</b>
<b>Net Loss</b>	<b>81</b>

## Balance Sheet

(As of March 31, 2017; unit: millions of yen)

Assets		Liabilities and Net Assets	
Accounts	Amounts	Accounts	Amounts
Cash and Due from Banks	202,419	Other Liabilities	93
Other Assets	13	Provision for Bonuses	4
		Provision for Directors' Bonuses	0
		Provision for Retirement Benefits	1
		Provision for Directors' Retirement Benefits	0
		<b>Total Liabilities</b>	<b>99</b>
		Capital Stock	202,500
		Retained Earnings	(81)
		Total Shareholders' Equity	202,418
		Deferred Gains or Losses on Hedges	(85)
		Total Valuation and Translation Adjustments	(85)
		<b>Total Net Assets</b>	<b>202,333</b>
<b>Total Assets</b>	<b>202,432</b>	<b>Total Liabilities and Net Assets</b>	<b>202,432</b>

## Ordinary Operations Account

### (1) Statement of Operations

In FY2016, JBIC recorded ¥259.2 billion in Interest Income and ¥294.6 billion in Ordinary Income. This was for various reasons including support to promote the acquisition of interests and development of natural resources and to expand the overseas operations of Japanese companies, such as infrastructure projects. On the other hand, JBIC recorded ¥253.0 billion in Ordinary Expenses as a result of posting ¥177.4 billion in funding costs, such as interest expenses. Therefore, Ordinary Profit was ¥41.6 billion, and Net Income totaled ¥41.6 billion, which included Extraordinary Income.

### (2) Balance Sheet

Total Assets reached ¥18,369.2 billion. This was due primarily to an increase in Loans and Bills Discounted (increased by ¥768.4 billion to ¥14,309.1 billion compared with FY2015) because of increased loans denominated in foreign currencies due to the extension of loans. Total Liabilities was ¥16,063.9 billion. This was due mainly to an increase in Borrowed Money (increased by ¥470.2 billion to ¥9,908.7 billion compared with FY2015) due to borrowing from foreign exchange funds and an increase in Bonds Payable (increased by ¥633.0 billion to ¥3,301.5 billion compared with FY2015) as the amount of new issuances exceeded redemptions. Total Net Assets was ¥2,305.2 billion. This was due mainly to the transfer of legal retained earnings of the Ordinary Operations Account to capital stock of the Special

Operations Account, to a capital increase, and to Net Income of ¥41.6 billion.

## Special Operations Account

### (1) Statement of Operations

In FY2016, which is the first financial closing period following the launch of the Special Operations (October 1, 2016), although there was a new commitment, Ordinary Income amounted to ¥0 million primarily because no interest and fees on loans were recognized. On the other hand, Ordinary Expenses of ¥81 million were recorded since General and Administrative Expenses such as personnel expenses incurred. As a result, Ordinary Loss and Net Loss amounted to ¥81 million, respectively.

### (2) Balance Sheet

Total Assets amounted to ¥202,432 million. This was due mainly to the transfer of legal retained earnings in the Ordinary Operations Account to capital stock in the Special Operations Account and to the receipt of investments. Total Liabilities was ¥99 million. This was due mainly to the recognition of derivatives other than for trading assets. Total Net Assets was ¥202,333 million. This was due to the transfer of legal retained earnings in the Ordinary Operations Account to capital stock in the Special Operations Account, to the receipt of investments and to a Net Loss of ¥81 million.

## Funding Sources

JBIC finances its operations through various sources, including borrowings from the Fiscal Investment and Loan Program (FILP) Fiscal Loan, Government-guaranteed Foreign Bond issuance, Long-term Loans in Foreign Currency, FILP Agency Bond issuance, capital contributions from FILP Industrial Investment, and borrowings from the Foreign Exchange Fund Special Account.

As JBIC provides long-term financing, its operations are financed by long-term funds to match maturities between funding and lending instruments.

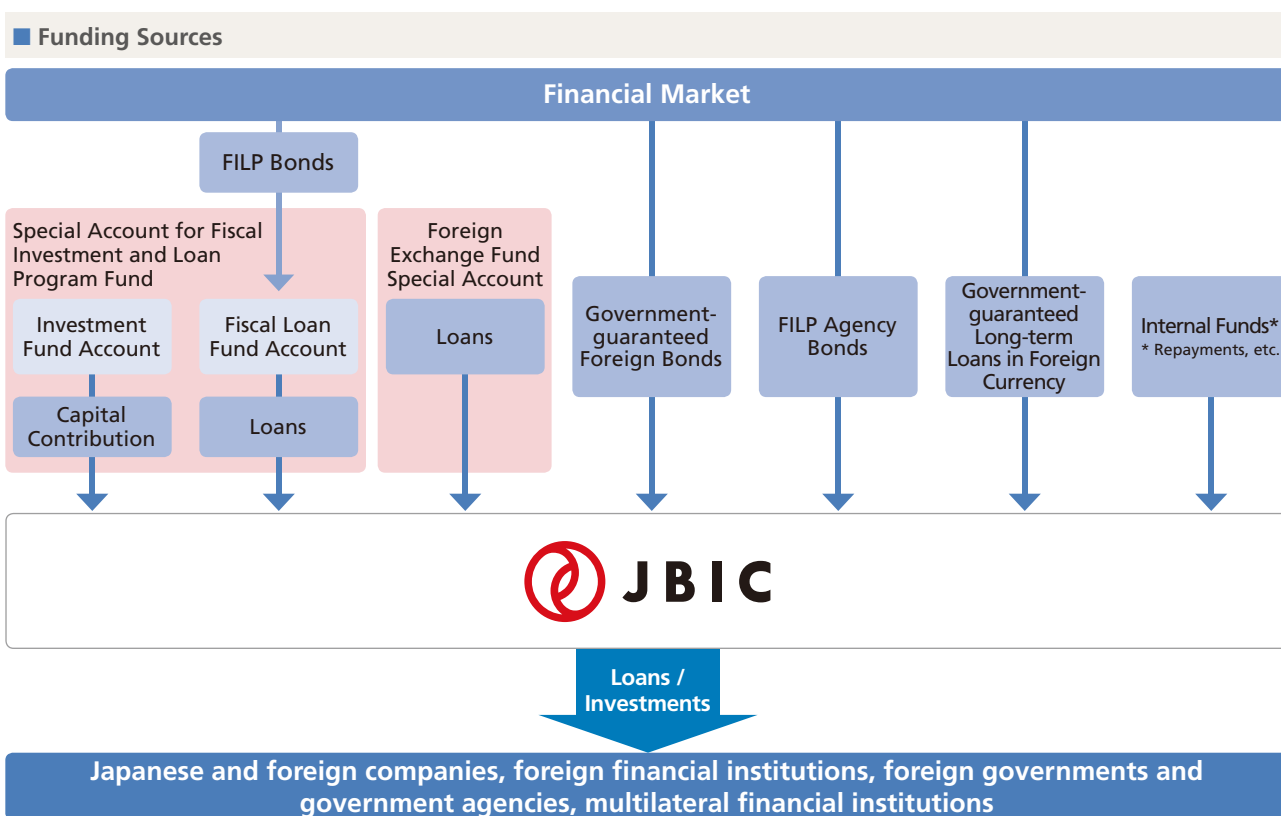
Borrowings from FILP Fiscal Loan, Government-guaranteed Foreign Bond issuance, Government-guaranteed Long-term Loans in Foreign Currency, and Capital Contributions from FILP Industrial Investment, etc., are included in the national budget (either as an item in the General Account budget or the Special Account budget), and requests for them are submitted to the Diet for approval along the operating budget of JBIC. Recent funding results and plans for FY2017 are shown in the table below.

### Funding Sources: Actual and Planned

(Unit: billions of yen)

	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Planned
Capital Contribution from FILP Industrial Investment	—	31.0	—	142.0	85.0
Borrowing from FILP Fiscal Loan	555.1	239.7	244.9	530.5	441.0
Borrowing from Foreign Exchange Fund Special Account	1,581.3	1,273.2	1,595.8	1,142.7	340.0
Government-guaranteed Long-term Loans in Foreign Currency				—	40.0
Government-guaranteed Foreign Bonds*	658.6	374.8	419.0	1,106.2	1,760.0
FILP Agency Bonds*	—	10.0	—	—	60.0
Other Sources of Funds, Including Repayments	(345.9)	349.8	(155.9)	(721.0)	(116.0)
Total	2,449.0	2,278.6	2,103.8	2,200.4	2,610.0

\* Figures for bonds are indicated at face value.



### Government-guaranteed Bonds

JBIC raises part of its funds by issuing government-guaranteed bonds in international capital markets. Outstanding government-guaranteed bonds at the end of FY2016 amounted to ¥3,080.2 billion at face value, which accounts for 23.3% of the total outstanding borrowings and bonds. JBIC provides foreign currency loans when necessary to effectively implement policy, and funds raised by issuing government-guaranteed bonds are used as a source of those loans.

As Japanese companies have been recently moving forward with their overseas business deployment, there are greater expectations for JBIC to provide financial support denominated in local currencies. To properly meet demand for such funds, JBIC issued government-guaranteed foreign bonds denominated in Canadian dollars in March 2013 and similar bonds denominated in British pounds in March 2014.

In the FY2017 budget, JBIC plans to issue in the total amount of up to ¥1,760.0 billion in government-guaranteed bonds.

JBIC's government-guaranteed bonds receive the same ratings as the Government of Japan from the rating agencies (A1 from Moody's Japan K.K. (Moody's) and A+ from S&P Global Ratings Japan Inc. (S&P) as of July 31, 2017). Since they are treated as assets for which the Bank for International Settlements (BIS) assigns zero risk weight in calculating the capital adequacy ratio for depository institutions, these bonds provide a quality investment opportunity for investors in international capital markets.

### FILP Agency Bonds

In compliance with the government policy to reform FILP, JBIC has issued bonds without government guarantees (FILP agency bonds) in the Japan's capital market since FY2001, thereby raising funds based on its own creditworthiness. JBIC plans to issue up to ¥60.0 billion in FY2017.

FILP agency bonds that JBIC has already issued received the same ratings as the government of Japan (as of July 31, 2017) as shown below. They are treated as assets for which BIS assigns 10% risk weight in calculating the capital adequacy ratio for depository financial institutions.

Rating & Investment Information, Inc (R&I): ..... AA+  
 Japan Credit Rating Agency, Ltd. (JCR): ..... AAA  
 Moody's: ..... A1  
 S&P: ..... A+

# The Environment Surrounding JBIC and Its Challenges

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# Energy and Natural Resources Finance Group

## ● Message from the Global Head of the Group



As Japan depends on overseas sources for most of its natural resources, the stable procurement of energy resources, such as oil and natural gas, and mineral resources from overseas is indispensable in order to maintain and strengthen the stable lives of Japan's citizens and the country's industrial infrastructure.

The Energy and Natural Resources Finance Group is responsible for promoting the development and acquisition of overseas natural resources which are essential for Japan. Overseas natural resource development projects require massive, long-term investments and entail various risks, including geopolitical and price fluctuation risks. While supplementing private-sector funds, JBIC provides long-term funds to those projects in the form of loans or equity participation. As a policy-based financial institution, JBIC also focuses on creating an environment which enables the smooth implementation of projects by actively engaging in dialogues with the governments and state-run oil companies of resource countries.

JBIC will continue to contribute to securing a stable supply of natural resources through the above-mentioned activities.

### Masaaki Yamada

Managing Executive Officer

Global Head of Energy and Natural Resources Finance Group

## Business Environment and Key Challenges

Global energy supply and demand balance is affected by macroeconomic trends and various other factors. In recent years, the global energy supply and demand have loosened due to increased shale oil production in the U.S. On the other hand, energy demand in Asia is growing at a faster pace than in any other regions. In particular, Indonesia—one of the leading oil and gas producers in Asia—is exporting less energy resources due to its increasing domestic demand for energy as a result of rapid economic growth. As this shows, demand for oil and natural gas is increasing across the entire Asian region. Also, there is growing concern about global warming, as evidenced by the adoption of the Paris Agreement at the 21st yearly session of the Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change. Under this new agreement on climate change, all participating countries are required to submit greenhouse gas reduction targets. Against this backdrop, there has been increased attention on the use of natural gas, which emits less CO<sub>2</sub> than any other thermal power-generating fuels.

Over 80% of Japan's crude oil imports come from the Middle East and such imports remain highly exposed to geopolitical risks in the region. Therefore, from the perspective of Japan's energy security, it is also important to diversify its crude oil procurement sources to areas other than the Middle East, while maintaining and strengthening its relationship with oil-producing countries in the region.

With regards to liquefied natural gas (LNG), the LNG market will continue to have excess supply over the short

and medium terms as the large-scale LNG projects scheduled to be launched in the U.S. and Australia are expected to boost production of LNG. In contrast, on the demand side, China and India are increasing their imports of LNG, and other Asian countries are also moving to commence and increase LNG imports. With this in mind, Japan is required to create strategic initiatives which are in line with global trends in LNG supply and demand, including the trends in Asia, for ensuring Japan's medium- and long-term LNG supply security.

Japan also faces other challenges in securing a stable supply of mineral resources used for a wide range of application across industries. Despite a temporary slowdown in demand for mineral resources in China, as overall demand for those mineral resources continues to trend upward, it is important to secure a stable supply of those resources. With regards to iron ore, in addition to securing the required quantities of iron ore, it is important to explore high-quality iron ore amid deteriorating quality of that obtained from existing mines. Similarly, it is also a key challenge to explore high-quality copper ore under worsening mining conditions.

Amid changes in global supply and demand balance in energy and mineral resources, there is heightened geopolitical risk in oil-producing nations, such as the rise of extremism. Under such circumstances, it is increasingly necessary to proactively support Japanese companies in acquiring interests in, and long-term off-take of, energy and mineral resources in order to secure a stable supply of resources.



## JBIC's Activities

In FY2016, JBIC made the following efforts to secure a stable supply of energy and mineral resources from overseas.

### Oil and Natural Gas

The Japanese government set a goal of increasing its self-development ratio of oil and natural gas to 40% or more by 2030 in the Basic Energy Plan approved by the Cabinet on April 11, 2014. To this end, JBIC is providing financial support for securing Japan's stable energy supply. For example, JBIC provided a loan to a project where Abu Dhabi Oil Co., Ltd. (ADOC) will develop a new oilfield (Hail oilfield) in the Emirate of Abu Dhabi (Abu Dhabi), the United Arab Emirates (UAE), which is a vital country in Japan's resource strategy. ADOC is a Japanese company engaged in oilfield development and operations in Abu Dhabi by acquiring a 100% interest in the concession of several oilfields in the country. In the LNG field, JBIC provided a loan to expand the existing natural gas liquefaction facilities at the Tangguh LNG 3 project in Indonesia. Excess supply and slumping prices in the LNG market have caused concerns about sluggishness in investment in LNG—the energy that Japan will need in the medium to long term. Given such circumstances, JBIC made efforts to secure the medium-to-long-term steady supply of LNG for Japan by financially supporting the expansion of this LNG project in Indonesia, which has a proven record for stable production and supply of LNG, with the additional advantage of its geographical position close to Japan. The Kansai Electric Power Co., Inc. will off-take the LNG produced by this project.

### Mineral Resources

The Japanese government formulated the Strategy for Securing Natural Resources in June 2012 based on the Guidelines for Securing Natural Resources (approved by the Cabinet on March 28, 2008). This strategy aims to make

strategic efforts to secure mineral resources by maximizing the use of public-private resources based on the recognition that securing the stable supply of low-cost mineral resources is a major premise for high-added value and sophisticated manufacturing technology that is expected to create Japan's national wealth.

JBIC provided a loan to a Japanese company which plans to acquire an additional interest in the Morenci Copper Mine, in the U.S., for the purpose of securing the long-term stable supply of copper—the energy required by the Japanese industry for a wide range of applications, such as electric cables and automobiles. JBIC also provided a loan to a Japanese company to acquire an interest in the Malinau coal mines in Indonesia in order to secure long-term off-take of high-quality thermal coal used for generating electricity. Through these activities, JBIC has contributed to securing a stable supply of mineral resources for Japan.



Morenci Copper Mine in the U.S.  
(Provided by: Sumitomo Metal Mining Co., Ltd.)

### Strengthening Ties with Resource Countries

To secure the stable supply of natural resources, it is important to strengthen the relationships with resource-supplying countries and major resource companies in the world. Capitalizing on its status as Japan's policy-based financial institution, JBIC continues to hold consultations and dialogues with the governments and their bodies of resource countries in order to encourage Japanese companies to acquire interests in resources in those countries and resource development projects to be smoothly implemented.

As one of its efforts to strengthen bilateral ties with an important resource country for Japan, JBIC signed multiple MOUs and agreements with the governmental institutions of Russia, Russian oil and gas companies and financial institutions. These MOUs and agreements were signed in an effort to support the initiatives for the "eight-point cooperation plan" proposed by Japanese Prime Minister Shinzo Abe to Russian president Vladimir Putin during the Japan-Russia Summit in May 2016. The purpose of these MOUs and agreements is to reinforce the relationships with the Russian governmental and commercial entities, with a view to create future projects which are expected to



Tangguh LNG Project

accelerate business between Japan and Russia.

JBIC also signed an agreement to provide guarantees to support the issuance of yen-denominated foreign bonds (Samurai bonds) by Mexican state-owned petroleum company Petróleos Mexicanos (PEMEX). As Mexico seeks to increase crude oil exports to Asia, it is a promising oil-producing nation for the diversification of oil supply sources pursued by the Japanese government based on its energy policy. The Mexican government has opened up its oil reserves to foreign companies as part of its energy reform passed by constitutional amendment, ending a 75-year state monopoly. This movement led to creating more business opportunities for Japanese companies to acquire upstream interests in crude oil or participate in midstream and downstream businesses. In light of these circumstances, JBIC signed an agreement to guarantee the issuance of Samurai bonds by PEMEX, as part of its efforts to assist Japanese companies in finding business opportunities in Mexico by strengthening the relationship with PEMEX.

Additionally, JBIC provided a loan to the government of the Republic of Iraq to finance its purchase of a set of substation facilities from a Japanese company. Japan's export of infrastructure to Iraq will contribute to improving and stabilizing the power supply in Iraq, which will lead to a self-sustaining recovery by the country. Besides, it will help strengthen the relationship between Japan and Iraq which has the fifth largest crude oil reserves in the world. This project is the first project that JBIC has approved under the Special Operations, which was launched on October 1, 2016 in accordance with the enactment of the Amendment Act of the JBIC Act in May 2016.

1. This is a bilateral economic cooperation plan between Japan and Russia, aimed at: (1) extending healthy life expectancies, (2) developing comfortable and clean cities easy to reside and live in, (3) fundamentally expansion medium-sized and small companies exchange and cooperation, (4) energy, (5) promoting industrial diversification and enhancing productivity in Russia, (6) developing industries and export bases in the Far East, (7) cooperation on cutting-edge technologies, and (8) fundamentally expansion of people-to-people interaction.

## Future Business Strategy



Substation facilities in Iraq



Signing ceremony for investment in project development companies which are responsible for the advanced special economic zone for advanced development as well as the free port project in the Russian Federation Far East

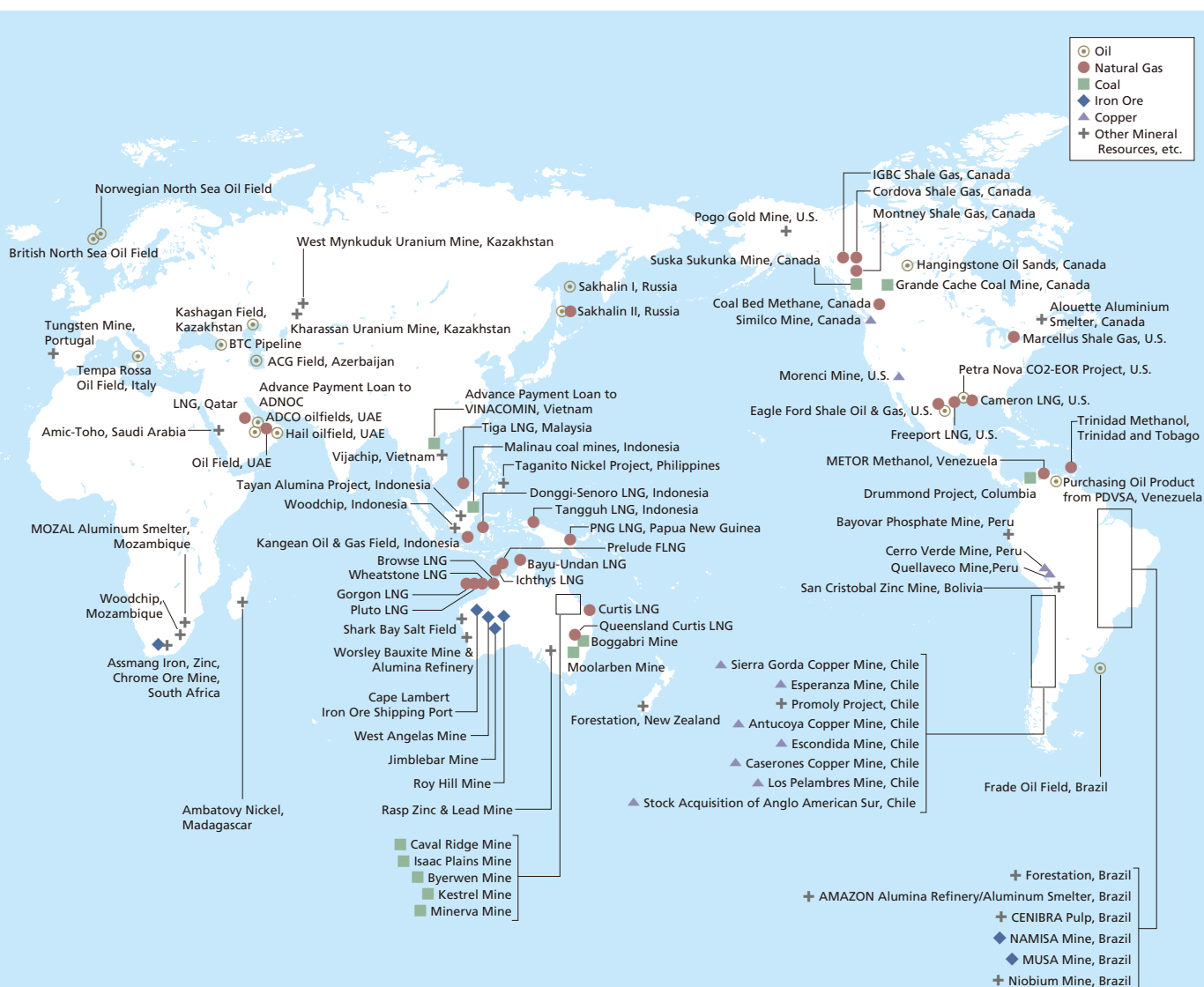
The recent resource price decline or stagnation has brought concern that there will be a slowdown in investment in natural resource development by major resource companies or Japanese companies, which will result in a tightening supply and demand balance of resources in the medium to long term. On the other hand, resource countries are faced with financial difficulties and this situation creates a favorable opportunity for Japanese companies to acquire an interest in high-quality natural resources. Considering such circumstances, JBIC will work hard to secure the stable supply of natural resources for Japan by proactively supporting Japanese companies which plan to acquire an interest in natural resources and/or participate in resource development projects overseas.

To diversify resource supply sources, JBIC will provide financial support to natural resource development projects in Africa, which is seen as "The Last Frontier" for foreign exploration as the region is expected to be a source of extraction of natural resources—particularly, oil, natural gas, and minerals. In fact, non-African countries have started investing in resource development projects in Africa. Resource development projects in Africa play an important role not only in contributing to job creation and acquisition of foreign currencies in African countries where those projects are implemented, but also in advancing the initiatives to promote infrastructure and industrial development in Africa, to which the Japanese government expressed its commitment at the 6th Tokyo International Conference on African Development (TICAD VI).

As for LNG, the balance between global supply and demand is



## Major Projects in Recent Years



\* Including projects that were approved for funding by JBIC more than 10 years ago

As of June 30, 2017

forecast to remain loosened for the time being. Also, there is uncertainty over the outlook for LNG demand due to the mixture of energy sources in the future and the deregulation of electricity and gas markets. In light of these situations, Japanese electric power and gas companies are seeking flexibility in the process to secure the supply of LNG and also liquidity in the LNG market, such as by diversifying LNG supply sources and the pricing structures, as well as by removing destination clauses from LNG contracts. The Japanese government released the Strategy for LNG Market Development in May 2016, highlighting the creation of the LNG market with high liquidity. Against these backdrops, Japan's electric power and gas companies have started new businesses to spur LNG demand in Asian countries. JBIC will consider providing financial support to not only upstream investments and LNG projects by Japanese companies, but also their new businesses to boost LNG demand in Asia.

JBIC will continue its efforts to create an environment

which enables the successful launch and smooth implementation of resource development projects by actively engaging in dialogues with the governments and their bodies of resource countries. The key to strengthening the relationship with these countries lies not only in the cooperation in resource development projects, but also in the establishment of comprehensive and sustained cooperative relationships that meet the needs of these countries in various fields, including infrastructure construction, industrial advances, employment creation, technology transfer, and reduced environmental burden through the use of renewable energy and energy saving. JBIC will maintain and strengthen the multilayered and positive relationships with the governments of resource countries through its comprehensive efforts to support projects in the areas of infrastructure development and manufacturing in the resource countries.

# 2 Infrastructure and Environment Finance Group

## ● Message from the Global Head of the Group



As stated in the G7 Ise-Shima Leaders' Declaration issued by the G7 leaders following the Ise-Shima Summit, there is a significant global demand-supply gap in infrastructure investment. To reduce the gap in global infrastructure investment, it is important to provide high-quality long-term funds. To this end, JBIC will strive to proactively offer long-term financing to infrastructure development projects, while enhancing its financing capabilities in order to further mobilize long-term private-sector funds. In regards to formulating projects, especially in a PPP framework, development of high-quality projects that will attract long-term investment from private-sector investors and promote the participation of the private sector is expected. JBIC will make efforts to develop such projects in cooperation with the governments of projects' host countries, as well as international institutions.

Under its Medium-term Business Plan (FY2015-2017), JBIC will promote the diversification and advancement of overseas infrastructure projects in which Japanese companies will participate. Especially, JBIC will expand financing support through means of various financial instruments to other countries and regions that have not yet been included within the scope of JBIC's business in the electric power field. JBIC will also increase its efforts to be involved in social infrastructure projects, such as railways, seaports, waste disposals, or water systems. Furthermore, in the environmental field, JBIC will proactively work toward protecting the global environment, including efforts to address climate change.

### Kazuhisa Yumikura

Managing Executive Officer

Global Head of Infrastructure and Environment Finance Group

## Business Environment and Key Challenges

### Toward Enhancing International Competitiveness of Japanese Companies

Having formulated existing policies aimed at promoting quality infrastructure, the Japanese government announced in May

#### Table of G7 Ise-Shima Principles for Promoting Quality Infrastructure Investment

- Principle 1: Ensuring effective governance, reliable operation and economic efficiency in view of life-cycle cost as well as safety and resilience against natural disaster, terrorism and cyber-attack risks
- Principle 2: Ensuring job creation, capacity building and transfer of expertise and know-how for local communities
- Principle 3: Addressing social and environmental impacts
- Principle 4: Ensuring alignment with economic and development strategies including aspect of climate change and environment at the national and regional levels
- Principle 5: Enhancing effective resource mobilization including through PPP

Source: Prepared by JBIC based on MOFA's G7 Ise-Shima Principles for Promoting Quality Infrastructure Investment

2016 an additional initiative called the "Expanded Partnership for Quality Infrastructure" ahead of the G7 Ise-Shima Summit meeting. The G7 leaders expressed, in the the G7 Ise-Shima Leaders' Declaration, their agreement to align infrastructure investment with the G7 Ise-Shima Principles for Promoting Quality Infrastructure Investment (see table at left).

In line with these Japanese government policies, JBIC will continue its efforts to maintain and increase the international competitiveness of Japanese companies by promoting the export of high-quality infrastructure backed by Japan's advanced technology.

Furthermore, JBIC will strive to address the challenges, as discussed more in detail below, in supporting Japanese companies to find more opportunities to invest in overseas infrastructure business and participating in infrastructure development projects amid increasingly fierce international competition in the infrastructure field.

#### (1) Responding to various risks

Infrastructure projects are considered to be exposed to various risks as the projects are, in general, large in size and also require a long time span from the planning and bidding phases of the project to construction and ultimately the recovery of invested funds. For example, if the counter party risk of the national or local governments of developing

countries with low credit ratings is high due to the risk of failure to perform their contractual obligations, or if the future demand or sales of products or services to be delivered by the infrastructure operators are uncertain, the investment appetite of parties who are interested in the project might decline, or enough long-term funds might not be available from financial institutions to start the project. Profits generated by infrastructure projects are, in principle, denominated in local currencies. On the other hand, while there is a need, especially by developing countries, to import leading-edge technologies and management know-how from overseas, those developing countries might need to depend on private-sector funds from overseas sources in foreign currencies due to the immature domestic financial markets in those developing countries. Given these situations, it is also important to find a solution to how currency risks are shared among parties involved in infrastructure projects, including the governments of projects' host countries.

### (2) Promoting to develop bankable projects<sup>1</sup>

When it comes to the development of public-private collaboration such as PPP projects and the Build-Operate-Transfer (BOT) model, especially in developing countries, there are cases where risks associated with those PPP projects might not be properly assessed and shared among project participants, including the government of a project's host country, which results in private-sector participants being exposed to excessive risk. This situation is due to: i) a lack of integrity and clarity in the legal system in the project's host country, ii) a lack of ability and experience in the government agencies or organizations of the project's host country, or iii) an absence of proper feasibility studies on the project. Under these circumstances, PPP projects face difficulty in obtaining investment from the private sector, and as a result, those projects do not progress in the way the host country's government expects. It is pointed out that it is important to share risks among all parties involved in PPP projects in a way that enables them to manage and control those risks on their own.

### (3) Mobilizing a wide range of private-sector funds

Global demand for infrastructure is expected to continue

increasing at a faster pace than actual investments amid economic and population growth, and rapid urbanization, especially in emerging countries. To reduce the global demand-supply gap in infrastructure investment, it is important to address the above-mentioned challenges, but in addition, it is also crucial to mobilize a wide range of private-sector funds, such as life insurance companies, pension funds, or investment funds. This is because financing by Multilateral Development Banks (MDBs) and public financial institutions in each country such as JBIC alone is not sufficient to meet the global demand for infrastructure investment in terms of quantity.

### Commitment to Preserving the Global Environment

Economic development while protecting the global environment is now globally recognized as a common issue, as highlighted by the adoption of the Paris Agreement in 2015. Against this backdrop, there is a global hope for implementation of projects that will contribute to protecting and improving the global environment. In this area, JBIC provides support to environment projects through its operations called "Global action for Reconciling Economic growth and ENvironmental preservation (GREEN)" (refer to page 61 for details). JBIC has established these GREEN operations in line with "Actions for Cool Earth: ACE 2.0," an initiative announced by the Japanese government in November 2015, aimed at supporting action in developing countries and advancement of innovative technologies to address climate change. Under the GREEN operations, JBIC will contribute to promoting economic growth in developing countries and tackling various global environmental issues that affect the global economy by implementing measures for greenhouse gas reduction and climate change.

1. Projects in which the feasibility, economic performance, and the risk burden of involved parties in the relevant project have been confirmed and assured, and the project participation of private-sector companies and long-term funding by financial institutions can be expected

## JBIC's Activities

### Toward Enhancing International Competitiveness of Japanese Companies

In FY2016, the Infrastructure and Environment Finance Group approved financial commitments for 23 projects, particularly in the field of electric power, totaling ¥690.2 billion. In Indonesia, JBIC provided a loan to the Central Java ultra-supercritical coal-fired power generation project, which is Indonesia's first PPP project. Additionally, JBIC supported the Muara Laboh Geothermal Power Project through cofinancing with the Asian Development Bank

Natural gas-fired combined cycle power plant and a desalination plant project in Kuwait in which Japanese companies are participating

(ADB). In Vietnam, JBIC made a financial commitment to export electric machinery and equipment for the Binh Thuan





Power Station, the first ultra-supercritical coal-fired power plant project in the country. As explained in detail in the next sub-section (1), JBIC also approved a financial commitment to a waste treatment and power generation plant project in the U.S. in accordance with the Amendment Act of the JBIC Act.

In regards to international competitive bidding on investment projects, JBIC supported Japanese companies to bid and acquire operation rights of projects by explaining JBIC's ability to take risks in providing funding support or proposing its various financial instruments for structuring projects during business negotiations with related parties not only in Asia, but also in the Middle East and North Africa.

Our activities to meet the previously mentioned three key challenges are as follows.

### (1) Responding to various risks

As part of efforts to strengthen risk-assuming functions, JBIC newly established the Special Operations in accordance with the enactment of the Amendment Act of the JBIC Act in May 2016 (refer to page 68).

The launch of the Special Operations Account enables JBIC to take further risks and as a result, in March 2017, JBIC made a financial commitment to the government of Iraq as the first project under the Special Operations (refer to page 44).

Alongside the Amendment Act of the JBIC Act, eligible sectors in developed countries have been expanded (refer to page 69). As a result, JBIC approved a financial commitment to construct a waste treatment and power generation plant in California in the U.S. as JBIC's first loan for supporting a waste treatment project.

JBIC is also promoting consultations in order to take

further risks in assisting local governments and local private companies. JBIC intends to proactively draw on diverse financial tools, such as acquisition of project bonds or Islamic finance, that JBIC is allowed to use through the Amendment Act of the JBIC Act as explained above.

### (2) Promoting the formulation of bankable projects

JBIC works toward the formulation of bankable projects through policy dialogues, consultations, and negotiations with the projects' host country governments, their related parties, and project operators, and also through collaboration with MDBs.

In the policy dialogues, JBIC discusses various aspects, including: the macroeconomic conditions and investment environment, and financial systems in projects' host countries, which are crucial for the stable operations of infrastructure projects, as well as regulations for infrastructure business, PPP schemes, and major issues and projects identified in infrastructure development in key sectors. In addition to regular discussions with the governments of Indonesia, Mexico, and Vietnam, JBIC responds to individual business negotiations and engages in discussions with a variety of countries considering areas, such as the host country's legal system and risk sharing of involved parties for business concession contracts, and tries to improve risk allocation among all parties involved in projects. In particular, JBIC proposed and discussed ways to share risks for PPPs, targeting sectors such as transportation infrastructure in the Philippines. In India, JBIC undertook joint research on the issue of mobilizing overseas capital in solar power generation projects. Through these efforts, JBIC strives to help expand investment opportunities for Japanese companies.

Furthermore, JBIC is utilizing the knowledge of outside



Seminar titled "Future Prospect of Quality Infrastructure Projects in Asia through Public Private Partnership" which was co-sponsored by JBIC and ADB at the Asian Development Bank Annual Meeting.



Sarulla geothermal power plant project in Indonesia in which Japanese companies are participating

experts in implementing feasibility studies which are essential for realizing individual projects that will help maintain and improve the international competitiveness of Japanese industry.

JBIC is also promoting initiatives in collaboration with MDBs. At the 50th Asian Development Bank Annual Meeting held in Yokohama in May 2017, JBIC and ADB co-sponsored "Future Prospect of Quality Infrastructure Projects in Asia through Public-Private Partnership," a seminar on PPP schemes, and discussed issues and measures toward the promotion of PPP projects in the Asian region. In addition, JBIC participates in international discussions toward the promotion of bankable project formulation, such as participating as an Advisory Partner in the Global Infrastructure Facility (GIF)<sup>2</sup> led by the World Bank and participating in the infrastructure field of the Business 20<sup>3</sup> task force.

### (3) Mobilizing a wide range of private-sector funds

JBIC makes various efforts to execute its functions as a catalyst for further mobilizing private sector finance.

JBIC provides guarantees to private-sector financial institutions who participate in cofinancing infrastructure projects, depending on the requirements of individual projects. For example, JBIC encourages private-sector financial institutions to participate in long-term financing by providing risk guarantees to projects where the private-sector financial institutions face high political and counterparty risk of host country governments and their agencies. In FY2016, JBIC provided risk guarantees to cofinancing banks that provided finance to large-scale infrastructure projects, overseas governments and regional development financial institutions.

JBIC also holds seminars about project finance and GREEN projects (refer to page 61) for Japanese regional banks and life insurance companies. In recent years, JBIC has been expanding the base of financial institutions involved in cofinancing. As part of these efforts, in FY2016 three Japanese banks (the Hachijuni Bank, Ltd., the Bank of Yokohama, Ltd., and the Joyo Bank, Ltd.) participated for the first time in cofinancing under the GREEN operations.

In addition, JBIC also works toward credit securitization of its loan portfolio with the aim of mobilizing private sector finance. In FY2016, JBIC securitized existing project finance loans for electric power infrastructure projects in Asia as it aimed to mobilize finance from regional banks (the Iyo Bank, Ltd., the Chiba Bank, Ltd., and the Gunma Bank, Ltd.).

### Commitment to Protecting the Global Environment

Under the GREEN operations, JBIC provides financing support to environment projects, in the form of loans, equity participations, and guarantees, while mobilizing private-sector funds. The environment projects in which JBIC considers participating include: i) projects for solar power plants and energy-efficient power plants that utilize advanced environmental technologies, and ii) projects that ensure significant environmental preservation effects by introducing energy-efficient equipment. To date<sup>4</sup>, JBIC has made 31 financial commitments mainly in renewable energy projects and energy efficiency projects.

In FY2016, under the GREEN operations, JBIC supported an energy efficiency project, which is its first credit line provided to the government of Ecuador. This is also the first project involving cofinancing with the Inter-American Development Bank (IDB) under the GREEN operations. Additionally, JBIC established a second credit line for the Corporación Andina de Fomento (CAF), Development Bank of Latin America, with the aim of supporting renewable energy and energy efficiency projects.

JBIC will continue to provide support to ensure that ongoing growth in overseas infrastructure demand leads steadily to business opportunities for Japanese companies. At the same time, JBIC will also continue to provide financial support for efforts aimed at global environmental preservation.



Solar power generation project in Jordan in which Japanese companies are participating

2. A platform set up and led by the World Bank Group aimed at the formulation of infrastructure projects utilizing PPPs
3. Business 20 (B20) is the official G20 dialogue with the global business community.
4. As of March 2017

# 3 Industry Finance Group

2

The Environment Surrounding JBIC and Its Challenges

3

Industry Finance Group

## ● Message from the Global Head of the Group



In October 2016, JBIC set up the Finance Office for SMEs as part of an organizational realignment, aiming at more attentive support for overseas business deployment of mid-tier enterprises and small and medium-sized enterprises (SMEs). The Industry Finance Group is currently composed of four departments and offices, namely the Corporate Finance Department, Marine and Aerospace Finance Department, and West Japan Office in addition to the Finance Office for SMEs. The group will deploy diverse financial techniques matched to each project as it implements initiatives for maintaining and raising the international competitiveness of Japanese industries.

Amid a continuing strong appetite for overseas investment by Japanese companies, particularly for overseas mergers and acquisitions (M&A), the Group provided loans and guarantees amounting to ¥1,141.6 billion for 221 commitments in FY2016.

In the run-up to the final year of the current Medium-Term Business Plan (FY2015-2017) formulated in 2015, the Group continued proactive efforts toward "Supporting the improvement of Japanese industries' competitive advantage and growth opportunities in the world market" and "Supporting mid-tier enterprises and SMEs' overseas business expansion utilizing JBIC's characteristics," which are Key Action Plans under the plan.

**Kazuhiko Tanaka**

Managing Executive Officer

Global Head of Industry Finance Group

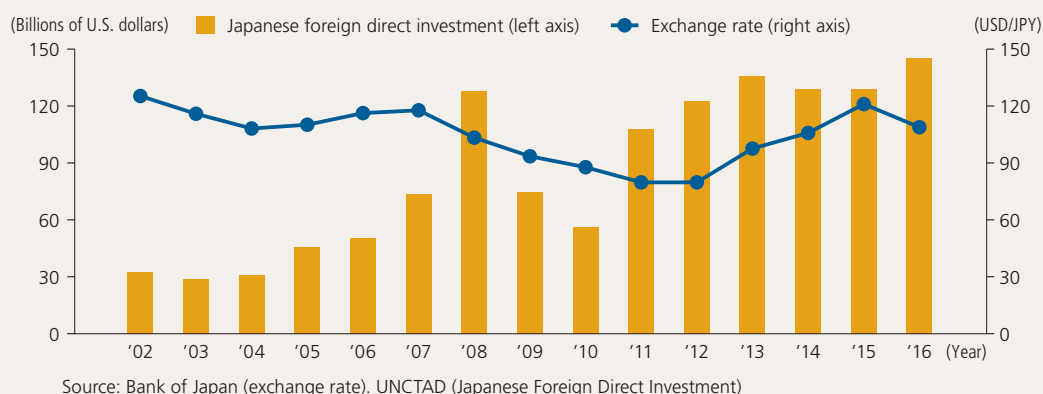
## Business Environment and Key Challenges

### Overseas M&A by Japanese Companies Trending Upward

Despite the slowdown sparked by the global financial crisis in 2008, foreign direct investment by Japanese companies exceeded \$100 billion in 2011 in consequence of the sudden appreciation of the yen. Although the yen also subsequently weakened, during this time, foreign direct investment by Japanese companies has remained steady, reaching \$145.2 billion in 2016 (Figure 1).

Amid steady foreign direct investment by Japanese companies, despite a brief decline following the collapse of Lehman Brothers, their overseas M&A have surged on the back of declining acquisition prices due to the strong yen. This level of activity is continuing, irrespective of subsequent forex trends. Over the past three years as well, overseas M&A deals have continued to rise, increasing from 557 in 2014 to 663 in 2016. The value of such M&A has also risen for two consecutive years, surpassing ¥10 trillion in 2015 and 2016 (Figure 2). This trend of M&A activities shows that

Figure 1. Value of Japanese Foreign Direct Investment

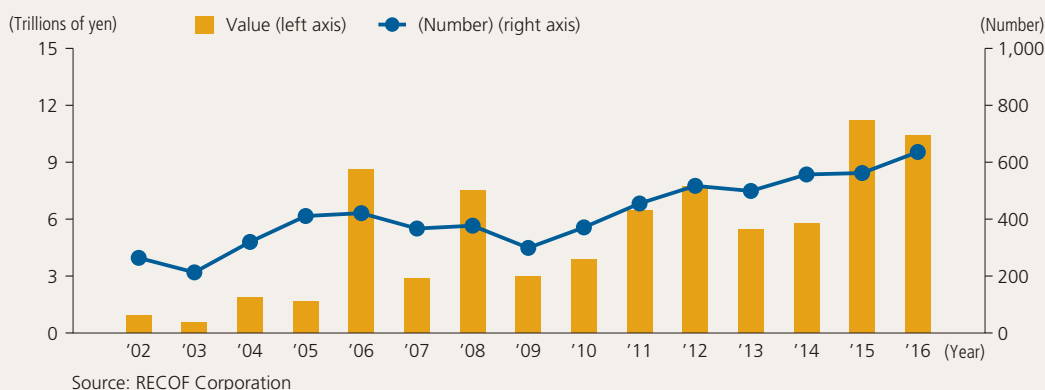




Japanese companies are seeking to substitute the shrinking domestic market by businesses in new markets. M&A aimed at achieving an edge on global competitors through

the expansion of the business scale has also been a major business strategy for Japanese companies.

**Figure 2. Changes in the Value and Number of Overseas M&A by Japanese Companies**

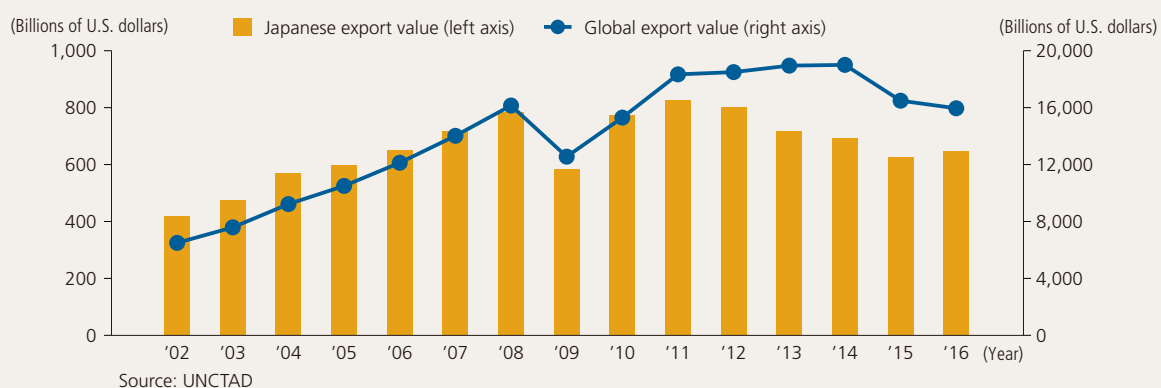


### Value of Japan's Exports in a Recovery Trend

The value of global export transactions gradually increased from 2011, reaching \$19.0 trillion in 2014. However, amid stagnant demand in emerging markets and weak natural resource prices, the value of export transactions began shrinking from 2015, amounting to \$15.9 trillion in 2016. From 2012 to 2015, Japan's export transactions continued declining despite the ongoing yen depreciation. However, in 2016 export transactions increased 3.2% year-on-year to \$644.9 billion (Figure 3). Japan's exports were dragged down

by the establishment of local production systems by Japanese companies to tap growth overseas as well as the subsequent steady, successful development of Japanese supply chain systems abroad. Nonetheless, a recovery in demand, mainly for automobile-related goods in developed countries and for information-related products in Asian emerging markets due to robust economic growth in developed countries and a pickup in the economies of emerging countries, has been a primary factor driving a recovery in the value of Japan's export transactions despite the overall decline in global export transactions.

**Figure 3. Global and Japanese Export Value**



### Boosting Overseas Business for Mid-tier Enterprises and SMEs

Mid-tier enterprises and SMEs deploying business overseas have become increasingly active in trying to create new business opportunities, both by capturing demand in overseas markets in addition to striving to meet local procurement needs of major Japanese companies. Every year, JBIC implements a survey, the medium-term prospects

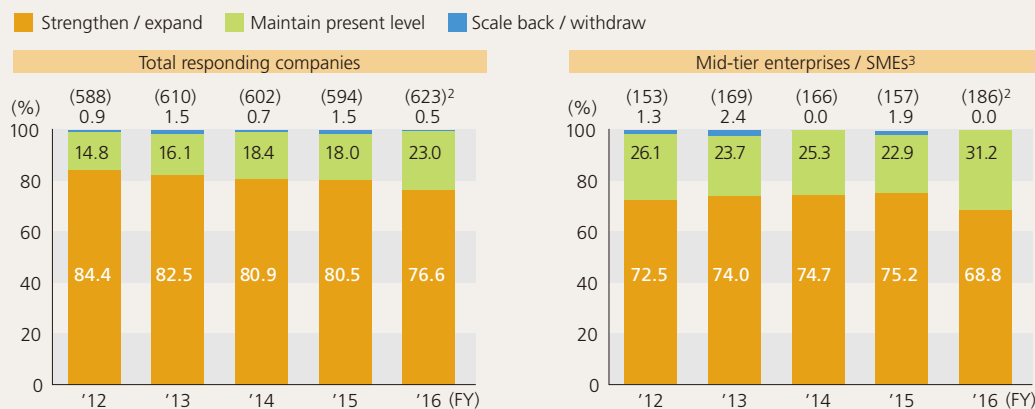
for overseas operations, in *Survey Report on Overseas Business Operations by Japanese Manufacturing Companies*. In view of the accumulated results of their overseas business expansion to date, it is assumed that the appetite for overseas business deployment by mid-tier enterprises and SMEs will remain at a high level (Figure 4).

Diversification has been seen in the mid-tier enterprises and SMEs willing to take on the challenge of going overseas, the countries they target, and their funding needs.

Nevertheless, the mid-tier enterprises and SMEs tend to face greater constraints than larger companies on various fronts, such as fund procurement and information gathering for the

operation of overseas businesses. It is, therefore, incumbent on us to further enhance the support provided to these companies.

**Figure 4. Medium-term Prospects (Next Three Years, or so) for Overseas Operations<sup>1</sup>**



**Notes**

1. "Overseas Operations" is defined as production, sales, and R&D activities at overseas bases, as well as the outsourcing of manufacturing and procurement overseas.
2. The numbers in the parentheses above the bar graphs indicate the numbers of responding companies to the question.
3. Mid-tier enterprises/SMEs are companies whose paid-in capital is less than ¥1 billion.

Source: Results of the JBIC FY2016 Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

## JBIC's Activities

### Supporting Overseas Business Expansion Using Various Financial Instruments

JBIC works to support the overseas business deployment of Japanese companies by providing long-term funding for overseas M&A activities, overseas infrastructure, and natural resource-related sectors. Led by the Industry Finance Group, JBIC continues to provide support for meeting the high needs for overseas M&A. JBIC provides a flexible form of long-term funding required for the M&A activities of Japanese companies targeting overseas companies in various fields, including the medical care, food, pharmaceuticals, automobile parts, semiconductor, precious metals recovery and purification, human resource dispatch, and IT industries. This funding is provided through direct financing from JBIC or indirect financing (two-step loans (TSL)) utilizing M&A credit lines (credit facilities) concluded with Japanese private financial institutions. In FY2016, JBIC approved financial commitments valued at ¥971.0 billion for overseas M&A transactions.



JBIC supported an overseas M&A (medical care) by a Japanese company.

JBIC also provided support for procuring local currencies, which includes support for a Thai baht-denominated loan for an auto parts manufacturing

and sales business as well as JBIC's first-ever loan denominated in Russian rubles. In this manner, in FY2016 as well, JBIC proactively provided support for overseas business deployment to maintain and raise the international competitiveness of Japanese companies.



Opening ceremony at a Thai subsidiary of the mid-tier enterprises and SMEs supported by JBIC

### Supporting Japanese Exports and Overseas Businesses

JBIC is committed to supporting exports and overseas sales by Japanese companies. During FY2016, JBIC supported



exports of Japanese-made plant equipment for upgrading an oil refinery to enable production of fuels with low environmental impact. To support these exports, JBIC approached buyers, such as the governments of host countries, with finance-related proposals to cover projects from the early stage, and conducted direct negotiations while smoothly structuring finance. Also, exports of tankers and LNG carriers constructed by Japan's shipbuilding companies support the shipbuilding industry that plays a significant role in regional economies and affects many mid-tier enterprises and SMEs. Given the importance of these exports, JBIC supports the Japanese shipbuilding industry by deploying its diverse risk-assuming functions and flexibly utilizing buyer's credits for ship exports backed by its capabilities in buyer risk and project finance.



JBIC supports the expansion of plant equipment exports by Japanese companies.

### Supporting Overseas Business Deployment of Mid-tier Enterprises and SMEs

Since FY2012, JBIC has been working more aggressively to support the overseas business deployment of mid-tier enterprises and SMEs through business units dedicated to this purpose at its Head Office and West Japan Office. These efforts are steadily bearing fruit as the number of financial commitments to mid-tier enterprises and SMEs has risen from 34 during FY2012, the first fiscal year of these dedicated business units, to 114 commitments during FY2016.

To facilitate the support of mid-tier enterprises and SMEs, JBIC has strengthened cooperation with Japanese regional financial institutions and overseas subsidiaries of lease companies by establishing investment credit lines



JBIC supports ships built by Japanese companies via export financing.

(financing facilities) through private financial institutions. In addition to seamless funding in the form of loans denominated in hard currencies (U.S. dollars and Euros), JBIC also actively supported the local currency needs of overseas subsidiaries of mid-tier enterprises and SMEs by providing loans denominated in local currencies such as Thai baht.

Besides support in procuring funds, JBIC also strengthened collaboration aimed at solidifying ties between Japan and related parties in host countries by concluding memoranda of understanding (MOUs) with state governments of developing countries and with local financial institutions to support the overseas advancement of mid-tier enterprises and SMEs via Japan's regional banks. Also, in response to the growing desire to set up overseas operations by mid-tier enterprises and SMEs, JBIC continued to provide various types of information, beginning with information on the overseas investment environment. JBIC has also held seminars and individual consultations across Japan to provide information on overseas business deployment and on concluding MOUs.



JBIC holds seminars for mid-tier enterprises and SMEs.

### Meeting the Needs of Japanese Companies

Japanese companies continue to confront ever-changing economic conditions, such as trends in emerging country economies, and in particular, the global impact of unclear U.S. economic policy management and the direction of negotiations on the U.K. exit from the EU. However, guided by the policies of the Japanese government, JBIC continues to provide support aimed at maintaining and improving the international competitiveness of Japanese industries.

JBIC's financing options, including project finance, subordinated loans, and loans denominated in local currencies, were further diversified following the May 2016 enactment of the Amendment Act of the JBIC Act.

Through the Industry Finance Group, JBIC will utilize these financing instruments to deepen its support for Japanese companies and, in order to contribute to the exploration and creation of new business opportunities that lead to sustainable growth for Japan, connect Japan to the world by accurately responding to the true needs of Japanese companies.

# 4 Equity Finance Group

## ● Message from the Global Head of the Group



FY2016 was a turning point for JBIC as it established a new business function known as the Equity Finance Group on October 1, 2016 to enhance its capability in the area of equity financing. This Group has an Equity Investment Department placed under its supervision.

Up to the present, JBIC has made equity participation in overseas corporations funded by Japanese companies as well as invested in overseas private equity funds (PE Funds) that Japanese companies play a major role within those funds. One of the growth strategies of the Japanese government aims to benefit from overseas growth markets. To achieve the government's growth strategy, it is becoming increasingly significant to supply risk money. To this end, JBIC set up a new business group specializing in equity financing, with an aim to reinforce its ability to supply risk money.

Since the establishment of the Group, there have been increasing expectations for supply of risk money by JBIC. Under such a situation, JBIC will continue to provide proactive support to Japanese companies which plan to expand their business to overseas markets by utilizing equity financing tools.

### Shinji Fujino

Managing Executive Officer

Global Head of Equity Finance Group

## Business Environment and Key Challenges

### Establishment of the Equity Finance Group and the Equity Investment Department

JBIC encourages Japanese companies to expand their business to overseas by supplying risk money under its equity financing operations. Through these operations, JBIC strives to help Japanese companies to further expand their business activities to overseas countries and enable Japan to benefit from the growth potential of the global economy, with a view to boosting the Japanese economy.

In FY2016, Japan's current account surplus exceeded ¥20 trillion. Especially, the net primary income balance, which reflects receipts such as dividend income from overseas investments, remained at a high level above ¥18 trillion. Furthermore, Japan's foreign direct investment (calendar year, on a net basis) in 2016 reached its historical high of more than ¥18 trillion. This was due to continuous, vigorous cross-border M&A activity by Japanese companies. In 2016, the number of cross-border M&A transactions amounted to a record high of 636 deals (Source: RECOF Corporation).

As demonstrated by these figures, Japanese foreign investment is further increasing. At the same time, the global markets, especially emerging markets, are expanding at a rapid speed. Under such circumstances, Japanese companies are exposed to intense competition for securing overseas markets. When Japanese companies plan to expand their business to overseas markets with an eye to diversifying their earnings bases and sustaining growth in corporate value, it is highly important to develop an overseas business

strategy, ensuring to i) gain access to long-term risk money particularly for investments in emerging countries with rising geopolitical risk and ii) reduce political risk in countries or regions where they plan to conduct operations.

Due to the launch of the Equity Finance Group, JBIC partially revised its Medium-term Business Plan (FY2017-2019) in January 2017 to add "Increasing Supply of Funding through Equity Participation" as one of the Key Action Plans. The aim of establishment of the Equity Finance Group and Equity Investment Department which specialize in equity financing operations is to further support Japanese companies which plan to expand their business to overseas countries by increasing the supply of risk money.

Capitalizing on its status as a public financial institution and accumulated relations with foreign governments, JBIC will encourage Japanese companies to expand into overseas markets while assisting them in reducing political risk in countries or regions where they plan to start business through the supply of long-term risk money.

## JBIC's Activities

### Equity Participation Business

Up to the present, JBIC has made investments in various fields. With regards to the investment in a petrochemical business in Taiwan, JBIC supported a Japanese petrochemical manufacturer with unique technology and knowledge of manufacturing of petrochemical products in structuring a project to build a new large petroleum plant in Taiwan by participating from the early stage of the project development process. This Japanese petrochemical manufacturer intends to manufacture petrochemical products in the new plant and sell them to Asian countries in collaboration with a large Taiwanese petroleum company.

In the infrastructure field, JBIC supported a Japanese company's equity participation in a water management company with a high presence in the Middle East, North Africa, and the Asian region. In the renewable energy field, where growth is expected especially in the European market, JBIC provided support to a Japanese company which invested in a business in Denmark for developing and commercializing the technology to manufacture large offshore wind turbines in collaboration with a Danish company.

In FY2016, JBIC made a commitment for an equity participation in an industrial park operation business carried out by a Japanese company in the Mandal Japanese Industrial Zone in the state of Gujarat, India. The aim of this business is to provide rental factories within the premises of the industrial park and various infrastructure services to Japanese companies in India, including mid-tier enterprises and SMEs. This business is also intended to help Japanese companies to address issues they might face when investing in India, such as undeveloped basic infrastructures and complexity in obtaining approvals and licenses for businesses. JBIC's efforts are in line with the objectives of the Japan-India Investment Promotion Partnership which was announced at the Japan-India summit meeting in September 2014.

In addition, JBIC has invested in overseas investment funds, such as those investing in companies with businesses in Mexico, Canada, and the U. S. and those in microfinance institutions in ASEAN countries. JBIC will utilize its experiences

gained through these investments in individual projects and overseas investment funds, with an aim to strengthen its capability in the area of equity financing.



An exterior view of the Mandal Japanese Industrial Zone

### Future Business Strategy

JBIC established JBIC IG Partners (JBIC IG) on June 30, 2017 in collaboration with Industrial Growth Platform, Inc. (IGPI). The objective of JBIC IG is to provide investment advisory services regarding overseas investment funds by applying the respective strengths of JBIC and IGPI. IGPI has significant experience in providing companies with hands-on support for long-term and sustainable growth in corporate and business value.

JBIC will continue to encourage Japanese companies to expand their business to overseas markets through the use of various equity financing techniques for structuring projects, while utilizing the capabilities of JBIC IG.



JBIC signed an MOU with the State Government of Gujarat, where the project site is located, for business cooperation (January 2017).



JBIC IG's directors and auditors

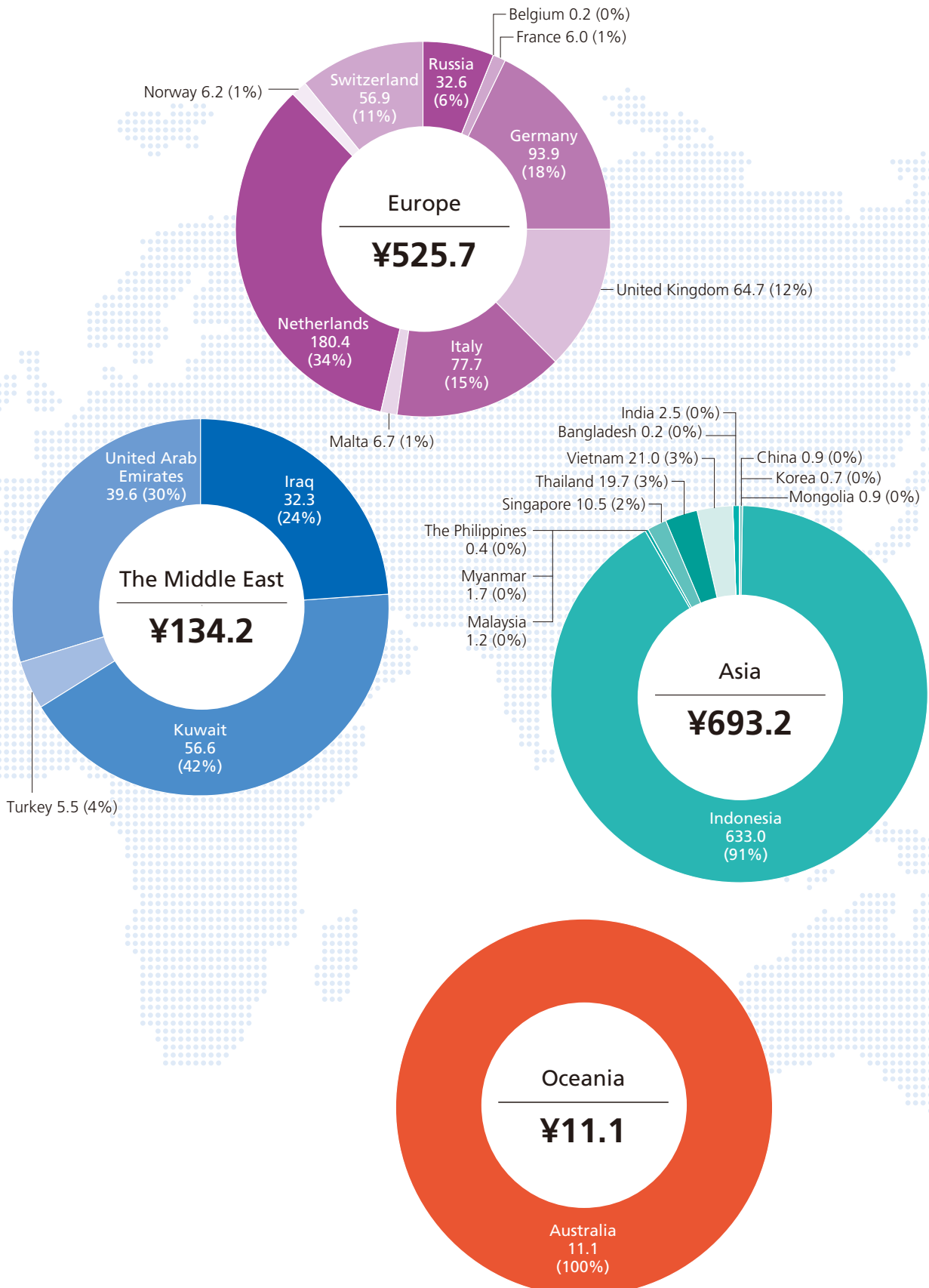


## Examples of Business Outcomes in FY2016

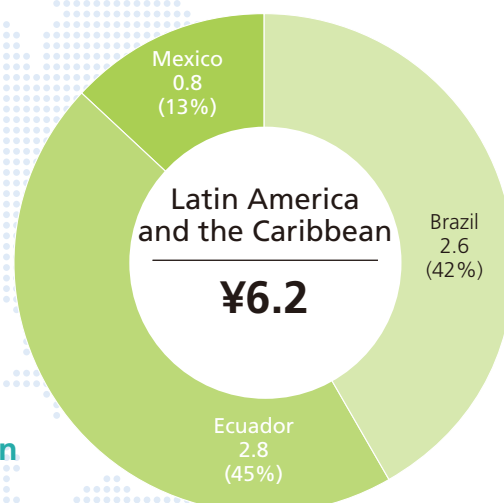
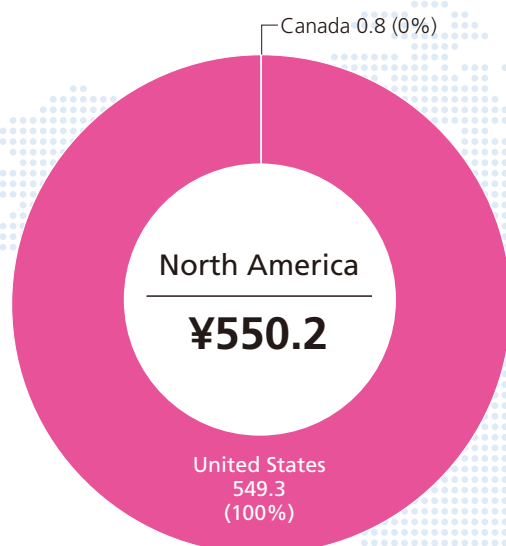
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## Geographical Distribution of Loan and Equity Participation Commitments

(FY2016; unit: billions of yen)

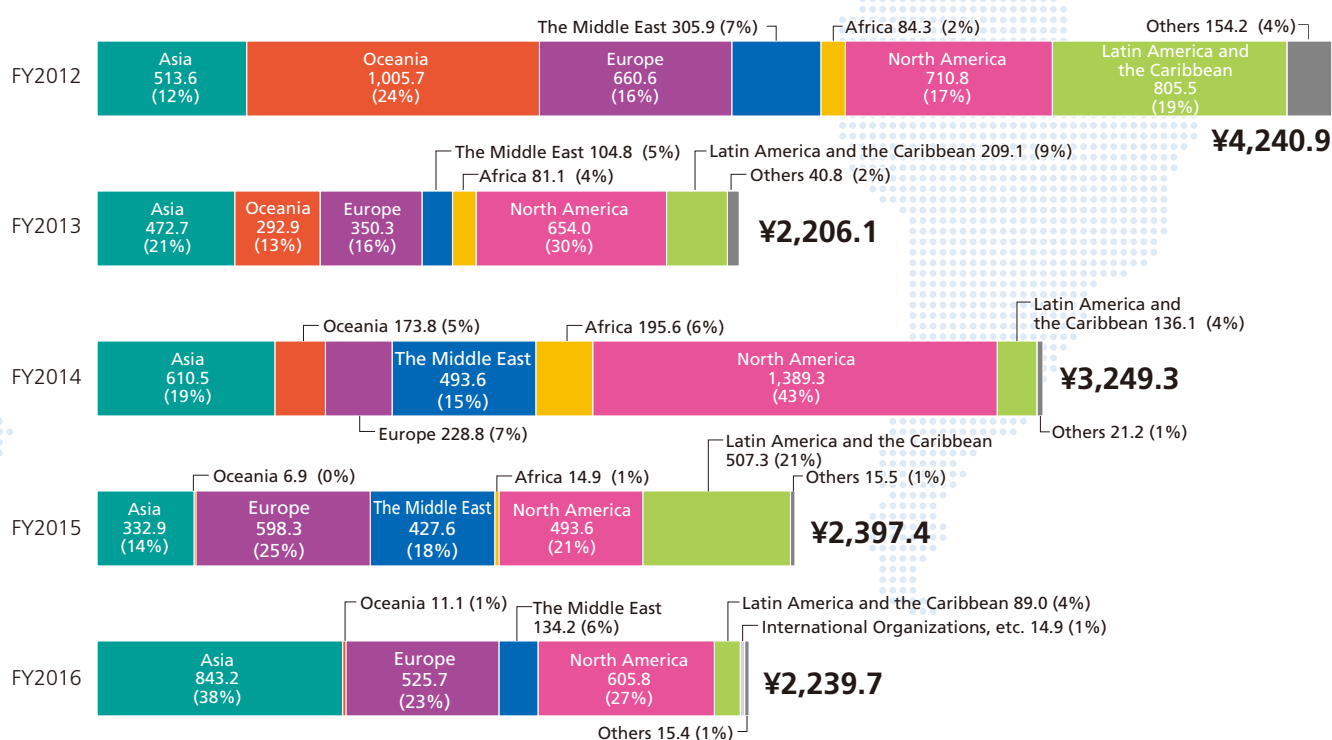






## Transition in Composition of Commitments by Region (Loans, Equity Participations, and Guarantees) over the Last 5 Years

(Unit: billions of yen)



# 2 Examples of Business Outcomes by Region

## Asia



### Mongolia

#### Loan for the Funds to Purchase Japanese-made Printers

Promoting trading activation between Japan and Mongolia

JBIC concluded a loan agreement based on a credit line extended to the government of Mongolia. The loan is intended to provide, through the Ministry of Finance of Mongolia, the necessary funds for ADMON PRINT LLC, a Mongolian company, to purchase from TOKOKOSEN CORP. Japanese-made printers, as well as services.

The enactment of the "Agreement between Japan and Mongolia for an Economic Partnership (EPA)" by the governments of Japan and Mongolia in June 2016 is expected to further enhance reciprocal economic cooperation and vitalize the two countries' economies in a wide range of fields, along with the liberalization and facilitation of trade and investment between the two countries. In addition, in July 2014, "ERCH Initiative Plus"<sup>1</sup> was agreed on by the two countries' leaders, supplementing the original and resolving to promote financing utilizing this credit line. This loan is in line with such measures of the two countries.



### Indonesia

#### Project Finance for Re-expansion of Coal-fired Power Plant

Supporting Japanese companies' participation in IPP<sup>2</sup> project for ultra-supercritical power plant

JBIC concluded a loan agreement for project finance<sup>3</sup> with Indonesian company PT. Bhumi Jati Power (BJP), in which SUMITOMO CORPORATION and The Kansai Electric Power Co., Inc. and others have stakes for the re-expansion of the Tanjung Jati B coal-fired power plant in the country.

In this project, BJP will build, own, and operate an ultra-supercritical power plant with an installed capacity of 2,000 MW (two units of 1,000 MW each). The power from this plant will be sold to PT PLN (Persero), a state-owned power utility in Indonesia, for 25 years and realize introducing efficient and environmentally friendly technology to Indonesia.

This loan supports an overseas infrastructure project in which Japanese businesses will participate as investors and become involved in its operation and management for a long time by taking advantage of the country's advanced technology. The loan is also in line with the Japanese government's strategy, updated in May 2016, of promoting Japanese involvement in projects that include the design, construction, operation, and management of infrastructure.



### Myanmar

#### Loans for the Manufacturing and Sales Business of Power Distribution Equipment

Supporting overseas business deployment of Japanese mid-tier enterprises and SMEs

JBIC concluded two loan agreements with Nippon Kouatsu Electric Co., Ltd. These loans are to be used as funds needed for the power distribution equipment manufacture and sales business operated by Nippon Kouatsu Electric's Myanmar subsidiary, Nippon Kouatsu Electric Myanmar Co., Ltd. (NKEM), and will be used to build new plant facilities.

Nippon Kouatsu Electric is an SME engaged in the manufacture and sale of power distribution equipment used in power distribution facilities. With demand for power-related infrastructure expected to grow in the ASEAN region, Nippon Kouatsu Electric seeks to further expand business by initiating the manufacture and sales of power distribution equipment by NKEM in Myanmar, where labor is abundant and low cost. These loans contribute to maintaining and strengthening the international competitiveness of Japanese industry by supporting the overseas business deployment of such Japanese companies, including mid-tier enterprises and SMEs.



1. ERCH Initiative Plus: "The ERCH Initiative" is aimed at promoting economic relations between Japan and Mongolia consisting of two pillars: (1) the development of an investment environment and (2) cooperation for sustainable economic development, as proposed by Japanese Prime Minister Shinzo Abe on his visit to Mongolia in March 2013. As a supplement to the ERCH Initiative, during the visit of Mongolian President Tsakhiagiin Elbegdorj in July 2014, "ERCH Initiative Plus" was proposed by Prime Minister Abe for the promotion of Mongolian exports and industrial diversification that was agreed on by both leaders.

2. An IPP (Independent Power Producer) builds and operates power generation independently and sells the electricity produced.

3. Project finance is a financing scheme in which repayments for a loan are made solely from the cash flows generated by the project.



## Singapore

### Buyer's Credit for Ship Export

Supporting export of tankers built by Japanese shipbuilders

JBIC concluded two buyer's credit agreements with two Singaporean subsidiaries, Dynamic Tankers Pte. Ltd. and Endeavor Tankers Pte. Ltd., of the Tai Chong Cheang Steamship Group (TCC Group), a ship owner based in Hong Kong, for funding the purchase of two tankers.

The TCC Group is based in Hong Kong and is one of the leading ship owners (mainly bulk carriers and tankers) in Asia. These loans are intended to finance the TCC Group to purchase two 114,700 DWT<sup>4</sup> type tankers built by Namura Shipbuilding Co., Ltd. in its Japanese shipyards.

These loans are intended to support the export of ships built by Japanese shipbuilders which perform a significant role in the regional economy and associated industries, including mid-tier enterprises and SMEs. Thus, these loans will contribute to maintaining and strengthening the international competitiveness of the Japanese shipbuilding industry.



## Thailand

### Loans for the Manufacturing and Sales Business of LED Light

Supporting overseas business deployment of Japanese mid-tier enterprises and SMEs

JBIC concluded a loan agreement with GENTOS Co., Ltd. (GENTOS). This loan will provide the funds needed for the LED light manufacture and sales business operated by GENTOS (Thailand) Co., Ltd. (GT), the Thai subsidiary of GENTOS, and will be used to construct a new local manufacturing plant.

GENTOS is an SME engaged in the LED light sales business. GENTOS's LED lights are highly rated for their high functionality and sophisticated design and have won numerous design awards. To further expand sales, GENTOS established GT, its first overseas manufacturing base.

This loan will contribute to maintaining and strengthening the international competitiveness of Japanese industry by supporting the overseas business deployment of GENTOS.



## Vietnam

### Loans for the Manufacturing and Sales Business of Plastic Pallets for Logistics

Supporting the overseas business deployment of mid-tier enterprises and SMEs by collaborating with local financial institutions

JBIC concluded a loan agreement with Joyo Bank, Ltd. This is an individual agreement based on an investment credit line to support the overseas business deployment of mid-tier enterprises and SMEs that was concluded with Joyo Bank in November 2016.<sup>5</sup> The loan will be used for funds required for the manufacture and sale of plastic pallets for logistics carried out by KOEI TODA INDUSTRIES Co., Ltd., a Vietnamese subsidiary of Koei Industries Co., Ltd.

Under this credit line, the loan will flexibly provide through Japanese financial institutions long-term foreign currency funds needed for projects carried out by mid-tier enterprises and SMEs in developing regions. The loan will contribute to maintaining and strengthening the international competitiveness of Japanese industry by supporting the overseas business deployment of Japanese mid-tier enterprises and SMEs.



4. DWT stands for Dead Weight Tonnage and refers to the total carrying capacity of a vessel, including freight, fuel, food, drinking water, ship crew, and their personal effects.

5. Investment credit line for Joyo Bank: JBIC established a credit line for Joyo Bank for funds needed when Japan's mid-tier enterprises and SMEs expand business in developing regions. With its main base of operation in Ibaraki Prefecture, Joyo Bank has a wide range of business relationships with Japanese mid-tier enterprises and SMEs and actively supports their overseas business expansion. JBIC will provide mid-tier enterprises and SMEs and their overseas subsidiaries with medium- to long-term funds in U.S. dollars through Joyo Bank to actively support their overseas business deployment.

## Asia



### Vietnam

#### Buyer's Credit for Vietnam Electricity

##### Supporting export of facilities for Vietnam's first ultra-supercritical coal-fired power plant

JBIC concluded a loan agreement on buyer's credit (export loan) with Vietnam Electricity (EVN) in March 2017. This loan is intended to finance EVN's purchase of a whole set of Japanese machinery and equipment including steam turbines to build the country's first ultra-supercritical coal-fired power generation plant (600 MW x 1 unit) in Binh Thuan Province, Southern Vietnam.

In Vietnam, demand for electricity is rapidly increasing backed by steady economic growth and causing the country to face supply constraints. It has become particularly urgent to solve the problem of power shortages in Southern Vietnam. In response to this situation, the Vietnamese government has set the enhancement of power supply capacity as a national priority. Through JBIC's support for exporting steam turbines and other equipment made by Japanese companies, this loan is expected to advance Vietnam's economic development through steady power supply, as well as contribute to maintaining and strengthening the international competitiveness of Japanese companies.

The Japanese government positions the ultra-supercritical coal-fired power generation technologies as technologies vital for "quality infrastructure" in the Partnership for Quality Infrastructure. This project is thus in line with the aforementioned initiative of the government.



### Vietnam

#### Loan for the Manufacturing and Sales Business of Automobile Electronic Components

##### Supporting overseas business deployment of Japanese mid-tier enterprises and SMEs

JBIC concluded a loan agreement with TOYODENSO CO., LTD. This loan is intended to finance VIETNAM TOYODENSO CO., LTD. (VTD), a Vietnamese subsidiary of TOYODENSO, for the manufacturing and sales business of automobile electronic components. The funds are used for the expansion of factory facilities of VTD. TOYODENSO established VTD in November 2006 as the manufacturing and sales base in North America and other regions. As demand for automobiles is expanding in North America and other regions, TOYODENSO plans to further expand its business by strengthening the production capacity of VTD and thereby expand sales to automobile manufacturers doing business globally. Thus, this loan contributes to maintaining and strengthening the international competitiveness of Japanese industries through support for the overseas business deployment of TOYODENSO.



### India

#### Loan for the Steel Coil Center Business

##### Supporting overseas business deployment of steel processing and distribution business

JBIC concluded a loan agreement with JSW MI STEEL SERVICE CENTER PRIVATE LIMITED (JSWMI), an Indian company. JSWMI was established as a fifty-fifty joint venture between Marubeni-Itochu Steel Inc. and JSW Steel Limited, a major Indian steel manufacturer. This loan is intended to finance the necessary equipment funds for JSWMI to operate a coil center (steel processing and distribution center) in the northern part of India.

Demand for local procurement of high-quality steel sheet is increasing in India, where Japanese car and electronic manufacturers continue to expand their presence. Marubeni-Itochu Steel seeks to develop a new business in India by providing a steady supply of high-quality steel sheet to Japanese manufacturers expanding into northern India, as well as to other companies in the region.





## Asian countries

### JBIC Signs MOU with Asian Exim Banks to Revitalize Trade and Investment

Promoting partnerships with Asian Exim Banks amid increasing economic collaboration among Asian countries

JBIC signed an MOU for mutual cooperation toward revitalization of trade and investment, with 10 Asian export-import (Exim) banks and export credit agencies (ECAs)<sup>1</sup> constituting the member institutions of the Asian EXIM Banks Forum<sup>2</sup>, at its 22nd Annual Meeting in November 2016.

The participating members agreed to utilize credit lines and enhance cooperation in cofinancing, as well as in local currency loans, in order to achieve revitalization of trades and investments among the Asian countries.

Asian economies have developed deeper interdependence helped by the recent remarkable economic development of Asian countries. In this context, a stronger cooperative framework which is being established by Asian Exim Banks and ECAs, including JBIC, for addressing Asia's enormous demand for infrastructure development, as well as energy and environmental issues, will contribute to sustainable growth in the entire Asian region.



## Europe



### Russia

#### Export Credit Line to Joint Stock Company UniCredit Bank

Supporting exports by Japanese companies to Russia and neighboring countries

JBIC concluded in 2016 a general agreement with Joint Stock Company UniCredit Bank (UCB) to establish an export credit line<sup>3</sup> to Russia and certain CIS countries (Azerbaijan, Belarus, Kazakhstan, Turkmenistan, and Uzbekistan).

The credit line, offered to UCB, is intended to provide medium- and long-term funds in Japanese yen, U.S. dollars, and Euros to finance the import of machinery and facilities by Russian and other local companies from Japanese exporters.

In Russia, even with the economic impact of declining oil prices, further investments are planned. Japanese companies continue to be interested in Russia as a promising export market. This was the first time that JBIC has set a credit line for a commercial bank of Russia. This credit line is supporting financially the expansion of exports from Japan to Russia.

1. Members of the Asian Exim Banks Forum are: Export Finance and Insurance Corporation of Australia, The Export-Import Bank of China, Export-Import Bank of India, Indonesia Eximbank, Export-Import Bank of Malaysia Berhad, The Philippine Export-Import Credit Agency, The Export-Import Bank of Korea, The Export-Import Bank of Thailand, The Vietnam Development Bank and Export Credit Bank of Turkey.

2. The Asian EXIM Banks Forum meeting has been held annually since 1996, as a mutual consultation forum on information exchange and common concern among the export credit agencies of the Asian region.

3. An export credit line is a form of export financing in which JBIC makes a commitment to provide a maximum amount of credit to be extended to the borrower (foreign banks or other entities) to finance exports of machinery, equipment, and services from Japan.



## The Middle East



### Iraq

#### Buyer's Credit for Government of Iraq

Supporting export of substation facilities by Japanese companies

JBIC concluded loan agreements on buyer's credit (export loans) with the government of Iraq. These loans are the first project under the Special Operations<sup>1</sup> launched by JBIC in October 2016.

These loans are intended to finance the purchase of a set of substation facilities from Toyota Tsusho Corporation by the Ministry of Electricity of Iraq in order to construct substations at 16 domestic sites in Iraq. Toyota Tsusho will undertake all engineering, procurement, and construction of the equipment, while TOSHIBA CORPORATION and MEIDENSHA CORPORATION will manufacture the substation equipment.

In order to increase the capacity and meet the demand, the government of Iraq is planning to improve and develop facilities for power generation, transmission, and transformation. These loans will help promote Iraq's independent reconstruction through enhancement and stabilization of the power supply by introducing high-quality infrastructure, and at the same time, contribute to maintaining and strengthening the international competitiveness of Japanese industries.



### Kuwait

#### Buyer's Credit for Oil Refineries

Supporting export of Japanese-made equipment for upgrading oil refineries from Japanese company

JBIC concluded a loan agreement on buyer's credit (export loan) with Kuwait National Petroleum Company K.S.C. (KNPC), which is a subsidiary of state-owned Kuwait Petroleum Corporation (KPC) and engages in oil refining and other business in Kuwait.

KNPC is undertaking a project to upgrade the Mina Al-Ahmadi and Mina Abdullah refineries in Kuwait's Ahmadi Governorate and to produce low environmental impact fuel with low sulfur content that conforms to European and other standards. A joint venture, in which JGC CORPORATION participates, has received the turnkey order for the upgrading of the Mina Al-Ahmadi refinery, and JBIC provides part of the funds for this refinery's EPC (Engineering, Procurement, and Construction) contract, including the export of equipment made by Japanese companies.

In Kuwait, capital investment and plant construction plans are actively carried out with the aim of industrial diversification. Through JBIC's support for the export of Japanese-made equipment to be used for upgrading oil refineries, this loan will lead to new business opportunities for Japanese companies in the oil refining sector in Kuwait.



### JBIC Holds Conference Celebrating 10th Anniversary of Dubai Representative Office

JBIC established its Dubai Representative Office at Dubai International Financial Centre (DIFC) in January 2006, becoming the first Japanese financial institution to open an office in Dubai. The Office is in charge of JBIC's operations in 16 countries in the Middle East and North Africa. Taking advantage of its 10th anniversary, JBIC's Dubai Representative Office held a conference in Dubai on the theme of "Japan's continuing challenge to partner with Middle Eastern countries in achieving development 'Visions'." The conference was attended by government officials and members from the financial institutions of several Middle Eastern and African countries, as well as representatives from Japanese companies. The conference provided an opportunity for both parties to develop a mutual understanding for building even stronger relations between JBIC and Middle Eastern countries.



1. Special Operations: To further promote the expansion of Japanese companies in the overseas infrastructure business, the Special Operations reinforce the risk-assuming function for overseas infrastructure projects (see page 68).



## United Arab Emirates

### Loan for Development of New Oilfield (Hail) in Abu Dhabi

Contributing to stable supply of energy resources for Japan

JBIC concluded a loan agreement with Abu Dhabi Oil Co., Ltd. (ADOC). This loan is intended to finance necessary funds for ADOC to develop a new oilfield "Hail oilfield" in the Emirate of Abu Dhabi, the United Arab Emirates. The concession of this oilfield was acquired by ADOC in 2011.

ADOC owns 100% of the concession rights of the three oilfields located in the offing of Abu Dhabi. ADOC has conducted the oilfield development and production as the operator and shipped all of the produced crude oil to Japan, contributing to the stable supply for Japan. The company also holds 100% of the concession of Hail oilfield located adjacent to the existing three oilfields and plans to carry out its development and production. This loan thereby contributes to the stable supply of crude oil to Japan and is in line with Japan's energy resource policy targeting an increase in the self-development ratio<sup>2</sup> of oil and natural gas to 40% or more by 2030 under the "Basic Energy Plan."



## Africa

### Africa

#### JBIC Signs MOU with IsDBG

Promoting cooperation toward African development and new business opportunities between Japan and Islamic countries

JBIC signed an MOU with the Islamic Development Bank Group (IsDBG), taking the opportunity of the 6th Tokyo International Conference on African Development (TICAD VI). The objectives of this MOU are to promote development in Africa and to strengthen relationships for creating business opportunities between Japan and the IsDBG member countries.

IsDBG is a regional development financial institution with the aim to financially support economic growth and social development of Islamic countries. It leads several organizations, including Islamic Development Bank (IsDB), which provides support through Islamic finance; Islamic Corporation for the Development of the Private Sector (ICD), which enhances investments in private businesses; and Islamic Corporation for the Insurance of Investment and Export Credits (ICIEC), which underwrites various insurances for facilitating investments and trade.

Through this MOU, JBIC seeks to utilize ICIEC's insurance function in order to enhance the possibilities for supporting Japanese companies' business expansion in African countries, as well as in ICIEC member countries. JBIC also seeks to increase the possibilities of cooperation with IsDBG in the Islamic finance sector.

## North America



## United States

### Loan for Acquisition of Interest in Morenci Copper Mine

Contributing to steady procurement of base metal by Japanese companies

JBIC concluded a loan agreement with Sumitomo Metal Mining America Inc. (SMMA), a wholly-owned U.S. company of Sumitomo Metal Mining Co., Ltd. (SMM). The loan is co-financed with Japanese private-sector financial institutions and provides necessary funds to SMMA in order for SMM to acquire 13% interest in Morenci Copper Mine in the U.S. state of Arizona from an affiliated company of Freeport-McMoRan Inc. (Freeport) of the U.S. through SMMA's subsidiary.

Copper is used for a wide variety of purposes and indispensable metal resources for Japanese industries, and thus it is an urgent task for Japan to ensure a long-term steady supply of copper resources. This acquisition of interest will enable SMM to receive 62 thousand tons of copper, which account for 13% of copper produced by Morenci Copper Mine (annual average of pure copper over the next five years). The loan will thereby contribute to the long-term steady supply of copper, one of vital metal resources for Japan.



Provided by: Sumitomo Metal Mining Co., Ltd.

2. The self-development ratio is the proportion of oil and natural gas purchased from those granted to Japanese entities to the total sum of imported and domestically produced oil and natural gas.

## Latin America and the Caribbean



### Brazil

#### Loan for the Sales Financing Business of Motorcycles and Cars Supporting overseas business deployment of Japanese motorcycle and car industry

JBIC concluded a loan agreement with Banco Honda S.A. (BHB), a Brazilian subsidiary of Honda Motor Co., Ltd. (Honda). This loan is intended to finance part of the necessary funds for BHB to conduct the sales financing business of Honda-branded motorcycles and cars in Brazil.

Honda entered the Brazil market with its motorcycles in the 1970s and now holds about 80% of the country's motorcycle market. Its share of cars is also gradually expanding in the world's fourth largest market for car sales. In order to maintain and further expand its share in this market, however, the sales financing has become a strategically important tool. Through the support of such overseas business deployment of Honda, this loan will contribute to maintaining and strengthening the international competitiveness of Japanese industries. This loan will also support the enhancement of BHB's strategy to diversify its funding sources.



### Mexico

#### Loans for the Manufacturing and Sales Business of Automotive Parts

##### Supporting overseas business deployment of Japanese mid-tier enterprises and SMEs

JBIC concluded a loan agreement with Beyonz Co., Ltd. to extend funds needed for the automotive parts manufacturing and sales business conducted by its Mexican subsidiary, the BEYONZ MEXICANA, S.A. de C.V. (BM). This loan will be co-financed by The Bank of Tokyo-Mitsubishi UFJ, Ltd. and used to expand its facilities.

Beyonz is a mid-tier enterprise engaged in the automotive parts manufacturing and sales business. In Mexico, where automobile parts manufacturers are entering in waves on the back of automobile demand from North America and other regions, Beyonz plans to further expand its business there by increasing the manufacture and sales of automobile parts through BM. This will contribute to maintaining and strengthening the international competitiveness of Japanese industries through support for Beyonz's overseas business deployment.



### Mexico

#### Guarantee for Yen-denominated Privately Placed Foreign Bonds Issued by Petróleos Mexicanos Revitalizing the Samurai bond market and strengthening multi-layered relations with the resource supplier

JBIC signed a set of agreements on guaranteeing yen-denominated foreign bonds (Samurai bonds) issued in Japan by the Mexican state-owned petroleum company Petróleos Mexicanos (PEMEX). This guarantee is provided under JBIC's Guarantee and Acquisition toward Tokyo market Enhancement (GATE) facility<sup>1</sup> for the issue of Samurai bonds. Supporting PEMEX's issue of Samurai bonds in the Tokyo market through credit enhancement due to this guarantee from JBIC will create wide-ranging investment opportunities for Japanese investors and contribute to maintaining and strengthening the competitiveness of Japan's capital markets. It will also assist PEMEX in diversifying its sources of financing.

JBIC had previously concluded an MOU and cooperation with PEMEX to establish and develop long-term cooperative ties, and it has been engaging in annual policy dialogue meetings with the Mexican government in an effort to establish multi-layered relations with the resource-supplying country of Mexico. The latest set of agreements can be expected to further strengthen relations with PEMEX and Mexico, and to offer lateral support to Japanese companies pursuing business opportunities in Mexico's resource and energy markets through the energy reforms resulting from the amendments made to the Mexican constitution in 2013.

1. The Guarantee and Acquisition toward Tokyo market Enhancement (GATE) facility supports the issuance of Samurai bonds through partial guarantees by JBIC, and JBIC itself purchases some of these bonds when necessary.

## Latin America and the Caribbean Region

### JBIC Signs MOU with IDB and IIC

#### Promoting quality infrastructure and environment projects

JBIC signed an MOU with the Inter-American Development Bank (IDB) and the Inter-American Investment Corporation (IIC).

The purpose of this MOU is to strengthen the cooperative relationship among the three organizations—JBIC, IDB, and IIC—by sharing expertise and know-how of the infrastructure and environmental sectors, as well as exchanging opinions on project development, in order to promote high-quality infrastructure and environmental projects in Latin America and the Caribbean region.

The IDB Group, which is an international organization that financially assists projects necessary for economic development of the Latin American and the Caribbean region, plays an important role in the promotion of infrastructure development and environmental businesses. The cooperation with the IDB Group, including information sharing, will enable the establishment of a speedy and effective support system.



## Participation in Wise Group for the Strategic Economic Partnership between Japan and Brazil

Brazil is not only an important resource supplier for Japan; it is a country with potential infrastructure demand and diverse business demand from Japanese companies, and therefore it is important to build a multi-layered relationship. Japan and Brazil hold the annual Wise Group for the Strategic Economic Partnership between Japan and Brazil (Wise Group), consisting of business leaders from Japan and Brazil.

In October 2016, the 6th Wise Group was held in Tokyo. As priority fields in the strategic economic partnership between Japan and Brazil, the Group discussed the strengthening of the Japan-Brazil economic partnership, competitiveness of the industry, infrastructure, renewable energy, new technologies, and cooperation in third countries. Participating from JBIC as a member of the Group was COO, Senior Managing Director Nobumitsu Hayashi, who introduced the JBIC initiative GREEN and talked about the current state of Japan-Brazil economic activities in third countries such as some in Africa and future possibilities. These initiatives are expected to lead to further strengthening of the economic relationship between both countries.





# 3 Examples of Business Outcomes Relating to Support for Mid-tier Enterprises and SMEs

JBIC supports SMEs in a wide range of industries with their overseas business deployment.

## China

### MORROW Co., Ltd.

Sportswear Manufacturing and Sales Business

Since its establishment in 1969, MORROW has been manufacturing sportswear products. Following strong economic growth in China, the company established the Chinese subsidiary QINGDAO MORROW APPAREL CO., LTD. in 2005, as the apparel markets, including sportswear, are expected to grow in China, the company aims to expand its business. JBIC provided MORROW with the funds necessary for the manufacture and sales of sportswear products by its Chinese subsidiary. The funds were used for additional capital investments of the subsidiary.



## Myanmar

### RYOBI HOLDINGS Co., Ltd.

Distribution Warehouse Business

RYOBI HOLDINGS has expanded its business in a wide range of sectors including logistics and tourism. In May 2016, it established the subsidiary Ryobi Myanmar Distribution Service Company Limited in Myanmar, where Japanese supermarkets are opening new stores. RYOBI HOLDINGS seeks to gain market share in the multi-temperature (refrigerated, frozen, constant temperature and room temperature) warehouse business by providing high-quality cold chain services which are indispensable for the distribution and sale of fresh food products. JBIC provided RYOBI HOLDINGS with the funds necessary for the multi-temperature controlled distribution warehouse operated by its subsidiary.



## Philippines

### Himeji Mekki Kougyosyo

Automotive Parts Plating Business

With its strength in plating technology for steel and industrial parts, Himeji Mekki Kougyosyo has been increasingly dealing in industrial machinery parts and automotive parts. The company established the subsidiary HIMEJI ELECTRIC PLATING PHILIPPINES INC. in response to a request from an automobile-related manufacturer with a production base in the Philippines. The company seeks to expand its business in Southeast Asia, where market growth is expected. JBIC provided Himeji Mekki Kougyosyo with the funds necessary for the plating business for automotive parts conducted by its subsidiary in the Philippines.



## Philippines

### SYTECS CORPORATION

Plastic Products Manufacturing and Sales Business

SYTECS manufactures and sells plastic products. In June 2016, SYTECS established the subsidiary SYTECS MANUFACTURING PHILIPPINES, INC. in the Philippines, which is expected to play the role as a production base on the grounds of future expansion of the ASEAN market. JBIC provided SYTECS with the funds necessary for the manufacture and sales of plastic products for building materials and automotive parts carried out by its subsidiary in Batangas Province, Philippines.





**Indonesia****HANYA Seisakusho Co., Ltd.**

Automotive Parts Manufacturing and Sales Business

HANYA Seisakusho is engaged in the business of manufacturing and selling automotive parts, mainly steel plate pressed parts. Following the expansion of the ASEAN market, the company established the subsidiary P.T. HANYA KARYA BAHANA in 2013 as a manufacturing base in Indonesia, where the automobile-related market is expected to grow. The company aims to expand sales channels through its subsidiary. JBIC provided HANYA Seisakusho with the funds necessary to build a new plant for its subsidiary.

**Indonesia****Daiki Aluminium Industry Co., Ltd.**

Secondary Aluminium Alloy Ingot Manufacturing and Sales Business

Daiki Aluminium Industry (Daiki), which started business in 1922, is a pioneer among secondary aluminium alloy ingot manufacturers and has long held a top share of the domestic market. Daiki seeks to further expand its market share by strengthening the manufacturing and sales system of its subsidiary, PT. Daiki Aluminium Industry Indonesia, established in 2010 in Indonesia, where demand from the automobile and related industries is expected to grow. JBIC provided Daiki with the funds necessary for the aluminium secondary alloy ingot production and sales business of its subsidiary in Indonesia.

**Thailand****OSP HOLDINGS CO., LTD.**

Business Assistance for OSP Group Companies

Since its founding in 1927, Osaka Sealing Printing Co., Ltd. (OSP) has been a leading company in the adhesive label industry, with an integrated production system from base paper production to planning, design, and printing. OSP HOLDINGS is the holding company, including OSP as the core company. Seeking to expand business to the ASEAN region, the company established the subsidiary OSP LABEL (THAILAND) CO., LTD. as its manufacturing base in Thailand. JBIC provided OSP HOLDINGS with Thai baht-denominated financing required by the subsidiary to install new plant equipment.

**Thailand****RKC INSTRUMENT INC.**

Metal Heat Treatment Processing Business

RKC INSTRUMENT performs heat treatment processing, paint processing, and surface processing of metallic materials with a focus on parts related to bicycles and automobiles. RKC established the subsidiary RIKA JTW HEAT TREATMENT CO., LTD. in Thailand under a joint venture with a local company in 2013. The company seeks to expand sales channels to Japanese companies that have entered the Thai market and to local companies. JBIC provided the company with Thai baht-denominated financing required for expansion of production equipment for the metal heat treatment processing business carried out by the subsidiary in Chonburi Province in central Thailand.



**Thailand****TOYO ELECTRONICS CO., LTD.**

Communication Optical Module Manufacturing and Sales Business

TOYO ELECTRONICS is primarily engaged in the manufacturing and sale of semiconductor products and communications modules. The company seeks to secure new sales channels and develop markets through its subsidiary Toyo Electronics (Thailand) Co., Ltd. in emerging countries, especially Asia including China, where the Internet is spreading and demand for communications modules is growing, as well as Africa. JBIC provided TOYO ELECTRONICS with the funds necessary to expand plants and facilities operated by its Thai subsidiary.

**Vietnam****SAKURAI Ltd.**

Clothing Manufacturing and Sales Business

SAKURAI has strength in sewn product processing technology. Sakurai is responsible for sewn product processing of clothing, especially underwear sold by major Japanese clothing manufacturers. The company seeks to expand business to Asia, where future market growth is expected, by expanding the production capacity of its subsidiary SAKURAI VIETNAM CO., LTD. established in Vietnam in 2008. JBIC provided SAKURAI with the funds necessary for additional capital investments by its subsidiary.

**Vietnam****Akebono Kasei CO., LTD.**

Resin Molding Manufacturing and Sales Business

Established in 1980, Akebono Kasei is engaged in the manufacturing and sales of resin molding. The company's main products are automobile-related parts and home appliances, and it manufactures molds tailored to customers' needs. Akebono Kasei has an order acceptance system that is integrated from planning to manufacturing. Since establishing its subsidiary, AKEBONO KASEI VIETNAM CO., LTD., in Vietnam in 2007, orders for resin molded products have been strong, and the company seeks further growth. JBIC provided Akebono Kasei with the funds necessary to expand the plant facilities of its subsidiary.

**Vietnam****KYODO SEIHAN PRINTING CO., LTD.**

Package Printing and Sales Business

KYODO SEIHAN PRINTING performs color commercial printing, publication printing, and form printing and sales. In recent years, KYODO SEIHAN PRINTING has provided high value-added services including high-speed and variable digital printing. The company has recently entered Vietnam and seeks to expand the package printing business for clothing and food products. JBIC provided KYODO SEIHAN PRINTING with the funds necessary for its subsidiary, VIETNAM KYODO SEIHAN PRINTING CO., LTD., to conduct the package-related printing and sales business.



**Bangladesh****MARUHISA CO., LTD.**

Clothing Manufacturing and Sales Business

MARUHISA is engaged in the manufacturing and sales of children's, women's and men's clothing. The company's strength is as an integrated autonomous producer, from product planning to manufacturing. MARUHISA seeks to expand sales channels in Europe where clothing demand is strong by increasing the production capacity of Maruhisa Pacific Co., Ltd, established in 2009. JBIC provided MARUHISA with the funds necessary for additional capital investments of its subsidiary.

**India****Shinichi Kato Office Co., Ltd.**

Resin Additive Manufacturing and Sales Business

Shinichi Kato Office is engaged in the sales of rubber raw materials. The company established the subsidiary INDO-JAPAN POLYMERS PRIVATE LIMITED (IJP) in 2010. Because demand for resin additives used in colored plastic products such as automotive parts is expected to expand in India, the company seeks to further expand business by increasing the production capacity of its subsidiary. JBIC provided Shinichi Kato Office with the funds necessary for the construction of a new plant of its subsidiary.

**United States****Yamada Bee Company, Inc.**

Health Food and Cosmetics Manufacturing and Sales Business

Yamada Bee is engaged in the manufacturing and sales of health food products and cosmetics made from honey bees. LifeSeasons, Inc. of the U.S. is a company that develops and sells supplements containing raw materials derived from nature. JBIC provided partial financing for Yamada Bee to acquire LifeSeasons. The acquisition will enable Yamada Bee to obtain LifeSeasons' supplement compound technology and know-how, as well as its customer base and sales network in the U.S., the world's largest health food market.

**Mexico****Miyazaki Seiko Co., Ltd.**

Secondary Processing and Sales of Specialty Steel Bars and Wire Business

Miyazaki Seiko is engaged in the manufacturing and sales of secondary processing of specialty steel bars and wire used in key safety components of automobiles. The company seeks to further expand its business through the establishment of its subsidiary, MIYAZAKI SEIKO DE MEXICO, S.A. DE C.V., in Mexico, where automotive parts manufacturers are rapidly making inroads. JBIC provided Miyazaki Seiko with the funds necessary for the secondary processing and sales of special steel bars and wire carried out by its subsidiary.





# 4 Examples of Business Outcomes Relating to Environment

## Supporting Environmental Conservation and Improvement Projects

Achieving both environmental preservation and economic development is at present universally recognized as a common challenge for developed and developing countries alike. Given this awareness, there are growing expectations across the world on implementing projects which lead to environmental conservation and improvement.

Various efforts in this field are underway throughout the world, including energy-saving projects to increase energy efficiency; renewable energy projects such as solar and wind power generation; projects involving highly efficient, high-performance coal-fired power generation and natural gas-fired combined-cycle power generation that reduce carbon dioxide (CO<sub>2</sub>) emissions; urban transportation projects such as railroads that help alleviate traffic jams and air pollution; smart grid projects that supply electricity efficiently using

IT technology; and eco-city projects that aim to realize environmentally sustainable cities.

Amid such developments, JBIC not only takes into consideration the environmental and social aspects of individual projects, but is also committed to support environmental conservation and improvement projects, such as measures against global warming. For its Global action for Reconciling Economic growth and ENvironmental preservation (GREEN) operations, JBIC focuses its support on efforts to conserve the global environment, including projects that are expected to dramatically reduce greenhouse gas (GHG) emissions, while keeping in mind the global dissemination of Japan's internationally acclaimed leading environmental technologies (see page 61).

### Supporting of Renewable Power Generation Businesses in Indonesia

JBIC signed a loan agreement for project finance with PT. Supreme Energy Muara Laboh (SEML), an Indonesian company invested in by SUMITOMO CORPORATION and other entities for the Muara Laboh Geothermal Power Project. In this project, SEML will construct, own, and operate a geothermal power plant with a capacity of 80 MW in the South Solok Regency in West Sumatra, Indonesia, and will sell electricity generated by this plant to PT PLN (Persero), a state-owned power utility in Indonesia, for a period of 30 years.

In order to respond to the country's surging electricity demand, which has increased in line with steady economic growth, the Indonesian government has committed to promoting its "35 GW power plants development plans" for five years, from 2015 to 2019, and this project is positioned as a part of that plan. In addition, the government has been actively promoting geothermal power generation, which taps into the country's rich geothermal resources, including the issuing of a new law for geothermal power production in 2014. By generating a steady power supply, which contributes to climate change mitigation, this loan is expected to support Indonesia's economic development as well.



### Supporting Renewable Energy and Energy Efficiency Projects in Latin America and the Caribbean Region

JBIC signed a loan agreement to establish a credit line with Corporación Andina de Fomento (CAF). The credit line is intended to finance through CAF the necessary funds for renewable energy and energy efficiency projects in CAF's shareholding countries in Latin America and the Caribbean region under the GREEN operations.

CAF, whose main shareholders are its 19 member countries in Latin America and the Caribbean region, aims to achieve economic integration, as well as to promote economic development and trade finance in the region. Major Latin America and the Caribbean countries had announced climate actions they intend to take under a new international agreement ahead of COP21, and have been taking vigorous steps to implement measures to cope with climate change. Amid these developments, CAF has been actively supporting environment-related projects with a focus on renewable energy and energy efficiency projects, and thus this credit line is expected to contribute to reducing GHG emissions in Latin America and the Caribbean region. This is also in line with an initiative announced by the Japanese government in November 2015, "Actions for Cool Earth: ACE 2.0."





### Supporting Japanese Companies' Solar Power Generation Business in Mongolia

JBIC concluded a loan agreement with Farmdo Corporation's Mongolian subsidiary, Everyday Farms LLC (EDF). The loan will provide funding needed for the solar power generation business operated by EDF in Ulaanbaatar, Mongolia. EDF will sell the power to Mongolia's national power transmission and distribution company over the next 20 years.

Farmdo is an SME that sells agricultural materials and products and various kinds of food, and operates an electricity sales business by solar power generation. In recent years, Farmdo has been focusing on the solar farm business that conducts solar power generation and produces vegetables simultaneously. Farmdo seeks to expand its solar farm business through EDF in Mongolia where demand for clean energy and fresh agricultural products is expected to grow. The Japanese government is facilitating the diffusion of leading low-carbon technologies through the Joint Crediting Mechanism (JCM) in "Actions for Cool Earth: ACE 2.0." This project has been adopted as a JCM Model Project by the Ministry of the Environment, Japan and this loan will be the first time JBIC has supported JCM projects.



### Supporting Waste Treatment and Power Generation Project in the U.S.

JBIC signed a loan agreement with Kompogas SLO LLC (Kompogas SLO), a U.S. subsidiary of Hitachi Zosen Corporation (Hitachi Zosen) Group. This loan is intended to finance the necessary funds for Kompogas SLO to construct a waste treatment and power generation plant in California in the U.S., and to conduct waste treatment, biogas power generation, and sales of compost<sup>1</sup> over a period of 20 years. This is the first loan for JBIC to provide to a waste treatment business.

Hitachi Zosen is a leading company which boasts a world-class track record in the number of EPC (engineering, procurement, and construction) orders for waste treatment and power generation plants. This project is an overseas infrastructure business in which Hitachi Zosen Group invests in the field of waste treatment and power generation for the first time in the U.S., and is involved in long-term operation and management of the plant using its advanced technologies. It is thus positioned as an important milestone in further developing the company's overseas business. This loan will support such overseas business expansion of Hitachi Zosen Group, and at the same time contribute to maintaining and strengthening the international competitiveness of Japanese industries.



### Supporting Renewable Energy Projects in the Philippines

JBIC signed a general agreement for establishing a credit line with BDO Unibank, Inc. (BDO), a Philippine entity. This credit line is intended to finance, under the GREEN operations, necessary funds for environment-related projects which contribute to reducing GHG emissions, with a focus on renewable energy projects in the Philippines. This will be the first time for JBIC to provide GREEN finance to the Philippines.

The Philippine government submitted the Intended Nationally Determined Contributions (INDCs) in October 2015 ahead of the COP21 agreement. With these pledges, the Philippines government has been taking vigorous steps to implement measures to cope with climate change, which include setting the goal of reducing GHG emissions by 2030. This credit line is expected to assist the reduction of GHG emissions and promotion of the government's environmental policy while propagating advanced Japanese environmental technologies which have received high international recognition.



1. Compost is a fertilizer made by fermenting organic matter, such as food waste.

## Partnerships and Knowledge Sharing in the Environmental Sector

Amid growing expectations for the implementation of environment-related projects toward global environmental conservation and a low-carbon society in various parts of the world, JBIC supports Japanese overseas business deployment as well as efforts being made by foreign governments in this field, not only through financing but also by sharing

information and providing knowledge through activities such as holding seminars and participating in relevant events. JBIC also simultaneously forms close partnerships with foreign governments and government agencies, domestic prefectural and municipal governments, and other stakeholders both in Japan and abroad.

### Participation in the Green Investment Financing Forum and Discussion of Climate Finance with International Organizations

The 3rd OECD Green Investment Financing Forum (GIFF) sponsored by the Organization for Economic Cooperation and Development (OECD) was held in Tokyo in October 2016. Government officials, international organizations, public and private financial institutions and companies from around the world attended the forum and discussed how to finance various initiatives to combat global warming. This marks the first time that an OECD-sponsored international environmental finance conference was held in Japan.

JBIC's Director of Global Environment Division and Deputy Director General of New Energy and Power Finance Department II, Infrastructure and Environment Finance Group, Tsutomu Sato, participated as a commentator in Session 11's "International public climate finance: Mobilising private investment to bridge financing gaps" and introduced JBIC's environmental approach. Amid the challenge of scaling up low-carbon investment in developing countries, JBIC stated that it will continue to make efforts to promote low-carbon activities as an incentive to attract private funds.

# Examples of Business Outcomes Relating to Studies, and Collaboration with Overseas Governmental Organizations and International Organizations

JBIC conducts research and surveys related to overseas investment and international finance. These efforts include collection and analysis of a wide range of information, as well as knowledge sharing, while interacting with overseas government organizations, foreign and domestic research institutes, and experts in various fields.

## Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

The term FY2016 marks the 28th year of the *Survey Report on Overseas Business Operations by Japanese Manufacturing Companies*, an annual survey that has been conducted by JBIC since 1989. The survey attempts to identify the strategies and challenges of Japanese manufacturing companies expanding overseas and appeals to a broad audience for its originality and continuity. In addition to publishing the survey's results externally through brochures and its website, JBIC holds seminars in collaboration with the chambers of commerce and industry and banks of various regions across Japan.



In FY2016, JBIC held seminars in cities such as Tokyo, Osaka, Kyoto, and Nagoya based on the theme "Overseas Investment Seminar: Overseas Business Operations by Japanese Manufacturing Companies." JBIC also hosted explanatory meetings for Japanese chambers of commerce and industry located overseas, as well as for foreign governments, and the survey's results have been effectively utilized in policy recommendations to foreign governments.

## Collaboration with Overseas Governmental Organizations and International Organizations

On two occasions, in May 2016 and January 2017, JBIC, the government of India, and NTPC (the country's largest power utility) held conferences on the further development of the investment environment for electric power projects in India. The conference participants shared their views on current limitations and issues in India's electric power sector from the perspective of overseas investors and financial institutions. Discussions were also held on policies for stably mobilizing overseas funds from a medium-to-long-term perspective. JBIC, the government of India, and NTPC jointly compiled the details of these discussions into a report that was shared with parties associated with the government of India.

The parties agreed to continue these discussions toward the introduction of specific measures in the future. JBIC plans

to contribute to the further development of the investment environment in India's electric power sector, as well as to the further expansion in opportunities for Japanese companies to participate in independent power producer (IPP) projects in India.

In April 2016, JBIC received a courtesy call from President Juan Carlos Varela of the Republic of Panama. Mr. Varela expressed his appreciation for JBIC's support in the Panama Canal Expansion Project, as well as for providing a guarantee for yen-denominated foreign bonds issued by the government of Panama in the Japanese bond market (Samurai bonds). He also expressed his hope to receive continued support from JBIC for infrastructure development in Panama. The Governor of JBIC, in turn, expressed his wish to contribute, together with Japanese companies, to the development of infrastructure and the economic growth of Panama, while referring to the significance of the Panama Canal. Accordingly, Mr. Varela and the Governor of JBIC both agreed to further enhance the economic relationship between the Panamanian government and JBIC, and thus the relationship between Panama and Japan.



Meeting with the President of the Republic of Panama

In August 2016, JBIC held a policy dialogue with the Ministry of Planning and Investment (MPI) of Vietnam regarding the formation and promotion of public-private partnerships (PPP). JBIC has regularly held similar dialogues since an agreement was signed between JBIC and MPI in March 2013, setting the framework to hold specific discussions on a system for facilitating PPP activities in Vietnam. This 6th working-level meeting was themed on the promotion of PPP in the environmental sector, including renewable energy. JBIC presented, in addition to its activities in environmental preservation, the respective roles of the host country government, project operator, and financial institutions in the project formation stage. Meanwhile, MPI presented its efforts in developing the PPP-related policy, as well as renewable energy projects in the country, indicating their expectation for JBIC's future cooperation in forming PPP projects.

In November 2016, a commemorative ceremony marking the 60th anniversary of the establishment of the International Finance Corporation (IFC) was held in Tokyo. At this event, JBIC Governor Akira Kondoh held a dialogue with Philippe Le Houérou, Chief Executive Officer of IFC. The



IFC was established in 1956 for the purpose of supporting the private sector in developing countries and Japan has contributed to the support of IFC during these past 60 years as a founding member.

During the dialogue, Governor Akira Kondoh stated, "JBIC's mission is to support the overseas activities of Japan's private sector, financial institutions, and industries." The Governor also emphasized, "In the future, JBIC will seek to further broaden its close collaborative relationship with IFC to boost the advance of Japanese companies in developing regions, including Africa, as well." Meanwhile, Chief Executive Officer Philippe Le Hou  rou expressed his opinion that "JBIC is an important partner in aiming to create markets in new frontier markets." He also expressed an awareness by both parties that "Japan and IFC will utilize a variety of funds and together will strive to contribute to the advancement of developing countries."



Dialogue between Governor Kondoh and Chief Executive Officer Le Hou  rou

In November 2016, the "TICAD VI Follow-up Seminar: Business Prospects in Africa and Support Schemes" was held. The seminar was organized by the African Development Bank (AfDB) External Representation Office for Asia, African Diplomatic Corp (ADC), and the United Nations Industrial Development Organization's Investment and Technology Promotion Office, Tokyo (UNIDO ITPO Tokyo), and co-organized by JBIC, the Japan External Trade Organization (JETRO), Japan International Cooperation Agency (JICA), World Bank Tokyo Office, and the United Nations Development Programme (UNDP) Representative Office in Japan. The captioned seminar targeted both private sector representatives and members of the public interested in business development in Africa, with the purpose of sharing the achievements of the 6th Tokyo International



Participants in the TICAD VI Follow-up Seminar

Conference on African Development (TICAD VI) held in Nairobi, Kenya, in August 2016 as well as introducing measures to support businesses in Africa by international organizations and Japanese government agencies. JBIC participated in the session entitled "Achievements of Governmental / International Organization in TICAD VI and Support Schemes for the Private Sector" as a panelist. In its presentation, JBIC explained the outline of JBIC Facility for African Investment and Trade Enhancement 2 (FAITH2), as well as loan agreements that JBIC has signed with the African Export-Import Bank (Afreximbank) and the Eastern and Southern African Trade and Development Bank (TDB), respectively, for setting up an export credit line.

### Collaboration with Private-sector Financial Institutions

JBIC held the second "JBIC Project Finance\* Seminar" (three two-day sessions), starting in April 2016, for regional banks and other financial entities. The contents of this seminar were further enhanced from those of the first seminar held last year and were presented for not only the regional banks but also insurance companies. JBIC and regional banks have been involved in cofinancing projects to support the overseas business expansion of Japanese mid-tier enterprises and SMEs, as well as the promotion of active collaboration by holding seminars and providing information on overseas investment. In addition to such efforts, there have recently been increasing opportunities for cooperation with both the regional banks and insurance companies in the form of assuming the risk of overseas projects, and thus further cooperation in project financing (PF) is expected to expand in the future.

In the three sessions, JBIC staff in charge of PF gave lectures on the following subjects: 1) Fundamentals of PF market trends, risk analysis, and risk control techniques; 2) Practice with a focus on points of screening each PF project; and 3) Case studies of examples of JBIC's PF projects. Emphasis was given in particular, along with examples, to the evaluation viewpoint for overseas PF projects, which saw great interest from participants at the seminar last year.



Scene of the seminar

\* Project finance is a financing scheme in which repayments are made solely from the cash flows generated by the project and secured only on the project assets.



# Financial Instruments

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# 1 Financial Instruments

## 4 Export Loans

Export loans are provided to overseas importers and financial institutions to support finance exports of Japanese machinery, equipment, and technology mainly to developing countries. In particular, products such as marine vessels, power generation facilities, and other types of plant equipment incorporate a significant amount of advanced technology, and their export will be instrumental in enhancing the technological base of Japanese industries. Furthermore, Japanese shipbuilding and plant facilities industries have a broad range of supporting industries, including SMEs producing parts and components, and thus the loans are expected to positively contribute to the business of these Japanese companies. Export loans in specific sectors are also available to developed countries (see note).

Terms and conditions of export loans are determined based on the Arrangement on Officially Supported Export Credits (OECD Arrangement). In principle, the loan amount

should not exceed the value of an export contract or technical service contract, and excludes the down payment. Local costs may be covered provided that the amount is within the scope prescribed by the OECD Arrangement.

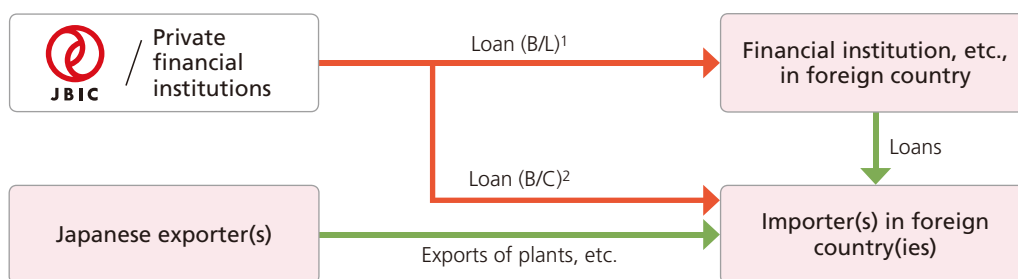
Note: Eligible Sectors of Export Loans in Developed Countries (as of July 31, 2017)

[Integrated Infrastructure System Projects]

Railways (high-speed, inter-city projects and projects in major cities), road business, water business, biomass fuel production, renewable energy power generation, nuclear power generation, power transformation, transmission and distribution, highly efficient coal-fired power generation, coal gasification, carbon capture and storage (CCS), highly efficient gas-fired power generation, petrochemical production, waste incineration and waste to energy, smart grid

[Other Export Transactions]

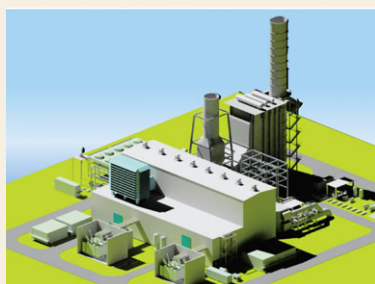
Ships, satellites, aircraft, medical positron beam therapy equipment



1. Loan to foreign financial institutions (bank-to-bank loan or "B/L")

2. Loan to foreign importers (buyer's credit or "B/C")

### Supporting Export of Facilities for Gas-fired Combined Cycle Power Plant by Japanese Companies



JBIC concluded a loan agreement in buyer's credit (export loan) with PT PLN (Persero) (PLN), a state-owned power company in Indonesia. The loan is intended to provide financing for PLN to purchase a complete set of facilities, including a gas turbine and steam turbine (MITSUBISHI HITACHI POWER SYSTEMS, LTD.) and power generator (Mitsubishi Electric Corporation), from Mitsubishi Corporation and other entities for the construction of the Muara Karang gas-fired combined cycle power plant in

Jakarta on the island of Java, Indonesia.

In order to respond to the country's surging electricity demand which has risen in line with continued economic growth, the Indonesian government has committed to promote its "35 GW power plants development plans." The Muara Karang gas-fired combined cycle power plant is part of this power development plan. This loan is expected to support Indonesia's economic development by realizing steady power supply.

### Supporting Export of LNG Carriers Built by Japanese Shipbuilders



JBIC concluded a loan agreement for the export of a ship, based on project financing, with San Isidro LNG I B.V. (San Isidro), a Dutch entity in which IMABARI SHIPBUILDING CO., LTD. (IMABARI SHIPBUILDING) and Mitsubishi Corporation each holds a 50% stake. The loan is intended to provide the funds for San Isidro to purchase one LNG carrier constructed by IMABARI SHIPBUILDING. The purchased LNG carrier will be

chartered to Gas Natural Fenosa Group, the largest gas company in Spain.

This loan is intended to support the export of ships constructed by a Japanese shipbuilder which serves a significant role in the regional economy and its associated industries. The loan will thus contribute to maintaining and strengthening the international competitiveness of the Japanese shipbuilding industry.

## Import Loans

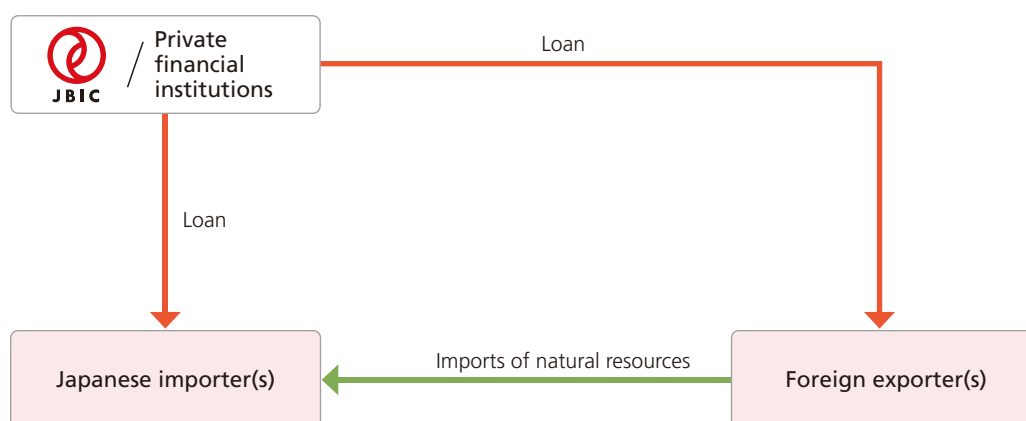
Import loans support imports of strategically important goods including natural resources. They are extended to Japanese importers or foreign exporters. As Japan is poorly endowed with natural resources, stable imports of natural resources over the long term are one of the key factors underpinning domestic economic activity. Import loans finance the development and import of energy resources, including oil and LNG, and mineral resources, including iron ore, copper, and other rare materials.

In addition to natural resources, JBIC provides a guarantee facility for goods and services essential to the

sound development of the Japanese economy, such as for the import of aircraft. (See page 63 for the scheme of guarantees for imports of manufactured products.)

### Products Eligible for Import Loans (Natural Resources)

Oil, petroleum gas, LNG, coal, uranium, metallic ores, metals, mineral phosphate, fluorite, salt, lumber, wood chips, pulp, and other materials



## Securing Long-term Supply of Crude Oil



JBIC concluded a loan agreement with Abu Dhabi National Oil Company (ADNOC) in the United Arab Emirates (UAE). The UAE is vital to Japan's energy resource strategy as it has been a stable source of crude oil for more than 30 years, and because the UAE allows foreign oil companies to acquire and develop oil fields on the basis of concession agreements. ADNOC, a state-run oil company wholly owned by the Abu Dhabi government, conducts oil

and gas business in the Emirate of Abu Dhabi, which produces most of the oil and gas in the UAE. This is the fourth time JBIC has provided funding to ADNOC with the aim of securing a long-term oil supply for Japan.

# Overseas Investment Loans

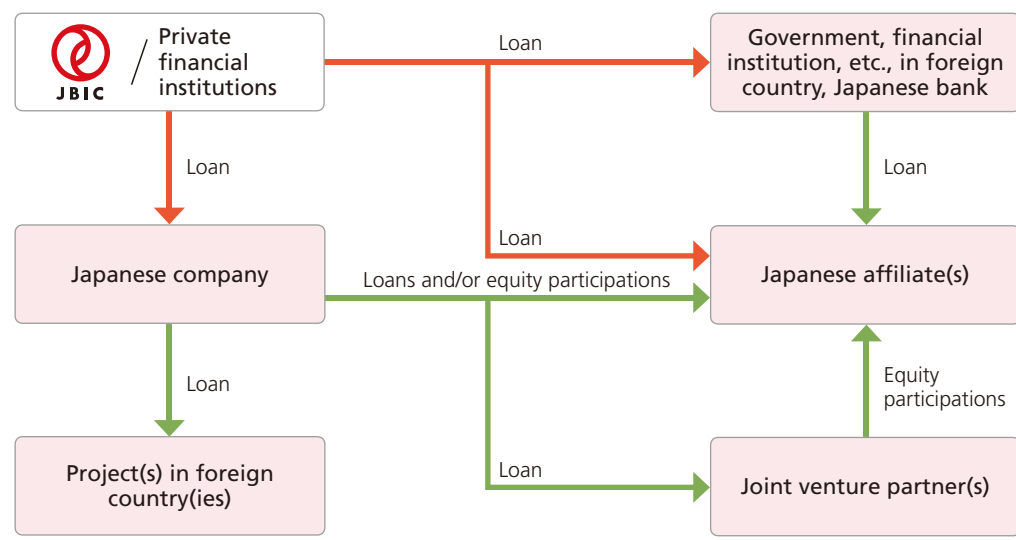
Overseas investment loans support Japanese foreign direct investments. The loans can be provided to Japanese companies (investors), overseas Japanese affiliates (including joint ventures), and foreign governments or financial institutions that have equity participations in or provide loans to such overseas affiliates.

Direct loans to Japanese companies are intended for mid-tier enterprises and SMEs, as well as to projects aimed at developing or securing interests in overseas resources that are strategically important to Japan, and projects that support merger and acquisition (M&A) activities (these projects include those of large companies). Moreover, JBIC provides two-step loans (TSL) to support the overseas business deployment of Japanese companies, including mid-tier enterprises and SMEs, as well as TSL intended to support M&A activities by Japanese companies. JBIC is also able to provide short-term loans for overseas business operations when bridge loans are required

to fill the financing gaps before that offers long-term loans. Moreover, JBIC is empowered to provide investment loans for projects in developed countries for specific sectors (see note).

Note: Eligible Sectors of Overseas Investment Loans in Developed Countries (as of July 31, 2017)

Railways (high-speed, inter-city projects and projects in major cities), road business, water business, biomass fuel production, renewable energy power generation, nuclear power generation, power transformation, transmission and distribution, highly efficient coal-fired power generation, coal gasification, CCS, highly efficient gas-fired power generation, smart grid, development of telecommunications network, shipbuilding and marine transport, satellite launching and operation, aircraft maintenance and sales, medical business (related to positron beam therapy facility), petrochemical production, waste incineration and waste to energy, M&A activities, etc.



## Supporting LNG Projects in Which Japanese Companies Participate



JBIC concluded a loan agreement with Japan International Finance Management (Tangguh) Corporation (TPM). The project is carried out by Mitsubishi Corporation, INPEX CORPORATION, JX Nippon Oil & Gas Exploration Corporation, LNG JAPAN CORPORATION (a joint-subsiary of Sojitz Corporation and SUMITOMO CORPORATION), MITSUI & CO., LTD., and Japan Oil, Gas and Metals National Corporation (JOGMEC) as the Japanese

sponsors. The project will conduct additional development and production of gas fields located in the Berau Bay, West Papua Province, Indonesia, while expanding the existing gas liquefaction facilities. The Japanese sponsors have a combined total of about 46% interest in the gas fields, and the Kansai Electric Power Company, Incorporated will offtake 1 million tons per year of the LNG produced by the project (total production capacity: 3.8 million tons/year).

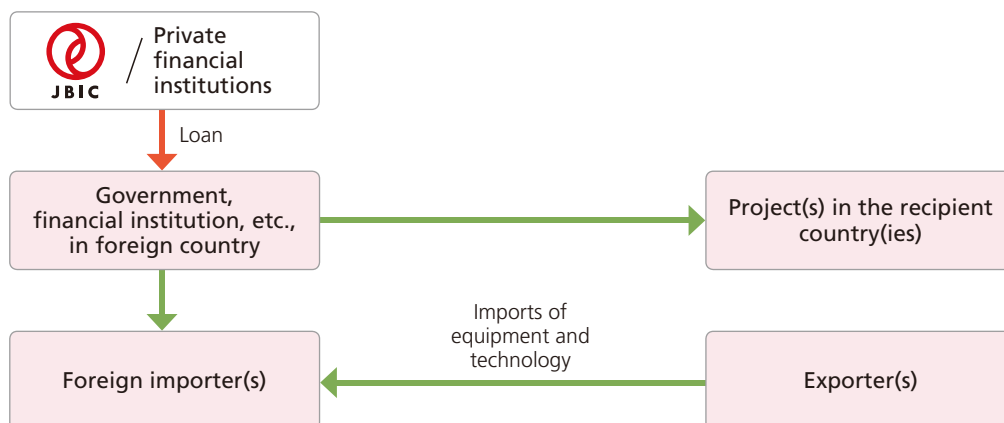


## Untied Loans

Untied loans are intended to finance projects and the import of goods by developing countries, or for such countries to achieve equilibrium in their international balance of payments, or to stabilize their currencies. Loans are not conditional on investments or procurement of equipment and materials from Japan.

Capital procured from untied loans is used to: secure

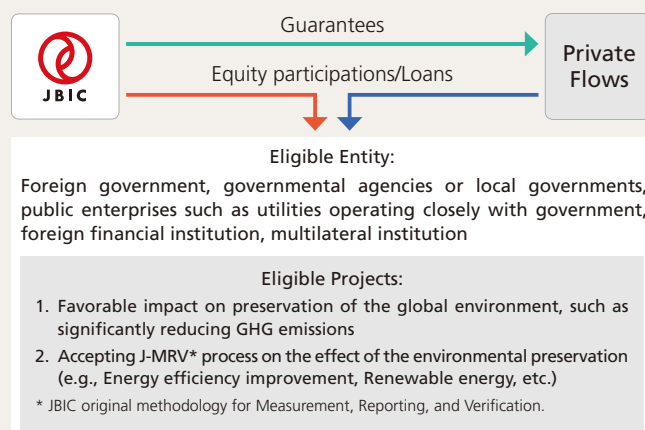
stable supplies of energy and mineral resources for Japan; promote business activities of Japanese companies; maintain and expand trade and direct investment from Japan; finance projects having significant effects on global environmental preservation; and finance projects maintaining order in international financing.



## GREEN Operations

Under its GREEN (Global action for Reconciling Economic growth and ENvironmental preservation) operations, JBIC provides support for projects with a focus on environmental conservation, such as those anticipated to make a considerable reduction in GHG, taking into account of propagating Japanese advanced environmental technologies to the world.

Promoting the overseas business having the purpose of preserving the global environment, such as preventing global warming



## Supporting Energy Efficiency Projects in Ecuador



JBIC concluded a loan agreement with the Ecuador government. This is the first loan for JBIC to provide to the Ecuador government under the GREEN operations and will be used as necessary funds for energy efficiency projects in the country. The Ecuador government has been taking vigorous steps to implement measures to cope with climate change. This loan is expected to contribute to the reduction of GHG emissions through the support

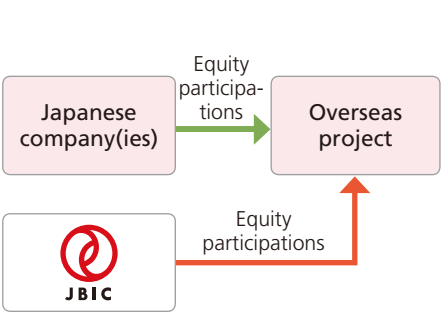
of Ecuador's energy efficiency project while propagating advanced Japanese environmental technologies which have received high international recognition. This is also in line with an initiative announced by the Japanese government in November 2015, "Actions for Cool Earth: ACE 2.0."

# Equity Participations

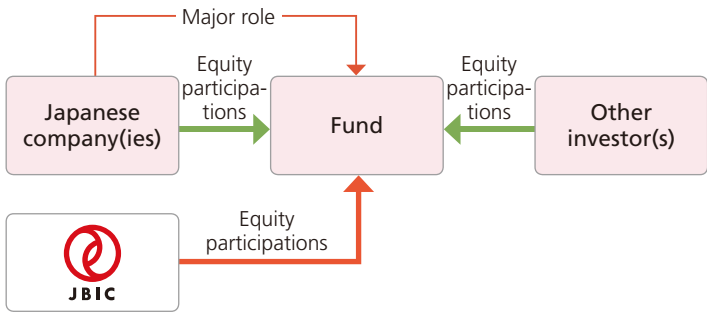
Equity participations are capital contributions to companies where Japanese companies have equity stakes to undertake overseas projects, as well as funds where Japanese companies

perform significant roles. In principle, equity participations take the following forms.

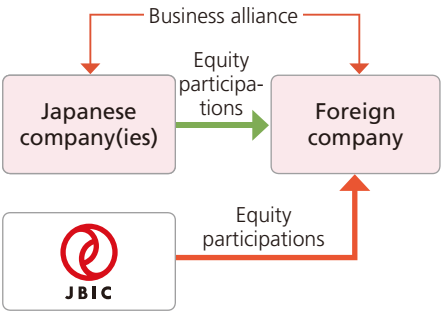
## Japanese companies make equity participations in an overseas project



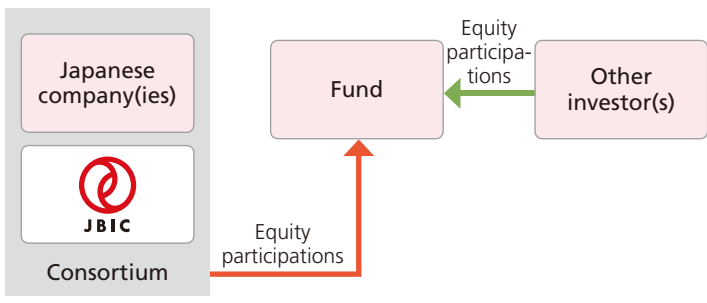
## Japanese companies participate in a fund (and perform such a major role as general partner in their management and investment decisions)



## Japanese companies acquire equity interests in a foreign company to form business alliance



## Japanese companies form a consortium and participate in an international fund



## Supporting Japanese Companies' Overseas Business Expansion by Local Currency Investment



JBIC signed a shareholders agreement with companies including Toyota Tsusho Corporation (Toyota Tsusho) and TechnoTrends AutoPark Private Limited (TTAP), an Indian company. The agreement is intended for the acquisition of TTAP's preferred shares. The objective of this investment is to support the operation of an industrial park in the state of Gujarat in western India through TTAP, which was established

by Toyota Tsusho through its Indian subsidiary. The supply of local currency-denominated risk money by JBIC, through its equity participations, will support the business expansion of Toyota Tsusho and Japanese companies in the region, thereby contributing to maintaining and strengthening the international competitiveness of Japanese industries.

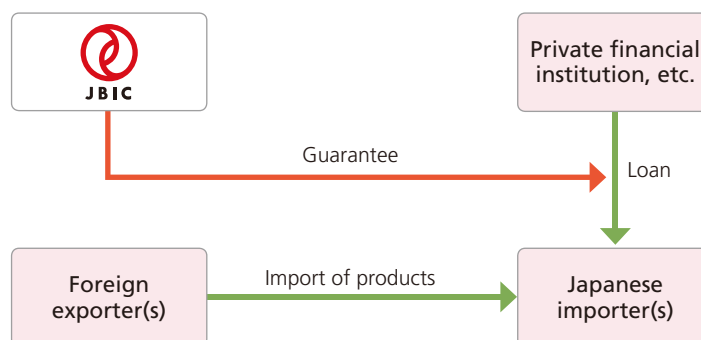
## Guarantees

In addition to loans and equity participations, JBIC provides support through its guarantee facility. Guarantees are provided for loans extended by private financial institutions, bonds issued by governments of developing countries or

overseas Japanese companies, as well as for currency swap transactions. JBIC also issues reassurance for guarantees from export credit agencies in other countries.

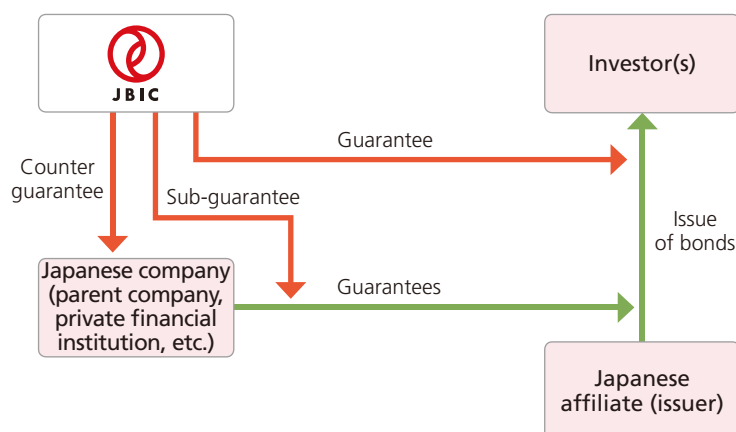
### ■ Guarantees for Imports of Manufactured Products

JBIC has a guarantee facility for the borrowings made by Japanese companies to finance the import of aircraft and other manufactured products that are vital for Japan.



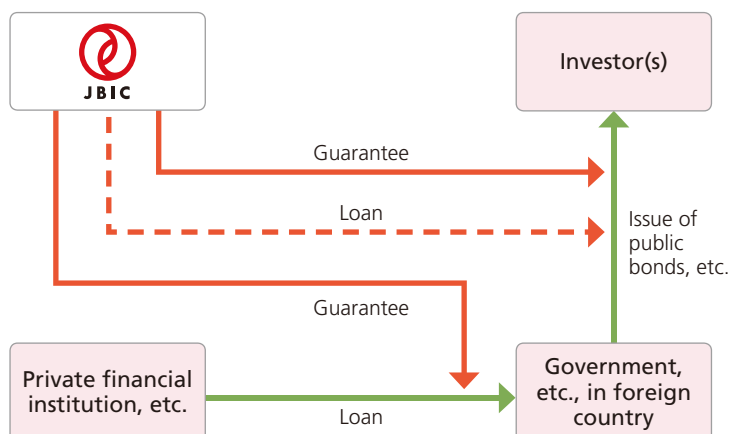
### ■ Guarantees for Corporate Bonds Issued by Japanese Affiliates

JBIC supports Japanese affiliates operating overseas by providing guarantees for the bonds they issue in local capital markets.



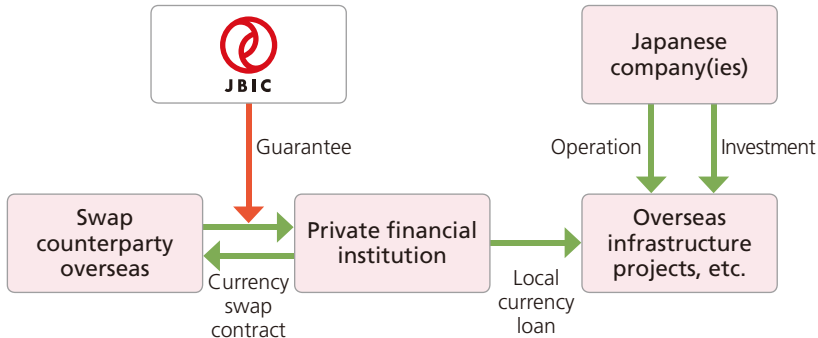
### ■ Guarantees for Cofinancing, Overseas Syndicated Loans and Public Sector Bonds

Loans to developing countries involve, among others, currency conversion and transfer risks, as well as country risks. Guarantees that JBIC issues to cover such risks will enable Japanese private financial institutions to provide medium- and long-term financing for developing countries, and contribute to developing countries by bringing in private capital and facilitating private companies to expand international business activities.



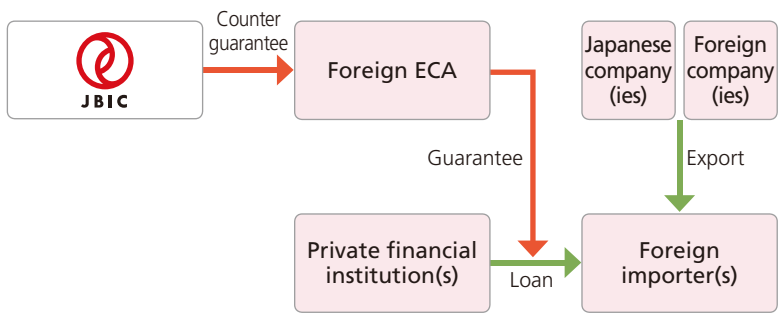
### ■ Guarantees for Currency Swaps

JBIC provides guarantees for swap transactions to support the local currency financing of overseas infrastructure projects and other projects undertaken by Japanese companies.



### ■ Counter Guarantees for Export Credits

In the cases where Japanese companies export machinery and equipment jointly with companies of another country, JBIC provides a counter guarantee for the guarantee provided by that country's export credit agency (ECA). This function enables JBIC to flexibly support export projects by Japanese companies collaborating with foreign companies through multilateral mutual guarantee schemes.

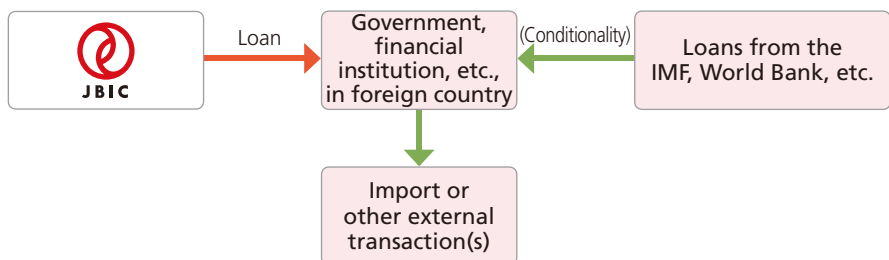


## Bridge Loans

JBIC provides short-term financing for governments of developing countries to meet their foreign currency needs for external transactions when they face balance-of-payment difficulties.

JBIC provided bridge loans (short-term bridging loans)

for Myanmar in January 2013 to support the clearance of arrears of past loans from the Asian Development Bank (ADB) and the International Development Association (IDA), a member of the World Bank Group.





## Acquisition of Loan Assets and Public and Corporate Bonds

When JBIC provides export loans, import loans, overseas investment loans, and untied loans, JBIC can also provide credits, in addition to providing loans and guarantees, by purchasing loan assets and acquiring public and corporate bonds\* issued by borrowers for funding. The objective of such operations is to promote private financial institutions' loans in international finance and Japanese companies'

funding in international capital markets.

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\* The scope of assets and securities acquired includes public bonds, corporate bonds, debt securities, and trust beneficiary rights.

## Research and Studies

JBIC conducts research and studies on individual projects during their initial stage, as well as those focused on specific regions or industry sectors that may be conducive to specific projects. This is an effective means of identifying potentially quality projects, and is expected to lead to increasing exports of materials and services from Japan, as well as expand opportunities to participate in projects by Japanese companies. Research and studies are conducted at each stage necessary for realization of the project, including preparation of a master plan for an individual project, conducting of prefeasibility and feasibility studies (Pre-F/S, F/S), front-end engineering design (FEED), and studies of regions and industry sectors conducive to specific projects.

After the research and studies are completed, follow-up reviews are conducted at least once each year to confirm the progress of the project.

Research and studies are conducted in the following sequence.

1. Selection of a research and study subject
2. Selection of the contractor to conduct research and studies
3. Conduct of the research and studies
4. Completion of the research and study report
5. Follow-up

# Securitization and Other Financial Instruments

JBIC provides support for securitization and an increase in liquidity in order to complement and encourage the activities of private financial institutions.

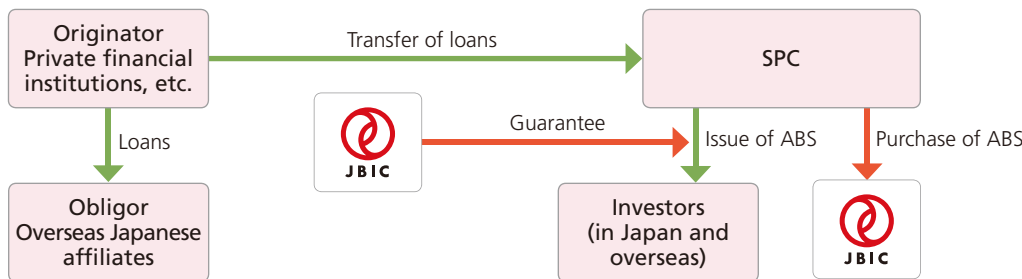
## 1. Securitization (Guarantees)

In cases where special purpose companies (SPC) or trust companies issue asset-backed securities (ABS) or other financial products with loans or other assets as collateral, JBIC guarantees the payment of such ABS to reduce country and structure risks, thereby supporting the issuance of bonds in the emerging capital markets.

## 2. Securitization (Acquisition of Securities)

JBIC supports bond issues by acquiring a portion of the ABS issued by SPC or trust companies with loans or other assets as collateral. JBIC's acquisition will support the securitization needs of the originators\* and is expected to help invigorate the bond market by circulating the acquired bonds back into the market when market conditions allow.

\* An originator is the original owner of assets to be securitized and obtain funding through securitization.

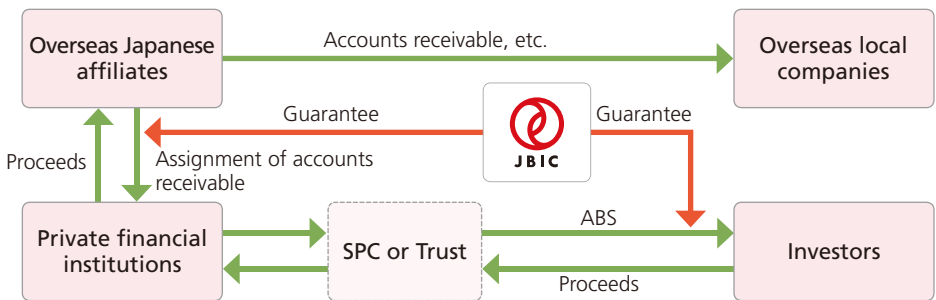


\* The above diagram depicts a scheme where SPC are used, but the clients can also use schemes where trusts are used or JBIC acquires or provides guarantees for assets backed by securitization.

## 3. Securitization and Liquidation of Receivables

JBIC provides guarantees for the receivables and other monetary claims held by overseas subsidiaries of Japanese companies in order to facilitate the purchase of such

receivables by banks (an increase in their liquidity). JBIC is also able to provide guarantees for securities issued by SPC or trust companies in cases where these securities have monetary claims acquired from overseas Japanese subsidiaries on collateral.



## Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations

Growing interest in environmental conservation has led to a worldwide trend toward more rigorous environmental regulations. There are more than a few cases, especially in overseas projects, in which insufficient risk management of possible environmental and social impacts has seriously affected project implementation or undermined its social reputation.

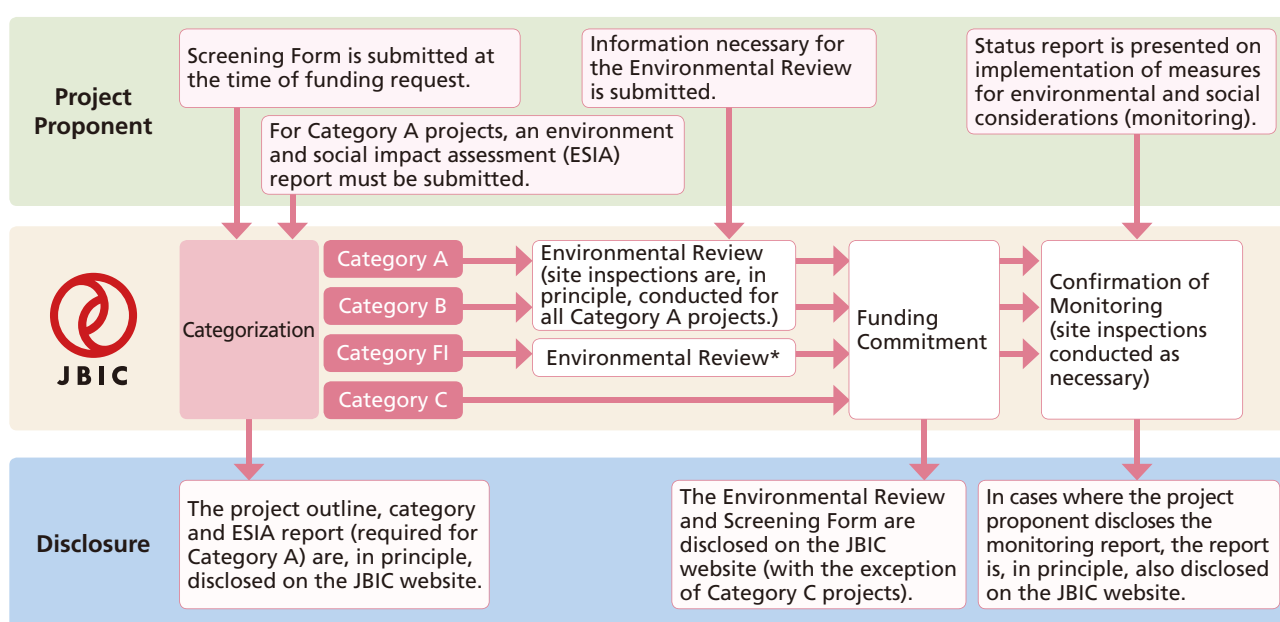
In conducting these operations, JBIC confirms whether the borrower has made appropriate consideration for local communities and the natural environment in all the JBIC-financed projects based on the "Japan Bank for International

Cooperation Guidelines for Confirmation of Environmental and Social Considerations" (Environmental Guidelines).

The Environmental Guidelines set out the procedures, criteria, and requirements that JBIC-financed projects must meet in confirming environmental and social considerations. When JBIC judges that the project proponents have not made appropriate environmental and social considerations, it will encourage them to take remedial measures. If appropriate environmental and social considerations have not been taken, JBIC may decide not to extend funding.

### ■ Procedure for Confirmation of Environmental and Social Considerations

Prospective projects are screened prior to funding and classified into categories according to the degree of potential environmental impact. An Environmental Review is then conducted to verify that the environmental and social impacts have been considered in a proper manner. After funding has been approved, projects are monitored to assess the actual impact.



\* For Category FI projects, JBIC confirms through the financial intermediary that the proper environmental and social considerations indicated in the Environment Guidelines have been followed for the project.

Projects are classified into one of the following four categories in relation to the degree of environmental impact, based on the information provided by the project proponent during the screening process.

Category A	Project with the potential for a serious and adverse impact on the environment
Category B	Project with the potential for an adverse impact on the environment, but less than that of Category A projects
Category C	Project with the potential for minimal or no adverse impact on the environment
Category FI	Project for which JBIC provides funding to a financial intermediary, and after acceptance of JBIC funding, the financial intermediary selects and conducts screenings for specific subprojects, in cases where subprojects cannot be determined prior to acceptance of JBIC funding, and where such subprojects are anticipated to have an impact on the environment

# 2 Prominent Initiatives in Recent Years

## 4 Launch of the Special Operations regarding Overseas Infrastructure Project

As part of the enhancement of JBIC functions based on the "Act for Partial Amendment of the Japan Bank for International Cooperation Act," on October 1, 2016, JBIC launched the Special Operations, enabling JBIC to take further risks regarding overseas infrastructure projects,

with the aim of providing more support toward Japanese companies' overseas infrastructure businesses.

JBIC supported the export of substation facilities to the Iraq government as the first loan provided under the Operations (see page 44).

### ■ Examples of Projects under the Special Operations

#### Public sector projects

Finance for governments, governmental agencies, or local governments in foreign countries with relatively high risk profile

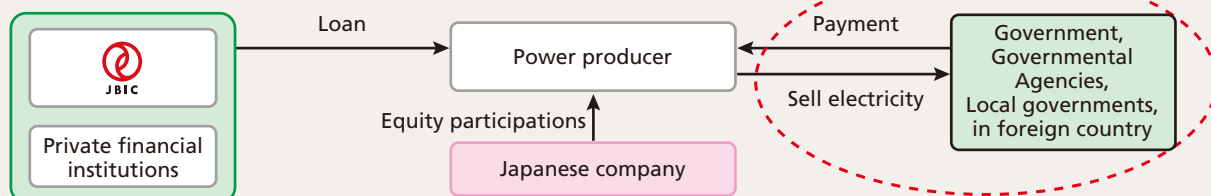
[Example: Exports of plants for infrastructure project]



#### Public-private partnerships (PPP)

Finance for PPP projects with the principal revenue coming from governments, governmental agencies, or local governments in foreign countries with relatively high risk profile

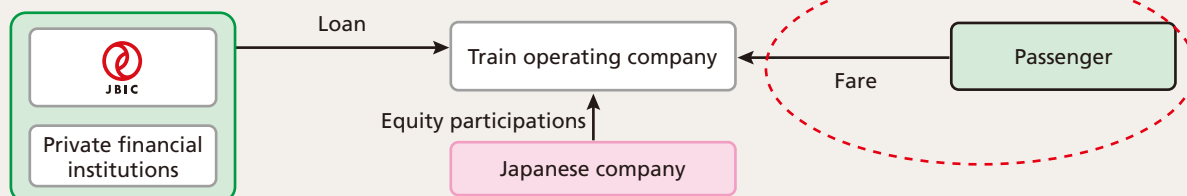
[Example: Electric power project]



#### Public-private partnerships (PPP)

Finance for PPP projects with relatively high risk profile entailed in the fluctuations in demand

[Example: Railway project]





## Expanding Eligible Sectors in Developed Countries

Following the revision of the Cabinet Order for Enforcement of the JBIC Act on September 30, 2016, the eligible sectors for support by the following financial instruments were reviewed and expanded: (1) export loans for exporting Japanese products to developed countries; and (2) overseas investment loans for projects in developed countries<sup>1</sup>.

Sectors have been newly added to the scope in the table below.

1. As for the details of specific eligible sectors, please refer to export loans in page 58 and overseas investment loans on page 60.

### ■ Eligible Sectors (Sectors added on September 30, 2016)

Export loans for the exports of Japanese products to developed countries	Investment loans for projects in developed countries
Road / Petrochemical / Waste incineration and Waste to energy	Shipbuilding and Marine transport / Satellite launching and operation / Medical business related to positron therapy facility / Road / Petrochemical / Waste incineration and Waste to energy

As for a waste treatment project in developed countries based on the above revision, in March 2017, JBIC concluded

a loan agreement for a waste treatment business in the U.S. (see page 53).

## Strengthening of JBIC's Functions and Organizational Realignment

On October 1, 2016, JBIC strengthened its functions as follows:

### Strengthening of its Institutional Capacity of Equity Investments

First, JBIC newly established the Equity Finance Group and the Equity Investment Department, and renamed the Marine and Aerospace Finance/Financial Products Department to Marine and Aerospace Finance Department. The objective of the establishment of the Equity Finance Group and Equity Investment Department is to strengthen its institutional capacity of equity investments in line with various governments' initiatives. The Marine and Aerospace Finance/Financial Products Department was renamed upon the transfer of fund investment operations to the Equity Investment Department.

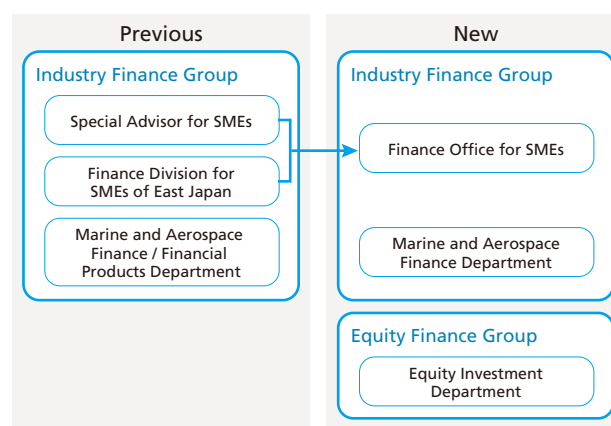
### Realignment to Strengthen Support for Japanese Mid-tier Enterprises and SMEs

Second, JBIC set up the Finance Office for SMEs. On the basis of the "Economic Measures for Realizing Investment for the Future" (decided by the Cabinet on August 2, 2016), the consultation and loan operations, the former of which had been conducted under the supervision of the Special Advisor for SMEs and the latter of which had been handled by the

Finance Division for SMEs of East Japan), are integrated into the Finance Office for SMEs. This is intended to strengthen our support for Japanese mid-tier enterprises and SMEs to assist their overseas business.

Meanwhile, the West Japan Office continues to be in charge of the support for mid-tier enterprises and SMEs located in western Japan as before.

For the organizational chart in our company, refer to page 164.



# 3 Framework for Supporting Globalization Efforts of Mid-tier Enterprises and SMEs

4

Financial Instruments

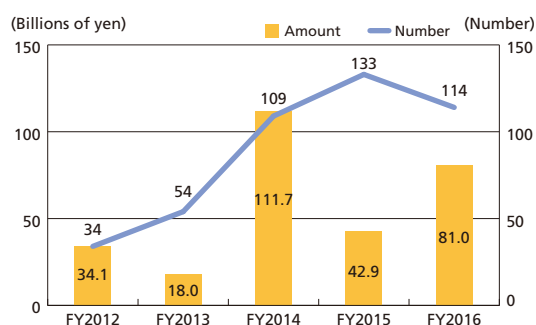
3

Framework for Supporting Globalization Efforts of Mid-tier Enterprises and SMEs

JBIC actively supports Japanese mid-tier enterprises and SMEs expanding overseas in line with economic globalization.

In the 2000s, following the economic growth of emerging market countries, especially in Asia, an increasing number of SMEs are not only meeting the procurement needs of major Japanese companies with overseas production operations, but also seeking to expand their own business in emerging markets. With such change in the purpose of overseas expansion of SMEs, the need for funds among SMEs has grown more diverse. In order to respond to the diversification of financial needs of SMEs for their overseas expansion, JBIC is further enhancing cooperation with Japanese private financial institutions, as well as local financial institutions in other countries, and is expanding its support, including provision of two-step loans through private financial institutions, loans in cooperation with regional banks and credit unions (*shinkin* banks), loans denominated in local currencies, and two-step loans for finance leases. (See page 72 for support new initiative in Indonesia.)

## Commitments for Mid-tier Enterprises and SMEs



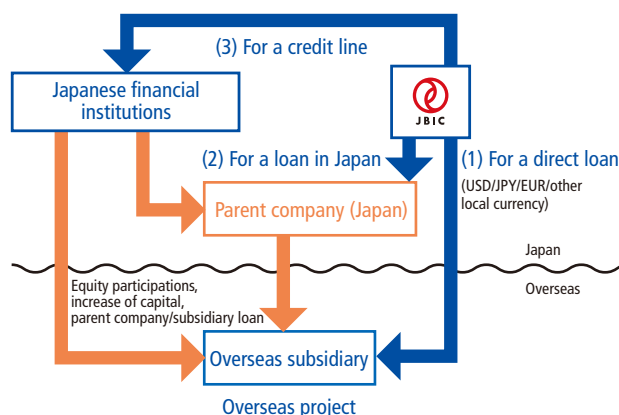
## Support for the Overseas Deployment of SMEs

Utilizing the know-how and experience of overseas financing that it has accumulated over the years, JBIC provides long-term financing required by Japanese companies, including SMEs, for overseas investment, export of products, and other activities through cofinancing with private financial institutions in the form of overseas investment loans, export loans, and other loans. The figure at upper right depicts specific support schemes.

JBIC implements the following six measures in order to support the overseas business deployment of SMEs.

- (1) Application of preferential loan conditions: Long-term loans with preferential loan conditions (interest rates, etc.)
- (2) Response to small loans (several tens of millions of yen): In addition to new capital investment, small loans for replacement of machinery, etc.
- (3) Local currency-denominated loans: Long-term local currency loans with fixed interest rates
- (4) Coordination and cooperation with private financial institutions (regional banks, credit unions, money center banks): Support for the overseas business deployment needs of SMEs all through the country
- (5) Support for M&A overseas: Loans for acquisition funds required when entering overseas markets through M&A
- (6) Support through information services: Information service on overseas investment environment; and support for solving issues with foreign governments while utilizing networks of JBIC overseas offices

## Example of mid-tier enterprises and SMEs support schemes



## Cooperation with Japanese Regional Financial Institutions, etc.

Regional financial institutions that SMEs work with play an important role when SMEs seek to expand overseas.

JBIC concludes business cooperation MOUs with regional financial institutions and provides a wide range of support to facilitate the overseas expansion of local companies, such as holding joint seminars on overseas business expansion and other issues.

In FY2016, JBIC provided medium- to long-term funding to SMEs and their overseas subsidiaries through 10 regional financial institutions, including THE HOKURIKU BANK, LTD. and The Hiroshima Bank, Ltd., concluding general agreements to establish a credit line at each bank for the funds necessary to enable Japanese SMEs to promote their businesses in developing regions.

## Cooperation with Local Financial Institutions, etc., in Developing Countries

Securing the support of local financial institutions in developing countries well acquainted with the local area is also vital for SMEs.

Not limiting itself to supporting overseas subsidiaries of Japanese companies, JBIC has strengthened its relationship with local financial institutions, through measures such as provision of two-step loans, in order to develop and support local companies that supply the Japanese subsidiaries with materials and components.

In addition, JBIC has concluded MOU with the local financial institutions to develop a support system for SMEs' overseas business expansion that involves regional financial

institutions in Japan (see chart below). JBIC has been for many years reinforcing its relationships with the local financial institutions, while working with the regional Japanese financial institutions to confirm the needs of SMEs in their overseas expansion. Under these MOU, JBIC encourages local financial institutions to set up and expand single contact points "Japan desks" for Japanese companies, and builds frameworks which enable consultations on specific cooperation and coordination together with the regional financial institutions that have business relationships with the SMEs.

JBIC concluded a business cooperation agreement to establish "Japan desks" with seven local banks in five Asian countries, as well as four local governments and one local bank in Mexico. The business cooperation agreement, as JBIC's most recent initiative, was concluded with the State of Guanajuato, Mexico's Banco Nacional de México S.A. in Integrante de Grupo Financiero Banamex (Banamex), and the State of Nuevo León, and has the participation of 67 Japanese financial institutions.

In addition, JBIC invited Japan desk staff of participating Japanese regional financial institutions and foreign local

financial institutions to regular follow-up seminars to deepen mutual understanding through discussions on Japan desk management issues (trainee dispatch, etc.) and methods of collaboration.

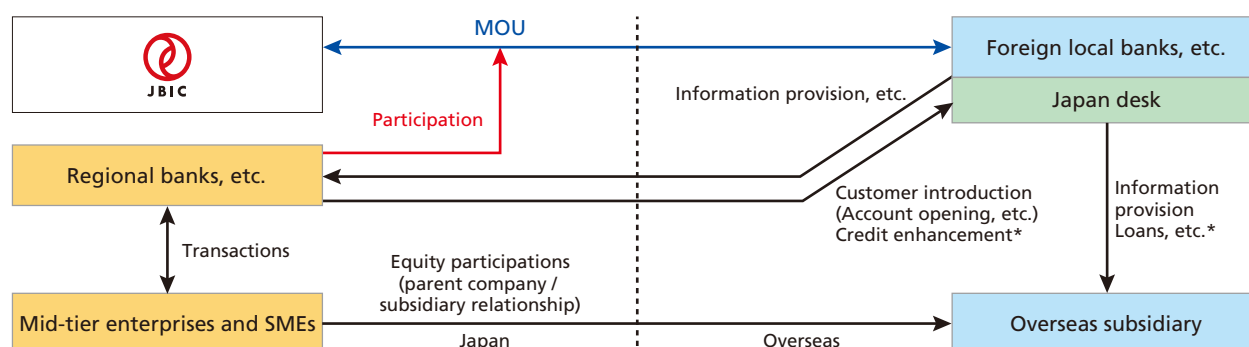


First seminar and exchange meeting on MOUs with local governments of the United Mexican States and local financial institutions

#### Local Financial Institutions/Governments and Participating Japanese Regional Financial Institutions

Country	Local financial institutions /governments	MOU agreement date	Number of participating Japanese regional financial institutions
Thailand	KASIKORNBANK Public Company Limited	May 2011	28
Indonesia	PT. Bank Negara Indonesia (Persero) Tbk	July 2011	33
India	State Bank of India	August 2012	45
The Philippines	BDO Unibank, Inc. (BDO)	March 2013	7
	Metropolitan Bank and Trust Company (Metrobank)		45
Vietnam	Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV)	July 2013	5
	Joint Stock Commercial Bank for Foreign Trade of Vietnam	August 2013	45
Mexico	The State of Aguascalientes	October 2015	68
	The State of Jalisco	November 2015	68
	The State of Guanajuato	February 2016	67
	BANCO NACIONAL DE MÉXICO, S.A., INTEGRANTE DEL GRUPO FINANCIERO BANAMEX (Banamex)	February 2016	57
	The State of Nuevo León	March 2016	67

#### Schematic Diagram



\* For loans from an foreign local bank based on credit enhancement from each Japanese regional bank, individual business cooperation agreements between the foreign local bank and the Japanese regional bank must be concluded separately.

## Providing Local Currency-denominated Loans

In response to expansion of the overseas business of SMEs, JBIC has provided loans in various local currencies, including the Thai baht, Indonesian rupiah, and Chinese yuan. SMEs, when trying to procure local currency funds in developing countries, face the problems of short repayment periods (basically up to one year) and high interest rates. In order to solve these problems, JBIC prepares long-term fixed-rate local currency loans, a preferential measure for SMEs, and provides cofinancing with private financial institutions directly to the local subsidiaries of Japanese companies who are the clients of those financial institutions. The cofinancing sometimes involves JBIC providing local currency-denominated loans and the private financial institutions providing yen-denominated loans through the parent company in Japan.

## Information Services, Seminars, etc.

In addition to individual consulting services for SMEs' overseas expansion, JBIC provides advisory services through experts concerning the legal, accounting, and currency regulations related to tax affairs, employment and labor issues, contracts, company establishment, and other issues for China, India, the ten member countries of ASEAN, North America, Latin America, and the Middle East.

JBIC also organizes seminars and consultations on overseas business deployment in cooperation with Japanese

entities, including regional financial institutions, prefectural and municipal governments, and local chambers of commerce and industry. In addition, it conducts field studies to assess investment climates in countries where Japanese companies are actively expanding their business. The findings of these studies are compiled into guidebooks, which are available in book form and on JBIC's website.

Moreover, JBIC offers an itinerant advisory service in many parts of Japan in cooperation with prefectural and municipal governments, as well as local chambers of commerce and industry which support local companies in expanding their operations overseas. This service, which is available on a regular basis in Sendai City, Ota City, Tokyo, and Nagoya, offers advice on the overseas investment climate and how to obtain long-term financing, among other topics.



Automobile seminar in India for mid-tier enterprises and SMEs

## New Support Mechanism in Indonesia

In October 2014, the central bank of Indonesia announced a regulation on foreign debt denominated in a foreign currency for private-sector companies. In January 2016, the obligation to obtain a rating for foreign borrowing agreements denominated in a foreign currency began being applied as part of the regulation. JBIC assists in facilitating the procurement of funds by providing guarantees when the Indonesian subsidiaries of Japanese companies, including mid-tier enterprises and SMEs, borrow foreign currency-denominated funds from overseas (cross-border loans) from Japanese regional financial institutions.

### 1. Background

October 28, 2014:

The central bank of Indonesia announced the regulation on foreign debt denominated in a foreign currency for private-sector companies (central bank directive 16/20/PBI/2014; hereafter, "Regulation").

December 29, 2014:

Released a partial revision of the Regulation (central bank directive 16/21/PBI/2014) and the Circular Letter (16/24/DKEM) that specifies the details.

January 1, 2015:

Partial enforcement of the Regulation

January 1, 2016:

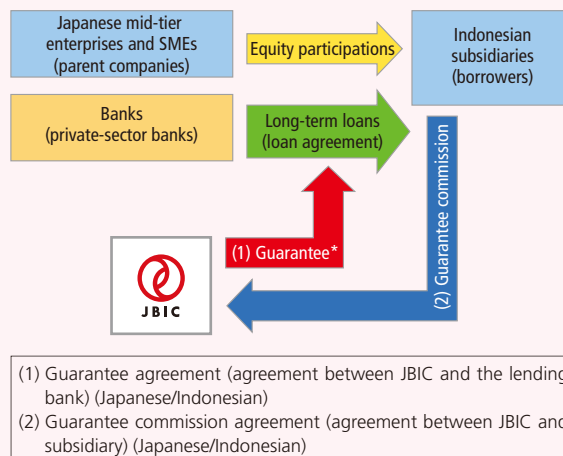
Obligation to obtain a rating for foreign borrowing agreements denominated in a foreign currency began to be applied as part of the Regulation.\*

\* A regulation that obligates private-sector companies that borrow foreign currency-denominated funds to obtain a rating of BB- or higher from a rating agency registered by the central bank of Indonesia. However, in the case of foreign borrowing agreements guaranteed by public institutions,

including JBIC, it is stipulated that such agreements are not subject to this rating obligation (refer to the Regulation Article 7 (d) and Q&A 31 announced by the central bank of Indonesia).

### 2. Guarantee Scheme

Since JBIC provides guarantees for loans to the Indonesian subsidiaries of Japanese mid-tier enterprises and SMEs from Japanese banks, the borrowing company is exempted from the original obligation of obtaining a rating that applies to companies that borrow foreign currency-denominated funds.



\* The terms and conditions for credit protection related to the JBIC guarantees are decided under consultation with the cofinancing banks.



# Operational and Administrative Policies

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# 1 Corporate Governance

5

Operational and Administrative Policies

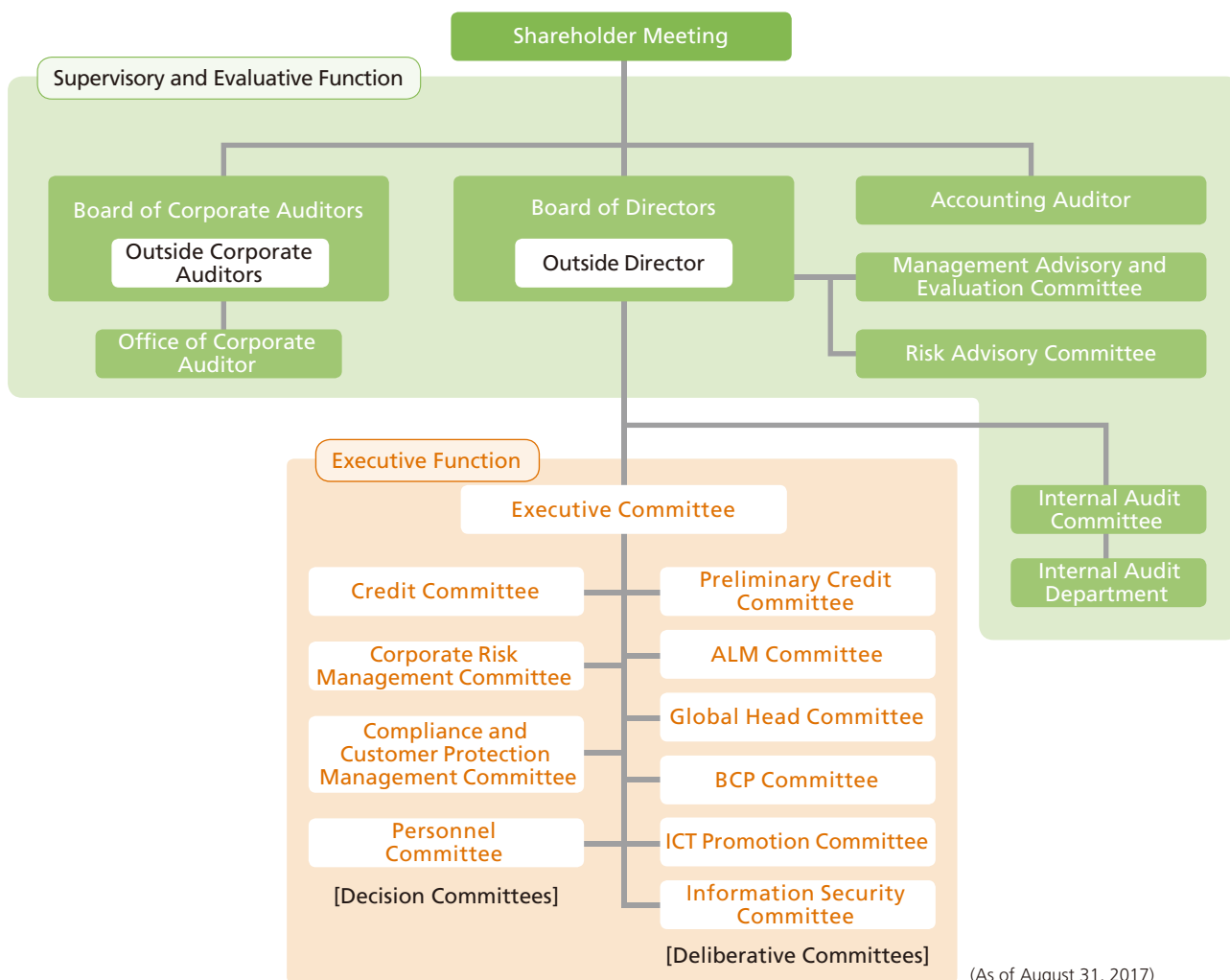
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Corporate Governance

## Fundamental Approach to Corporate Governance

JBIC is making efforts to build a 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 7 members, of which one member is an outside director as set forth in the Companies Act. The external director supervises the conduct of JBIC operations from the point of view of a corporate outsider, apart from representative directors of JBIC. In addition, the External Director contributes 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 3 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 3 to 7 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 3 to 7 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.

### (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) Preliminary Credit Committee

The Preliminary Credit Committee makes deliberations concerning important matters pertaining to assessment policies toward loans, equity participations, and guarantees and credit policy toward large-lot debtors, as delegated by the Executive Committee.

### (vi) 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.

### (vii) 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.

### (viii) 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.

#### ■ List of Members of the Management Advisory and Evaluation Committee

(As of August 31, 2017)

Name	Occupation
Shujiro Urata	Professor, Graduate School of Asia-Pacific Studies, Waseda University
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
Mikiko Fujiwara	CEO of Alpha Associates Co., Ltd.
Sumihiko Yoshie	Executive Auditor of Government Pension Investment Fund, Japan (former Representative Director and President of NIPPON STEEL & SUMIKIN INSURANCE SERVICE, INC.)

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

#### ■ List of Members of the Risk Advisory Committee

(As of August 31, 2017)

Name	Occupation
Shuhei Abe	President, CEO & CIO of SPARX Group Co., Ltd.
Eiji Ogawa	Professor, Graduate School of Commerce and Management, Hitotsubashi University
Shinichi Koizumi	JBIC Managing Director (Outside Director)
Toshiki Tomita	Professor, Faculty of Law, Chuo University
Chieko Matsuda	Professor of Management, Graduate School of Social Sciences, Tokyo Metropolitan University
Keisuke Yokoo	Advisor of Mizuho Securities Co., Ltd.

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

**(ix) ICT Promotion Committee**

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

**(x) 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 know-how 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.

**Members of Board of Directors**

Governor	Akira Kondoh
CEO, Executive Managing Director	Tadashi Maeda
COO, Senior Managing Director	Nobumitsu Hayashi
Senior Managing Director	Yasushi Hasegawa
Senior Managing Director	Kenichiro Hayashi
Senior Managing Director	Tatsuhiko Takesada
Managing Director (Outside Director)	Shinichi Koizumi

**Managing Executive Officers**

Global Head of Corporate Planning Group	Kazuhiko Amakawa	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	Kuninori Kuroishi	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



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.

### Fundamental Policy on Internal Control

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 (see pages 175 and 176 for the Basic Policy for the Internal Control System).

### Maintenance and Control of Information Assets

JBIC sets forth its fundamental "Security Policy" concerning the use and management of information assets (see page 177) 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.

### 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.

### Protection of Private Information

JBIC has drawn up and disclosed its Privacy Policy (see page 178) 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.

# 2 Risk Management

5

Operational and Administrative Policies

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.

2

Risk Management

## 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 (a risk added to corporate risk and project risk arising from the country where the debtor resides and the project is located). 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, 2017.

#### Credit Risk of Derivatives, etc.

(As of March 31, 2017; unit: 100 million yen)

	Contract Amounts / Notional Amounts	Credit Risk Amounts
Interest Rate Swaps	39,832	596
Currency Swaps	39,040	3,663
Forward Exchange Contracts	3	0
Other Derivatives	—	—
Credit Risk Reductions through Netting		(3,198)
Total	78,876	1,061

"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 that could be linked to adverse effects on business operations and the leakage of client information by increasing its readiness to respond effectively to emergency situations. Specifically, (a) measures have been taken to correspond to and prevent system malfunctions; 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

5

Operational and Administrative Policies

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 (<http://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; and *JBIC Profile: Role and Function*, a brochure describing JBIC operations.



*JBIC Today*



*JBIC's Activities for Environmental Sustainability (2016)*

## Website

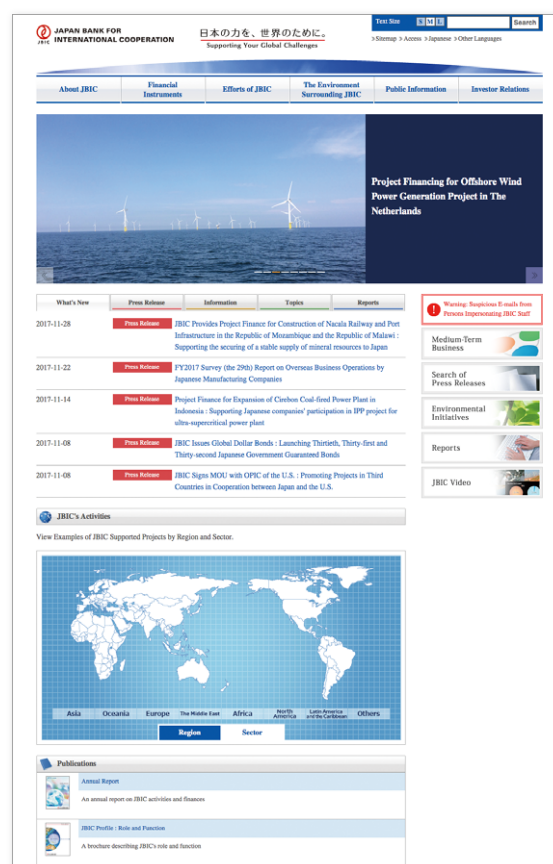
The website provides access to JBIC information, including its financial instruments, press releases, invitations to seminars, reports on various studies, activities on environmental issues, annual reports, various brochures, IR information for investors, and various other types of information.

## 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.



JBIC website

## 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 670 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.

In December 2016, JBIC exhibited at Eco-Products 2016, which was held at Tokyo Big Sight. Overseas, in February

2017 JBIC participated in Mining Indaba in South Africa, one of the world's largest mining conferences.



Eco-Products 2016

## 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: <ul style="list-style-type: none"> <li>Type of Business Operations, Operational Results, Overview of Organization, Financial Composition, etc.</li> </ul>	<ul style="list-style-type: none"> <li>On the internet Address: <a href="http://www.jbic.go.jp/en/">http://www.jbic.go.jp/en/</a></li> </ul>