

nonconsolidated financial review

In fiscal 1999 core banking profit (excluding transfer to general reserve for possible loan losses) declined by ¥7.1 billion relative to the previous year's result, to ¥389.4 billion (\$3,668.4 million). The main reason for the lower figure was a ¥53.4 billion decrease in profit on government bonds and other bonds due to the effects of the price environment. Without this factor, core banking profit (excluding transfer to general reserve for possible loan losses) would have increased by ¥46.3 billion to ¥393.4 billion. This figure is based on the fact that gross banking profit (excluding gains and losses on government bonds and other bonds) rose by ¥25.6 billion over the previous year's result, to ¥726.5 billion, while expenses (excluding other operating loss) decreased by ¥24.0 billion. On the domestic banking side, the increase in gross banking profit is

attributable to higher net interest income, as well as to higher commission income resulting from the aggressive development of new fee business, including over-the-counter sales of investment trusts. Earnings from international operations also rose. The expense reductions reflect progress under a restructuring plan designed to improve the cost structure. Both personnel expenses and general expenses were reduced.

Operating profit which consists of core banking profit (excluding transfer to general reserve for possible loan losses) plus other operating loss (including credit cost and gains on stocks) amounted to ¥176.5 billion (\$1,662.7 million). This result reflects the accelerated disposal of bad loans in line with the Bank's commitment to achieving a final settlement of the problem in

major management indices for the past five fiscal years

Years ended March 31	Billions of Yen				
	2000	1999	1998	1997	1996
Operating income	¥ 2,182.3	¥ 1,923.7	¥ 2,331.5	¥ 2,359.3	¥ 2,542.4
Core banking profit	350.6	220.2	308.0	338.2	414.3
Core banking profit (excluding transfer to general reserve)	389.4	396.5	337.5	342.2	420.2
Operating profit (loss)	176.5	(741.0)	(617.3)	51.5	39.6
Net income (loss)	48.8	(374.1)	(621.6)	35.3	42.1
Preferred stocks	250.5	250.5	—	—	—
Common stocks	502.3	502.3	502.3	502.3	502.3
Total number of preferred stocks issued (Million Shares)	167	167	—	—	—
Total number of common stocks issued (Million Shares)	3,141	3,141	3,141	3,141	3,141
Total shareholders' equity	1,880.6	1,846.4	1,138.0	1,786.4	1,777.7
Total assets	51,089.3	51,531.2	58,076.7	57,149.2	54,179.7
Deposits	34,229.8	33,001.3	37,390.0	39,833.8	39,082.0
Loans and bills discounted	31,358.5	33,716.8	35,930.3	36,600.1	35,499.6
Securities	8,982.2	6,679.8	7,256.9	6,004.3	6,115.4
per share data (Yen)					
Shareholders' equity	¥ 439.23	¥ 428.35	¥ 362.30	¥ 568.73	¥ 565.98
Declared dividend on common stocks (Interim dividend)	6.00 3.00	6.00 3.00	8.50 4.25	8.50 4.25	8.50 4.25
Net income (loss)	14.41	(119.11)	(197.93)	11.24	13.41
Net income-diluted	14.12	—	—	11.17	—
Payout ratio (percent)	41.63	—	—	75.59	63.37
Number of employees	14,394	14,995	15,111	15,563	16,455

preparation for integration with Sakura Bank. Operating profit was also affected by the posting of a ¥680.7 billion (\$6,412.6 million) loss resulting from the preventive provision of a reserve covering the entire cost of bad loan disposal (including transfer to general reserve, hereinafter referred to as "total credit cost"). There was also a ¥486.7 billion (\$4,585.0 million) profit on sale of stocks.

Net income, which is calculated by deducting extraordinary profit and loss items and taxes, including corporate income taxes, from operating profit, amounted to ¥48.8 billion (\$459.7 million). The fact that net income is ¥127.7 billion lower than operating profit is explained in part by the fact that the Bank contributed an addition ¥21.5 billion to strengthen the financial base of the pension fund, as in the previous year. The other major reason for the reduction was the posting of ¥93.1 billion (including a ¥34.3 billion cost resulting from the Tokyo Metropolitan Government's introduction of an enterprise tax system based on external standards for the banking industry) in expenses relating to adjustments of corporate income taxes, etc., due to the introduction of deferred tax accounting method. Without this factor, net income would have amounted to ¥83.1 billion, which is above the ¥75.0 billion target set down in the financial reconstruction plan adopted when public funds were introduced.

statement of income analysis

Core Banking Profit

Core banking profit, which is calculated by deducting transfer to general reserve for possible loan losses and expenses, etc., from gross banking profit increased by ¥130.4 billion to ¥350.6 billion in fiscal 1999. The main reason for the growth was a ¥137.5 billion reduction in transfer to general reserve for possible loan losses. Core banking profit (excluding transfer to general reserve for possible loan losses) was ¥7.1 billion lower than in the previous year, at ¥389.4 billion. This was primarily attributable to the effect of the price environment on the profit and loss from government and other bonds. Net other operating income decreased by ¥30.2 billion to ¥15.3 billion (\$144.1 million).

Breakdown of Gross Banking Profit

Net interest income amounted to ¥604.7 billion (\$5,696.7 million), a decline of ¥2.3 billion from the previous year's level. Net interest income relating to domestic operations increased by ¥2.7 billion, mainly because of an improvement in interest spreads due to a reduction in the interest expenses. Positive factors affecting the contribution from international operations included the elimination of the Japan premium and improvements in interest spreads and returns from fund dealing. However, the

core banking profit

	Billions of Yen						
	2000		1999	1998	1997	1996	
<i>Years ended March 31</i>		Increase/ Decrease					
Gross banking profit							
Net interest income	¥ 604.7	¥ (2.3)	¥ 607.0	¥ 589.7	¥ 598.4	¥ 628.0	
Net fees and commissions(income)	69.2	8.1	61.1	68.8	65.8	56.1	
Net trading profit	33.2	(3.4)	36.6	15.0	-	-	
Net other operating income	15.3	(30.2)	45.5	37.7	47.2	89.1	
Total	¥ 722.5	¥ (27.8)	¥ 750.3	¥ 711.3	¥ 711.5	¥ 773.3	
Provision for general reserve for possible loan losses	(38.8)	137.5	(176.3)	(29.5)	(4.0)	(5.9)	
Bond issue costs	(3.3)	(3.3)	-	-	-	-	
Expenses (excluding other operating loss)	(329.8)	24.0	(353.8)	(373.7)	(369.3)	(353.1)	
Core banking profit	¥ 350.6	¥ 130.4	¥ 220.2	¥ 308.0	¥ 338.2	¥ 414.3	
Core banking profit (excluding transfer to general reserve)	¥ 389.4	¥ (7.1)	¥ 396.5	¥ 337.5	¥ 342.2	¥ 420.2	

overseas contribution declined by ¥5.1 billion to ¥89.4 billion because of a number of factors that included reduced dividends from overseas subsidiaries.

Net fees and commissions rose by ¥8.1 billion to ¥69.2 billion (\$651.9 million). The contribution from domestic operations was ¥9.7 billion higher at ¥48.1 billion (\$453.1 million). The increase reflects the development of new fee businesses, such as over-the-counter sales of investment trusts. However, the figure for international operations showed a ¥1.6 billion decline to ¥21.1 billion (\$198.8 million), mainly because of a reduction in loan-related commissions due to the reduction in assets.

Net trading profit declined by ¥3.4 billion to ¥33.2 billion (\$312.8 million).

Other operating income amounted to ¥15.3 billion (\$144.1 million), a reduction of ¥30.2 billion from the previous year's level. A breakdown of this total shows that the contribution from domestic operations declined by ¥52.3 billion to produce a loss of ¥2.3 billion (\$21.7 million). This reflects the reduced effect of the price environment on profit and loss on government bonds and other bonds. The contribution from international operations was ¥22.2 billion higher at ¥17.7 billion (\$166.7 million). This was primarily attributable to an improvement in profit on foreign exchange trading, due in part to profit on hedging used to protect income from foreign currency investments against the risk of exchange rate fluctuations.

net interest income

	Billions of Yen						Percent									
	Average Balance			Interest			Earnings Yield									
	2000	Increase/ Decrease	1999	2000	Increase/ Decrease	1999	2000	Increase/ Decrease	1999							
<i>Years ended March 31</i>																
domestic operations	¥	/	¥	/	¥	/	¥	515.2	¥	2.7	¥	512.5	1.45%	(0.02)%	1.47%	
Interest income	35,397.4		643.6		34,753.8		757.2		(116.9)		874.1		2.13		(0.38)	2.51
Loans	28,019.7		(830.4)		28,850.1		537.9		(56.0)		593.9		1.91		(0.14)	2.05
Dividends on securities	7,199.3		1,411.0		5,788.3		89.3		(19.8)		109.1		1.24		(0.64)	1.88
Due from banks and others	3.7		(3.9)		7.6		0.0		(0.0)		0.0		1.05		0.24	0.81
Interest expenses	32,504.9		1,160.2		31,344.7		242.0		(119.6)		361.6		0.74		(0.41)	1.15
Deposits	21,958.3		1,604.1		20,354.2		44.1		(31.0)		75.1		0.20		(0.16)	0.36
Certificate of deposits	5,651.2		(129.7)		5,780.9		8.7		(24.6)		33.3		0.15		(0.42)	0.57
Borrowed money	4,318.5		(597.4)		4,915.9		27.9		(16.6)		44.5		0.64		(0.26)	0.90
Bonds	242.3		126.0		116.3		5.0		3.2		1.8		2.07		0.51	1.56
international operations	¥	/	¥	/	¥	/	¥	89.4	¥	(5.1)	¥	94.5	1.02%	0.20%	0.82%	
Interest income	8,713.1		(2,722.3)		11,435.4		659.3		(113.2)		772.5		7.56		0.81	6.75
Loans	4,965.2		(2,393.2)		7,358.4		223.2		(142.0)		365.2		4.49		(0.47)	4.96
Dividends on securities	1,167.2		(234.1)		1,401.3		53.3		(12.7)		66.0		4.57		(0.14)	4.71
Due from banks and others	2,016.6		289.6		1,727.0		89.4		0.8		88.6		4.43		(0.70)	5.13
Interest expenses	8,687.3		(2,859.2)		11,546.5		569.8		(108.2)		678.0		6.56		0.69	5.87
Deposits	6,536.6		(2,967.9)		9,504.5		220.2		(150.4)		370.6		3.36		(0.53)	3.89
Certificate of deposits	173.7		(272.5)		446.2		8.9		(18.2)		27.1		5.15		(0.92)	6.07
Borrowed money	1,820.1		353.4		1,466.7		81.7		4.4		77.3		4.49		(0.78)	5.27
Bonds	-		-		-		-		-		-		-		-	-
total	¥	/	¥	/	¥	/	¥	604.7	¥	(2.3)	¥	607.0	1.37%	0.06 %	1.31%	

Notes: 1. Due from banks, others include call loans.

2. Borrowings and rediscounts include call money and bills bought.

3. Interest expenses are shown after deduction of expenses for money held in trust.

4. Bond interest includes amortization of discounts of bonds.

General and Administrative Expenses

General and administrative expenses (excluding other operating loss) declined by ¥24.0 billion to ¥329.8 billion (\$3,106.9 million). Personnel expenses were reduced by ¥11.0 billion to ¥142.0 billion (\$1,337.7 million), thanks to the curbing of employee numbers, lower bonuses and other factors. Wide-ranging efforts to minimize general expenses resulted in a ¥10.1 billion reduction, to ¥170.2 billion (\$1,603.4 million).

Operating Profit

After two consecutive years of negative results, operating profit moved into the black, emerging at ¥176.5 billion (\$1,662.7 million). Operating profit is computed by deducting ¥38.8 billion (\$365.5 million) in transfer to general reserve for possible loan losses and ¥174.1 billion (\$1,640.1 million) in other operating loss from core banking profit (excluding transfer to general reserve for possible loan losses), which amounted to ¥389.4 billion (\$3,668.4 million).

Other Operating Profit/Loss

Other operating profit and loss items induced to a loss of ¥174.1 billion (\$1,640.1 million). One reason for this result is the disposal of bad loans totaling ¥641.9 billion. (Total credit cost amounted to ¥680.7 billion (\$6,412.6 million) with the inclusion of transfer to general reserve for possible loan losses.) On the positive side, there was a ¥486.7 billion (\$4,585.0 million) gains on sales of stocks.

The large amount of credit cost resulted in part from asset deterioration resulting from a further worsening of the financial environment because of factors that included an increase in the number of bankrupt borrowers, economic stagnation, and falling land prices. In addition, the Bank moved to accelerate the disposal of bad loans ahead of its integration with Sakura Bank. Loans to borrowers likely to cause losses in the future were disposed of in an effort to minimize post-integration losses.

Total credit cost consists of ¥645.0 billion (\$6,076.3 million) in credit cost for specific problem loans, including provision for specific reserve and write-off of loans, ¥3.1 billion (\$29.2 million) in loan loss reserve for specific overseas countries, which is provided to cover country risk, and ¥38.8 billion (\$365.5 million) in transfer to general reserve for possible loan losses. Credit cost for specific loans consisted of ¥253.0 billion (\$2,383.4 million) in transfer to specific problem reserve, ¥347.4 billion (\$3,272.7 million) in write-off of loans, ¥17.3 billion (\$163.0 million) in transfer to reserve for loss on loans sold, a ¥19.6 billion (\$184.6 million) losses on problem loans sold, and a ¥7.7 billion (\$72.5 million) losses on sale of loans to the Cooperative Credit Purchase Corporation.

Stock-related gains and losses items added up to gains of ¥486.7 billion (\$4,585.0 million). This result reflects the recovery of the stock market. The figure breaks down into ¥551.2 billion (\$5,192.7 million) in gains on sale, ¥35.1 billion (\$330.7 million) in losses on sale, and ¥29.4 billion (\$277.0 million) in devaluation.

net fees and commissions

Years ended March 31	Billions of Yen					
	2000		1999			
	Increase/Decrease					
domestic operations	¥	48.1	¥	9.7	¥	38.4
Income		75.8		9.3		66.5
Remittance and transfers		35.3		2.1		33.2
Securities related business		6.1		(0.8)		6.9
Expenses		27.7		(0.4)		28.1
Remittance and transfers		7.6		0.6		7.0
international operations	¥	21.1	¥	(1.6)	¥	22.7
Income		30.7		(7.0)		37.7
Remittance and transfers		11.4		(0.4)		11.8
Securities related business		15.0		(3.6)		18.6
Expenses		9.6		(5.4)		15.0
Remittance and transfers		4.1		(3.1)		7.2
total	¥	69.2	¥	8.1	¥	61.1

Extraordinary Profit/Loss

Extraordinary profit/loss was a loss of ¥28.0 billion (\$263.8 million). This consists in part of a ¥21.5 billion (\$202.5 million) additional contribution to pension plans to cover a shortfall resulting from a reduction in the projected yield (discount rate) on the fund compared with the previous year, and to strengthen the financial base of the pension fund. There was also a ¥6.9 billion (\$65.0 million) losses on disposition of premises and equipment due to the sale of branches, company housing and other properties, and the demolition of branches as part of the restructuring process.

net trading profit*Years ended March 31***domestic operations**

Trading securities

Other income

international operations

Securities

Trading related financial derivatives

total**Net Income/Loss**

Corporate income taxes, resident taxes and enterprise taxes amounted to ¥6.6 billion (\$62.2 million). This consists mainly of overseas withholding taxes and foreign corporate income taxes, etc., paid in other countries. The introduction of the deferred tax accounting method resulted in the posting of ¥93.1 billion (including ¥34.3 billion cost resulting from the Tokyo Metropolitan Government's introduction of an enterprise tax system based on external standards for the banking industry) in adjustment costs relating to corporate income taxes, etc. As a result, net income amounted to ¥48.8 billion (\$459.7 million). Without the enterprise tax, net income would have amounted to ¥83.1 billion.

		Billions of Yen		
		2000		1999
		Increase/Decrease		
domestic operations	¥	4.1	¥ (1.1)	¥ 5.2
Trading securities		2.7	3.2	(0.5)
Other income		1.3	(4.4)	5.7
international operations	¥	29.1	¥ (2.2)	¥ 31.3
Securities		(0.9)	(1.7)	0.8
Trading related financial derivatives		30.0	(0.5)	30.5
total	¥	33.2	¥ (3.4)	¥ 36.6

other operating income*Years ended March 31***domestic operations**

Gains on sale of bonds

international operations

Gains on foreign exchange transactions

Gains on sale of bonds

total

		Billions of Yen		
		2000		1999
		Increase/Decrease		
domestic operations	¥	(2.3)	¥ (52.3)	¥ 50.0
Gains on sale of bonds		(2.9)	(52.2)	49.3
international operations	¥	17.7	¥ 22.2	¥ (4.5)
Gains on foreign exchange transactions		18.9	21.3	(2.4)
Gains on sale of bonds		(1.1)	(1.1)	0.0
total	¥	15.3	¥ (30.2)	¥ 45.5

general and administrative expenses (excluding other operating loss)*Years ended March 31***personnel expenses**

Salary and allowance

general expenses

Rent and lease expenses

Depreciation

taxes, other than income taxes**total**

		Billions of Yen		
		2000		1999
		Increase/Decrease		
personnel expenses	¥	142.0	¥ (11.0)	¥ 153.0
Salary and allowance		117.3	(9.9)	127.2
general expenses	¥	170.2	¥ (10.1)	¥ 180.3
Rent and lease expenses		38.3	(2.2)	40.5
Depreciation		15.8	(0.9)	16.7
taxes, other than income taxes	¥	17.6	¥ (2.9)	¥ 20.5
total	¥	329.8	¥ (24.0)	¥ 353.8

core banking profit, net income (loss) and unappropriated retained earnings

Years ended March 31	Billions of Yen		
	2000	1999	
	Increase/Decrease		
	¥	¥	¥
core banking profit (excluding transfer to general reserve)	389.4	(7.1)	396.5
provision for general reserve for possible loan losses	(38.8)	137.5	(176.3)
other operating profit (loss)	(174.1)	787.1	(961.2)
Credit cost for specific problem loans	(645.0)	236.4	(881.4)
Provision for specific reserve	(253.0)	118.8	(371.8)
Write-off of loans	(347.4)	(42.4)	(305.0)
Provision for reserve for loss on loans sold	(17.3)	61.9	(79.2)
Losses on problem loans sold	(19.6)	45.5	(65.1)
Losses on sale of loans to the Cooperative Credit Purchasing Co., Ltd.	(7.7)	52.6	(60.3)
Provision for loan loss reserve for specific overseas countries	3.1	17.8	(14.7)
total credit cost (note)	(680.7)	(391.7)	(1,072.4)
Gains (losses) on sale of stocks	486.7	524.3	(37.6)
Gains on sale	551.2	541.6	9.6
Losses on sale	(35.1)	(8.3)	(26.8)
Losses on devaluation	(29.4)	(9.0)	(20.4)
operating profit (loss)	176.5	917.5	(741.0)
extraordinary profit (loss)	(28.0)	(135.6)	107.6
Gains (losses) on disposition of premises and equipment	(6.9)	(68.1)	61.2
Gains from sale of subsidiaries and losses from disposition of subsidiaries	–	(67.3)	67.3
Additional contribution to pension plans	(21.5)	1.2	(22.7)
income (loss) before income taxes	¥ 148.5	¥ 781.9	¥ (633.4)
Income taxes			
Current	(6.6)	14.2	(20.8)
Deferred	(93.1)	(373.2)	280.1
net income (loss)	¥ 48.8	¥ 422.9	¥ (374.1)
Unappropriated retained earnings brought forward	29.9	13.1	16.8
Transfer from revaluation reserve for land	3.1	3.1	–
Cumulative effect of initial application of deferred income tax accounting	–	(439.8)	439.8
Transfer from reserve for losses on overseas investments	–	(0.0)	0.0
Declared interim dividends	(11.2)	(1.8)	(9.4)
Transfer to legal reserve	(2.2)	(0.4)	(1.8)
unappropriated retained earnings	¥ 68.4	¥ (2.8)	¥ 71.2

Note: Total credit cost = Provision for general reserve for possible loan losses + Credit cost for specific problem loans + Provision for loan loss reserve for specific overseas countries.

assets and liabilities

Total Assets

Total assets declined by ¥441.9 billion when compared with the previous year's level, to ¥51,089.3 billion (\$481,293.5 million). The decline reflects the reduced yen value of foreign currency assets due to the 12% appreciation of the yen, which rose by approximately ¥14 against the dollar (from ¥120.55 to ¥106.15). This factor produced an approximately ¥1 trillion impact. In addition, the balance sheet format stipulated in the Banking Law Enforcement Regulations was amended to require the deduction of all assets covered by reserve for possible loan losses at the end of the asset section. This factor reduced assets by ¥909.0 billion. Without the interplay of these factors, total assets would have increased.

Loans and Bills Discounted

Loans declined by ¥2,358.4 billion to ¥31,358.5 billion (\$295,417.4 million). In addition to approximately ¥340 billion in direct reductions of credit cost for specific problem loans and loans, yen appreciation reduced the yen value of loans by approximately ¥480 billion. Another factor was major companies' efforts to reduce interest-bearing liabilities in Japan and overseas. The balance of loans to small and medium-sized enterprises increased, reflecting the Bank's positive response to the financing needs of sound companies in this category.

Deposits and Certificates of Deposit

Deposits increased by ¥164.6 billion over the previous year's level, to ¥27,388.2 billion. Domestic deposits were ¥641.1 billion higher, mainly because of a ¥485.5 billion rise in individual deposits. However, foreign deposits shrank by ¥476.5 billion due to a decline in their yen value because of yen strength.

Certificates of deposit rose by ¥1,064.0 billion to ¥6,841.6 billion. This reflects a ¥152.1 billion decline in foreign deposits, and a ¥1,216.1 billion increase in domestic deposits.

shareholders' equity

The capital account (net assets) increased by ¥34.1 billion to ¥1,880.6 billion (\$17,716.8 million). The total number of shares issued at the end of the financial year was 3,141 million common stocks, and 167 million preferred stocks. If preferred stocks are excluded, net assets per share amount to ¥439.23, an increase of ¥10.88.

dividend policy

Financial institutions now operate in a competitive environment of unprecedented ferocity. This reflects changes in the financial services sector, including mergers and integration among major financial institutions, an upsurge of business partnerships spanning traditional business sector boundaries, the emergence of on-line securities trading and the stated intention of non-banking companies to move into banking. The Bank's policy in this environment calls for a profit distribution stance that conforms with international standards and gives priority to shareholder interests. In fiscal 1998, the dividend per common stock was reduced from ¥8.5 to ¥6.0. The dividend for the current year has also been set at ¥6.0 after a comprehensive analysis taking into account such factors as performance trends and the level of internal reserves.

The dividend on preferred stocks was paid in accordance with the amount determined at the time of issue.