Establishing a Medium-term Business Target

Plan for the Strengthening of the Financial Base of the Bank

In the process of applying for public funds to underwrite the convertible preferred shares issued in March 1999, we submitted a policy document outlining the measures we intend to take to strengthen the Bank's financial condition: "The Plan for the Strengthening of the Financial Base of the Bank." This plan covers a wide range of issues, such as restructuring, realignment of business mix, marketing and alleviation of problem assets which are discussed hereafter in this Annual Report.

This plan reinforces the strategies which we have been implementing since 1997. We are now concerting our efforts to achieve each and every one of the goals set out in this plan.

Medium-term Business Target

In "The Plan for the Strengthening of the Financial Base of the Bank," we disclosed the financial targets we expect to reach by fiscal year 2002. First, by that time we aim to achieve nonconsolidated gross banking profit of approximately ¥700 billion. Core banking profit (excluding net transfer to general reserves) will be to the order of ¥360 billion. Credit costs are expected to be held below ¥100 billion, producing a net income in the neighborhood of ¥125 billion and a consolidated return on equity above 7%.

Based upon our forecasts through to the end of fiscal year 2002, gross banking profit will fall by ¥55 billion compared to the fiscal year 1998 level. Contributing to that decline will be a ¥160 billion decrease caused by a large drop in profits from treasury operations, which reached a record level in fiscal year 1998, and also by lower dividends from overseas affiliates. Discounting these two factors, an increase in banking profit of roughly ¥100 billion would be achieved by the close of fiscal year 2002. Of that amount, some ¥30 billion is expected from increases in domestic consumer banking, with the ¥70 billion balance coming from improvement in domestic corporate banking.

Although the speed at which the economy will recover is uncertain at this point, we are confident that we have made adequate provisions to resolve our problem loans finally. In fiscal year 1998, we committed more than ¥1 trillion to charges for problem loans. In addition to transferring funds to the specific reserve for estimated loan losses on certain doubtful loans, we have built up general reserves in excess of ¥310 billion for possible loan losses. We believe that these amounts are both conservative and sufficient to cover all reasonably conceivable contingencies.

The plan sets out the target for the Bank's risk assets to reach ¥38.5 trillion by March 31, 2003. We expect to be able to raise capital, as defined by the BIS guidelines, to the level of ¥4.6 trillion, primarily through internal accumulation of retained earnings. At that point, the BIS risk-adjusted ratio will climb to the 12% level.

Medium-term Business Target

	Change from Fiscal Year 1998	Fiscal Year 2002
Gross Banking Profit	–¥55 billion →	¥700 billion
Operating Expenses	–¥25 billion →	¥340 billion
Core Banking Profit (Excluding Transfer to General Reserve)	–¥30 billon →	¥360 billion
Capital Ratio (BIS Standard)	+1.81% →	12.08%

Note: The above changes are based on estimates.