



**IBJ**



**The Industrial Bank of Japan, Limited**

**Annual Report 1998**  
Year ended March 31, 1998

**'98**

## Financial Highlights

|                                     | (in millions of yen) |             | (in thousands of U.S. dollars)** |
|-------------------------------------|----------------------|-------------|----------------------------------|
|                                     | 1998                 | 1997        | 1998                             |
| <b>For the Years Ended March 31</b> |                      |             |                                  |
| Total Income                        | ¥ 3,321,902          | ¥ 3,403,347 | \$ 25,146,876                    |
| Total Expenses                      | 3,635,020            | 3,358,870   | 27,517,191                       |
| Net Income (Loss)                   | (202,660)            | 12,740      | (1,534,145)                      |
| <b>At March 31</b>                  |                      |             |                                  |
| Total Assets                        | 49,229,785           | 46,966,968  | 372,670,597                      |
| Loans and Bills Discounted          | 24,001,429           | 25,518,440  | 181,691,365                      |
| Investment Securities               | 8,847,249            | 6,808,045   | 66,973,878                       |
| Debentures                          | 20,840,941           | 22,137,519  | 157,766,399                      |
| Deposits                            | 10,053,551           | 10,871,309  | 76,105,612                       |
| Total Shareholders' Equity          | 1,320,019            | 1,543,979   | 9,992,579                        |

|                        | 1998          | 1997          | 1998 |
|------------------------|---------------|---------------|------|
| <b>At March 31</b>     |               |               |      |
| Shares                 |               |               |      |
| Authorized Shares      | 4,000,000,000 | 4,000,000,000 |      |
| Outstanding Shares     | 2,539,579,392 | 2,539,579,392 |      |
| Number of Shareholders | 27,344        | 18,148        |      |

|                                     | (in yen)  | (in yen) | (in U.S. dollars)** |
|-------------------------------------|-----------|----------|---------------------|
| <b>For the Years Ended March 31</b> |           |          |                     |
| Per Share Amounts                   |           |          |                     |
| Net Income (Loss)                   | ¥ (79.80) | ¥ 5.24   | \$ (0.604)          |
| Cash Dividends                      | 8.50      | 8.50     | 0.064               |

\* All figures are on a consolidated basis, unless stated otherwise.

\*\* U.S. dollar amounts are converted, for convenience only, at ¥132.10 per dollar (interbank rate in Tokyo at March 31, 1998).

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## New Credit Risk Management System

### To Be Used by 58 Regional and Second-Tier Regional Banks

In April 1998, IBJ established IBJ Financial Technology Co., Ltd. (IBJ FT), with the goals of developing and applying leading-edge financial and information technology. With IBJ FT as the focal point, other members of the IBJ Group and NTT Data Corporation have jointly developed a credit risk management system. In total, 58 regional and second-tier regional banks have already decided to introduce the system into their operations.

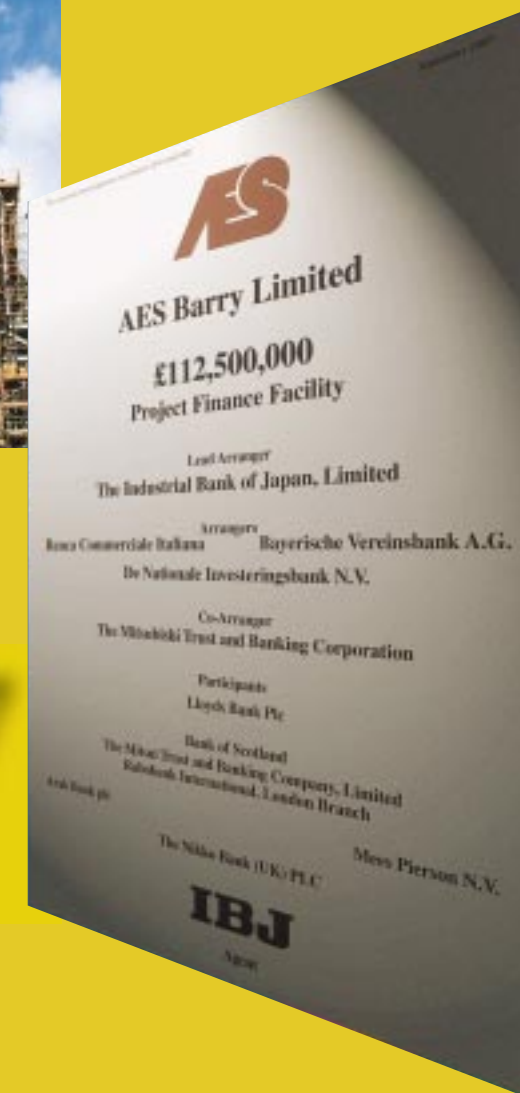


## Innovative Project Finance Arrangement

### AES Barry Deal Wins "Power Deal of the Year 97" Award

IBJ showed its potential to be one of the most innovative arranging banks in London when it arranged a £112.5 million debt facility that manages the risk of exposure to power price fluctuations for AES Barry Limited, an independent power producer (IPP) in the United Kingdom.

As a result of IBJ's success in structuring and syndicating the financing, the AES Barry deal received the "Power Deal of the Year 97" award from *Project Finance* magazine. Moreover, AES Barry has become the model for all subsequent merchant IPP transactions in the United Kingdom.



# Major Initiatives in Fiscal 1997

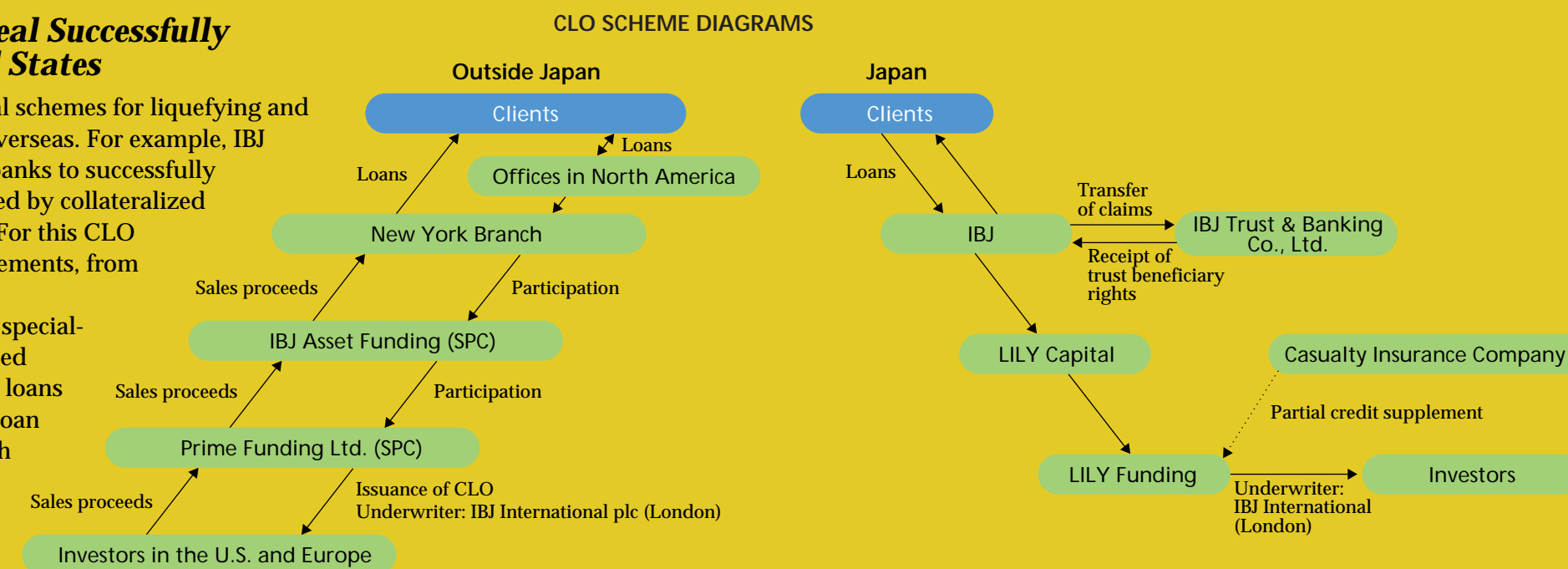
## Seizing New Business Opportunities

### US\$1.3 Billion CLO Deal Successfully Completed in the United States

IBJ is actively developing financial schemes for liquefying and securitizing assets in Japan and overseas. For example, IBJ became one of the first Japanese banks to successfully arrange and place securities backed by collateralized loan obligations (CLO) overseas. For this CLO deal, IBJ completed all the arrangements, from product planning to sales.

The securities were issued by a special-purpose company (SPC) established especially for this project, and the loans securitized were a portion of the loan portfolio of IBJ's New York Branch outstanding to blue-chip companies.

To carry out the issue successfully, IBJ organized a global team consisting of professional staff in its New York, London, and Tokyo offices.





We are pleased to present IBI's annual report for the fiscal year ended March 31, 1998, and we hope you will find it useful in deepening your understanding of the Bank's activities. The *Annual Report 1998* includes information on the Bank's corporate strategies, services and activities, financial results, and other items of interest to shareholders and business associates.

The implementation of Japan's financial Big Bang has begun, and rapid progress is being made toward deregulation in accord with the movement in Japan toward global standards. As a consequence, Japan's financial system is undergoing major reforms and changes. Amid this environment, it will be imperative for financial institutions to offer substantially more sophisticated and diverse financial products and services, and, as competition among financial institutions intensifies, the times will



**Yoh Kurosawa**  
*Chairman  
of the Board of Directors*

demand that we have a clear vision of the future and capabilities to adapt quickly and flexibly. We believe that the Big Bang will bring a whole new world of business opportunities. Accordingly, by moving swiftly and steadily to implement a sharply focused strategy that takes full advantage of our strengths as a universal wholesale bank with a

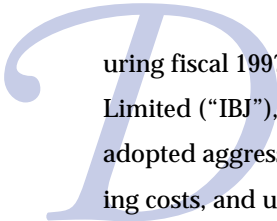


**Masao Nishimura**  
*President and  
Chief Executive Officer*

global presence, we are aiming to strengthen our capabilities for delivering financial services, increase our profitability, as well as broaden and deepen our operating base.

In recent years, in particular, we have expanded disclosure of our activities with the aim of enhancing the transparency of our operations and earning the strong trust of our shareholders and business associates. We intend to maintain this policy, and as the new era in Japan's financial markets begins along with the implementation of the Big Bang, we look forward to drawing on our full resources to offer our customers the highest-quality services and create new value for our shareholders.





uring fiscal 1997, ended March 31, 1998, The Industrial Bank of Japan, Limited (“IBJ”), accelerated its efforts to deal with nonperforming loans, adopted aggressive measures to restructure its activities and lower operating costs, and undertook a number of new initiatives to enable the Bank to compete successfully in the deregulated environment that will follow the implementation of Japan’s financial Big Bang.

### **Economic and Financial Environment in Fiscal 1997**

One of the most important developments in the operating environment during fiscal 1997 was the increase in disparity in the economic performance between the United States and Europe on one hand and Japan and the other countries of Asia on the other. The U.S. economy entered its seventh year of economic expansion with relatively little inflation, and its unemployment rate fell below 5%. In Europe, the economies of Germany, France, and other countries showed upward trends similar to the upturn already in progress in the United Kingdom, suggesting that the conditions for monetary union in 1999 would most likely be met.

In Japan, however, economic conditions took a turn for the worse as fiscal policy was tightened under relatively weak demand conditions. The increase in the national consumption tax rate from 3% to 5% on April 1, 1997, and the elimination of a previously enacted personal income tax reduction early in fiscal 1997 led to stagnation in private consumption and a sharp decline in housing investment. Further cutbacks in public-sector investment also dampened domestic economic prospects, and the unemployment rate rose to record postwar levels, standing at 3.9% at fiscal year-end. The insolvency of several major domestic financial institutions beginning in November 1997 shook confidence in the financial system, leading the government to adopt measures in the last quarter of the fiscal year to lower taxes and infuse public funds into the financial sector.

In Asia, currency and financial crises were triggered by the floating of the Thai baht, which led to sharp devaluations in other Asian currencies and a major downturn in regional economic conditions.

### **Progress in Dealing with Nonperforming Loans**

To dispose of nonperforming loans at the earliest possible date, in line with the introduction of requirements for Prompt Corrective Action based





*Masao Nishimura  
President and Chief  
Executive Officer*

on self-assessments of asset quality, the Bank recorded loan losses of ¥633.8 billion, which include write-offs and a transfer to Reserves for Possible Loan Losses. As a consequence, the balance of nonperforming loans declined to ¥1,037.4 billion. In addition, Reserves for Possible Loan Losses rose substantially, to ¥899.8 billion at fiscal year-end, representing 86.7% of nonperforming loans.

IBJ's Core Business Profit rose by ¥26.0 billion, to ¥230.6 billion, indicating the underlying strengths of the Bank's banking operations, but because of the substantial loan losses recognized during the year, the Bank was obliged to report a net loss of ¥341.9 billion. Detailed analysis of the Bank's financial results may be found in the Management's Discussion and Analysis section of this annual report.

### **Implementation of Third Medium-Term Management Plan**

IBJ is implementing its Third Medium-Term Management Plan, which began in April 1996 and will end in March 1999. The fundamental goal of this plan is to become a "universal wholesale bank with a global presence." To attain this objective, the Bank is strengthening relationships with its corporate and institutional investor clients, further upgrading its risk management systems to be fully prepared to respond to market trends, and striving to make full use of the IBJ Group's experience in underwriting and trading, asset management, and trust services.

Specific steps taken toward these objectives in the fiscal year under review included

- the establishment of IBJ Financial Technology Co., Ltd., which will become the core of financial technology development and implementation in the IBJ Group,
- the formation of IBJ Asset Management International Ltd., in London, which will strengthen the asset management capabilities of the IBJ Group and respond to the growing need for global investment management services,
- conclusion of an agreement with Nomura Securities Co., Ltd., to establish two joint ventures, one which will offer new financial products and methods incorporating derivatives and another which will provide asset management services, including the management of investment trusts and pensions, and
- continued initiatives by IBJ and other Group members to stay in the forefront of innovation in financial services and respond effectively to client needs. These initiatives included the first collateralized loan obligation (CLO) securitization arranged by a Japanese bank in the United States, the establishment of global futures brokerage capabilities by Aubrey G. Lanston & Co. Inc., and the successful completion of financing arrangements for a U.K. independent power producer (IPP) incorporating a new risk-minimization scheme developed by the Bank's London Branch.

### **Restructuring Measures**

As initiatives continue under IBJ's management plan, the implementation of the Big Bang—which is bringing new opportunities along with more intense competition among domestic and foreign financial institutions—the restructuring of Japan's financial system, and other developments have created the need for more aggressive restructuring measures within IBJ as well.

To enhance its financial position, IBJ also took steps to increase its BIS capital adequacy ratio. The Bank completed a US\$1 billion issue of preferred securities through an overseas subsidiary that increased Tier I capital and issued approximately ¥210 billion in subordinated debt that was included in Tier II capital. Steps were also taken to reduce the Bank's loan assets through securitization. As part of the Japanese government's financial stabilization measures aimed at restoring confidence in the financial system in Japan, the Bank issued ¥100 billion in subordinated debt to the government. As a result of these additions to capital, the Bank's Tier I ratio

rose to 5.21% and Tier II ratio climbed to 5.05%, bringing the capital adequacy ratio to 10.26%.

Measures adopted to lower costs have included consolidating certain domestic branches, tightening the operational focus of overseas offices, streamlining the overseas network, conducting a thorough review followed by a reduction of expenses, and making cuts in management salaries and bonuses. In total, the present target of annual cost reduction would range from ¥12 billion to ¥15 billion.

As part of restructuring efforts, IBJ staff strictly observe rules that require business entertainment expenses to be within acceptable limits and that appropriate relationships with government and central bank officials are maintained as regards the use of information.

## Prospects

Careful attention must be given to conditions in Japan and other Asian countries. The Bank's loans to Asian borrowers have been made primarily to subsidiaries of Japanese companies operating in the region, governmental organizations, and leading local companies, and there is no significant exposure to the finance or real estate sectors. Therefore, the Bank's Asian portfolio is relatively sound. Nevertheless, the Bank will continue to maintain a cautionary stance in the management of its loan portfolio.

In fiscal 1998, we will proceed with the implementation of policies of continuing to review and improve our business procedures and practices by eliminating nonperforming loans and reducing costs through restructuring, while aggressively strengthening capabilities in our core businesses, pursuing alliances to ensure our ability to offer the best products and services, and making preparations for the establishment of a bank-holding company.

In conclusion, I would like to thank our shareholders and business associates for their continued understanding and support. We look forward to building a stronger IBJ that will expand and develop in the post-Big Bang operating environment.

July 1998



**Masao Nishimura**

*President and Chief Executive Officer*

*The implementation of Japan's version of the Big Bang has drawn considerable attention. What effect will the Big Bang have on IBJ's activities?*

The revised Foreign Exchange Law went into effect in April 1998 and was the first step in the implementation of Japan's financial Big Bang, which is scheduled to bring significant reforms in the financial system by the year 2001. Some changes have already been made, including the granting of permission to banks to establish subsidiaries that can engage in securities and trust business as well as the lifting of the ban on holding companies. Similarly, in the latter half of 1999 limitations on the lines of banking business for securities and trust subsidiaries are also scheduled to be abolished. Further steps in this direction will include the scheduled removal of the ban on the sale of investment trusts in bank branches in December 1998 and the passage of legislation to permit equity derivatives business at bank branches. Also, to prepare for the aging of Japan's population in the years ahead, the government is reportedly considering the introduction of a defined contribution pension plan.

First, IBJ plans to draw on its strengths—which include a broad client base among corporations without bias toward any particular industrial group, the network it has developed over the years among institutional investors through the issuance of the Bank's debentures, and its experience in the securities business both in Japan and overseas—and expand its operations in a number of areas in addition to its core wholesale banking business. These services include M&A, project finance, asset securitization, underwriting and other investment banking, investment advisory, investment trusts, trust business, and other asset management and market-related activities, especially structuring and trading in derivatives.

Second, along with such developments as the introduction of bank-holding companies, the expansion in the scope of consolidated subsidiaries, and the introduction of requirements to manage bank groups from a consolidated perspective, IBJ plans to reorganize its activities, including those of the rest of the IBJ Group, from a global viewpoint to establish a more efficient and competitive organization. For example, IBJ is considering whether to position the asset management subsidiaries it established following the implementation of the Financial System Reform Law as subsidiaries of the Bank or as corporations under its holding company. In each financial services area, the Bank will work to train professional staff capable of competing with leading financial institutions based in Europe and the United States, set management policies appropriate to each field, and maximize synergies among Group companies.



*Could you please explain the objectives and the content of the alliance the Bank announced with Nomura?*



We announced an alliance with Nomura in May 1998. The objective will be to respond effectively to reforms that are being implemented as part of Japan's Big Bang. IBJ and Nomura are planning to meet the sophisticated and diverse needs of their respective clients by providing the highest quality financial services and products.

The alliance will result in the establishment of companies in two areas. The first will be a 50-50 joint venture to offer global financial products, including services and products incorporating derivatives. The second will provide comprehensive asset management and supervisory services for investment trusts, pensions, and other investment products. Specifically, a 50-50 joint venture will first be established to make preparations for providing supervisory services for investment products, including funds. Next, the IBJ Group will take a 50% equity position in a U.S. subsidiary of Nomura that is engaged in planning and developing top-quality investment funds and set up a subsidiary of this company in Japan to provide advisory services here.

Consideration is also being given to the possibility of business tie-ups in other fields that will enhance our competitiveness.

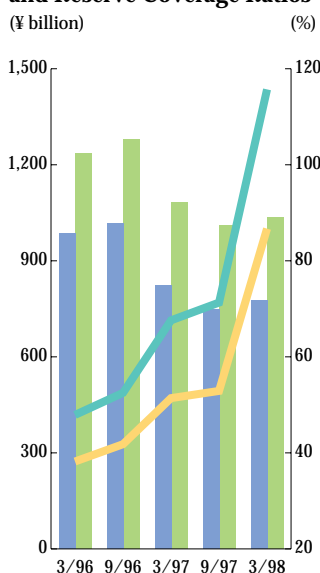
*What measures did the Bank adopt during the year to maintain its BIS capital adequacy ratio?*

In principle, IBJ's policy is to increase its capital adequacy ratio through its own initiatives. The Bank issued ¥210.0 billion in subordinated bonds and US\$1.0 billion in preferred shares through an overseas subsidiary. Furthermore, in March 1998, from the point of view of financial system stability, the Bank issued ¥100.0 billion in subordinated bonds that were underwritten with public funds. In addition to these measures to increase capital, the Bank is also working to increase the efficiency of its asset portfolio through securitization.

The Bank will respond quickly and flexibly, taking all necessary measures to meet capital adequacy requirements. Moreover, IBJ will work to strengthen its operating position with the aim of maintaining a sound financial position and enhance the evaluation of the Bank among its shareholders, customers, and investors.

With the implementation of measures for dealing with nonperforming loans, IBI showed a net loss for the fiscal year ended March 31, 1998. What progress has the Bank made in this area and what are the prospects?

### ● Nonperforming Loans and Reserve Coverage Ratios



- Reserve coverage ratio A  
(The ratio of total reserves for possible loan losses to nonperforming loans (a))
- Reserve coverage ratio B  
(The ratio of total reserves for possible loan losses to nonperforming loans (b))
- Nonperforming loans (a)  
(Including Loans to Legally Bankrupt Companies, Overdue Loans, and Loans with Reduced or Suspended Interest)
- Nonperforming loans (b)  
(Including Loans to Legally Bankrupt Companies, Overdue Loans, Loans with Reduced or Suspended Interest, and Financial Assistance Loans)

### ● Measures to Deal with Nonperforming Loans

|                       | Fiscal     |            |            | Total over     |
|-----------------------|------------|------------|------------|----------------|
|                       | 1995       | 1996       | 1997       | the past three |
|                       |            |            |            | fiscal         |
|                       |            |            |            | periods        |
| Write-offs            | 605        | 10         | 61         | 676            |
| Reserves for Possible |            |            |            |                |
| Loan Losses           | 226        | 203        | 506        | 935            |
| Other                 | 24         | 47         | 66         | 138            |
| <b>Total</b>          | <b>856</b> | <b>261</b> | <b>633</b> | <b>1,751</b>   |

As a result of write-offs, provisions, and other measures, the Bank has realized loan losses of ¥1,751.0 billion over the past three fiscal periods.

In particular, beginning in fiscal 1997 the Bank prepared new standards for dealing with nonperforming loans based on self-assessments of loan quality and criteria for making provisions against nonperforming loans. To increase the soundness of IBI's asset portfolio, the Bank recognized substantial loan losses of ¥633.8 billion, based on these new standards.

As a consequence of these measures, the Bank's nonperforming loans—defined as Loans to Legally Bankrupt Companies, Overdue Loans, and Loans with Reduced or Suspended Interest—were reduced by ¥207.7 billion, or approximately 20%, from ¥984.9 billion, as of March 31, 1996, to ¥777.2 billion as of March 31, 1998. If financial assistance loans outstanding to borrowers that the Bank is assisting in restructuring their business operations are also included, nonperforming loans amounted to ¥1,235.1 billion as of March 31, 1996, and a substantially lower amount of ¥1,037.4 billion as of March 31, 1998.

The ratio of reserves for possible loan losses to nonperforming loans, which measures the progress toward the resolution of the problem loan issue, was 38.2% as of March 31, 1996, but, because of the substantial increase in reserves mentioned above, the reserve coverage ratio rose to 86.7% as of March 31, 1998, thus covering approximately 90% of the Bank's nonperforming loan exposure.

Furthermore, beginning with the financial statements for fiscal 1997, the Bank disclosed loans three months or more overdue and loans with modified terms. These, combined with the previously disclosed nonperforming assets, are now referred to as "Loans under Special Risk Review." (See page 57.)

### ● Nonperforming Loans

|  | (¥ billion)    |                    |                |                    |                |
|--|----------------|--------------------|----------------|--------------------|----------------|
|  | March 31, 1996 | September 30, 1996 | March 31, 1997 | September 30, 1997 | March 31, 1998 |
| Loans to Legally Bankrupt Companies                        | ¥ 121          | ¥ 426              | ¥ 329          | ¥ 285              | ¥ 299          |
| Overdue Loans  | 490            | 510                | 402            | 373                | 434            |
| Loans with Reduced or Suspended Interest                   | 372            | 81                 | 92             | 90                 | 42             |
| <b>Total (a)</b>   | <b>985</b>     | <b>1,018</b>       | <b>824</b>     | <b>749</b>         | <b>777</b>     |
| Financial Assistance Loans                                 | 250            | 260                | 260            | 260                | 260            |
| <b>Total Nonperforming Loans (b)</b>                       | <b>1,235</b>   | <b>1,278</b>       | <b>1,084</b>   | <b>1,009</b>       | <b>1,037</b>   |
| <b>Total Loans (c)</b>                                     | <b>24,234</b>  | <b>24,226</b>      | <b>24,834</b>  | <b>25,324</b>      | <b>25,473</b>  |
| <b>Ratio of Total (c) to Total Nonperforming Loans (b)</b> | <b>5.0%</b>    | <b>5.2%</b>        | <b>4.3%</b>    | <b>3.9%</b>        | <b>4.0%</b>    |
| Total Reserves for Possible Loan Losses (d)                | 472            | 535                | 557            | 534                | 899            |
| <b>Coverage Ratio A: (d)/(a)</b>                           | <b>47.9%</b>   | <b>52.5%</b>       | <b>67.6%</b>   | <b>71.3%</b>       | <b>115.7%</b>  |
| <b>Coverage Ratio B: (d)/(b)</b>                           | <b>38.2%</b>   | <b>41.8%</b>       | <b>51.4%</b>   | <b>52.9%</b>       | <b>86.7%</b>   |

*Japanese banks have substantial loans outstanding to borrowers in Asia outside Japan, and some of this exposure may become non-performing. What are IBJ's loans to this region, and what will be your policy toward business operations there?*

The outstanding amount of loans and guarantees provided to companies and organizations in Asia outside Japan by the IBJ Group as of March 31, 1998, totaled ¥1,184.1 billion on a consolidated basis, of which IBJ alone accounted for ¥962.7 billion. In fact, ¥481.4 billion, or about 40%, of the aggregate of these loans and guarantees on a consolidated basis were to subsidiaries of Japanese companies. (For a breakdown of the total into the amounts for each country in this area, please refer to the accompanying table.)

IBJ has lent selectively to Asian nations, and the borrowers there are mainly subsidiaries of Japanese companies, governmental organizations, or first-rate companies in those countries. For instance, there have been only a few loans to finance companies in that region, and, in particular, there have been no loans to finance companies in Thailand, where numerous companies have recently failed. Furthermore, IBJ's policy is, in principle, not to become involved in any real estate development projects in the area. All in all, therefore, the current economic and political turmoil in Asia has done little to undermine the soundness of IBJ's loan portfolio to the region, and the amount of IBJ's nonperforming loans in that area, as of March 31, 1997, was insignificant.

With the situation as it stood as of the term-end, the Bank had made provisions for possible losses on loans to customers in Asia of around ¥11.5 billion as of March 31, 1998—a figure that represents the sum of the Specific Reserve for Possible Loan Losses and the General Reserve for Possible Loan Losses—with a view toward coping with possible future deterioration of the financial positions of customers.

Indeed, IBJ has the real interests of Asia in mind and is always willing to assist in the global activities of corporations in this regard, either directly, indirectly, or in cooperation with international organizations. The Bank intends to establish a system that will enable it to respond quickly to new financial needs to support Asian currencies, revitalize the economic situation, and restore economic growth in the region.

### ● Balance of Exposure in Asia

(¥ billion)

|  | Indonesia | Thailand | Malaysia | Singapore | Philippines | Korea | China | Hong Kong | Subtotal | Taiwan | India | Others | Total |
|--|-----------|----------|----------|-----------|-------------|-------|-------|-----------|----------|--------|-------|--------|-------|
| Japanese Borrowers (IBJ's non-consolidated loans only)     | 64        | 94       | 18       | 112       | 0           | 0     | 129   | 65        | 481      | 0      | 0     | 0      | 481   |
| Non-Japanese Borrowers (IBJ's non-consolidated loans only) | (54)      | (85)     | (6)      | (42)      | (0)         | (0)   | (99)  | (54)      | (339)    | (0)    | (0)   | (0)    | (339) |
| Total (IBJ's non-consolidated loans only)                  | 147       | 229      | 53       | 130       | 5           | 96    | 259   | 205       | 1,123    | 31     | 29    | 2      | 1,184 |
|  | (97)      | (207)    | (39)     | (57)      | (5)         | (95)  | (218) | (189)     | (906)    | (27)   | (28)  | (2)    | (963) |

Notes: 1. Figures are on a consolidated basis.

2. Figures include loans, discounts, acceptances, and guarantees.

3. Japanese borrowers are companies in Asia that are 50% or more owned by Japanese companies (excluding companies for which the Bank has obtained guarantees from the parent company).

4. Conversions have been made at the rate of ¥132.10 to the U.S. dollar, the rate prevailing at the end of March 1998.

*Risk management is a key factor determining bank financial performance. What systems has IBJ developed for the management of market and credit risk?*



As deregulation has proceeded and the activities of financial institutions have become more global in scope, the environment for banking activities has changed dramatically, and the types of risks that must be managed have expanded. In particular, as implementation of Japan's Big Bang—which is scheduled for completion in 2001—has begun, various regulations are being relaxed, and it has become increasingly important for banks to take the responsibility for managing the risks inherent in their operations.

Based on this awareness, IBJ has strengthened its systems for managing market and credit risk as well as operational, systemic, and legal risks. While working to control these risks within appropriate limits, as the operating environment continues to evolve the Bank is constantly reviewing its systems to assure their effectiveness.

To manage market risk, the Bank has separated the operations of its front, middle, and back offices to provide for mutual checking functions and established the Market Risk Management Division as an independent unit to monitor and report on risk. As a further measure to ensure the quality of risk management activities, in June 1998 the Bank formed the Market Risk Management Department and thus strengthened the supervisory functions of its middle-office operations.

Similarly, in 1997 the Bank reorganized its credit-related units to provide for unified and comprehensive credit risk management. Activities are also under way to develop systems to manage the Bank's loan assets from a portfolio perspective, based on the quantitative measurement of risk volumes.

In addition, for market risk and credit risk, which potentially have the greatest impact on bank performance, activities are in progress to develop a unified risk management system based on uniform quantitative measurement of both market and credit risk.

*Could you please describe the services that IBJ provides for financial institutions, institutional investors, and individuals?*

The IBJ Group has developed a strong network among domestic financial institutions and institutional investors and responds to their asset management needs by providing a broad range of services.

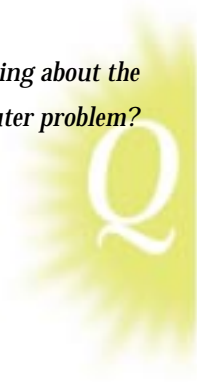
For example, IBJ, IBJ Securities Co., Ltd., and other members of the Group respond to the highly professional and diverse requirements of financial institutions and investors in asset management in their respective fields. The IBJ Group is positioned to offer investment products that meet the needs of individual institutions, sophisticated derivatives products in response to risk management needs, securities investment trusts that contribute to more efficient asset management, as well as custody services to assist clients in processing and supervising their investment portfolios. In addition, in pension fund management, a full range of assistance is provided, including investment advisory services.

In view of the deregulatory measures that are scheduled for implementation, the IBJ Group is working to substantially expand the range of sophisticated services it can offer, drawing on its full resources.

In addition to offering asset management and related services, IBJ works with financial institutions and investors in joint projects that are of mutual interest. Examples include development work in cooperation with Japan's regional banks on advanced systems for the quantification of credit risk.

For individual clients, IBJ has a long record of providing advisory services to assist in asset management. As the Big Bang is implemented, IBJ plans to continue offering individualized and increasingly sophisticated services to its private banking clients. Financial advisors in each of IBJ's domestic branches respond in detail to customer inquiries and make suggestions on asset management strategies and products that best meet their financial requirements.

*What is IBJ doing about the year 2000 computer problem?*



IBJ understands that dealing with the year 2000 issue and preventing any adverse impact on transactions are part of the Bank's responsibilities to society at large and has assigned high priority to solving the problem.

Specifically, the Bank has appointed a Chief Information Officer (CIO). The Bank has also organized a project team reporting to the CIO to formulate solutions to the problem centering around the Information Technology Department and including members from the Corporate Planning Department, the Administration Department, and the Operations Supervisory Department. In addition, the Bank has formed a policy committee for the Americas centered on the Americas Division, a unit responsible for developing solutions in Europe centered on the London Branch, and a similar unit responsible for Japan, the rest of Asia, and Oceania within the Information Technology Department. These units are responsible for managing the year 2000 project throughout the IBJ Group, securing sufficient resources to resolve the problem, and monitoring and reporting on progress to management. The Bank's management has already agreed to give high priority to providing budgetary allocations sufficient to correct the problem.

The Bank has prepared a Policy Statement regarding the year 2000 problem and is engaged in a Bankwide effort to implement standardized measures. Steps have already been taken to determine the scope of the problem and confirm the ability of vendors supplying the Bank's hardware and software to take the necessary measures. A revised plan has been prepared, and work is in progress. Completion of work on major systems is set for December 1998 and work on all systems no later than June 1999.



## Highlights of Operations in Fiscal 1997 and 1998

- **July 1997**
  - ▶ IBJ convenes Global 24 Financial Conference
- **October 1997**
  - ▶ Departmental system is introduced at New York Branch
  - ▶ Asian Currency Risk Seminar is held
  - ▶ IBJ plans and coordinates IBJ USA Cares Day to commemorate 25th anniversary of the New York Branch
- **December 1997**
  - ▶ IBJ Investment Trust Management Co., Ltd., begins marketing investment trusts in the Head Office and two branches
- **February 1998**
  - ▶ IBJ successfully securitizes US\$1.3 billion in loan assets in a collateralized loan obligation deal
  - ▶ IBJ issues US\$1 billion in preferred securities through a subsidiary
  - ▶ Project finance deal in United Kingdom receives “Power Deal of the Year 97” award
- **March 1998**
  - ▶ IBJ Asset Management International Ltd. is established
  - ▶ Aubrey G. Lanston & Co. Inc. completes system for global futures brokerage
- **April 1998**
  - ▶ IBJ Financial Technology Co., Ltd., is established
  - ▶ IBJ Schroder Bank & Trust Company acquires U.S. investment advisory company
  - ▶ Securitization of loans to domestic companies begins
- **May 1998**
  - ▶ Agreement is reached on alliance with Nomura Securities Co., Ltd.



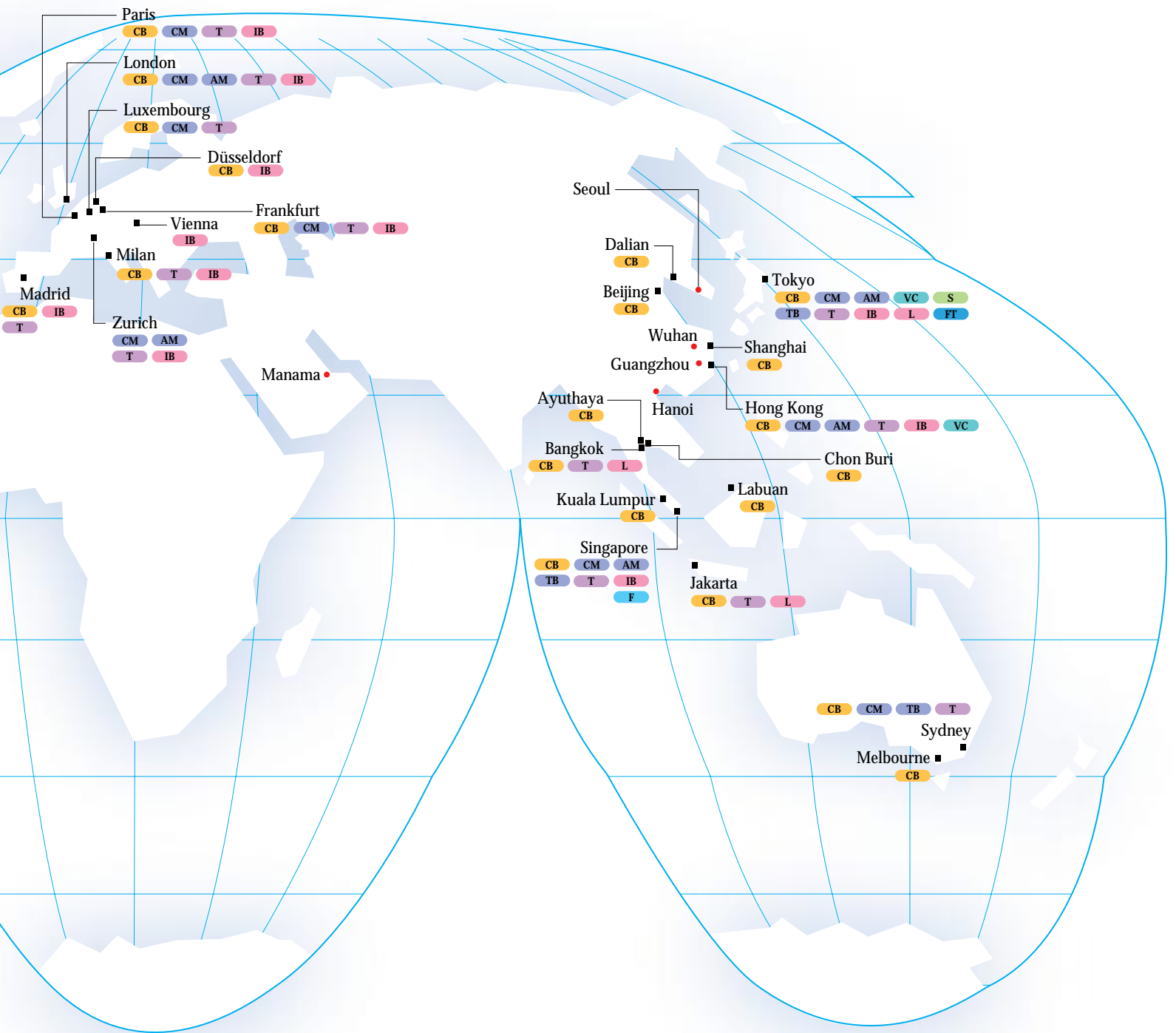
**Key to IBJ Operations:**

- CB** Corporate Banking
- CM** Capital Markets
- AM** Asset Management
- TB** Trust Banking
- T** Treasury
- IB** Investment Banking
- L** Leasing

- F** Futures
- VC** Venture Capital
- S** Systems
- FT** Financial Technology

- Branches, Agencies, Sub-branch, Loan Production Office, Marketing Office, Subsidiaries, and Affiliates
- Representative Offices

*As of July 1998*



IBJ's overseas network covers 25 countries and comprises 22 branches and agencies, one sub-branch, one loan production office, one marketing office, 10 representative offices, and 18 major subsidiaries and affiliates. The Bank makes full use of this network to offer corporate banking, capital market, asset management, trust, leasing, and other professional services to meet the wide range of client needs around the globe.

### The Americas

#### **On the Leading Edge in Financial Technology**

The Americas include the most technologically advanced markets, and participants in the U.S. market, in particular, excel in developing new solutions to satisfy financial requirements. The IBJ Group offers high-quality, full-banking services, making extensive use of leading-edge financial technologies, to a broad international clientele in the region.

#### ***Investment Banking***

In addition to conventional commercial banking, the IBJ Group is prepared to supply a wide range of services—such as securitization, leasing, and project finance—to meet the increasingly diverse and sophisticated financial requirements of corporations based and conducting business operations in the Americas. Therefore, the Bank established its Investment Banking Division (Americas) in October 1997 to provide sophisticated technology to satisfy client needs. For example, IBJ closed a collateralized loan obligation (CLO) deal for US\$1.3 billion, thus becoming one of the first Japanese banks to arrange a CLO on its own.

#### ***Global Support for Clients***

Drawing on its global network, IBJ is actively supporting the expansion of the business operations of U.S. companies in Japan and other markets around the world. In particular, IBJ's advisory services for corporations entering the Chinese market are highly regarded, and, in this respect, the Bank has received many requests for such assistance from U.S. corporations.

For Japanese corporations expanding their operations in the Americas, IBJ provides not only the usual forms of banking assistance but also leading-edge services originating in the U.S. market, such as arranging securitization programs for refinancing, derivatives-based products, and other advanced financial services.



### ***Global Operations with a Strong Presence in the Americas***

Besides providing support for the global development of client activities, the IBJ Group, with its strong presence in the Americas, assists clients by providing a broad range of financial services in the region. For example, Aubrey G. Lanston & Co. Inc., a subsidiary of IBJ, is a primary dealer in U.S. government securities, a clearing member of the world's two largest futures exchanges in Chicago, and a futures commission merchant in futures and options.

Europe

### **Preparing for Monetary Union**

The European Union (EU) is moving toward the introduction of a single currency, the euro, and 11 member countries will be in the first wave, scheduled for January 1999. As a result of the advent of the euro, Europe is expected to experience momentous changes that are likely to generate numerous business opportunities. IBJ will be able to link the base of financial experience it has developed in Europe with the rest of its global network and respond to an even greater range of client needs.



### ***Project Finance***

Along with deregulation in various industries and growth in cross-border business activities, the number of project finance arrangements and opportunities in Europe and the Middle East has burgeoned. Because IBJ has maintained close contact with industries around the world, the Bank has been able to respond actively to these developments and compile an impressive list of accomplishments. Some examples of projects where IBJ has acted as lead arranger include the Ras Laffan LNG project in Qatar; the petrochemical project of Saudi Basic Industries Corporation; and the project finance facility for AES Barry in the United Kingdom, which received the "Power Deal of the Year 97" award.

### ***Capital Markets***

As the EU approaches monetary union, European capital markets will undergo major changes. Mainly through its subsidiaries in the United Kingdom, Germany, France, Switzerland, and Luxembourg, the IBJ Group is positioned to offer structured finance arrangements, trading in high-spread bonds as well as other products and services. In addition, in

the investment management field, the IBJ Group makes use of its asset management know-how to respond to the needs of investors and is steadily building its position in this business area.

### ***Europe Tomorrow and IBJ***

Following monetary union, cross-border activities in Europe's capital and money markets will continue to expand and develop. Amid this environment, the IBJ Group plans to take full advantage of its leading-edge investment banking products and market these instruments to clients to respond to their increasingly sophisticated financial needs. To this end, IBJ is working to expand the marketing capabilities of its regional operating base in London as well as the efficiency and effectiveness of marketing in Europe as a whole.



Asia  
and  
Oceania

### **Preparing for Recovery and Resumption of Economic Growth**

The IBJ Group has actively developed its presence in Asia and Oceania and is prepared to respond to an ever broadening range of financial needs in cooperation, when appropriate, with supranational institutions.

### ***Financing Industrial and Infrastructure Projects***

Relying on its expertise in long-term financing, the IBJ Group is focusing on the region's prime development projects to assist in building the economic foundation for the coming century. These include transportation projects, such as the new Hong Kong airport and the development of the upstream regions of the Yangtze River in China. Also, together with eight prominent Asian banks engaged in financing industrial development, IBJ co-founded the Association of Development and Industrial Banks in Asia (ADIBA) in 1995. ADIBA is jointly promoting industries and development projects in the region and is exchanging personnel as well as information on financial technologies. ADIBA is also conducting joint research on the economies and investment climates in the region and actively promoting direct investment through the sponsorship of seminars and other activities.



### ***Support for Direct Investment***

To assist ever-increasing direct investment in the region, the IBJ Group provides not only advice on financing but also is actively engaged in finding local partners and providing advisory services for negotiations and other matters. The Bank's expertise has been well recognized by many multinational companies, which have chosen IBJ as their adviser in China.

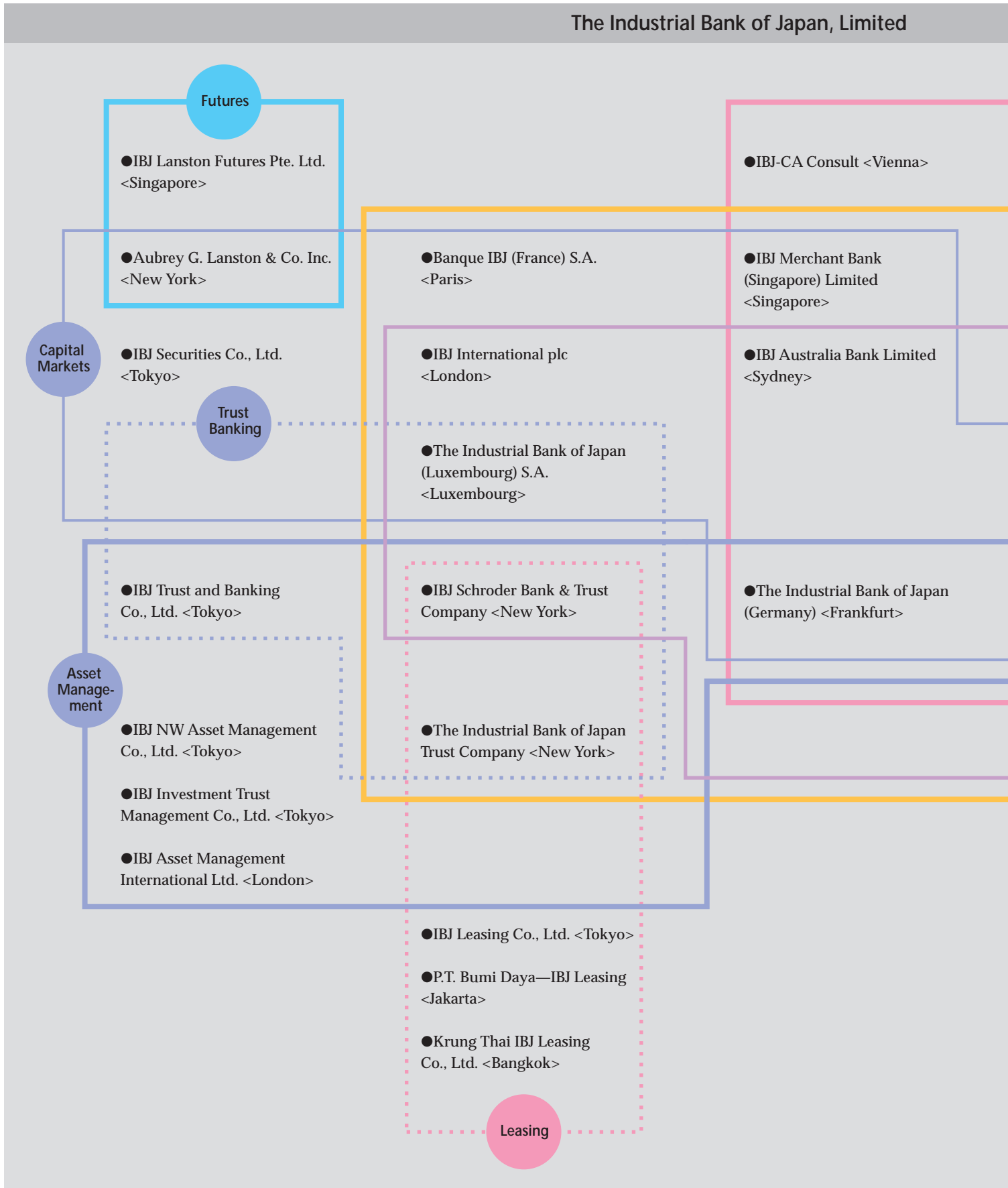
### ***Services Tailored to the Region***

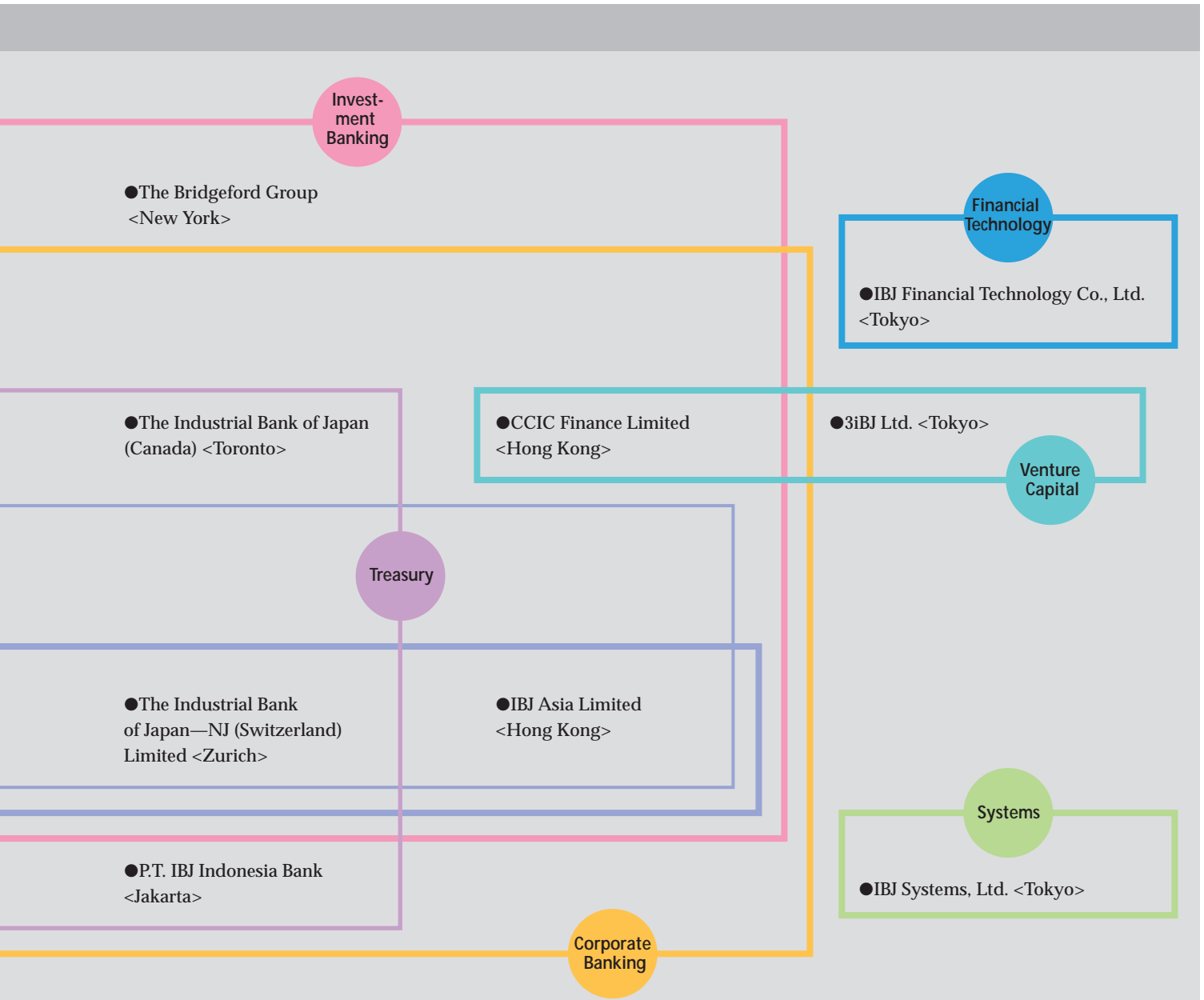
While maintaining a high quality of services as in other regions around the world, the IBJ Group is also focusing on providing regionally oriented products. Following the commencement of full-banking services at IBJ's Bangkok Branch and offering renminbi transactions through its Shanghai Branch, IBJ has begun to offer cash management services, and the IBJ Group is well positioned to meet the needs of customers for transactions in a broader range of Asian currencies. The IBJ Group is also gearing its focus toward investment banking business in the region. Product managers based in IBJ's offices in Hong Kong and Singapore, two key business centers, offer services throughout the region. They are also in contact with product managers in Tokyo, New York, and London, and this network of professionals is well positioned to offer global financial services.

### ***Strong Relationships with China***

For more than 20 years, IBJ has offered economic policy advice to China with the objectives of cooperating in the country's development and building its industrial base. At the same time, IBJ has arranged the financing for many projects in such fields as electric power, telecommunications, and natural resource development. By entering cooperative agreements with 60 of China's governmental organizations, financial institutions, corporations, and other entities, to date IBJ has invited more than 1,000 individuals from China to Japan as trainees and seminar participants. Reflecting the high regard for IBJ's activities, IBJ established the Beijing Branch at an early date as a foreign bank and became the first foreign bank allowed to conduct renminbi transactions through its Shanghai Branch. Drawing on this experience, know-how, and network of relationships, IBJ is active in advising its customers on direct investment in China.







## **Always Anticipating and Responding to Emerging Needs**

### ***Leading Player in Corporate Finance***

Since IBJ's establishment, the Bank's principal objective has been to grow along with industry, always focusing on corporate finance, the Bank's core area of business competence, anticipating emerging needs, as well as providing financial resources to finance capital investment and a broad range of other services to assist in promoting the growth and development of industries as well as companies. Two of IBJ's special strengths are its policy of providing services to a broad range of corporations without being closely connected with any particular business group and the Bank's concern for the public interest. These strengths have enabled the Bank to earn the strong confidence of its customers and a high evaluation for its capabilities both in Japan and overseas. This confidence and high appraisal of its clients are among the Bank's most valuable assets. To further strengthen relationships with its clients, IBJ is constantly working to monitor and respond quickly and appropriately to their changing needs.



In recent years in particular, the needs of clients have changed dramatically and become much more diverse. In response to this expansion in customer requirements, IBJ has improved its systems and broadened its capabilities for offering a wide spectrum of new financial services. Specifically, new service areas where IBJ has compiled a strong record of accomplishments in recent years have included offering balance sheet control services as typified by the securitization of assets, providing support to multinationals for more efficient cash management in Japan and overseas, providing comprehensive advice on entering overseas markets, and making arrangements for mergers and acquisitions. As deregulation proceeds under Japan's Big Bang, the range of services will continue to expand, bringing important new business opportunities for the Bank.

### ***Focusing the Services of the IBJ Group***

As capital market financing has grown in importance, the financial services and instruments required have become increasingly sophisticated and diverse. In addition, in asset management, there has been a major trend toward the relaxation of restrictions on pension fund management. Members of the IBJ Group are, therefore, devoting their full resources to respond to growth in demand for more sophisticated asset management services.

In fiscal 1997, for example, IBJ Securities Co., Ltd., secured the top position in the lead management of domestic publicly offered straight bonds. IBJ Trust and Banking Co., Ltd., IBJ NW Asset Management Co., Ltd., IBJ Investment Trust Management Co., Ltd., and other members of the IBJ Group also reported steady expansion in their results.

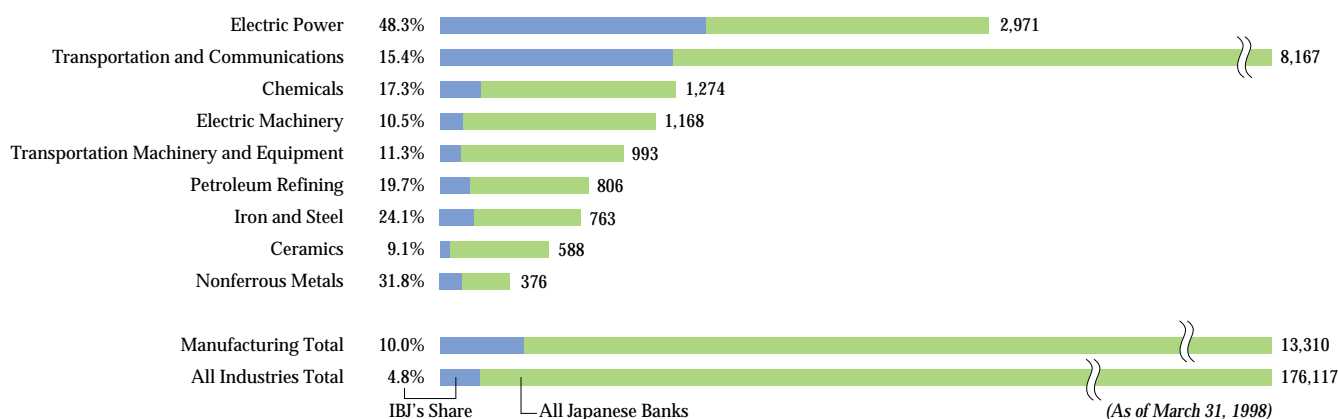
### **Financing Emerging Industries**

One of IBJ's most important missions is to anticipate changes in the industrial structure and promote the healthy development of growth sectors that will be key industries in the future. In June 1996, for example, the Bank established the Corporate Banking Department (Media & Telecommunication), a new organizational unit specializing in offering services to companies in those and related fields. Along with deregulation, IBJ is engaged in securing new clients in the large corporate market, participating in infrastructure development projects, and undertaking other financing activities. However, the Bank is also placing emphasis on offering financing for small and medium-sized companies. Loans to those companies, for example, have already risen to about 40% of the Bank's total loan portfolio. To provide support for venture businesses, IBJ has formed a joint venture, 3iBJ Ltd., with the largest venture capital company in the United Kingdom. 3iBJ is the focus of the Bank's venture business activities, which include not only financing but also providing advice on a range of subjects to a broad spectrum of smaller businesses, drawing on the Bank's long experience in corporate finance.

### ● 3iBJ

Established: 1990  
Capital stock: ¥480 million  
Shareholder: IBJ (5%)

### ● Loans Outstanding for Plant and Equipment Investment by Industry (¥ billion)



### Structured Finance

IBJ has devoted itself to structuring new financing schemes that meet the needs of individual clients and to creating new products and services that are tailor-made for particular customers. In recent years, the business environment in Japan has changed dramatically, leading to greater diversity in clients' financial requirements. IBJ is closely attuned to these changing needs and responds quickly by developing and proposing new financing schemes. Using such schemes as asset securitization and lease financing, for example, the Bank provides clients with a greater variety of fund-raising options while also helping them to improve their financial indicators, including the equity ratio, as well as lower funding costs. In addition, asset-backed securities and lease products, including leveraged leases, provide investors with new investment tools. Because of these various advantages, IBJ is active in structuring and marketing such asset securitization schemes. Besides these products, IBJ makes proposals to individual clients for leveraged leases, debt defeasance, and other financial schemes to meet their specific needs with state-of-the-art financial techniques.



One of the recent trends among Japanese companies is the formulation of financial strategies for corporate groups as a whole. Behind this development has been the shift from nonconsolidated to consolidated financial statement accounting. IBJ has kept abreast of these important trends and, as part of its structured finance services, has devised new financial schemes, taking into account these recent developments. In this connection, IBJ has researched the issues facing various corporate groups and made proposals that raise the overall financial efficiency and promote streamlining of these groups. For example, IBJ's proposals have included the abolishment of promissory notes for payment within corporate groups and schemes to improve their various consolidated-basis financial ratios through the use of securitization, leasing, trust arrangements, and other financial techniques.

IBJ has developed and marketed tailor-made structured finance schemes not only in Japan, the United States, and Europe but also has recently begun to introduce them into various regions around the world. While marketing these services and making full use of the know-how gained in Japan, IBJ has thoroughly researched and taken into consideration the special features of the legal, accounting, and tax frameworks in various countries and structures the optimal schemes for each nation.



### **Consulting on Overseas Direct Investment and Financing**

The environment for foreign direct investment varies widely from country to country, just as it changes day by day due to the rapid movements in the international economy. In response to the requirements of clients expanding their operations globally, IBJ has become increasingly active in providing a comprehensive range of advice and services, which include assistance in the selection of countries and sites for investment, advice on the characteristics of various regions that merit attention, the introduction of joint venture partners, support in negotiations, and help in raising funds. Especially for those clients considering entry into emerging markets, where the systems and requirements for investment may be unfamiliar, IBJ concludes advisory contracts and provides such companies with specialized, proprietary consulting services.

### ***Finance Schemes for Overseas Investments***

In managing enterprises in unfamiliar foreign environments, the ability to adopt finance schemes that reflect the characteristics of the client's corporate plans and individual requirements is an important factor enhancing the probability of success. IBJ draws on its experience and in-depth knowledge of international finance, including familiarity with the financial and tax systems of various countries, while making use of a broad array of financing options to provide the best fund-raising schemes for its clients.

### ***Acting as a Bridge to the World's Markets***

In addition to providing Japanese clients with information on overseas markets obtained through its international network covering the world's principal financial and business centers, IBJ offers information to its non-Japanese clients on investment in Japan and other countries. IBJ plans to continue to upgrade and enhance its capabilities as a full-service, global advisory financial institution, since these services are highly regarded by clients and other parties, including international organizations and government institutions.

## Mergers and Acquisitions

In recent years, M&A activities—including sales of assets, the establishment of joint ventures, and minority investments—have gained significant momentum in Japan. Interest in this area has grown because M&A has become one of the strategic alternatives for company managements in Japan who wish to expand or diversify their businesses or enter overseas markets. A series of economic reforms and deregulatory measures now in progress in certain industry segments in Japan and restructuring of noncore businesses are additional reasons for the increased demand for M&A.



IBJ has continued to devote substantial resources to M&A advisory services as part of its investment banking activities. Utilizing its capabilities for industry research and corporate evaluation, its global information network, and the M&A expertise of the Bridgeford Group, a wholly owned subsidiary located in New York, IBJ provides comprehensive M&A advisory services for transactions in the United States, Europe, Japan, and other Asian countries. Since 1997, the alliance with the Beacon Group, a fund management and M&A advisory firm based in the United States, has contributed to further expansion in IBJ's capabilities in cross-border M&A transactions.

IBJ's M&A professionals prepare the optimal M&A scheme for clients based on extensive analyses of the profitability of proposed projects, the compatibility with client strategies, as well as accounting, tax, and legal considerations. IBJ also provides effective support in negotiations with counterparties and a wide range of other advisory services to assist clients in attaining their objectives.

## Project Finance

IBJ has been traditionally strong in arranging project financing for energy, mining, and raw materials projects and now has gained the position of a leading bank globally in arranging financing for such private-sector infrastructure undertakings.

### *In-Depth Advisory Services*

In the case of the Paiton Power Plant–Phase I Project in Indonesia, IBJ, acting as co-financial advisor and coordinating bank, drew on its close working relationships with Export Credit Agencies (ECAs) in Japan and the United States to propose a structure supported by government finance facilities. Through negotiations, the Bank structured arrangements providing for ECAs to share the project risk and was successful in securing the participation of more than 40 banks worldwide. The project was highly acclaimed in the market and has become a model for private power projects in Asia.

### *Creativity in Developing Finance Schemes*

IBJ originally developed the “trustee borrowing” finance scheme, which has subsequently come into wide use for Indonesian LNG projects. In addition, the Bank made use of a “debt/equity swap” in successfully consummating the finance arrangements for a copper mine project in Chile, which was undergoing a debt restructuring at the time. More recently, the Bank developed the first “merchant” type private power project in the United Kingdom whereby the price of electricity is subject to market conditions. This arrangement was highly regarded, earning the “Power Deal of the Year 97” award by the journal *Project Finance*.

### *Continued Emphasis on Project Finance*

With the exception of the countries of Southeast Asia, which were affected by currency crises during the fiscal year, demand for project finance remains strong in other parts of the world. Although the use of project finance arrangements has been virtually nonexistent in Japan thus far, such developments as the shift toward more management emphasis on corporate bond ratings and the movement to permit private finance initiatives (PFIs) are creating a favorable environment for these arrangements.

IBJ has about 60 professionals in this field stationed in offices in Tokyo, Hong Kong, New York, and London who stand ready to provide services for projects around the world.



### ● Projects Receiving “Deal of the Year” Awards

| IBJ Lead Arranged “Deal of the Year” Projects |   |
|---|---|
| 1997  | AES Barry Power Plant<br>( <i>Project Finance</i> )*                    |
| 1996  | Ras Laffan LNG<br>( <i>Project Finance International</i> )*             |
| 1995  | Paiton Power Plant–Phase I<br>( <i>Project Finance International</i> )* |

\* Industry journals

### ● Recent Examples of Large-Scale Development Projects with Major Participation by IBJ

|  |
|--|
| Energy & Mining  |
| Gresik Copper Smelter (Indonesia)                          |
| Ras Laffan LNG (Qatar)                                     |
| Oleoducto Central S.A. Pipeline (Colombia)                 |
| Petrochemicals & Manufactured Products                     |
| P.T. Amoco Mitsui PTA (Indonesia)                          |
| Saudi Chevron Petrochemical (Saudi Arabia)                 |
| SUS Cold Mill (Thailand)                                   |
| Power Generation   |
| Paiton Power Plant–Phase I (Indonesia)                     |
| KEGCO Power Plant (Thailand)                               |
| AES Barry Power Plant (U.K.)                               |
| Telecommunications & Other Infrastructure                  |
| FLAG (Fiberoptic Link Around the Globe)<br>(U.K. to Japan) |
| Hong Kong Air Cargo Terminal<br>(Hong Kong)                |
| Autolink (A19) (U.K.)                                      |

## Derivatives

IBJ's experienced team of professionals analyzes the individual requirements and objectives of clients, based on their financial control needs, provides advice, and recommends the best hedging techniques. Several examples drawn from recent experience include

- analysis of the asset-liability structure of the client's balance sheet to determine maturity, interest rate, liquidity, and other potential risks. Following simulation of the impact of future interest rate scenarios, recommendations were given on the most effective derivatives operations to achieve optimal risk management and

- since the client was in an environment where market interest rates were declining, arrangement of a combination of swaps, options, and other techniques to minimize financial costs, starting with higher-cost borrowings.

As these examples suggest, IBJ provides tailor-made products that make possible the realization of profits or losses based on the interest and currency rate scenarios of clients and their tolerance for risk.

The Asian currency crises, which were triggered by the devaluation of the Thai baht during the fiscal year under review, renewed awareness of the importance of risk management. The Bank has derivatives specialists in its Hong Kong and Singapore branches who offer proposals to clients operating in Asia. In Japan, the Bank has also convened seminars on Asian currencies and provides timely information on currency trends.

Although derivatives are sometimes described as "difficult to understand and embodying unquantifiable levels of risk," IBJ staff explain and secure the understanding of clients regarding the effects and risks inherent in derivatives products and provide advice to clients on structuring internal monitoring systems. In August 1997, the Bank prepared a *Glossary of Basic Derivatives Terminology* and distributed it to clients who have an interest in renewing their awareness of basic concepts or who are interested in gaining a better understanding before initiating transactions. In addition, the Bank has developed a Derivatives Transactions Monitoring Software Package that is provided to clients and enables them to monitor a range of variables from the maturity dates of interest rate swaps and options and interest rate calculations to market values of derivatives portfolios.

## Electronic Banking

### ***Global Cash Management Services***

Following the revision of the Foreign Exchange Law that took effect in April 1998, the financial activities of corporations are expected to take a major leap toward globalization. Specifically, companies are expected to move quickly to engage in global cash management and other related activities that were not permitted prior to deregulation.

In view of these substantial changes in the way Japanese companies manage their cash and other assets, IBJ is responding to the needs of its customers in this area and is scheduled to introduce a global cash management service (CMS) in the latter half of fiscal 1998.

IBJ's next-generation global CMS will draw on the most advanced Internet technologies and take the lead in making use of the Internet itself to offer the first such services in the world. For this reason, the new system will incorporate high-level security features.

In addition, IBJ has introduced its Integrated Treasury Support Services (ITSS), which provide settlement services for corporate groups to offer more efficient support services.

### ***Electronic Data Interchange Services***

Along with the advancement of electronic technology, transactions among companies as well as between companies and consumers are being transmitted electronically at a blinding pace. The exchange of data involved in these transactions is usually referred to as electronic data interchange (EDI).

One of the important themes in EDI is offering trade finance electronically, and the principal objective of processing documents required for trade transactions electronically is to reduce labor inputs. Ultimately, plans call for linking such trade document processing systems with global CMS systems.

### ***Electronic Money***

IBJ is also actively engaged in projects related to the development of electronic money (e-money) since it is likely to become a powerful tool for making cash settlements in the future.

The Bank is a core member of the Super Cash e-money experimental project, which is scheduled to begin in 1999 with the participation of a group of banks and Nippon Telegraph & Telephone Corporation and is thus making preparations for the advent of the e-money era.

### ● Outline of IBJ's Next-Generation Global CMS

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#### Services Offered

Information on accounts and balances  
 Information on various transaction balances  
 (export/import, borrowings, guarantees,  
 forward foreign exchange contracts)  
 Funds transfers, opening and amendment  
 of letters of credit (L/Cs)  
 Netting (multilateral and bilateral)  
 Zero balancing  
 Pooling  
 E-mail based electronic bulletin  
 board function  
 File transfer function

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#### Technology Used

Internet virtual private network  
 JAVA-CORBA combination architecture  
 Three-layered model

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### ● IBJ Financial Technology

Established: 1998  
 Capital stock: ¥100 million  
 Shareholder: IBJ (100%)



## Financial Technology

### *The Big Bang as an Opportunity*

IBJ Financial Technology Co., Ltd. (IBJ FT), founded on April 1, 1998, specializes in R&D related with the application of advanced financial and information technologies. IBJ FT was founded by combining the Bank's Financial Engineering and Structured Finance departments and setting them up as the core of the new company.

Specifically, IBJ FT's fields of expertise are market and credit risk management, derivatives, investment technology, structured finance, and all aspects of information technology that apply to financial services. Many of the Bank's professional staff with expertise in quantification, information technology, and legal matters are concentrated in the new company.

### *Why IBJ FT and Why Now?*

With the implementation of the Big Bang, "financial services" are becoming vastly more diverse and sophisticated. Specialists, in particular, cannot isolate themselves but must look beyond their specialties and have intellectual contact and actively cooperate with other specialists in different areas in the pursuit of synergies among their specialties.

The range of issues that corporations should address includes a vast array of subjects, such as controlling market and credit risks, conducting global cash management and asset allocation services, and developing Internet-based businesses. IBJ FT makes it possible to give consideration to those issues comprehensively and efficiently from multifaceted and multi-layered perspectives. IBJ FT will not only support the activities of IBJ and the rest of the IBJ Group but also will work to respond to a broad range of client needs as an independent company.

### *Maintaining IBJ FT's Professional Quality*

The main sources of strength for IBJ FT as a group of professionals are the abilities of the individual members of the company. Each must respond to the needs of clients and work to win their satisfaction. In fall 1998, Professor Takeaki Kariya, of Hitotsubashi University, an authority on financial engineering, is scheduled to join IBJ FT. In personnel recruitment policies, IBJ FT will search for highly qualified staff and develop numerous approaches to enable them to contribute to its activities.



## Leasing

Lease financing for the purchase of aircraft, transportation equipment, industrial machinery, and other types of equipment is effective in reducing funding costs and assisting clients in restructuring their balance sheets.

Capabilities indispensable for the structuring of leasing arrangements include an in-depth knowledge of the asset value of the items leased and knowledge of detailed information on legal, accounting, and tax matters. The Bank has developed a strong global position in lease financing by drawing on the wide-ranging capabilities of the IBJ Group companies.

In particular, for aircraft, IBJ has experts stationed in Tokyo, Hong Kong, London, New York, and Los Angeles who offer lease products to respond to the finance needs of the world's major airlines and aircraft manufacturers.

In the United States, IBJ also offers the full range of lease financing services through its subsidiaries Industrial Bank of Japan Trust Company and IBJ Schroder Bank & Trust Company to support the capital investment programs of its clients. The Bank has considerable experience in structuring tax leases for semiconductor and automobile manufacturing equipment. IBJ has also been active in recent years in providing nontax leases, such as synthetic leases.

IBJ works closely with its affiliate IBJ Leasing Co., Ltd., which is one of the leading Japanese companies in this field, to structure various types of lease financing arrangements for major companies in Japan and overseas.

IBJ Leasing has a subsidiary in the United Kingdom that is especially active in providing lease arrangements. In Asia, the Bank offers leasing services through P.T. Bumi Daya—IBJ Leasing, located in Jakarta, and Krung Thai IBJ Leasing Co., Ltd., based in Bangkok. These companies respond to investment demand by offering lease financing suited to the needs of the local markets. Also, under its tie-up with leading U.S. lease packager D'Accord Incorporated, the Bank has cooperated in the arrangement of many cross-border leases and U.S. tax leases.

### ● Industrial Bank of Japan Trust Company

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Established: 1974  
Capital stock: US\$140.4 million  
Shareholder: IBJ (100%)

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### ● IBJ Schroder Bank & Trust Company

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Established: 1923  
Total stockholders' equity: US\$239.7 million  
Shareholders: IBJ (97.7%),  
Schroder US Holdings Inc. (2.3%)

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### ● IBJ Leasing

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Established: 1969  
Capital stock: ¥3,399.85 million  
Shareholder: IBJ (4.84%)

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### ● P.T. Bumi Daya—IBJ Leasing

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Established: 1984  
Capital stock: Rp40 billion  
Shareholders: IBJ (52%),  
Bank Bumi Daya (40%)  
IBJ Leasing (8%)

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### ● Krung Thai IBJ Leasing

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Established: 1992  
Capital stock: B100 million  
Shareholders: IBJ (30%),  
IBJ Leasing (10%)

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### Meeting Diverse and Sophisticated Client Needs

IBJ has a long tradition and extensive experience in the securities business, and the IBJ Group has further developed its capabilities to provide highly professional securities related services. The IBJ Group is committed to meeting diverse and sophisticated client needs worldwide through IBJ Securities Co., Ltd., overseas securities subsidiaries, and the IBJ Head Office.

### IBJ Securities Co., Ltd.

IBJ Securities, IBJ's wholly owned securities subsidiary in Japan, has entered its sixth year of operations. Engaged principally in the underwriting of bonds and in the sales and trading of a wide range of securities products, IBJ Securities recorded further major gains in its activities in fiscal 1997.

**Underwriting** With its capabilities for analyzing market information as well as its expertise in offering high-value-added proposals to meet client needs, IBJ Securities underwrites corporate and Samurai bonds in the domestic market. IBJ Securities works in close cooperation with IBJ's global network to meet the broad range of funding needs of IBJ clients worldwide, while offering access to the Japanese market for IBJ's foreign clients. In addition, IBJ Securities uses its expertise in structured finance, for example, in the issuance of asset-backed securities.

**Sales and Trading** To meet the various investment needs of IBJ clients, IBJ Securities deals in public-sector bonds, bank debentures, corporate bonds, Samurai bonds, foreign bonds, investment trusts, commodity funds, securitized products, and other instruments. IBJ Securities continues to be a leading and active player in the cash-secured repo market, which was launched in fiscal 1996.

Moreover, in close teamwork with IBJ's overseas subsidiaries, IBJ Securities is actively engaged in developing and marketing products and services that best match the specific needs of individual clients. Such activities include (1) the arrangement of medium-term note programs, (2) futures brokerage operations, and (3) the development of bond products incorporating swaps, options, and other derivatives products.

**Strengths** IBJ Securities has continued to strengthen its syndication capabilities to propose appropriate terms and conditions for new issues based on its analytical and creative capacities. Utilizing the IBJ Group's extensive capabilities for research into economic fundamentals, IBJ Securities has established an Investment Strategy Department dedicated to market analysis and research on investment strategy.



To provide liquidity in the secondary market, IBJ Securities actively makes markets in government-guaranteed and regional government bonds and bank debentures as well as in various corporate and Samurai bonds.

In preparation for the full engagement in equity-related activities, which the government is scheduled to authorize for securities subsidiaries of Japanese banks during the latter half of fiscal 1999, IBJ Securities started the sales and trading of convertible bonds, warrants, as well as Japanese equity index futures and options from the end of 1997.

**Performance** During fiscal 1997, IBJ Securities lead-managed 60 domestic straight corporate bond issues and acted as bookrunner for two Samurai bond issues. In the ranking of bookrunners, both its 15.1% bookrunner share and its 6.2% underwriting share of domestic straight corporate bond issues placed it in the top position among all securities companies for the first time in its history.

In sales and trading activities, IBJ Securities continued to build its presence in the secondary market, with public- and private-sector bond turnover totaling ¥51.5 trillion. Moreover, IBJ Securities underwrote ¥502.0 billion in long-term Japanese government bonds, which was the second largest underwriting position of all Japanese securities companies.

### ● Summary of the Performance of IBJ Securities

| Established: 1993<br>Shareholder: IBJ (100%) |             |             |
|--|-------------|-------------|
| (¥ million)                                  |             |             |
|  | Fiscal 1996 | Fiscal 1997 |
| Operating income                             | 11,748      | 20,202      |
| Recurring income                             | 2,916       | 3,066       |
| Net income                                   | 1,150       | 204         |
| Paid-in capital                              | 25,000      | 25,000      |
| Net worth                                    | 36,428      | 36,632      |
| Total assets                                 | 1,548,659   | 3,308,249   |
| Number of personnel                          | 200         | 248         |

### Overseas Securities Subsidiaries

To provide international securities related services, IBJ has established its presence in the world's principal capital markets. IBJ meets the underwriting needs of its clients through overseas subsidiaries, including those in London, New York, Frankfurt, Zurich, Paris, Hong Kong, Singapore, and Sydney. The IBJ Group occupies the leading position as the bookrunner for both public and private issuers among Japanese bank affiliated securities groups. IBJ's overseas subsidiaries and IBJ Securities work closely together to arrange structured bonds to meet the needs of clients worldwide.

### ● Lead Manager League Table for Fiscal 1997

| Ranking | Name of Company             | Number Lead Managed | Amount (¥ billion) | Bookrunner Share (%) |
|---------|-----------------------------|---------------------|--------------------|----------------------|
| 1       | <b>IBJ Securities</b>       | <b>60</b>           | <b>1,325</b>       | <b>15.1</b>          |
| 2       | Nomura Securities           | 49                  | 1,114              | 12.7                 |
| 3       | Daiwa Securities            | 61                  | 818                | 9.3                  |
| 4       | Nikko Securities            | 39                  | 804                | 9.1                  |
| 5       | Sakura Securities           | 39                  | 749                | 8.5                  |
| 6       | Yamaichi Securities         | 40                  | 708                | 8.1                  |
| 7       | DKB Securities              | 51                  | 474                | 5.4                  |
| 8       | Tokyo-Mitsubishi Securities | 34                  | 443                | 5.0                  |
| 9       | Fuji Securities             | 36                  | 425                | 4.8                  |
| 10      | Sumitomo Capital Securities | 32                  | 367                | 4.2                  |

Source: THOMSON DealWatch League Tables

● **Aubrey G. Lanston**

Established: 1949  
 Total stockholders' equity: US\$102.5 million  
 Shareholder: IBJ (100%)

● **IBJ International**

Established: 1975  
 Capital stock: £185.08 million + ¥10 billion  
 Shareholder: IBJ (100%)

● **IBJ Lanston Futures**

Established: 1985  
 Capital stock: S\$5,010.05 thousand  
 Shareholders: Aubrey G. Lanston (84.2%),  
 IBJ (7.9%)  
 The New Japan  
 Securities Co., Ltd. (7.9%)

IBJ's subsidiary Aubrey G. Lanston & Co. Inc., based in New York, plays the role of primary dealer in U.S. government and federal agency bonds as well as that of a futures commission merchant for futures and options. In March 1998, Aubrey G. Lanston acquired the European futures brokerage unit of IBJ International plc through subsidiary IBJ Lanston Futures Pte. Ltd. in order to form a new global futures brokerage division, which will cover the major futures markets in the United States, Europe, and Asia.

**IBJ Head Office**

***Bond Underwriting and Commissioned Bank/Fiscal Agent Services***

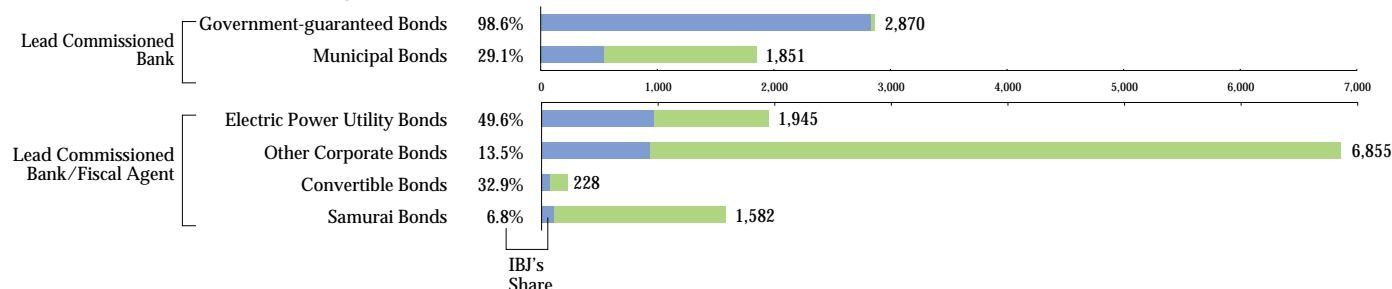
Drawing on its long tradition and extensive experience in underwriting public-sector bonds and in providing commissioned bank/fiscal agent services for corporate and Samurai bond issues, IBJ has been playing a leading role in the development of the Japanese bond market.

For public-sector bonds, IBJ is a member of the Conference on Government Bond Issuance. In addition, IBJ acts as a lead manager of the underwriting syndicates and as a lead commissioned bank for almost all government-guaranteed bond issues as well as for the issues of the Tokyo metropolitan government, the leading issuer of municipal bonds. Through these activities, IBJ plays an important role in facilitating smooth and stable fund-raising by the public sector.

In the private-sector bond market, IBJ acts as a lead commissioned bank as well as a fiscal agent for Japan's major corporations. In these capacities, IBJ makes available its extensive know-how regarding the bond market and provides a broad range of services, thereby facilitating the fund-raising activities of its clients.

For Samurai bond issues, IBJ has compiled an impressive record acting as lead commissioned bank and fiscal agent for international organizations as well as many foreign governments and government agencies.

● **Commissioned Bank/Fiscal Agent Activities of IBJ Head Office in Fiscal 1997 (¥ billion)**



The IBJ Group ranks high among the leading companies in Japan in the volume of assets under management. The Group is well positioned to provide its clients with highly professional global asset management services through IBJ NW Asset Management Co., Ltd., IBJ Investment Trust Management Co., Ltd., and overseas subsidiaries.

### IBJ NW Asset Management Co., Ltd.

IBJ NW Asset Management has continued to expand the scope of its asset management business, making the best use of the asset management expertise that the IBJ Group has accumulated over the years.

Since the deregulation of pension fund management in 1990, investment advisory companies have been permitted to provide pension fund management services. The volume of pension funds under the management of IBJ NW Asset Management has been expanding rapidly. Assets under management are over ¥2 trillion, placing the subsidiary among the leading investment advisory companies in Japan.

**Strengths** Special features of the investment management activities of the IBJ Group include (1) full access to the highly regarded know-how in economic research and company analysis of the IBJ Group, (2) asset allocation based on research on economic fundamentals and stock selection based on the analysis of individual companies, and (3) a sophisticated risk control system for managed assets.

The IBJ Group has a powerful global asset management network with operations worldwide, including subsidiaries in London, New York, and Hong Kong. Working closely with these IBJ Group subsidiaries, IBJ NW Asset Management has developed a full lineup of services for global asset management. IBJ Asset Management International Ltd. (IBJ AMI) was established and commenced activities in March 1998, aiming at the further improvement of the global asset management capabilities of the IBJ Group.

### IBJ Investment Trust Management Co., Ltd.

IBJ Investment Trust Management (IBJ ITM) provides a wide range of investment trusts, making full use of the expertise of the IBJ Group in such fields as sophisticated global asset management, research, and state-of-the-art investment technology.



#### ● Summary of the Performance of IBJ NW Asset Management

|                                     |             |             |
|-------------------------------------|-------------|-------------|
| Established: 1985                   |             |             |
| Shareholder: IBJ (2.5%)             |             |             |
|                                     | (¥ million) |             |
|                                     | Fiscal 1996 | Fiscal 1997 |
| Operating income                    | 2,521       | 2,900       |
| Recurring income                    | 357         | 442         |
| Net income                          | 150         | 231         |
| Paid-in capital                     | 400         | 400         |
| Assets under management (¥ billion) | 1,932       | 2,085       |
| Number of personnel                 | 93          | 112         |

#### ● IBJ Asset Management International

|                               |  |
|-------------------------------|--|
| Established: 1998             |  |
| Capital stock: £400 million   |  |
| Shareholders: IBJ (90%),      |  |
| IBJ NW Asset Management (10%) |  |

● **Summary of the Performance  
of IBJ Investment Trust Management**

Established: 1994

Shareholder: IBJ (5%)

|                           | (¥ million) |              |
|---------------------------|-------------|--------------|
|                           | Fiscal 1996 | Fiscal 1997  |
| Operating income          | 1,940       | <b>1,958</b> |
| Recurring income          | 138         | 17           |
| Net income/loss           | 109         | (5)          |
| Paid-in capital           | 1,500       | <b>1,500</b> |
| Net assets<br>(¥ billion) | 354         | <b>274</b>   |
| Number of personnel       | 35          | <b>46</b>    |

As of March 31, 1998, IBJ ITM's net assets amounted to ¥274 billion. This was the second largest volume of assets among the investment trust management companies affiliated with financial institutions in Japan, and the company ranked 14th among the 42 investment trust companies in Japan.

Following implementation of deregulatory measures, IBJ ITM commenced sales activities for its investment trust products in office space rented in the branches of IBJ in December 1997. Further deregulation of the investment trust business is being discussed as part of Japan's proposed Big Bang. Additional measures are scheduled to include granting permission for the sale of investment trust products through banks, beginning in December 1998, and consideration is being given to introducing privately placed investment trusts. These deregulatory measures are expected to stimulate further significant growth in the investment trust market. Consequently, IBJ ITM will continue to expand its operations, enhancing its capabilities for the development of new products and improving its performance.

### **Custody Services**

For investors interested in global asset diversification, IBJ makes full use of the know-how it has accumulated in the securities field to provide custody services. To offer quality services globally, IBJ has built an international network of subsidiaries as well as close working relationships with the leading banks in overseas markets. Also, for those institutional investors seeking to diversify their investments across a range of currencies, IBJ has developed its Newton investment support system, which allows for the centralized supervision of global, multicurrency portfolios and which has earned a superior reputation among its clients.

The IBJ Group has distinguished itself by its unsurpassed delivery of trust and agency services through IBJ Trust and Banking Co., Ltd., in Japan and through its overseas subsidiaries.

### IBJ Trust and Banking Co., Ltd.

**Services and Activities** In response to growing interest among clients in financial products utilizing trust structures, IBJ established IBJ Trust and Banking as a wholly owned subsidiary in October 1995. In addition to the acceptance and administration of monetary claims—such as lease and loan receivables, investment trust assets, government bonds, and bank debentures—IBJ Trust and Banking provides administrative services related to securitization, including services in connection with the issuance of asset-backed securities, asset-backed CP, and other securities.

IBJ Trust and Banking plans to continue to take full advantage of its capabilities, assisting clients in trimming their balance sheets as well as developing and offering high-value-added products attuned to specific customer needs.

**Performance** The balance of assets entrusted with IBJ Trust and Banking has grown steadily since the company's founding and stood at ¥4,175 billion as of March 31, 1998. In particular, IBJ Trust and Banking has identified the Japanese government bond repo market as a promising growth area and remains in the top position in terms of assets among trust and banking companies that offer repo trust services. Moreover, IBJ Trust and Banking has expanded the scope of its business operations, following deregulation. Consequently, IBJ Trust and Banking reported more than double its net income in fiscal 1997, compared with that of fiscal 1996.

### ● Summary of the Performance of IBJ Trust and Banking

Established: 1995

Shareholder: IBJ (100%)

|                             | (¥ million) |             |
|-----------------------------|-------------|-------------|
|                             | Fiscal 1996 | Fiscal 1997 |
| Operating income            | 948         | 1,643       |
| (Trust fees)                | (328)       | (707)       |
| Recurring income            | 116         | 272         |
| Net income                  | 115         | 265         |
| Paid-in capital             | 15,000      | 15,000      |
| Assets in trust (¥ billion) | 2,516       | 4,175       |
| Number of personnel         | 53          | 82          |





## ALM Operations

### *Features of IBJ's ALM Methodology*

As a long-term credit bank, IBJ continuously provides fixed-rate, long-term loans to its customers by funding through monthly issuances of five-year debentures. Due to the long-term nature of the Bank's assets and liabilities, the Bank has developed an ALM methodology specifically tailored to control the sensitivity risk associated with long-term interest rates. The ALM methodology is represented by two important concepts. The first one is the elaborate matching operations of customer-related assets with liabilities to ensure that sufficient spreads are gained in the future. The other important concept is the dynamic control of the interest rate sensitivity gap by utilizing flexible instruments, such as interest rate swaps and government bonds. The interest rate sensitivity gap arises from the difference in volume and timing between the Bank's lending and the Bank's debenture offerings. All these integrated operations, combining both on-balance-sheet and off-balance-sheet items, enable the Bank to enhance long-term economic value, which is the source of a stable revenue stream for each fiscal year.

To facilitate the risk control methodology described above, the Bank has developed a uniquely designed ALM system. It measures the fair value of all assets and liabilities, which include financial assets, such as loans and securities; financial liabilities, such as discount debentures, coupon debentures, and deposits; and off-balance-sheet items, such as interest rate swaps and options. Fair value is derived by discounting future cash flow to present value, utilizing the relevant market yield of government bonds and interest rate swaps. In addition to the fair value measurement, the system

**Table A**  
● Delta Value as of Fiscal 1996 and 1997 Year-Ends

|                           | (¥ million) |               |                                   |              |
|---------------------------|-------------|---------------|-----------------------------------|--------------|
|                           | Total       | Within 1 year | Over 1 year and<br>within 5 years | Over 5 years |
| Fiscal 1996 year-end      | (800)       | 100           | (400)                             | (500)        |
| Lending & Debenture Block | (700)       | 0             | (100)                             | (600)        |
| Risk Management Block     | (100)       | 100           | (300)                             | 100          |
| Fiscal 1997 year-end      | (1,500)     | 0             | (500)                             | (1,000)      |
| Lending & Debenture Block | (600)       | 100           | 0                                 | (700)        |
| Risk Management Block     | (900)       | (100)         | (500)                             | (300)        |

**Table B**  
● VAR as of Fiscal 1996 and 1997 Year-Ends

|     | (¥ billion)          |                      |
|-----|----------------------|----------------------|
|     | Fiscal 1996 year-end | Fiscal 1997 year-end |
| VAR | 41.9                 | 61.6                 |

\*Holding period one month, 99% confidence level

\*Both delta and VAR exclude real estate, equipment, and equity holdings, which are funded by capital.

provides various risk parameters, namely, delta, gamma, vega, and Value at Risk (VAR). Table A shows the breakdown of the delta value of the Bank's ALM book at fiscal 1996 and 1997 year-ends. Delta represents the marginal value change of all assets and liabilities marked to market with a one basis point interest rate movement. Under the Bank's ALM system, each risk parameter corresponds to the respective gap period accounting for the remaining contractual maturity or repricing period. This allows the Bank to estimate the yield curve risk. VAR is a statistical approach to capture the maximum potential loss from adverse market movements. Table B shows the VAR of the Bank's portfolio at fiscal 1996 and 1997 year-ends. Such detailed analysis of various risk parameters and fair value enables the Bank to adequately adjust its asset and liability profile by executing effective risk management operations.

### **Performance of IBJ's ALM Operations**

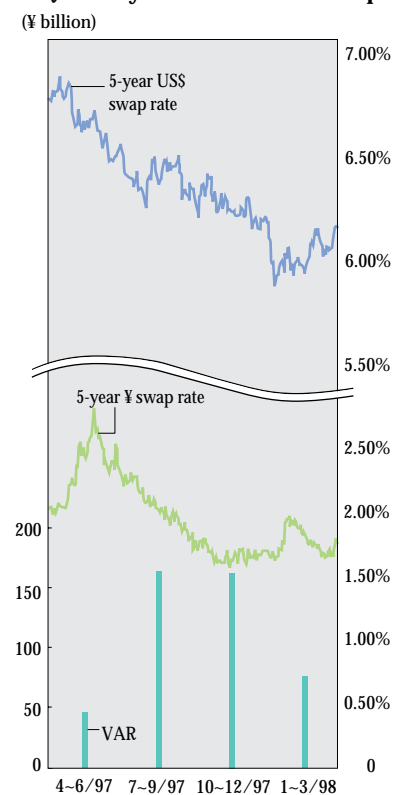
During fiscal 1997, the Bank generated a Core Business Profit in excess of ¥230 billion. Furthermore, the net fair value of assets and liabilities amounted to ¥380 billion as of March 31, 1998. (See page 38 for the definition of "fair value;" this amount excludes the present value of real estate and equity holdings funded by capital, evaluation of credit risk premiums, and various fee revenues.) This strong performance is attributable to the Bank's ability to execute effective and prospective risk control operations based on its distinctive ALM methodology. The graph at right shows the transition process in quarterly VAR in conjunction with both yen and U.S. dollar interest rate movements. During fiscal 1997, yen long-term interest rates picked up from April to June. However, along with the release of several economic indicators suggesting stagnation in Japan's economy, interest rates started to decline. Thereafter, in 1998 interest rates resumed the declining trend, with the exception of a temporary correctional phase, reflecting expectations of an extensive economic stimulus plan. In the meantime, a benign price index and flight to quality movements triggered by the Asian currency turmoil caused a massive capital influx into the U.S. bond market, leading to the decline in U.S. interest rates throughout the year under review. The graph verifies that the Bank succeeded in adjusting its risk exposure during this turbulent period.

### **Liquidity Risk Management**

Liquidity risk management is an important aspect of ALM that ensures that sufficient cash flow is available at any time to meet the various financial needs of IBJ's customers. The Bank's primary source of funding is coupon



### ● Quarterly VAR and 5-Year Swap Rates





and discount debentures, which are issued every month. The Bank's strong distribution network, based on close contact with various institutional investors, provides the Bank with a competitive edge in managing its liquidity. In addition, the Bank has wide access to various funding instruments, investors, and money markets around the globe. This ensures that the Bank has alternative funding sources to maintain sufficient liquidity even if a liquidity crisis occurs in a specific market. The Bank continuously attempts to maintain and expand the investor network for its debentures and works to enhance its presence in the short-term money markets around the globe.

In managing liquidity, the Bank places limits on the amount of its overnight money position (the necessary amount of overnight funding for the balance sheet equilibrium) as well as on the amount of positions in certain financial instruments. The overnight money position is measured on a daily basis by projecting the cash flow of current assets and liabilities and that of anticipated future transactions. This limit is monitored on a global basis by aggregating the cash position of both the Bank's foreign offices and subsidiaries, thus allowing the centralized assessment and control of the Bank's liquidity profile. Also, the Bank holds a certain amount of highly marketable assets, such as government bonds that can be easily liquidated when necessary. In addition to this conservative process as adopted in normal market situations, various contingency plans exist to cope with severe liquidity problems.

## **Trading Operations**

### ***Operations and Policies***

The Bank's trading activity involves client-related activities and proprietary activities. The Bank develops and provides customized products at competitive prices to help its clients' risk management, utilizing various financial instruments, such as swaps, options, government bonds, and CP. In proprietary activities, the Bank puts emphasis on a relative value approach, capturing arbitrage opportunities in related markets as well as distortions between the theoretical and actual market price of certain instruments. Due to the introduction of mark-to-market accounting in Japan, chances to gain from this relative value approach have substantially increased. The Bank believes such changes in the market infrastructure are likely to result in

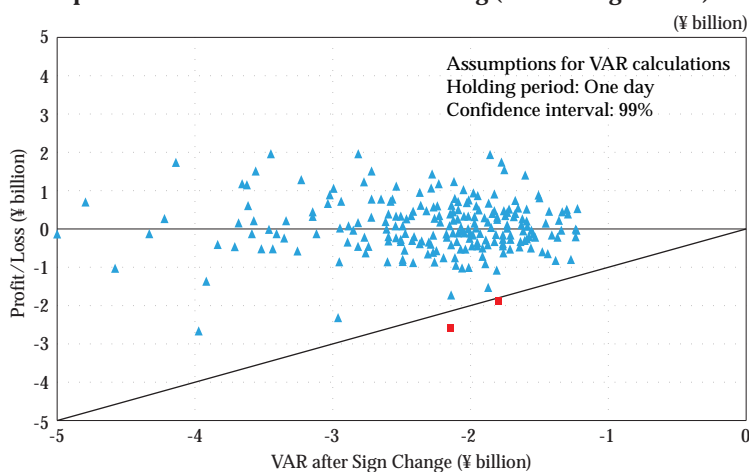
business opportunities, and as the Big Bang proceeds at a faster pace, the Bank will continue making efforts to upgrade its capabilities and earn the trust of customers for its sales and trading operations.

**Risk Analysis Methodology**

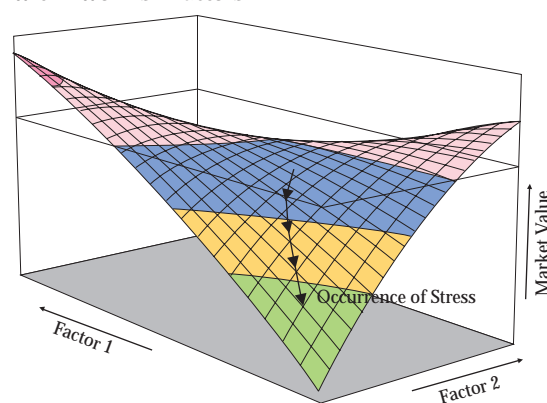
The market risk exposure of the Bank’s trading activities is measured by the VAR approach utilizing the Bank’s internal model. The Bank’s VAR is defined as the 99th percentile greatest loss that may be expected on the portfolio. The Bank’s VAR is measured daily on a global basis, including all of the Bank’s foreign offices and subsidiaries that engage in trading activities. We daily test the accuracy of our internal model by comparing the daily profit/loss (P/L) statement of our trading operations with the estimated VAR. Graph 1 shows the results of back testing conducted in fiscal 1997. The points above the slanted line show that the losses were within the estimated daily VAR. Cases where the losses exceeded the estimated VAR happened only twice in fiscal 1997 (260 business days), which verifies the accuracy of the Bank’s internal model.

The Bank also employs stress testing to estimate the impact of unusual market movement on the Bank’s trading P/L statement that cannot be measured by VAR. Under the Bank’s stress testing, which is called the “Steepest Descent Model,” maximum loss is derived by estimating the worst market scenario based on the characteristics of the Bank’s trading portfolio,

● Graph 1: Fiscal 1997 Results of Back Testing (All Trading Offices)



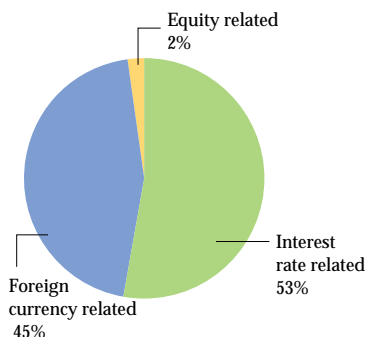
● Graph 2: Image of the Results of a Stress Scenario with Two Risk Factors



Notes: 1. The Bank’s method corresponds to the stress test cited in the Amendment to the Capital Accord to Incorporate Market Risk, prepared by the Basle Committee on Banking Supervision (January 1996) as the “Scenarios developed by the bank itself to capture the specific characteristics of its portfolio.”

2. The Bank’s stress tests measure the maximum loss that may occur with a holding period of one day.

● Graph 4: Contribution of Risk Factors to VAR (March 31, 1998)



taking into account the volatility and correlation of approximately 200 risk factors, such as the yen interest rate and dollar/yen exchange rates. Graph 2 is an image of our stress testing in cases where there are only two risk factors.

In addition to the aforementioned methods, the Bank establishes liquidity risk limits for each financial instrument and loss-cut rules to ensure conservative risk management.

**Profit and Risk Profile for Fiscal 1997**

The overall net profit of the Bank’s trading operations for fiscal 1997 was ¥13.1 billion. This figure includes the net loss of ¥14.6 billion that was realized at the Bank’s London Branch triggered by the introduction of the mark-to-market accounting rule as is described in IBI’s 1997 annual report.

During fiscal 1997, average VAR for the Bank’s trading activities amounted to ¥2.2 billion and ranged from ¥1.2 billion to ¥5.0 billion. Maximum VAR of ¥5.0 billion occurred on December 17, 1997, when abrupt movements in currency rates boosted the risk parameters that the Bank recalculates on a daily basis. The change of daily VAR is shown in Graph 3. Graph 4 shows the contribution of risk factors to VAR as of March 31, 1998. Also, the result of stress testing as of March 31, 1998, was ¥3.6 billion.

● Graph 3: Trends in VAR for All Trading Offices in Fiscal 1997



Note: On December 17, 1997, as a result of major fluctuations in foreign currency markets, the risk parameters that are recalculated daily increased substantially.

## Credit Risk Management

IBJ has continually upgraded its credit risk management systems by combining the expertise it has developed over many years of lending to the corporate sector with risk management methods that meet global standards, including a quantitative method for credit risk measurement.

To achieve its goals, as mentioned previously, in June 1997 the Bank reorganized its credit-related units for greater effectiveness. Specifically, the sections responsible for evaluating and making approval of credit proposals for domestic and overseas activities were combined, and an integrated Credit Risk Management Department was created. This department's responsibilities will include the corporate credit analysis functions previously within the former Credit Department. The Bank is concentrating all credit risk management functions within this department, carrying out detailed credit evaluations, and enhancing the sophistication of risk management systems, with the aim of assuring the soundness of the credit approval and management processes.

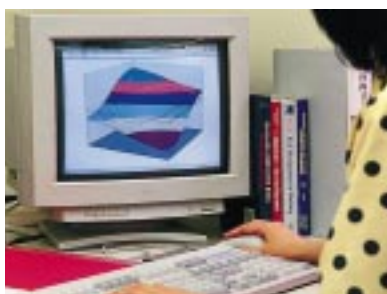
To further upgrade its credit risk management capabilities, in July 1997 a new, uniform 10-rank rating system for domestic and overseas lending activities was introduced. This new system entails both detailed quantitative and extensive qualitative analysis on corporate customers, and the Bank believes that, with the new system, the quality and accuracy of the credit approval process have been significantly improved.

Also, the Bank is in the process of upgrading its portfolio management systems by enhancing a method for quantitative analysis of credit risks and is introducing state-of-the-art systems that meet global standards.

In addition, as mentioned previously, in 1998 the monetary authorities introduced the principle of Prompt Corrective Action with the objectives of enhancing the transparency of the management of domestic financial institutions and encouraging self-restraint based on market discipline. To make these measures effective, the accurate computation of the capital adequacy ratio, which is a key criterion, is essential. For this purpose, financial institutions must undertake internal audits to accurately assess the quality of their assets. The Bank has taken the intent of this system fully into account and has enhanced its systems for conducting thorough examinations, including the establishment of the Credit Risk Management Department.

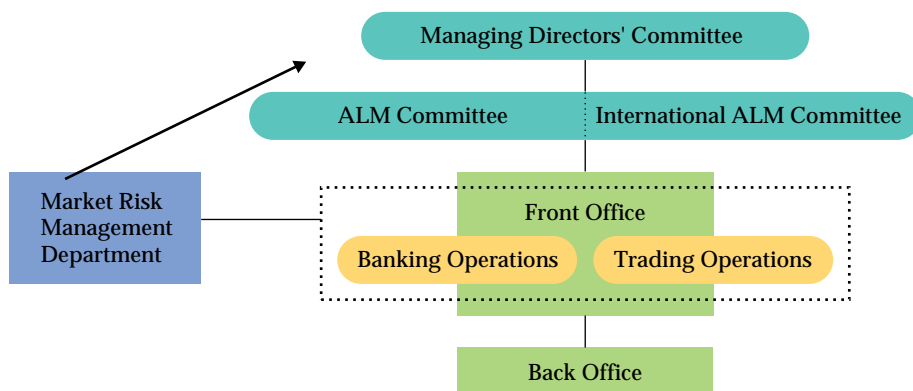
### Market Risk Management

As the trends toward deregulation and the implementation of market principles accelerate in Japan, risk management and control procedures that meet global standards have become an indispensable condition for financial institutions. To ensure that proper risk management and control procedures are in place, the Bank has established a rigorous process where management has direct responsibility with respect to the Bank's overall risk exposure. Moreover, to assure that proper risk management procedures are in place, the rules and guidelines related to risk management are set forth in the form of "Policy & Procedure," in accordance with the various directives and guidelines issued by the banking regulators and supervisors in Japan as well as by the Bank for International Settlements (BIS).



From the perspective of reinforcing the Bank's risk management procedures, the Bank completely separates the back-office operations from those of each front office. In addition, the Market Risk Management Department, which is independent from each office, has the responsibility for the daily monitoring of risk exposure and reporting to management. This department measures the Bank's overall risk exposure, combining both banking and trading activities. Overall risk exposure is measured by the VAR method, which enables the integrated monitoring of risk throughout the Bank.

#### ● Work Flow of Market Risk Management



### Dealing with Other Risks

#### *Legal Risk*

To cope with the changing banking environment and the associated potential for legal disputes and risks, management has identified legal compliance as a top priority. The Legal Department and legal professionals



assigned to regional offices, with the additional support of outside counsel, work closely with IBJ's business units and other departments and offices to assess and manage legal risk. The Bank has instituted legal and regulatory compliance training programs for its employees to provide a basic understanding of the legal requirements and issues of which they need to be mindful to successfully meet the business challenges of a highly dynamic domestic and international banking environment.

### ***Operational and Systemic Risks***

To prevent operational risks related with processing operations, the Bank conducts such operations according to strict rules and standards and has expanded its training courses for operational personnel.

Systemic risk is another key area, and, accordingly, the Bank has established a backup center, with the objective of assuring the stable operation of computer systems, even when major disasters occur over a large geographic area. The Bank, thus, has two computer centers working in tandem, and these have duplicate hardware and telecommunications links to assure reliable operation at all times.

### ***Internal Control***

IBJ's Auditing Department has the responsibility for assuring strict adherence to operating procedures, proper conduct of activities, as well as the prevention of errors and, accordingly, conducts inspections of the operations of the Head Office and branches.

Reflecting revisions in Japan's Banking Law and other legal provisions, which are intended to improve the soundness of banking institutions, the Bank established the Credit Examination Department to monitor self-assessments of asset quality prepared by other sections of the Bank. In addition, in February 1998 the Bank substantially strengthened its internal controls through the establishment of a new office within the Administration Department. This office is responsible for assuring strict compliance with legal regulations and internal rules.

In the United States, IBJ has set up the Americas Division as a unit independent from the Bank's U.S. offices. In cooperation with the Auditing Department and Credit Examination Department in Japan, this division provides support for internal examinations of the U.S. offices and auditing of assets. The Americas Division also is responsible for providing advice regarding compliance with legal regulations in the United States.

### **In-Depth Research Capabilities**

As the leading long-term credit bank in Japan, IBI must continually look well into the future, view developments from an international perspective, and have a dynamic and realistic outlook on trends in industry and the economy. IBI's research activities, which set the Bank apart from other financial institutions, have a long tradition and are based on an accumulation of diverse types of expertise and on seasoned foresight.

The accurate information generated by IBI's research team is held in high regard by clients, and the Bank's research activities were ranked number one among banks and securities companies for "information and analyses" in a survey conducted by the *Nihon Keizai Shimbun*, Japan's leading economic daily.



### **Economic Research in Close Contact with Today's Business Environment**

IBI's Research Department analyzes economic conditions and developments regarding finance, capital markets, financial institutions, and other topics from a global and primarily macroeconomic perspective, while also conducting long-term research on selected themes. The department's activities include the interpretation of the wealth of information gathered through IBI's global network of offices in major financial and commercial centers and the conduct of research and analyses that extend to the microeconomic and industrial levels. In this way, a distinct sense of being in close contact with today's business environment is maintained.

The department's semiannual survey of capital investment plans, for example, has the widest coverage of any such survey carried out by private-sector research organizations in Japan. The results of the survey provide data important for forecasting economic trends.

### **Securities Research for Investment Banking**

The Investment Research Department was established in June 1997 to enhance the Bank's research efforts in supporting the expansion of investment banking operations with related market and securities research. This department was created by substantially expanding the Securities Business Department, which conducted research on the stock and bond markets as part of its activities. The Investment Research Department is concentrating on two areas: research on interest rates, foreign exchange, and domestic and overseas stock markets as well as fundamental analysis of individual companies.

The department's market research is based on macroeconomic analysis and other fundamental analysis, including investor sentiment. Research efforts also provide forecasts of long- and short-term interest rates both in Japan and in overseas markets, the yen-dollar and other foreign exchange rates, and macrotrends of domestic stocks. On the other hand, fundamental analysis of individual companies provides stock price forecasts based on corporate profit trends, stock valuations, analysis of undervalued and overvalued stocks, overall market trends, and investor perspectives.

### **Monitoring Industry Trends and Implementing Projects**

IBJ monitors trends not only in the macroeconomy but also developments in various industrial sectors and is engaged in the planning as well as implementation of many projects in Japan.

IBJ's Industrial Research Department always views the condition of industries, their problems and strategies, as well as their prospects from a long-term and global perspective, while also drawing conclusions about the future structure of industries. The department conducts research from an unbiased perspective that is suited to the needs of the times, such as the management strategies and overseas expansion of leading corporations, new developments linked to progress in information and telecommunications technologies, and issues related with the development of new industrial sectors. Results of these research activities are presented to the Bank's clients in periodic publications and reports. At the same time, when providing various financial services that answer client needs, the Bank draws on the information generated by the department as a unique resource of the IBJ Group.

As the Japanese economy undergoes major changes, the department participates actively from the early stages of projects that are recognized to have significance for the national economy, such as urban and regional development and the information and telecommunications infrastructure. The department also uses its know-how to act as coordinator and assist in the implementation of these projects.



## **Systems Development**

IBJ's systems development departments are focusing, in particular, on providing support for the smooth conduct of operations, offering accurate and up-to-date management information on profitability and risk management, and providing quick and timely access to important management and other information. The Bank introduced comprehensive on-line systems at an early date and responds flexibly to provide convenient services for clients and offer a substantially broader range of functions for management. In addition, IBJ has developed its own financial theories and technologies and is working to complete development as quickly as possible on client server systems that will allow a more flexible response to changes in financial markets.

### ***Providing Access to Management Information***

The IBJ Group is working to respond to the rapid expansion and diversification of its activities, as previously mentioned, by developing systems that measure the profitability of the Group and provide risk management and other information important for the conduct of the Group's activities. To this end, the Bank is working to develop systems that accumulate information generated in operational support systems and other business information, processing and analyzing it from a variety of perspectives and then making it available for use by management. For example, systems have already gone into operation that measure the credit and market risk of the Group as a whole for purposes of risk management.

### ***Quick Transmission and Sharing of Information***

To expand business operations globally, the Bank has set up systems centers in Tokyo, New York, and London, and information is handled efficiently on a centralized basis. The Bank prepared an IBJ Group systems strategy in June 1997. This calls for the establishment of an Information Technology Department that will be responsible for planning and applying the latest systems technologies to the Bank's activities. In addition, taking into account business strategies and profitability, systems development will be accelerated by setting up systems planning and supervisory units with user departments, thus providing for flexible and appropriate procedures and systems at all times.

The Industrial Finance Seminar (IFS), an international seminar activity, has a history of 36 years. Over that period, the IFS Division has held seminars for more than 2,200 participants from about 80 countries around the world. Most of the participants now hold important posts in their native countries.

The principal objectives of the IFS are to introduce Japan's economy, finance, industry, politics, and culture to participants and strengthen the relationship between IBJ and participating institutions.

Lecturers for the subjects discussed are drawn from the staff of the IBJ Group and from university professors and business executives. In addition, the seminar's activities include visits to many types of industrial plants and introductions to Japan's historical heritage.

Seminars are held more than 10 times each year. The types of IFS seminars currently held include those for top and middle management levels. Seminars are also arranged according to the needs of IBJ's clients, whenever requested.

The network IBJ has built over the years through the sponsorship of the IFS is one of the Bank's most valuable assets. As the rest of the world looks toward and comes to expect more from Japan, and mutual understanding becomes increasingly essential, IBJ's seminars will play an even more important role for Japan and international society.





*IBJ staff members help build new homes for needy families as part of the first annual IBJ USA Cares Day.  
above: New York  
below: Atlanta*

Since its establishment in 1902, IBJ has upheld its tradition of commitment to promoting the industrial and economic development of Japan and the other countries in which it conducts business. This commitment has led IBJ to undertake a range of activities that contribute to the well-being of society in Japan and overseas.

In Japan, IBJ established the Kawakami Memorial Foundation in 1957 to support projects that contribute to the educational development of young people. The Foundation's activities include providing financial aid for engineering and legal research projects, sponsoring essay contests on legal and economic themes, and making available scholarships for foreign students in Japan.

In addition, IBJ encourages its branches to take an active part in improving their surrounding communities. For example, the Hiroshima Branch contributed to the preservation of the A-Bomb Dome in Hiroshima, a historic memorial site of international importance. The Kobe Branch supported the creation of illuminated artwork (*Luminarias*) in memory of the victims of the Great Hanshin-Awaji Earthquake and contributed to the restoration of earthquake-damaged buildings. The Fukushima Branch participated in the cleanup of local communities.

Overseas, with the establishment of the IBJ Foundation in 1989, IBJ became the first Japanese bank to establish a philanthropic foundation in the United States. Currently endowed with \$11.5 million, the Foundation makes grants for innovative programs that promote the "Education of Global Citizens" and the "Strengthening of Urban Communities." These grant-making themes reflect the Bank's identity as a global financial institution, its history of helping to build society's infrastructure, and its desire to address important needs in U.S. communities. In 1997, the Foundation made 18 grants totaling US\$1,055,000 million to U.S.-based nonprofit organizations.

The Foundation also funds a matching gifts program that enables IBJ employees in the United States to apply for donations to match their personal contributions to nonprofit organizations. Eligible organizations include universities, hospitals, art institutes, and social service organizations.

IBJ staff members in the United States actively contribute to the welfare of their local communities by volunteering for community service organizations. In fall 1997, IBJ celebrated 25 years of doing business in the United States with a day of volunteerism in the six U.S. cities where the Bank has offices. Partnering with Habitat for Humanity International, the renowned nonprofit housing developer, more than 140 IBJ employees, family members, and friends participated in "IBJ USA Cares Day," helping to build homes for disadvantaged families.

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## Six-Year Summary

(in millions of yen)

| <b>Balance Sheets</b> (at March 31)                      | <b>1998</b>        | 1997               | 1996               | 1995               | 1994               | 1993               |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Assets</b>  |                    |                    |                    |                    |                    |                    |
| Cash and Due from Banks                                  | ¥ 553,203          | ¥ 2,318,157        | ¥ 2,987,739        | ¥ 3,951,856        | ¥ 4,549,916        | ¥ 4,061,432        |
| Trading Assets   | 3,466,255          | —                  | —                  | —                  | —                  | —                  |
| Trading Account Securities                               | —                  | 943,457            | 537,932            | 726,995            | 977,715            | 480,014            |
| Investment Securities                                    | 8,847,249          | 6,808,045          | 6,686,872          | 6,351,897          | 6,382,275          | 6,528,915          |
| Loans and Bills Discounted                               | 24,001,429         | 25,518,440         | 24,267,385         | 23,808,552         | 24,023,625         | 24,663,364         |
| Foreign Exchanges  | 373,592            | 436,174            | 332,713            | 307,397            | 318,561            | 319,750            |
| Other Assets   | 9,963,718          | 8,433,234          | 3,593,935          | 3,567,067          | 3,658,268          | 3,067,216          |
| Customers' Liabilities<br>for Acceptances and Guarantees | 2,024,337          | 2,382,608          | 2,331,153          | 2,144,478          | 2,578,011          | 3,099,322          |
| <b>Total Assets</b>                                      | <b>¥49,229,785</b> | <b>¥46,966,968</b> | <b>¥40,737,733</b> | <b>¥40,858,245</b> | <b>¥42,488,374</b> | <b>¥42,220,016</b> |
| <b>Liabilities and Shareholders' Equity</b>              |                    |                    |                    |                    |                    |                    |
| Debentures   | ¥20,840,941        | ¥22,137,519        | ¥21,470,815        | ¥21,658,109        | ¥22,790,004        | ¥23,099,500        |
| Deposits   | 10,053,551         | 10,871,309         | 8,960,767          | 9,273,126          | 9,421,241          | 9,163,407          |
| Trading Liabilities                                      | 2,286,959          | —                  | —                  | —                  | —                  | —                  |
| Reserves   | 993,292            | 649,985            | 556,791            | 383,999            | 328,339            | 272,337            |
| Other Liabilities  | 11,710,683         | 9,381,564          | 6,093,094          | 5,989,671          | 5,972,090          | 5,188,373          |
| Acceptances and Guarantees                               | 2,024,337          | 2,382,608          | 2,331,153          | 2,144,478          | 2,578,011          | 3,099,322          |
| <b>Total Liabilities</b>                                 | <b>47,909,766</b>  | <b>45,422,988</b>  | <b>39,412,622</b>  | <b>39,449,385</b>  | <b>41,089,687</b>  | <b>40,822,941</b>  |
| <b>Total Shareholders' Equity</b>                        | <b>1,320,019</b>   | <b>1,543,979</b>   | <b>1,325,110</b>   | <b>1,408,860</b>   | <b>1,398,686</b>   | <b>1,397,074</b>   |
| <b>Total Liabilities and Shareholders' Equity</b>        | <b>¥49,229,785</b> | <b>¥46,966,968</b> | <b>¥40,737,733</b> | <b>¥40,858,245</b> | <b>¥42,488,374</b> | <b>¥42,220,016</b> |

**Statements of Income**

| (for the years ended March 31)                  | <b>1998</b>      | 1997          | 1996            | 1995          | 1994          | 1993          |
|---|------------------|---------------|-----------------|---------------|---------------|---------------|
| Total Income                                    | ¥ 3,321,902      | ¥ 3,403,347   | ¥ 3,731,847     | ¥ 3,087,404   | ¥ 3,063,399   | ¥ 2,907,022   |
| Total Expenses                                  | 3,635,020        | 3,358,870     | 3,838,173       | 3,032,577     | 3,017,877     | 2,824,519     |
| Income (Loss) before Income Taxes<br>and Others | (313,118)        | 44,477        | (106,325)       | 54,826        | 45,521        | 82,502        |
| <b>Net Income (Loss)</b>                        | <b>(202,660)</b> | <b>12,740</b> | <b>(63,551)</b> | <b>29,685</b> | <b>21,897</b> | <b>40,937</b> |

All figures are on a consolidated basis.

## Summary

For fiscal 1997, ended March 31, 1998, IBJ reported a non-consolidated net loss of ¥341.9 billion. The principal factors accounting for this loss were Written-Off Claims and a transfer to the Reserve for Possible Loan Losses (RPLL) amounting to ¥633.8 billion, which were taken in the interest of strengthening IBJ's financial position and improving the quality of the Bank's assets.

Core Business Profit (*gyomu jun-eki*) rose by ¥26.0 billion, to ¥230.6 billion, exceeding the ¥200 billion level for the third consecutive year.

In accordance with the principle of Prompt Corrective Action, which will become effective in fiscal 1998, and to substantially enhance the quality of its asset portfolio, IBJ established *Standards for Self-Assessments of Assets and Standards for Write-Offs and Provisions*, the new standards for dealing with possible loan losses. The above Written-Off Claims and RPLL recorded in the 1997 financial statements were determined based on these new standards.

In the evaluation of its portfolio of listed securities, IBJ continued to use the lower of cost or market value method. As a result, devaluation losses of ¥266.9 billion were recorded for fiscal 1997. In addition, under the Land Properties Revaluation Act, IBJ revalued its land used for business operations and recorded the difference between the cost and market value in Surplus from Land Revaluation on the liabilities side of the balance sheets.

Principal financial data for the past six years are shown in the accompanying table.

(All figures are on a non-consolidated basis, unless stated otherwise.)

## Income Analysis

Core Business Profit (*gyomu jun-eki*) for fiscal 1997 rose significantly, as mentioned above.

The following is the analysis of Gross Core Business Profit by its principal components. Net Interest Income declined because a portion of interest income is now included in Trading Income and Trading Expenses due to the introduction of mark-to-market accounting for the Trading Accounts. Net Interest Income also declined because the decrease in interest income exceeded the drop in funding costs.

Profit from Bond Operations, however, rose to ¥34.3 billion, a substantial increase of ¥39.5 billion from fiscal 1996, reflecting active and timely treasury operations during volatile interest rate situations. Fees and Commissions also increased, mainly because of higher loan-related fees. As a result, Gross Core Business Profit increased by ¥24.5 billion, to ¥418.2 billion, the highest level ever achieved.

General and administrative expenses—which are the sum of personnel and nonpersonnel expenses and taxes, as shown in the Summary Income Statement on page 54—rose by ¥8.2 billion, to ¥165.4 billion. Although efforts continued throughout the fiscal year to reduce expenses, expenses rose to this level because of higher investments in systems necessary to prepare for Japan's Big Bang financial reforms, the increase in the national consumption tax rate, and higher costs of foreign currency denominated expenses due to the decline in the value of the yen.

Until March 31, 1997, the transfer to the General Reserve for Possible Loan Losses had been calculated by multiplying the outstanding amount of loans by rates specified in the Accounting Standards for Banks. On the basis of IBJ's new standards for write-offs and a transfer, mentioned previously, however, the reserve at March 31, 1998, was calculated based on the ratio of actual loan losses, formulated from loss experiences over a certain period of time in the past. As a result of this new approach, the net increase in the General Reserve for Possible Loan Losses amounted to ¥14.0 billion.

In view of the introduction of the principle of Prompt Corrective Action and with the objective of substantially enhancing the soundness of IBJ's assets, IBJ recorded appropriate write-offs and transfers to RPLL for those assets for which the recovery appeared difficult. As mentioned earlier, such write-offs and transfers, together with losses on loan sales, amounted to ¥633.8 billion for fiscal 1997, the second largest amount since fiscal 1995 when write-offs of loans to insolvent housing loan companies (*jusen*) and other nonperforming loans were recorded.

The majority of the previously mentioned losses represents a transfer to Specific Reserve for Possible Loan Losses of ¥506.2 billion. Other losses include Written-Off Claims of ¥61.1 billion, losses on sales of loans to restructuring countries and other loans of ¥28.8 billion, losses on sales of loans to the Cooperative Credit Purchasing Company, Limited (CCPC), of ¥21.7 billion, and provisions of ¥15.8 billion to the Reserve for Contingent Losses relating to Loans Sold to cover possible “secondary losses” on loans that had already been sold to the CCPC.

IBJ also recognized devaluation losses of ¥266.9 billion on its stock portfolio, due largely to the weakness in Japan's stock markets. (IBJ continues to use the lower of cost or market method in evaluating its stock portfolio.) Net profit on the sales of stocks amounted to ¥334.9 billion. This was gained from outright sales of stocks from IBJ's portfolio and stock-index futures operations. As a consequence, profits of these stock accounts (net profits on the sales of stocks and devaluation losses on stocks) amounted to ¥67.9 billion.

As a result of all these factors mentioned above, IBJ reported an annual loss for the first time since fiscal 1995, when it recorded the loss from *jusen* loans.

### Summary Income Statement

|  | (in billions of yen) |             |             |   |
|--|----------------------|-------------|-------------|---|
|  | Fiscal 1997          | Fiscal 1996 | Fiscal 1995 | Change from Fiscal 1996<br>to Fiscal 1997 |
| <b>Gross Core Business Profit</b>                    | <b>¥418.2</b>        | ¥393.7      | ¥413.0      | <b>¥ 24.5</b>                             |
| Net Interest Income                                  | <b>297.8</b>         | 336.4       | 250.6       | <b>(38.6)</b>                             |
| Domestic Operations                                  | <b>240.6</b>         | 248.8       | 205.9       | <b>(8.2)</b>                              |
| International Operations                             | <b>57.1</b>          | 87.6        | 44.7        | <b>(30.5)</b>                             |
| Profit (Loss) from Bond Operations                   | <b>34.3</b>          | (5.2)       | 86.7        | <b>39.5</b>                               |
| Fees and Commissions                                 | <b>76.9</b>          | 36.9        | 46.9        | <b>40.0</b>                               |
| Trading Profit                                       | <b>(6.2)</b>         | —           | —           | <b>(6.2)</b>                              |
| Profit from Foreign Exchange Operations              | <b>11.7</b>          | 16.2        | 13.1        | <b>(4.5)</b>                              |
| Other Core Business Profit                           | <b>3.7</b>           | 9.2         | 15.5        | <b>(5.5)</b>                              |
| Transfer to General Reserve for Possible Loan Losses | <b>14.0</b>          | 21.1        | 0.4         | <b>(7.1)</b>                              |
| General and Administrative Expenses                  | <b>165.4</b>         | 157.2       | 157.3       | <b>8.2</b>                                |
| Debenture Cost                                       | <b>8.0</b>           | 10.6        | 6.7         | <b>(2.6)</b>                              |
| <b>Core Business Profit</b>                          | <b>230.6</b>         | 204.6       | 248.5       | <b>26.0</b>                               |
| Funding Cost of Money Trusts                         | <b>(20.5)</b>        | (32.9)      | (35.6)      | <b>12.4</b>                               |
| Other Profit (Loss)                                  | <b>(567.9)</b>       | (128.0)     | (379.9)     | <b>(439.9)</b>                            |
| Net Profit from Stock Transactions                   | <b>67.9</b>          | 103.1       | 450.6       | <b>(35.2)</b>                             |
| Loan Losses  | <b>(633.8)</b>       | (261.2)     | (856.0)     | <b>(372.6)</b>                            |
| Income (Loss) before Income Taxes                    | <b>(341.7)</b>       | 41.2        | (130.3)     | <b>(382.9)</b>                            |
| <b>Net Income (Loss)</b>                             | <b>(341.9)</b>       | 41.1        | (132.5)     | <b>(383.0)</b>                            |

### Loan Loss Experiences

|   | (in billions of yen) |               |               |   |
|---|----------------------|---------------|---------------|---|
|   | Fiscal 1997          | Fiscal 1996   | Fiscal 1995   | Change from Fiscal 1996<br>to Fiscal 1997 |
| Loan Write-Offs   | ¥ 61.1               | ¥ 10.4        | ¥605.1        | ¥ 50.7                                    |
| Transfer to Specific Reserve for Possible Loan Losses                           | 506.2                | 203.2         | 226.3         | 303.0                                     |
| Losses on Sales of Loans to the CCPC  | 21.7                 | 10.1          | 16.9          | 11.6                                      |
| Losses on Sales of Loans to Restructuring Countries<br>and Other Loans          | 28.8                 | 26.2          | 7.5           | 2.6                                       |
| Transfer to Reserve for Contingent Losses relating<br>to Loans Sold to the CCPC | 15.8                 | 11.1          | —             | 4.7                                       |
| <b>Total</b>  | <b>¥633.8</b>        | <b>¥261.2</b> | <b>¥856.0</b> | <b>¥372.6</b>                             |

### Balance Sheet Analysis

**Assets** IBJ's total assets rose by ¥1,690.8 billion, or 3.8%, to ¥45,140.8 billion. Loans and Bills Discounted fell by ¥1,472.0 billion from the previous fiscal year-end, while IBJ responded positively to the financing needs of its clients during the years; the principal reasons for the decline were the securitization of certain loan assets and active efforts to write off and recover nonperforming exposure in the interest of improving the efficiency and soundness of IBJ's loan portfolio. According to the industrial categories defined by the Bank of Japan, IBJ had ¥3,651.9 billion in loans outstanding to the "finance and insurance" industry, which accounted for 18.4% of all loans from domestic offices (excluding the Special Account for Japan Offshore Market Transactions). A high percentage of these loans, however, was outstanding to sales finance subsidiaries of IBJ's principal clients in the electric machinery, automobile, steel, and trading industries.

IBJ's investment securities portfolio rose by ¥1,872.0 billion, to ¥8,699.6 billion. Unrealized gains on listed securities declined to ¥477.5 billion, as a result of the sharp deterioration in stock market conditions.

Beginning with fiscal 1997, IBJ introduced mark-to-market accounting methods for trading operations. Those operations are designated as "Trading Transactions," which include derivatives to meet a diverse range of customer needs and short-term, own-account trading. Assets held for Trading Transactions amounted to ¥2,119.6 billion as of March 31, 1998, and are shown in Trading Assets.

**Liabilities** As a result of continued efforts in marketing IBJ's debentures giving due regard to the financial environment, the balance of coupon debentures rose by ¥346.2 billion. The balance of discount debentures, however, declined by ¥1,666.1 billion. Total debentures outstanding as of March 31, 1998, amounted to ¥20,239.7 billion.

Deposits, including certificates of deposit, declined by ¥576.2 billion, mainly at IBJ's domestic offices, and stood at ¥10,139.9 billion as of March 31, 1998. Trading Liabilities—which, in the same way as Trading Assets, include specified transactions—amounted to ¥1,738.7 billion.

As a result of the passage of the Land Properties Revaluation Act (promulgated March 31, 1998, Law No. 34), IBJ revalued its land that is used in its business operations. The Surplus from Land Revaluation account shows the results of this revaluation, amounting to ¥180.6 billion.

**Shareholders' Equity** As noted in the income analysis section, IBJ recognized loan losses of ¥633.8 billion for fiscal 1997 and reported a net loss of ¥341.9 billion. As a consequence, Shareholders' Equity declined by ¥363.6 billion, to ¥1,066.9 billion.

**Balance Sheet Summary**

|   | (in billions of yen) |             |             |   |
|---|----------------------|-------------|-------------|---|
|   | Fiscal 1997          | Fiscal 1996 | Fiscal 1995 | Change from fiscal 1996<br>to fiscal 1997 |
| <b>Assets</b>                                     | <b>¥45,140.8</b>     | ¥43,450.0   | ¥38,365.7   | <b>¥1,690.8</b>                           |
| Loans and Bills Discounted                        | 23,241.5             | 24,713.5    | 23,600.3    | (1,472.0)                                 |
| Securities  | 8,699.6              | 6,827.6     | 6,747.7     | 1,872.0                                   |
| Trading Assets                                    | 2,119.6              | —           | —           | 2,119.6                                   |
| Other Assets                                      | 4,673.7              | 4,179.1     | 1,181.6     | 494.6                                     |
| Securities in Custody                             | 1,834.0              | 1,532.6     | 345.9       | 301.4                                     |
| Cash Placed as Collateral on Securities Borrowed  | 1,773.9              | 1,426.8     | —           | 347.1                                     |
| <b>Liabilities</b>                                | <b>44,073.9</b>      | 42,019.5    | 37,182.5    | <b>2,054.4</b>                            |
| Debentures  | 20,239.7             | 21,559.6    | 21,211.4    | (1,319.9)                                 |
| Deposits  | 6,786.9              | 8,180.9     | 7,312.1     | (1,394.0)                                 |
| CDs   | 3,352.9              | 2,535.3     | 1,347.5     | 817.6                                     |
| Trading Liabilities                               | 1,738.7              | —           | —           | 1,738.7                                   |
| Shareholders' Equity                              | 1,066.9              | 1,430.5     | 1,183.1     | (363.6)                                   |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>¥45,140.8</b>     | ¥43,450.0   | ¥38,365.7   | <b>¥1,690.8</b>                           |

**Nonperforming Loans**

Nonperforming Loans are defined in accordance with the previous categorization adopted by the Federation of Bankers Associations (the Association), i.e., Loans to Legally Bankrupt Companies, Overdue Loans, Loans with Reduced or Suspended Interest, and Financial Assistance Loans. The nonperforming loans declined from ¥1,235.1 billion at fiscal 1995 year-end to ¥1,084.4 billion at fiscal 1996 year-end and then to ¥1,037.4 billion at fiscal 1997 year-end. In addition, the ratio of the nonperforming loans to the average balance of total loans outstanding fell from 5.0% in fiscal 1995 to 4.3% in fiscal 1996 and then to 4.0% in fiscal 1997.

Fiscal 1997 experienced major corporate bankruptcies due to the prolonged stagnation of the Japanese economy. Despite this, IBJ continued its efforts in improving its asset quality by substantially upgrading the credit management process, including the adoption of stricter risk management procedures. IBJ also made progress in removing nonperforming assets from its balance sheets through recoveries, write-offs, and sales of such loans. With these efforts, the ratio of nonperforming loans to total loans declined as mentioned in the preceding paragraph.

Thus, in fiscal 1997, IBJ actively wrote off loans and also made additions to RPLL based on the strict and objective self-assessments of loan quality. As a consequence, the total value of RPLL increased sharply, from ¥557.5 billion as of March 31, 1997, to ¥899.8 billion as of March 31, 1998. Accordingly, the ratio of RPLL to nonperforming loans increased substantially, from 51.4% to 86.7%, over the same period. It should be noted, however, that the nonperforming loans include those secured by appropriate value of collateral and, therefore, without serious problems in recovering principal and interest. Taking these factors into account, the above covering ratio is considered sufficient.

**Balance of Nonperforming Loans**

|   | (in billions of yen) |             |             |
|---|----------------------|-------------|-------------|
|   | Fiscal 1997          | Fiscal 1996 | Fiscal 1995 |
| Loans to Legally Bankrupt Companies           | ¥ 299.6              | ¥ 329.4     | ¥ 121.8     |
| Overdue Loans                                 | 434.6                | 402.6       | 490.2       |
| Loans with Reduced or Suspended Interest      | 42.9                 | 92.1        | 372.8       |
| Financial Assistance Loans                    | 260.2                | 260.2       | 250.2       |
| Total (A)                                     | ¥1,037.4             | ¥1,084.4    | ¥1,235.1    |
| Ratio to Average Balance of Loans Outstanding | 4.0%                 | 4.3%        | 5.0%        |

**Reserve for Possible Loan Losses and Coverage Ratios**

|  | (in billions of yen) |             |             |
|--|----------------------|-------------|-------------|
|  | Fiscal 1997          | Fiscal 1996 | Fiscal 1995 |
| General Reserve for Possible Loan Losses     | ¥106.2               | ¥ 92.2      | ¥ 71.0      |
| Specific Reserve for Possible Loan Losses    | 793.3                | 464.4       | 392.4       |
| Reserve for Loans to Restructuring Countries | 0.2                  | 0.8         | 8.7         |
| Total (B)                                    | ¥899.8               | ¥557.5      | ¥472.3      |
| Coverage Ratio (B/A)                         | 86.7%                | 51.4%       | 38.2%       |

**Loans under Special Risk Review**

Apart from the nonperforming loans discussed above, IBJ has voluntarily disclosed "Loans under Special Risk Review" in line with new standards defined by the Association. These new standards were similar to those accepted by U.S. accounting standards. The balance of such loans at fiscal 1997 year-end was ¥1,569.4 billion. This figure consists of Loans to Legally Bankrupt Companies and Overdue Loans under the previous standards as well as loans past due three months or more and Restructured Loans. These are defined as follows:

Loans to Legally Bankrupt Companies and Overdue Loans: Exposure on which, under the Accounting Standards for Banks in Japan, unpaid interest may be treated as nonaccrual.

Loans past due three months or more: Exposure on which principal or interest is more than three months past due. This category excludes Loans to Legally Bankrupt Companies and Overdue Loans.

Restructured Loans: Exposure for which IBJ has made certain modifications of terms for borrowers in financial difficulty with the objectives of rehabilitation and assistance and thus promote the recovery of such exposure. Such modifications may include reducing or suspending interest payments, granting grace periods for payments of interest or principal, waiving claims, providing cash, accepting payment in nonmonetary form, and other types of concessions. This category excludes Loans to Legally Bankrupt Companies, Overdue Loans, and loans past due three months or more but includes Loans with Reduced or Suspended Interest and Financial Assistance Loans under the previous standards by the Association.

This disclosure under the new standards includes loans that require a certain degree of special risk review but that do not cause concern regarding the recovery of the principal. Accordingly, not all of the loans in this category of problem loans are nonperforming.

**Balance of Loans under Special Risk Review**

|   | (in billions of yen) |
|---|----------------------|
|   | Fiscal 1997          |
| Loans to Legally Bankrupt Companies and Overdue Loans | ¥ 734.2              |
| Loans Past Due Three Months or More up to Six Months  | 14.5                 |
| Restructured Loans                                    | 820.6                |
| Total   | ¥1,569.4             |
| Ratio to Average Balance of Loans Outstanding         | 6.1%                 |

### BIS Capital Adequacy Ratio (Consolidated Basis)

IBJ's capital adequacy ratio rose by 122 basis points, to 10.26%, as a result of the following policy initiatives. During fiscal 1997, ¥210.0 billion in subordinated debentures and US\$1.0 billion in preferred securities were issued through overseas subsidiaries. In addition, ¥100.0 billion in subordinated debentures was issued to the Resolution and Recovery Trust Company in Japan. With these efforts, despite a decline in shareholders' equity due to the net loss and a drop in unrealized gains on securities, IBJ's Tier I capital amounted to ¥1,444.4 billion (5.21% of risk assets) and Tier II capital rose to ¥1,399.7 billion (5.05% of risk assets).

The volume of risk-adjusted assets was reduced by ¥4,113.8 billion, to ¥27,716.8 billion. This reduction was achieved through active measures to liquidate and securitize assets, making use, for example, of collateralized loan obligations overseas and other means.

### Capital Adequacy Ratios (Uniform International Standards)

|   | (in billions of yen) |             |             |
|---|----------------------|-------------|-------------|
|   | Fiscal 1997          | Fiscal 1996 | Fiscal 1995 |
| Capital Ratio   | <b>10.26%</b>        | 9.04%       | 8.59%       |
| Capital   | <b>¥ 2,844.1</b>     | ¥ 2,878.6   | ¥ 2,656.4   |
| Tier I  | <b>1,444.4</b>       | 1,536.3     | 1,328.2     |
| Tier II   | <b>1,399.7</b>       | 1,342.2     | 1,622.1     |
| Unrealized Gains on Securities (45%)                          | <b>183.4</b>         | 384.4       | 473.0       |
| Surplus from Land Revaluation (45%)                           | <b>81.2</b>          |             |             |
| Subordinated Debt   | <b>1,018.5</b>       | 853.6       | 784.1       |
| Reserve for Possible Loan Losses, excluding Specific Reserves | <b>116.4</b>         | 104.2       | 71.0        |
| Tier III  | —                    |             |             |
| Risk-Adjusted Assets  | <b>27,716.8</b>      | 31,830.6    | 30,906.3    |
| On-Balance-Sheet Exposure                                     | <b>24,121.1</b>      | 28,107.1    | 27,224.3    |
| Off-Balance-Sheet Exposure                                    | <b>3,385.3</b>       | 3,723.5     | 3,681.9     |
| Market Risk Related Exposure                                  | <b>210.2</b>         |             |             |



**Financial Derivatives and Forward Foreign Exchange (Consolidated Basis)**

|                                      | (in billions of yen) |                          |                    |                          |                    |                          |
|--------------------------------------|----------------------|--------------------------|--------------------|--------------------------|--------------------|--------------------------|
|                                      | March 31, 1998       |                          | March 31, 1997     |                          | March 31, 1996     |                          |
|                                      | Notional principal   | Credit equivalent amount | Notional principal | Credit equivalent amount | Notional principal | Credit equivalent amount |
| Interest Rate Swaps                  | ¥ 77,978.2           | ¥1,763.1                 | ¥ 67,955.4         | ¥1,269.2                 | ¥ 61,996.3         | ¥1,459.0                 |
| Currency Swaps                       | 6,177.5              | 736.7                    | 6,140.8            | 647.8                    | 6,284.7            | 1,089.6                  |
| Forward Foreign Exchange             | 31,712.6             | 1,777.7                  | 40,375.3           | 1,887.1                  | 40,318.6           | 2,066.1                  |
| Interest Rate Options (Purchased)    | 4,904.0              | 46.7                     | 4,298.5            | 33.6                     | 408.7              | 8.3                      |
| Currency Options (Purchased)         | 717.5                | 30.1                     | 1,620.1            | 90.1                     | 511.5              | 12.7                     |
| Other Derivative Instruments         | 5,392.3              | 39.1                     | 2,515.7            | 4.9                      | 6,776.8            | 85.7                     |
| Impact of Master Netting Instruments | —                    | (948.1)                  | —                  | —                        | —                  | —                        |
| <b>Total</b>                         | <b>¥126,882.3</b>    | <b>¥3,445.4</b>          | <b>¥122,906.1</b>  | <b>¥3,932.8</b>          | <b>¥116,296.9</b>  | <b>¥4,721.7</b>          |

- Notes: 1. Figures listed above are on a consolidated basis and are calculated in accordance with the BIS guidelines.  
2. In computing the credit equivalent amount, the current exposure method was used (By March 31, 1997, the original exposure method was used in some cases).  
3. The impact of netting agreements was taken into account by March 31, 1997, and was separately disclosed from March 31, 1998.  
4. The amounts of transactions that are excluded for capital adequacy guidelines are public exchange transactions and foreign exchange related transactions for which the original contract has a duration of 14 days or less and are shown below.

|                                   | (in billions of yen)      |                           |                           |
|-----------------------------------|---------------------------|---------------------------|---------------------------|
|                                   | March 31, 1998            | March 31, 1997            | March 31, 1996            |
|                                   | Notional principal amount | Notional principal amount | Notional principal amount |
| Forward Foreign Exchange          | ¥ 5,560.2                 | ¥ 2,342.9                 | ¥ 6,535.7                 |
| Interest Rate Options (Written)   | 9,898.0                   | 14,233.9                  | 4,414.8                   |
| Interest Rate Options (Purchased) | 5,647.1                   | 8,765.2                   | 3,199.8                   |
| Currency Options (Written)        | 887.0                     | 1,107.1                   | 565.0                     |
| Currency Options (Purchased)      | 1.6                       | 16.3                      | 27.6                      |
| Other Derivative Instruments      | 83,388.6                  | 73,956.3                  | 91,029.7                  |
| <b>Total</b>                      | <b>¥105,382.8</b>         | <b>¥100,421.9</b>         | <b>¥105,773.0</b>         |

## Consolidated Balance Sheets

|   | (in millions of yen) |                    | (in thousands of U.S. dollars) |
|---|----------------------|--------------------|--------------------------------|
|   | March 31, 1998       | March 31, 1997     | March 31, 1998                 |
| <b>Assets</b>   |                      |                    |                                |
| Cash and Due from Banks (Note 3)                                | ¥ 553,203            | ¥ 2,318,157        | \$ 4,187,761                   |
| Call Loans  | 3,646,837            | 2,846,960          | 27,606,645                     |
| Commercial Paper and Other Debt Purchased                       | 14,491               | 5,152              | 109,698                        |
| Trading Assets (Notes 2 (c) and 4)                              | 3,466,255            | —                  | 26,239,635                     |
| Trading Account Securities (Notes 2 (c), 2 (d), 5 and 29)       | —                    | 943,457            | —                              |
| Money Held in Trust (Note 30)                                   | 171,157              | 674,927            | 1,295,668                      |
| Investment Securities (Notes 6 and 29)                          | 8,847,249            | 6,808,045          | 66,973,878                     |
| Loans and Bills Discounted (Note 7)                             | 24,001,429           | 25,518,440         | 181,691,365                    |
| Foreign Exchanges (Note 8)                                      | 373,592              | 436,174            | 2,828,105                      |
| Other Assets (Note 9)   | 5,533,487            | 4,759,124          | 41,888,624                     |
| Premises and Equipment (Note 10)                                | 295,762              | 120,537            | 2,238,929                      |
| Deferred Debenture Charges (Note 11)                            | 15,994               | 26,531             | 121,078                        |
| Deferred Income Taxes   | 285,987              | 126,849            | 2,164,929                      |
| Customers' Liabilities for Acceptances and Guarantees (Note 18) | 2,024,337            | 2,382,608          | 15,324,282                     |
| <b>Total Assets</b>   | <b>¥49,229,785</b>   | <b>¥46,966,968</b> | <b>\$372,670,597</b>           |
| <b>Liabilities and Shareholders' Equity</b>                     |                      |                    |                                |
| <b>Liabilities</b>  |                      |                    |                                |
| Debentures (Note 12)  | ¥20,840,941          | ¥22,137,519        | \$157,766,399                  |
| Deposits (Note 13)  | 10,053,551           | 10,871,309         | 76,105,612                     |
| Call Money  | 4,251,988            | 3,403,862          | 32,187,647                     |
| Borrowed Money (Note 14)  | 1,804,335            | 1,386,132          | 13,658,858                     |
| Trading Liabilities (Notes 2 (c) and 4)                         | 2,286,959            | —                  | 17,312,338                     |
| Foreign Exchanges (Note 8)                                      | 12,953               | 11,178             | 98,056                         |
| Other Liabilities (Note 15)                                     | 5,325,539            | 4,577,189          | 40,314,457                     |
| Reserve for Possible Loan Losses (Note 2 (i))                   | 922,235              | 576,950            | 6,981,345                      |
| Reserve for Retirement Allowances                               | 50,802               | 49,230             | 384,573                        |
| Reserve for Contingent Losses relating to Loans Sold            | 19,776               | 11,115             | 149,706                        |
| Other Reserves (Note 16)  | 478                  | 12,688             | 3,624                          |
| Minority Interest in Consolidated Subsidiaries (Note 17)        | 135,218              | 3,202              | 1,023,608                      |
| Acceptances and Guarantees (Note 18)                            | 2,024,337            | 2,382,608          | 15,324,282                     |
| Surplus from Land Revaluation (Note 10)                         | 180,648              | —                  | 1,367,513                      |
| <b>Total Liabilities</b>  | <b>47,909,766</b>    | <b>45,422,988</b>  | <b>362,678,018</b>             |
| <b>Shareholders' Equity</b>                                     |                      |                    |                                |
| Common Stock (Note 19)  | 465,105              | 465,105            | 3,520,857                      |
| Capital Surplus   | 361,632              | 361,632            | 2,737,564                      |
| Legal Reserve (Note 20)   | 76,431               | 72,112             | 578,587                        |
| Retained Earnings   | 416,856              | 645,141            | 3,155,610                      |
| Treasury Stock  | (5)                  | (12)               | (39)                           |
| <b>Total Shareholders' Equity</b>                               | <b>1,320,019</b>     | <b>1,543,979</b>   | <b>9,992,579</b>               |
| <b>Total Liabilities and Shareholders' Equity</b>               | <b>¥49,229,785</b>   | <b>¥46,966,968</b> | <b>\$372,670,597</b>           |

See accompanying "Notes to Consolidated Financial Statements" which are an integral part of these statements.

# Consolidated Statements of Income 61

|   | (in millions of yen) |                  |                   | (in thousands of<br>U.S. dollars) |
|---|----------------------|------------------|-------------------|-----------------------------------|
|   | Fiscal 1997*         | Fiscal 1996*     | Fiscal 1995*      | Fiscal 1997*                      |
| <b>Income</b>                                       |                      |                  |                   |                                   |
| Interest Income on:                                 |                      |                  |                   |                                   |
| Loans and Discounts                                 | ¥ 859,112            | ¥1,044,701       | ¥1,109,931        | \$ 6,503,500                      |
| Securities  | 243,380              | 212,443          | 241,148           | 1,842,395                         |
| Others  | 1,203,505            | 1,260,933        | 1,281,777         | 9,110,564                         |
| Fees and Commissions                                | 122,849              | 75,276           | 79,636            | 929,977                           |
| Trading Income (Note 21)                            | 9,467                | —                | —                 | 71,670                            |
| Other Operating Income (Note 22)                    | 473,434              | 563,997          | 460,541           | 3,583,910                         |
| Other Income (Note 23)                              | 397,938              | 245,997          | 558,806           | 3,012,403                         |
| Transfer from Other Reserves                        | 12,213               | 0                | 4                 | 92,457                            |
| <b>Total Income</b>                                 | <b>3,321,902</b>     | <b>3,403,347</b> | <b>3,731,847</b>  | <b>25,146,876</b>                 |
| <b>Expenses</b>                                     |                      |                  |                   |                                   |
| Interest Expenses on:                               |                      |                  |                   |                                   |
| Debentures  | 374,840              | 430,254          | 666,380           | 2,837,553                         |
| Deposits  | 352,186              | 382,598          | 433,818           | 2,666,059                         |
| Borrowings and Rediscounts                          | 53,153               | 243,139          | 156,797           | 402,371                           |
| Others  | 1,200,828            | 1,086,322        | 1,030,601         | 9,090,301                         |
| Amortization of Debenture Discounts                 | 34,952               | 52,401           | 110,366           | 264,595                           |
| Fees and Commissions                                | 19,738               | 18,068           | 17,028            | 149,418                           |
| Trading Expenses (Note 21)                          | 8,452                | —                | —                 | 63,988                            |
| Other Operating Expenses (Note 24)                  | 431,913              | 539,661          | 342,068           | 3,269,596                         |
| General and Administrative Expenses                 | 217,453              | 202,847          | 198,204           | 1,646,124                         |
| Other Expenses (Note 25)                            | 941,497              | 402,544          | 880,729           | 7,127,158                         |
| Transfer to Other Reserves                          | 3                    | 1,031            | 2,178             | 28                                |
| <b>Total Expenses</b>                               | <b>3,635,020</b>     | <b>3,358,870</b> | <b>3,838,173</b>  | <b>27,517,191</b>                 |
| <b>Income (Loss) before Income Taxes and Others</b> | <b>(313,118)</b>     | <b>44,477</b>    | <b>(106,325)</b>  | <b>(2,370,315)</b>                |
| Provision for Income Taxes:                         |                      |                  |                   |                                   |
| Current   | 3,935                | 5,628            | 6,207             | 29,794                            |
| Deferred  | (114,695)            | 25,049           | (49,825)          | (868,248)                         |
| Minority Interest in Net Income                     | 169                  | 1,137            | 843               | 1,287                             |
| Amortization of Consolidation Difference            | 131                  | (76)             | —                 | 997                               |
| <b>Net Income (Loss)</b>                            | <b>¥ (202,660)</b>   | <b>¥ 12,740</b>  | <b>¥ (63,551)</b> | <b>\$ (1,534,145)</b>             |
| <b>Per Share Amounts (Note 26)</b>                  |                      |                  |                   |                                   |
|   |                      |                  | (in yen)          | (in U.S. dollars)                 |
| Net Income (Loss)                                   | ¥ (79.80)            | ¥ 5.24           | ¥ (27.02)         | \$ (0.604)                        |
| Cash Dividends                                      | 8.50                 | 8.50             | 8.50              | 0.064                             |

See accompanying "Notes to Consolidated Financial Statements" which are an integral part of these statements.

\* Fiscal 1997, 1996 and 1995 represent the fiscal years ended March 31, 1998, 1997 and 1996, respectively.

## Consolidated Statements of Retained Earnings

|  | (in millions of yen) |              |              | (in thousands of<br>U.S. dollars) |
|--|----------------------|--------------|--------------|-----------------------------------|
|  | Fiscal 1997*         | Fiscal 1996* | Fiscal 1995* | Fiscal 1997*                      |
| <b>Balance at the Beginning of Year</b>  | <b>¥645,141</b>      | ¥656,387     | ¥744,169     | <b>\$4,883,736</b>                |
| Additions:   |                      |              |              |                                   |
| Increase due to Consolidation of a Subsidiary<br>Not Consolidated in the Previous Year | <b>280</b>           | —            | —            | <b>2,120</b>                      |
| Deductions:  |                      |              |              |                                   |
| Transfer to Legal Reserve  | <b>4,318</b>         | 3,998        | 4,033        | <b>32,692</b>                     |
| Cash Dividends   | <b>21,586</b>        | 19,987       | 19,987       | <b>163,409</b>                    |
| Bonuses for Directors and Statutory Auditors   | —                    | —            | 180          | —                                 |
| Net Income (Loss)  | <b>(202,660)</b>     | 12,740       | (63,551)     | <b>(1,534,145)</b>                |
| Translation Adjustments  | —                    | —            | (30)         | —                                 |
| <b>Balance at the End of Year</b>  | <b>¥416,856</b>      | ¥645,141     | ¥656,387     | <b>\$3,155,610</b>                |

See accompanying "Notes to Consolidated Financial Statements" which are an integral part of these statements.

\* Fiscal 1997, 1996 and 1995 represent the fiscal years ended March 31, 1998, 1997 and 1996, respectively.

|  | (in millions of yen) |                    |                    | (in thousands of<br>U.S. dollars) |
|--|----------------------|--------------------|--------------------|-----------------------------------|
|  | Fiscal 1997*         | Fiscal 1996*       | Fiscal 1995*       | Fiscal 1997*                      |
| <b>Cash Flows from Operating Activities:</b>                                     |                      |                    |                    |                                   |
| Net Income (Loss)  | ¥ (202,660)          | ¥ 12,740           | ¥ (63,551)         | \$ (1,534,145)                    |
| Adjustments to Reconcile Net Cash Provided<br>by (Used in) Operating Activities: |                      |                    |                    |                                   |
| Depreciation and Amortization  | 34,916               | 51,992             | 10,875             | 264,319                           |
| Net Transfer to Reserve for Possible Loan Losses                                 | 522,358              | 214,377            | 221,508            | 3,954,268                         |
| Written-Off Claims   | 11,885               | 11,904             | 606,811            | 89,976                            |
| Losses on Sales of Loans   | 50,583               | 36,721             | 24,646             | 382,914                           |
| Investment Securities Gains, Net   | (368,774)            | (99,142)           | (548,336)          | (2,791,634)                       |
| Deferred Income Taxes  | (114,695)            | 25,049             | (49,825)           | (868,243)                         |
| Minority Interest in Net Income  | 169                  | 1,137              | 843                | 1,279                             |
| Net Change in Trading Account Securities (Note 2 (c))                            | —                    | (405,525)          | 189,063            | —                                 |
| Net Change in Trading Assets/Liabilities (Note 2 (c))                            | (235,839)            | —                  | —                  | (1,785,306)                       |
| Net Change in Accruals and Others, Net   | 649,903              | (1,187,020)        | (43,833)           | 4,919,787                         |
| Net Cash Provided by (Used in) Operating Activities                              | 347,847              | (1,337,766)        | 348,201            | 2,633,215                         |
| <b>Cash Flows from Investing Activities:</b>                                     |                      |                    |                    |                                   |
| Net Change in Call Loans   | (799,877)            | (1,454,534)        | (606,871)          | (6,055,087)                       |
| Net Change in Commercial Paper and Other Debt Purchased                          | (9,339)              | 17,846             | (10,110)           | (70,696)                          |
| Net Change in Money Held in Trust  | 503,770              | (199,945)          | 301,648            | 3,813,550                         |
| Net Change in Loans and Bills Discounted   | 1,275,023            | (1,435,402)        | (1,145,887)        | 9,651,954                         |
| Proceeds from Sales of Investment Securities                                     | 1,123,981            | 783,468            | 1,570,152          | 8,508,563                         |
| Proceeds from Maturities of Investment Securities                                | 72,073               | 75,843             | 44,886             | 545,594                           |
| Purchase of Investment Securities  | (3,527,041)          | (815,150)          | (1,629,834)        | (26,699,784)                      |
| Capital Expenditure of Premises and Equipment, Net                               | (9,833)              | (29,500)           | 33,332             | (74,441)                          |
| Others, Net  | 62,582               | (87,719)           | (25,316)           | 473,747                           |
| Net Cash Used in Investing Activities  | (1,308,661)          | (3,145,092)        | (1,467,998)        | (9,906,600)                       |
| <b>Cash Flows from Financing Activities:</b>                                     |                      |                    |                    |                                   |
| Net Change in Deposits   | (817,758)            | 1,910,542          | (312,359)          | (6,190,446)                       |
| Net Change in Call Money   | 848,126              | 867,884            | 675,657            | 6,420,333                         |
| Net Change in Borrowed Money, Other<br>than Subordinated Borrowed Money          | 418,203              | 92,065             | (239,211)          | 3,165,806                         |
| Net Change in Subordinated Borrowed Money  | —                    | 10,000             | 220,000            | —                                 |
| Proceeds from Issuance of Debentures   | 10,392,563           | 13,796,654         | 13,935,017         | 78,671,942                        |
| Repayment of Debentures  | (11,776,972)         | (13,112,910)       | (14,127,386)       | (89,151,949)                      |
| Proceeds from Issuance of New Shares   | —                    | 226,120            | —                  | —                                 |
| Issuance of Preferred Stocks by a Consolidated Subsidiary                        | 131,847              | —                  | —                  | 998,084                           |
| Dividends Paid   | (21,586)             | (19,987)           | (19,987)           | (163,406)                         |
| Others, Net  | 1,775                | (4,047)            | 9,557              | 13,437                            |
| Net Cash Used in (Provided by) Financing Activities                              | (823,801)            | 3,766,320          | 141,288            | (6,236,199)                       |
| <b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>              | <b>19,662</b>        | <b>46,956</b>      | <b>14,391</b>      | <b>148,843</b>                    |
| <b>Net Change in Cash and Cash Equivalents</b>                                   | <b>(1,764,954)</b>   | <b>(669,582)</b>   | <b>(964,117)</b>   | <b>(13,360,741)</b>               |
| <b>Cash and Cash Equivalents at the Beginning of Year</b>                        | <b>2,318,157</b>     | <b>2,987,739</b>   | <b>3,951,856</b>   | <b>17,548,502</b>                 |
| <b>Cash and Cash Equivalents at the End of Year</b>                              | <b>¥ 553,203</b>     | <b>¥ 2,318,157</b> | <b>¥ 2,987,739</b> | <b>\$ 4,187,761</b>               |

See accompanying "Notes to Consolidated Financial Statements" which are an integral part of these statements.

\* Fiscal 1997, 1996 and 1995 represent the fiscal years ended March 31, 1998, 1997 and 1996, respectively.

## 1. Basis of Presentation

The accompanying consolidated financial statements have been prepared from the consolidated financial statements filed with the Ministry of Finance of Japan as required by the Securities and Exchange Law of Japan, in conformity with the accounting principles and practices generally accepted in Japan.

The Consolidated Statements of Cash Flows for each of the three years in the period ended March 31, 1998, have been prepared for the purpose of inclusion in this document, as such statements are not customarily prepared by banks in Japan and are not required to be filed with the Ministry of Finance.

The amounts indicated in millions of yen are rounded down by dropping the figures below one million. Totals may not add up exactly because of such rounding down.

The amounts as of March 31, 1998 expressed in U.S. dollars have been translated, for convenience only, at ¥132.10 per dollar, the market exchange rate prevailing on the Tokyo Foreign Exchange Market at March 31, 1998.

For the convenience of readers, certain items on the domestically issued financial statements have been reclassified and rearranged.

## 2. Basic Accounting Policy

**(a) Principles of Consolidation:** The consolidated financial statements include the accounts of The Industrial Bank of Japan, Limited ("IBJ") and 42 of its subsidiaries, together referred to as the "IBJ Group," including The Industrial Bank of Japan Trust Company (a U.S. corporation), IBJ International plc (a U.K. corporation), IBJ Schroder Bank & Trust Company (a U.S. corporation), IBJ Securities Co., Ltd. (a domestic corporation) and IBJ Preferred Capital Company L.L.C. (a U.S. corporation).

Investments in unconsolidated subsidiaries (majority owned) and affiliates (20% to 50% owned), which are not significant in the consolidated financial statements, are carried at cost.

Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is allocated to the applicable accounts, where identifiable, and the remaining portion is charged or credited to income, as the case may be, in the year in which it occurs.

All material intercompany transactions, account balances and unrealized profits have been eliminated on consolidation.

The majority of subsidiaries are consolidated on the basis of their December 31 fiscal year-end.

**(b) Cash Flows:** For the purpose of the Consolidated Statements of Cash Flows, Cash and Cash Equivalents consists of Cash and Due from Banks on the Consolidated Balance Sheets.

**(c) Trading Assets and Liabilities:** Starting fiscal 1997, trading transactions that seek gains on short-term fluctuations and arbitrage in interest rates, currency prices, market prices of securities and related indices ("Trading Transactions") have been recognized at the transaction date. These have been recorded in Trading Assets or Trading Liabilities on the Consolidated Balance Sheets at March 31, 1998. Gains or losses on these transactions have been recorded in "Trading Income" or "Trading Expenses" in the Consolidated Statements of Income for fiscal 1997.

Marketable securities, marketable securities oversold and commercial paper included in Trading Assets and Trading Liabilities are stated at fair value at the balance sheet date. Derivative financial products such as swaps, forward contracts and options transactions are stated at their hypothetical settlement values at the balance sheet date on the assumption that settlement took place then.

For fiscal 1997, Trading Income and Trading Expenses are recorded as interest income or expenses actually paid or received plus:

Marketable securities and commercial paper

The difference in valuation gains or losses between the beginning balance and the ending balance; or

#### Derivative financial products

The difference in hypothetical settlement gains or losses between the beginning balance and the ending balance In fiscal 1997, IBJ modified the format for its consolidated financial statements in accordance with the revision of the Enforcement Regulation of the Long-Term Credit Banking Law.

The format for the Consolidated Balance Sheets at March 31, 1998 was modified as follows:

(1) "Trading Account Securities" in prior years and trading account bonds oversold formerly included in "Other Liabilities" were included in "Trading Assets" and "Trading Liabilities", respectively. Balances of underwriting agreements of bonds for which the offering continued through the balance sheet date are also included in "Trading Assets".

(2) Derivative financial products that relate to trading securities were included in "Trading Assets" or "Trading Liabilities". Option premiums therefrom were included in "Other Assets" or "Other Liabilities" in prior years.

(3) Those securities included in "Investment Securities" and bonds oversold included in "Other Liabilities" in prior years that relate to Trading Transactions were included in "Trading Assets" and "Trading Liabilities", respectively.

(4) Derivative financial products that relate to securities and bonds oversold mentioned in (3) above were included in "Trading Assets" or "Trading Liabilities" at March 31, 1998. Option premiums therefrom were included in "Other Assets" or "Other Liabilities" in prior years.

(5) Other derivative financial products that relate to Trading Transactions were included in "Trading Assets" or "Trading Liabilities" at March 31, 1998. Option premiums therefrom were included in "Other Assets" or "Other Liabilities" in prior years.

(6) Due from banks and commercial paper that relate to Trading Transactions were included in "Trading Assets" at March 31, 1998. These were included in "Cash and Due from Banks" or "Commercial Paper and Other Debt Purchased" in prior years.

The format for the Consolidated Statements of Income for fiscal 1997 was modified as follows:

(1) "Trading Income" and "Trading Expenses" included the following income or expenses from Trading Securities:

- (i) Gains or losses on sales and losses on devaluation of Trading Securities, previously included in "Other Operating Income" or "Other Operating Expenses"
- (ii) Interest and dividends received from Trading Securities, previously included in "Interest Income on Securities"
- (iii) Interest expenses on Trading Securities, previously included in "Interest Expenses on Others"
- (iv) Exchange taxes on transacting Trading Securities, previously included in "General and Administrative Expenses"
- (v) Commission income from underwriting agreements, previously included in "Fees and Commissions"

(2) "Trading Income" and "Trading Expenses" included the following income or expenses from Securities Held to Hedge Trading Transactions:

- (i) Gains or losses on sales, redemption or devaluation of bonds held for Trading Transactions, previously included in "Other Operating Income" or "Other Operating Expenses"
- (ii) Interest and dividends received from bonds held to hedge Trading Transactions, previously included in "Other Operating Income" or "Other Operating Expenses"
- (iii) Exchange taxes on transacting Securities Held to Hedge Trading Transactions, previously included in "General and Administrative Expenses"



(3) "Trading Income" and "Trading Expenses" included the following income or expenses from derivative financial products for Trading Transactions:

- (i) Interest income, interest expenses or valuation gains or losses from derivative financial products for Trading Transactions, previously included in "Interest Income on Others" and "Interest Expenses on Others"
- (ii) Exchange taxes on transacting derivative financial products for Trading Transactions, previously included in "General and Administrative Expenses"

(4) "Trading Income" and "Trading Expenses" included the following income or expenses from other Trading Transactions:

- (i) Interest income, interest expenses or valuation gains or losses on certificates of deposit and commercial paper held for Trading Transactions, previously included in "Interest Income on Others" or "Interest Expenses on Others".

Establishing trading accounts in accordance with the Banking Law, Article 17-2, referred by the Long-Term Credit Banking Law, Article 17 had the following effect on the consolidated financial statements of IBJ for fiscal 1997:

|   | (in millions of yen) |
|---|----------------------|
| Increase in Total Assets                        | ¥1,458,807           |
| Increase in Total Liabilities                   | 1,435,923            |
| Net Decrease in Total Income:                   | 97,372               |
| Decrease in Interest Income                     | 121,926              |
| Increase in Trading Income                      | 24,553               |
| Net Decrease in Total Expenses:                 | 115,525              |
| Decrease in Interest Expenses                   | 117,194              |
| Increase in Trading Expenses                    | 1,669                |
| Decrease in Loss before Income Taxes and Others | 18,152               |

Some elements in Trading Income and Trading Expenses were offset in presentation of the Consolidated Statements of Income.

The consolidated subsidiaries record Trading Transactions and other similar transactions in a same manner as IBJ.

**(d) Trading Account Securities:** At March 31, 1997, Trading Account Securities held by IBJ listed on stock exchanges were valued at the lower of cost or market, cost being determined by the moving-average method. Trading Account Securities held by IBJ not listed on stock exchanges were valued at the moving-average cost.

Trading Account Securities held by the consolidated subsidiaries were principally valued at market.

**(e) Investment Securities:** Investment Securities held by IBJ listed on stock exchanges, except for Japanese national and local government bonds which are valued at the moving-average cost, are valued at the lower of cost or market, cost being determined by the moving-average method. Investment Securities held by IBJ not listed on stock exchanges are valued at the moving-average cost.

In accordance with the Accounting Standards for Banks, securities held under the fund trusts established by IBJ and managed by the trustees for short-term investments in designated securities are valued by the same methods applicable to securities held by IBJ.

Investment Securities held by the consolidated subsidiaries are principally valued at cost as determined by the specific identification method.

**(f) Translation of Foreign Currencies:** (1) Foreign currency assets and liabilities at domestic offices of IBJ are primarily translated into yen at the exchange rates in effect at the balance sheet date. Certain assets and liabilities, denominated in foreign currencies, approved for special treatment by the Ministry of Finance of Japan, are valued at the historical exchange rates prevailing at the transaction dates.

Premiums or discounts on spot and forward exchange swaps related to funding transactions are recognized as part of interest income or expenses over the life of the contract. Non-swap forward foreign exchange contracts

are valued at the forward rates prevailing at the balance sheet date for the remaining maturity of the contract. Gains and losses on these forward foreign exchange contracts are recognized in the Consolidated Statements of Income.

The financial statements of overseas offices of IBJ, which are maintained in the respective local currencies, have been converted into yen at the exchange rates in effect at the balance sheet date.

(2) Foreign currency accounts of the consolidated overseas subsidiaries are translated into their home currencies at the respective exchange rates in effect at the balance sheet date.

The financial statements of the consolidated overseas subsidiaries are translated into yen at the exchange rates in effect at the balance sheet date, except for the beginning balances of their Retained Earnings, which are translated at the historical rates. This is in accordance with the Revised Accounting Standard for Foreign Currency Transactions issued on June 7, 1995 which IBJ has applied since fiscal 1996. This change did not have any impact on Net Income.

Until fiscal 1995, the difference arising from the application of the different exchange rates to the beginning balances of their Retained Earnings had been stated as "Translation Adjustments" in the Consolidated Statements of Retained Earnings.

**(g) Premises and Equipment:** Premises and Equipment is stated at cost less accumulated depreciation.

In accordance with the Accounting Standards for Banks, depreciation of buildings and equipment of IBJ has been computed by the declining balance method at the rates permitted for taxation purposes.

Until fiscal 1996, depreciation expenses for buildings were calculated under the declining balance method at 160% of rates under the Japanese Tax Law. IBJ changed the depreciation rates for buildings in fiscal 1997 reflecting the revision in the Accounting Standards for Banks. This change resulted in the decrease in Loss before Income Taxes and Others of ¥2,306 million.

Premises and Equipment of the consolidated subsidiaries are depreciated principally by the straight-line method over the estimated useful lives.

**(h) Deferred Debenture Charges:** Deferred Debenture Charges represents discounts and issuance costs of debentures which have been deferred and amortized over the term of the debenture using the straight-line method.

**(i) Reserve for Possible Loan Losses:** Effective on March 31, 1998, IBJ has established Reserve for Possible Loan Losses based on its internal standard that is in accordance with the Accounting Standards for Banks. The criteria for establishing reserves are as follows:

- For claims to borrowers that are, in fact or in effect, bankrupt, IBJ reserves 100% of the claims less recoverable amounts from collateral and from guarantees.
- For claims to borrowers that are in danger of going bankrupt, IBJ reserves amounts deemed necessary based on overall solvency analyses in conjunction with the recoverable amounts from collateral and from guarantees.
- For other claims, IBJ provides for reserves at rates formulated from past credit histories of the debtors.
- For foreign claims, IBJ provides for reserves to cover potential losses on loans to certain less developed countries based on analyses on the political and economical climate in accordance with the Accounting Standards for Banks.

The Credit Risk Management Department has conducted self-assessments of all claims with the operating sections based on its internal standard as to their collectibility. The Credit Examination Department, which is independent from these sections, has reviewed self-assessments. Reserve for Possible Loan Losses has been established based on these examination results.

At March 31, 1997, IBJ provided for reserves as follows:

- (i) a general reserve calculated by multiplying the outstanding amount of loans by rates specified in the Accounting Standards for Banks

- (ii) a further reserve based on the consideration of the possibility of specific loan losses
- (iii) a reserve to cover potential losses on loans to certain restructuring countries in accordance with the Accounting Standards for Banks

The consolidated subsidiaries provide their reserves for possible loan losses at the amount considered necessary based on the management's risk assessment of the loan portfolio.

**(j) Reserve for Contingent Losses relating to Loans Sold:** Reserve for Contingent Losses relating to Loans Sold is established to cover contingent losses on loans sold to the Cooperative Credit Purchasing Company, Limited, taking account of the value of collateral pledged. This reserve is in accordance with Article 287-2 of the Japanese Commercial Code.

**(k) Reserve for Retirement Allowances and Pension Plan:** Reserve for Retirement Allowances of IBJ is set aside for payments to employees who retire. In accordance with the Accounting Standards for Banks, the provision is based on the amount which would have been required if all bank employees had voluntarily retired at the balance sheet date. In addition, IBJ has a non-contributory funded pension plan for eligible employees. IBJ's policy for the plan is to fund and charge to income normal costs as accrued on the basis of an actuarial method accepted in Japan.

The consolidated subsidiaries principally have funded pension plans for their employees.

**(l) Income Taxes:** IBJ is subject to Japanese corporation tax, enterprise taxes and inhabitants' taxes based on income. The aggregate tax rate was approximately 47.9% for fiscal 1997 and 51.6% for fiscal 1996 and 1995. The enterprise tax is included in "Other Expenses" in the accompanying consolidated financial statements.

Deferred income taxes are recognized in the consolidated financial statements for timing differences between financial accounting and tax reporting purposes.

**(m) Lease Transactions:** Finance leases of IBJ and domestic subsidiaries where ownership does not transfer to the lessees are accounted for under the accounting principles applicable to operating leases.

### 3. Cash and Due from Banks

Cash and Due from Banks included certificates of deposit outstanding.

### 4. Trading Assets and Liabilities

Trading Assets and Liabilities at March 31, 1998 consisted of the following:

|   | (in millions of yen) | (in thousands of U.S. dollars) |
|---|----------------------|--------------------------------|
|   | March 31, 1998       | March 31, 1998                 |
| Trading Assets:   |                      |                                |
| Trading Securities  | ¥1,620,929           | \$12,270,470                   |
| Derivatives for Trading Securities                            | 34                   | 265                            |
| Securities Held to Hedge Trading Transactions                 | 40,213               | 304,419                        |
| Derivatives for Securities Held to Hedge Trading Transactions | 64                   | 486                            |
| Derivatives for Trading Transactions                          | 1,637,121            | 12,393,044                     |
| Other Trading Assets  | 167,892              | 1,270,951                      |
| <b>Total</b>  | <b>¥3,466,255</b>    | <b>\$26,239,635</b>            |
| Trading Liabilities:  |                      |                                |
| Trading Securities Oversold                                   | ¥ 786,972            | \$ 5,957,396                   |
| Derivatives for Trading Securities                            | 17                   | 135                            |
| Securities Oversold to Hedge Trading Transactions             | 3,567                | 27,004                         |
| Derivatives for Securities Held to Hedge Trading Transactions | 127                  | 962                            |
| Derivatives for Trading Transactions                          | 1,496,275            | 11,326,841                     |
| <b>Total</b>  | <b>¥2,286,959</b>    | <b>\$17,312,338</b>            |

Refer to Note 2. Basic Accounting Policy (c).

## 5. Trading Account Securities

Trading Account Securities at March 31, 1997 consisted of the following:

|                                    | (in millions of yen) |
|------------------------------------|----------------------|
|                                    | March 31, 1997       |
| Japanese National Government Bonds | ¥246,705             |
| Japanese Local Government Bonds    | 17,100               |
| Government-Guaranteed Bonds        | 18,876               |
| Others                             | 660,774              |
| <b>Total</b>                       | <b>¥943,457</b>      |

Refer to Note 2. Basic Accounting Policy (c) and (d).

## 6. Investment Securities

Investment Securities at March 31, 1998 and 1997 consisted of the following:

|                                    | (in millions of yen) |                   | (in thousands of U.S. dollars) |
|------------------------------------|----------------------|-------------------|--------------------------------|
|                                    | March 31, 1998       | March 31, 1997    | March 31, 1998                 |
| Japanese National Government Bonds | ¥3,513,430           | ¥2,189,457        | \$26,596,747                   |
| Japanese Local Government Bonds    | 131,430              | 110,846           | 994,934                        |
| Corporate Bonds                    | 348,382              | 407,279           | 2,637,260                      |
| Stocks and Shares (1)              | 2,428,820            | 2,653,415         | 18,386,228                     |
| Other Securities                   | 2,425,185            | 1,447,044         | 18,358,709                     |
| <b>Total</b>                       | <b>¥8,847,249</b>    | <b>¥6,808,045</b> | <b>\$66,973,878</b>            |

(1) Stocks and Shares included investments in unconsolidated subsidiaries and affiliates of ¥6,363 million and ¥18,948 million at March 31, 1998 and 1997, respectively.

## 7. Loans and Bills Discounted

Loans and Bills Discounted at March 31, 1998 and 1997 consisted of the following:

|                  | (in millions of yen) |                    | (in thousands of U.S. dollars) |
|------------------|----------------------|--------------------|--------------------------------|
|                  | March 31, 1998       | March 31, 1997     | March 31, 1998                 |
| Bills Discounted | ¥ 166,932            | ¥ 188,549          | \$ 1,263,685                   |
| Loans on Notes   | 4,673,142            | 5,226,302          | 35,375,795                     |
| Loans on Deeds   | 16,868,577           | 17,638,559         | 127,695,515                    |
| Overdrafts       | 2,292,776            | 2,465,028          | 17,356,370                     |
| <b>Total</b>     | <b>¥24,001,429</b>   | <b>¥25,518,440</b> | <b>\$181,691,365</b>           |

Loans and Bills Discounted at March 31, 1998 and 1997 includes the following IBJ's loans.

|  | (in millions of yen) |                | (in thousands of U.S. dollars) |
|--|----------------------|----------------|--------------------------------|
|  | March 31, 1998       | March 31, 1997 | March 31, 1998                 |
| Loans to Legally Bankrupt Companies          | ¥299,645             | ¥329,406       | \$2,268,324                    |
| Overdue Loans                                | 434,604              | 402,666        | 3,289,966                      |
| Loans with Reduced or Suspended Interest (1) | 42,963               | 92,161         | 325,235                        |
| Financial Assistance Loans (2)               | 260,200              | 260,200        | 1,969,720                      |

(1) Loans with Reduced or Suspended Interest represents those loans whereby, in order to assist or facilitate the restructuring of the borrower, (i) the terms and conditions have been renegotiated such that the interest rate is less than the official discount rate; (ii) 'spread loans' where the achieved spread is zero or negative; or (iii) the interest has been deferred and the interest income is not accrued.

(2) Financial Assistance Loans represents those loans whereby, for the purpose of assisting or facilitating the borrower, part of the debt has been abandoned with approval for tax deduction by the tax authorities, but the assistance to the borrower continues.

## 8. Foreign Exchange Assets and Liabilities

Foreign Exchange Assets and Liabilities at March 31, 1998 and 1997 consisted of the following:

|                                      | (in millions of yen) |                | (in thousands of U.S. dollars) |
|--------------------------------------|----------------------|----------------|--------------------------------|
|                                      | March 31, 1998       | March 31, 1997 | March 31, 1998                 |
| <b>Foreign Exchange Assets:</b>      |                      |                |                                |
| Foreign Bills Bought                 | <b>¥167,250</b>      | ¥178,404       | <b>\$1,266,094</b>             |
| Foreign Bills Receivable             | <b>138,264</b>       | 183,372        | <b>1,046,665</b>               |
| Advance to Foreign Banks             | <b>10,789</b>        | 3,208          | <b>81,679</b>                  |
| Due from Banks (Foreign)             | <b>57,287</b>        | 71,189         | <b>433,667</b>                 |
| <b>Total</b>                         | <b>¥373,592</b>      | ¥436,174       | <b>\$2,828,105</b>             |
| <b>Foreign Exchange Liabilities:</b> |                      |                |                                |
| Foreign Bills Sold                   | <b>¥ 5</b>           | ¥ 84           | <b>\$ 44</b>                   |
| Foreign Bills Payable                | <b>791</b>           | 271            | <b>5,990</b>                   |
| Advance from Foreign Banks           | <b>1,821</b>         | 7,280          | <b>13,791</b>                  |
| Due to Banks (Foreign)               | <b>10,334</b>        | 3,541          | <b>78,231</b>                  |
| <b>Total</b>                         | <b>¥ 12,953</b>      | ¥ 11,178       | <b>\$ 98,056</b>               |

## 9. Other Assets

Other Assets at March 31, 1998 and 1997 consisted of the following:

|  | (in millions of yen) |                | (in thousands of U.S. dollars) |
|--|----------------------|----------------|--------------------------------|
|  | March 31, 1998       | March 31, 1997 | March 31, 1998                 |
| Accrued Income                                   | <b>¥ 577,388</b>     | ¥ 629,706      | <b>\$ 4,370,846</b>            |
| Prepaid Expenses                                 | <b>10,578</b>        | 40,082         | <b>80,081</b>                  |
| Cash Placed as Collateral on Securities Borrowed | <b>2,205,802</b>     | 1,594,428      | <b>16,697,978</b>              |
| Securities in Custody and Other (1)              | <b>2,111,931</b>     | 1,852,264      | <b>15,987,367</b>              |
| Others (2)                                       | <b>627,785</b>       | 642,642        | <b>4,752,352</b>               |
| <b>Total</b>                                     | <b>¥5,533,487</b>    | ¥4,759,124     | <b>\$41,888,624</b>            |

(1) Securities in Custody and Other represents securities borrowed from financial institutions under contracts which allow IBJ to use these securities for the settlement of securities sold and securities deposited by customers as collateral for margin.

(2) Others at March 31, 1998 and 1997 included temporary tax payments of ¥222,682 million. IBJ made these payments as a consequence of the receipt of the Correction Notice from the Tokyo Regional Tax Bureau on August 23, 1996 in connection with the written-off claims due from Japan Housing Loan, Inc., amounting to ¥376,055 million recorded in the fiscal year ended March 31, 1996. IBJ believes it has meritorious defense and filed a response protesting the proposed adjustments with the National Tax Tribunal for administrative appeal. The National Tax Tribunal dismissed the appeal on October 28, 1997, and IBJ filed a lawsuit on October 30, 1997 at Tokyo District Court and is contesting assessments.

## 10. Premises and Equipment

Premises and Equipment at March 31, 1998 and 1997 consisted of the following:

|                          | (in millions of yen) |                 | (in thousands of U.S. dollars) |
|--------------------------|----------------------|-----------------|--------------------------------|
|                          | March 31, 1998       | March 31, 1997  | March 31, 1998                 |
| Land                     | ¥206,077             | ¥ 25,486        | \$1,560,011                    |
| Buildings                | 114,811              | 107,039         | 869,123                        |
| Equipment                | 53,999               | 55,444          | 408,774                        |
| Others                   | 34,634               | 41,429          | 262,181                        |
| Accumulated Depreciation | (113,759)            | (108,862)       | (861,160)                      |
| <b>Total</b>             | <b>¥295,762</b>      | <b>¥120,537</b> | <b>\$2,238,929</b>             |

In accordance with the Land Properties Revaluation Act, IBJ revaluated the land used for business operation. The difference between cost and market value in such land is included in Surplus from Land Revaluation.

|   | (in millions of yen) |
|---|----------------------|
| The date of revaluation                                 | March 31, 1998       |
| The book value of the land used for business operation: |                      |
| before revaluation                                      | ¥ 24,694             |
| after revaluation                                       | 205,343              |
| Surplus from Land Revaluation                           | 180,648              |

Under the Article 3-3 of the Land Properties Revaluation Act, the land used for business operation was revaluated at March 31, 1998 taking into consideration factors such as the shape of the land and its accessibility.

## 11. Deferred Debenture Charges

Deferred Debenture Charges at March 31, 1998 and 1997 consisted of the following:

|                                   | (in millions of yen) |                | (in thousands of U.S. dollars) |
|-----------------------------------|----------------------|----------------|--------------------------------|
|                                   | March 31, 1998       | March 31, 1997 | March 31, 1998                 |
| Deferred Debenture Discounts      | ¥13,920              | ¥21,916        | \$105,376                      |
| Deferred Debenture Issuance Costs | 2,074                | 4,614          | 15,702                         |
| <b>Total</b>                      | <b>¥15,994</b>       | <b>¥26,531</b> | <b>\$121,078</b>               |

## 12. Debentures

Debentures at March 31, 1998 and 1997 consisted of the following:

|                                   | (in millions of yen) |                    | (in thousands of U.S. dollars) |
|-----------------------------------|----------------------|--------------------|--------------------------------|
|                                   | March 31, 1998       | March 31, 1997     | March 31, 1998                 |
| One-year Discount Debentures (1)  | ¥ 6,467,524          | ¥ 8,133,654        | \$ 48,959,308                  |
| Long-term Coupon Debentures (1)   | 13,617,861           | 13,339,954         | 103,087,518                    |
| Others (Principally Overseas) (2) | 755,555              | 663,911            | 5,719,573                      |
| <b>Total</b>                      | <b>¥20,840,941</b>   | <b>¥22,137,519</b> | <b>\$157,766,399</b>           |

(1) One-year Discount Debentures and Long-term Coupon Debentures are yen-denominated and issued in Japan by IBJ on a regular and continuing basis.

(2) Others included subordinated debentures of ¥383,598 million and ¥72,399 million at March 31, 1998 and 1997, respectively.

### 13. Deposits

Deposits at March 31, 1998 and 1997 consisted of the following:

|                         | (in millions of yen) |                    | (in thousands of U.S. dollars) |
|-------------------------|----------------------|--------------------|--------------------------------|
|                         | March 31, 1998       | March 31, 1997     | March 31, 1998                 |
| Current Deposits        | ¥ 401,769            | ¥ 375,546          | \$ 3,041,401                   |
| Ordinary Deposits       | 599,307              | 522,023            | 4,536,768                      |
| Deposits at Notice      | 247,158              | 321,313            | 1,870,997                      |
| Time Deposits           | 3,749,662            | 5,048,797          | 28,385,033                     |
| Certificates of Deposit | 3,408,696            | 2,617,469          | 25,803,909                     |
| Other Deposits          | 1,646,957            | 1,986,159          | 12,467,504                     |
| <b>Total</b>            | <b>¥10,053,551</b>   | <b>¥10,871,309</b> | <b>\$76,105,612</b>            |

### 14. Borrowed Money

Borrowed Money included subordinated debt of ¥892,000 million at March 31, 1998 and 1997.

### 15. Other Liabilities

Other Liabilities at March 31, 1998 and 1997 consisted of the following:

|  | (in millions of yen) |                   | (in thousands of U.S. dollars) |
|--|----------------------|-------------------|--------------------------------|
|  | March 31, 1998       | March 31, 1997    | March 31, 1998                 |
| Accrued Expenses                               | ¥ 501,332            | ¥ 560,142         | \$ 3,795,097                   |
| Unearned Income                                | 32,391               | 47,783            | 245,203                        |
| Income Taxes Payable                           | 15,433               | 9,057             | 116,833                        |
| Cash Received as Collateral on Securities Lent | 1,147,884            | 387,470           | 8,689,508                      |
| Securities Borrowed                            | 561,600              | 1,800,537         | 4,251,325                      |
| Others   | 3,066,898            | 1,772,197         | 23,216,491                     |
| <b>Total</b>                                   | <b>¥5,325,539</b>    | <b>¥4,577,189</b> | <b>\$40,314,457</b>            |

### 16. Other Reserves

Other Reserves at March 31, 1998 and 1997 consisted of the following:

|   | (in millions of yen) |                | (in thousands of U.S. dollars) |
|---|----------------------|----------------|--------------------------------|
|   | March 31, 1998       | March 31, 1997 | March 31, 1998                 |
| Reserve for Losses on Sales of Trading Account Securities (1)   | ¥450                 | ¥12,659        | \$3,408                        |
| Reserve for Contingent Liabilities from Futures Transactions    | 12                   | 13             | 91                             |
| Reserve for Contingent Liabilities from Securities Transactions | 16                   | 14             | 125                            |
| <b>Total</b>  | <b>¥478</b>          | <b>¥12,688</b> | <b>\$3,624</b>                 |

(1) IBJ maintained Reserve for Losses on Sales of Trading Account Securities in accordance with the Accounting Standards for Banks. The standards were revised in fiscal 1997, and IBJ reversed the reserve accordingly. The remaining balance represented the reserve provided by a consolidated subsidiary in accordance with the Securities and Exchange Law in Japan.

### 17. Minority Interest in Consolidated Subsidiaries

Minority Interest in Consolidated Subsidiaries at March 31, 1998 included preferred stocks issued for \$1,000 million by IBJ Preferred Capital Company L.L.C. (the "Capital Company") in February 1998. These stocks are preferred as to distribution at liquidation of the Capital Company at \$1,000 per stock. The Capital Company is a wholly owned consolidated subsidiary of IBJ, and its assets consist largely of perpetual obligations issued by IBJ.



## 18. Acceptances and Guarantees

All commitments and contingent liabilities of a material nature resulting from guarantees or otherwise are included in the contra-accounts "Acceptances and Guarantees" and "Customers' Liabilities for Acceptances and Guarantees".

Outstanding commitments and contingent liabilities at March 31, 1998 and 1997 consisted of the following:

|                   | (in millions of yen) |                | (in thousands of U.S. dollars) |
|-------------------|----------------------|----------------|--------------------------------|
|                   | March 31, 1998       | March 31, 1997 | March 31, 1998                 |
| Acceptances       | ¥ 11,859             | ¥ 91,142       | \$ 89,775                      |
| Letters of Credit | 161,901              | 125,017        | 1,225,595                      |
| Guarantees        | 1,850,577            | 2,166,449      | 14,008,912                     |
| Total             | ¥2,024,337           | ¥2,382,608     | \$15,324,282                   |

## 19. Common Stock

The number of authorized shares of common stock was 4,000,000 thousand shares, with a par value of ¥50 each at March 31, 1998 and 1997. The number of issued and outstanding shares of common stock was 2,539,579,392 shares at March 31, 1998 and 1997.

## 20. Legal Reserve

In accordance with the Long-Term Credit Banking Law, IBI is required to appropriate as a legal reserve an amount equivalent to at least 20% of the amount of cash disbursements until such reserve equals 100% of its common stock.

This legal reserve is not available for dividends but may be used to reduce a deficit by approval at the shareholders' meeting or may be capitalized by resolution of the Board of Directors.

## 21. Trading Income and Expenses

Trading Income and Expenses for fiscal 1997 consisted of the following:

|   | (in millions of yen) | (in thousands of U.S. dollars) |
|---|----------------------|--------------------------------|
|   | Fiscal 1997          | Fiscal 1997                    |
| Trading Income:   |                      |                                |
| Net Gains on Trading Securities and Derivatives             | ¥8,630               | \$65,332                       |
| Other Trading Income  | 837                  | 6,338                          |
| Total   | ¥9,467               | \$71,670                       |
| Trading Expenses:   |                      |                                |
| Net Losses on Securities Held to Hedge Trading Transactions | ¥ 401                | \$ 3,036                       |
| Net Losses on Derivatives for Trading Transactions          | 8,051                | 60,952                         |
| Total   | ¥8,452               | \$63,988                       |

Refer to Note 2. Basic Accounting Policy (c).

## 22. Other Operating Income

Other Operating Income for fiscal 1997, 1996 and 1995 consisted of the following:

|  | (in millions of yen) |                 |                 | (in thousands of U.S. dollars) |
|--|----------------------|-----------------|-----------------|--------------------------------|
|  | Fiscal 1997          | Fiscal 1996     | Fiscal 1995     | Fiscal 1997                    |
| Gains on Foreign Exchange Transactions               | ¥ 12,066             | ¥ 16,731        | ¥ 13,482        | \$ 91,345                      |
| Gains on Trading Account Securities Transactions (1) | —                    | 19,918          | 18,969          | —                              |
| Gains on Sales of Bonds                              | 444,595              | 503,017         | 415,262         | 3,365,595                      |
| Gains on Redemption of Bonds                         | 11,372               | 6,317           | 6,574           | 86,089                         |
| Others   | 5,400                | 18,013          | 6,252           | 40,881                         |
| <b>Total</b>   | <b>¥473,434</b>      | <b>¥563,997</b> | <b>¥460,541</b> | <b>\$3,583,910</b>             |

(1) Refer to Note 2. Basic Accounting Policy (c).

## 23. Other Income

Other Income for fiscal 1997, 1996 and 1995 consisted of the following:

|   | (in millions of yen) |                 |                 | (in thousands of U.S. dollars) |
|---|----------------------|-----------------|-----------------|--------------------------------|
|   | Fiscal 1997          | Fiscal 1996     | Fiscal 1995     | Fiscal 1997                    |
| Gains on Sales of Stocks and Other Securities | ¥373,162             | ¥212,482        | ¥483,029        | \$2,824,848                    |
| Gains on Money Held in Trust                  | 8,751                | 17,089          | 12,131          | 66,250                         |
| Others (1)                                    | 16,024               | 16,424          | 63,645          | 121,305                        |
| <b>Total</b>                                  | <b>¥397,938</b>      | <b>¥245,997</b> | <b>¥558,806</b> | <b>\$3,012,403</b>             |

(1) Others for fiscal 1995 included an amount of ¥16,372 million representing the difference between the original capital contribution and the loans, received back as a result of the anonymous partnership contract with a special-purpose company coming to an end. This special-purpose company was originally established for liquidating restructured loans.

## 24. Other Operating Expenses

Other Operating Expenses for fiscal 1997, 1996 and 1995 consisted of the following:

|  | (in millions of yen) |                 |                 | (in thousands of U.S. dollars) |
|--|----------------------|-----------------|-----------------|--------------------------------|
|  | Fiscal 1997          | Fiscal 1996     | Fiscal 1995     | Fiscal 1997                    |
| Amortization of Debenture Issuance Costs | ¥ 6,849              | ¥ 9,450         | ¥ 5,335         | \$ 51,848                      |
| Losses on Sales of Bonds                 | 418,194              | 508,168         | 329,652         | 3,165,738                      |
| Losses on Redemption of Bonds            | 2,234                | 2,664           | 2,488           | 16,917                         |
| Losses on Devaluation of Bonds           | 2,058                | 2,563           | 337             | 15,585                         |
| Others                                   | 2,577                | 16,814          | 4,254           | 19,508                         |
| <b>Total</b>                             | <b>¥431,913</b>      | <b>¥539,661</b> | <b>¥342,068</b> | <b>\$3,269,596</b>             |

## 25. Other Expenses

Other Expenses for fiscal 1997, 1996 and 1995 consisted of the following:

|  | (in millions of yen) |                 |                 | (in thousands of U.S. dollars) |
|--|----------------------|-----------------|-----------------|--------------------------------|
|  | Fiscal 1997          | Fiscal 1996     | Fiscal 1995     | Fiscal 1997                    |
| Transfer to Reserve for Possible Loan Losses (1)     | ¥522,358             | ¥214,379        | ¥221,508        | \$3,954,268                    |
| Written-off Claims (2)                               | 62,468               | 11,904          | 606,811         | 472,891                        |
| Losses on Sales of Stocks and Other Securities       | 35,297               | 5,158           | 15,302          | 267,203                        |
| Losses on Devaluation of Stocks and Other Securities | 267,247              | 104,118         | 8,748           | 2,023,069                      |
| Losses on Money Held in Trust                        | 1,187                | 1,167           | 503             | 8,990                          |
| Enterprise Taxes (3)                                 | (34,416)             | 7,018           | (14,384)        | (260,532)                      |
| Losses on Dispositions of Premises and Equipment     | 1,585                | 2,004           | 3,631           | 12,003                         |
| Others (4)   | 85,768               | 56,793          | 38,607          | 649,266                        |
| <b>Total</b>   | <b>¥941,497</b>      | <b>¥402,544</b> | <b>¥880,729</b> | <b>\$7,127,158</b>             |

(1) Transfer to Reserve for Possible Loan Losses for fiscal 1995 included a transfer to the reserve for Japan's housing loan companies, known as *jusen*, except for Japan Housing Loan, Inc., amounting to ¥121,014 million.

(2) Written-Off Claims for fiscal 1995 included the losses on debts waived by IBJ of Japan Housing Loan, Inc. and IBJ Finance Co., Ltd., amounting to ¥376,055 million and ¥18,042 million, respectively. Loan losses for the purpose of assisting or facilitating the restructuring of the borrowers of ¥188,760 million were also included in this account.

(3) Enterprise Taxes for fiscal 1997 and 1995 had credit balances due to recognition of deferred income taxes for the respective periods.

(4) Others included the following IBJ losses:

|  | (in millions of yen) |             |             | (in thousands of U.S. dollars) |
|--|----------------------|-------------|-------------|--------------------------------|
|  | Fiscal 1997          | Fiscal 1996 | Fiscal 1995 | Fiscal 1997                    |
| Losses on Sales of Loans Collateralized by Real Estate to Cooperative Credit Purchasing Company, Limited | ¥21,701              | ¥10,190     | ¥16,966     | \$164,280                      |
| Losses on Sales of Loans to Restructuring Countries and Other Loans                                      | 28,882               | 26,216      | 7,507       | 218,642                        |
| Transfer to Reserve for Contingent Losses relating to Loans Sold   | 15,805               | 11,115      | —           | 119,651                        |

## 26. Net Loss (Income) and Cash Dividends per Share

Net Loss (Income) per Share of common stock is based upon the weighted average number of shares of common stock outstanding during each year. Cash Dividends per Share shown for each year in the Consolidated Statements of Income represents dividends declared as applicable to the respective periods.

## 27. Subsequent Events

The following appropriation of Retained Earnings of IBJ was approved on the shareholders' meeting held on June 26, 1998:

|                           | (in millions of yen) |              | (in thousands of U.S. dollars) |
|---------------------------|----------------------|--------------|--------------------------------|
|                           | Yen                  | U.S. Dollars |                                |
| Transfer to Legal Reserve | ¥ 2,160              |              | \$16,351                       |
| Cash Dividends            |                      | 10,793       | 81,705                         |
| <b>Total</b>              | <b>¥12,953</b>       |              | <b>\$98,056</b>                |

## 28. Segment Information

**(a) Segment Information by Type of Business:** The IBJ Group is engaged in securities, trust, leasing and other activities. Such segment information, however, has not been presented, as the percentages of those activities are insignificant.

**(b) Segment Information by Geographic Area:** Analyses of the IBJ Group's operations for fiscal 1997 have been presented by geographic area based on the degrees of geographic contiguity, similarities in economic activities and relation of business operations under the new disclosure requirement. For fiscal 1995 and 1996, the analyses were presented based on the classification as Japan or Overseas.

Figures relating to the overseas branches of IBJ were included in the Overseas category for fiscal 1995 and 1996, and those were classified by geographic area for fiscal 1997. The presented financial data are Operating Income and Operating Expenses in lieu of sales, cost of sales and operating expenses as is the case for a non-financial services company.

| (in millions of yen)                     |   |                                |                  |                    |                         |             |
|--|---|--------------------------------|------------------|--------------------|-------------------------|-------------|
| Fiscal 1997                              |   |                                |                  |                    |                         |             |
| Geographic Area                          | Operating Income from Outside Customers | Inter-segment Operating Income | Operating Income | Operating Expenses | Operating Profit (Loss) | Assets      |
| Japan                                    | ¥2,150,983                              | ¥37,772                        | ¥2,188,755       | ¥2,488,417         | ¥(299,661)              | ¥36,334,490 |
| North America                            | 512,243                                 | 20,278                         | 532,522          | 514,477            | 18,045                  | 7,064,997   |
| Europe                                   | 337,136                                 | 30,609                         | 367,745          | 403,542            | (35,797)                | 5,367,504   |
| Asia/Oceania excluding Japan             | 303,890                                 | 617                            | 304,507          | 312,820            | (8,313)                 | 2,856,405   |
| Total                                    | 3,304,253                               | 89,277                         | 3,393,530        | 3,719,258          | (325,727)               | 51,623,398  |
| Elimination and General Corporate Assets | —                                       | (89,277)                       | (89,277)         | (85,826)           | (3,450)                 | (2,393,612) |
| Consolidated Results                     | ¥3,304,253                              | ¥ —                            | ¥3,304,253       | ¥3,633,431         | ¥(329,178)              | ¥49,229,785 |

| (in millions of yen)                     |   |                                |                  |                    |                  |             |
|--|---|--------------------------------|------------------|--------------------|------------------|-------------|
| Fiscal 1996                              |   |                                |                  |                    |                  |             |
| Location                                 | Operating Income from Outside Customers | Inter-segment Operating Income | Operating Income | Operating Expenses | Operating Profit | Assets      |
| Japan                                    | ¥2,104,761                              | ¥60,446                        | ¥2,165,208       | ¥2,138,553         | ¥26,654          | ¥37,115,320 |
| Overseas                                 | 1,297,773                               | 17,829                         | 1,315,602        | 1,293,269          | 22,333           | 11,929,435  |
| Total                                    | 3,402,534                               | 78,276                         | 3,480,810        | 3,431,823          | 48,987           | 49,044,755  |
| Elimination and General Corporate Assets | —                                       | (78,276)                       | (78,276)         | (75,989)           | (2,287)          | (2,077,787) |
| Consolidated Results                     | ¥3,402,534                              | ¥ —                            | ¥3,402,534       | ¥3,355,833         | ¥46,700          | ¥46,966,968 |

| (in millions of yen)                     |   |                                |                  |                    |                         |             |
|--|---|--------------------------------|------------------|--------------------|-------------------------|-------------|
| Fiscal 1995                              |   |                                |                  |                    |                         |             |
| Location                                 | Operating Income from Outside Customers | Inter-segment Operating Income | Operating Income | Operating Expenses | Operating Profit (Loss) | Assets      |
| Japan                                    | ¥2,510,580                              | ¥30,245                        | ¥2,540,825       | ¥2,711,825         | ¥(171,000)              | ¥32,644,723 |
| Overseas                                 | 1,179,255                               | 15,450                         | 1,194,706        | 1,172,659          | 22,046                  | 9,873,744   |
| Total                                    | 3,689,836                               | 45,696                         | 3,735,532        | 3,884,485          | (148,953)               | 42,518,468  |
| Elimination and General Corporate Assets | —                                       | (45,696)                       | (45,696)         | (52,122)           | (6,426)                 | (1,780,734) |
| Consolidated Results                     | ¥3,689,836                              | ¥ —                            | ¥3,689,836       | ¥3,832,362         | ¥(142,526)              | ¥40,737,733 |

| (in thousands of U.S. dollars)              |  |                                   |                     |                       |                            | Fiscal 1997   |
|---|--|-----------------------------------|---------------------|-----------------------|----------------------------|---------------|
| Geographic Area                             | Operating Income from<br>Outside Customers | Inter-segment<br>Operating Income | Operating<br>Income | Operating<br>Expenses | Operating<br>Profit (Loss) | Assets        |
| Japan                                       | \$16,282,991                               | \$285,938                         | \$16,568,929        | \$18,837,376          | \$(2,268,447)              | \$275,052,919 |
| North America                               | 3,877,697                                  | 153,512                           | 4,031,209           | 3,894,607             | 136,602                    | 53,482,194    |
| Europe                                      | 2,552,130                                  | 231,712                           | 2,783,842           | 3,054,830             | (270,988)                  | 40,632,132    |
| Asia/Oceania<br>excluding Japan             | 2,300,454                                  | 4,673                             | 2,305,127           | 2,368,060             | (62,933)                   | 21,623,053    |
| Total                                       | 25,013,272                                 | 675,835                           | 25,689,107          | 28,154,873            | (2,465,766)                | 390,790,298   |
| Elimination and General<br>Corporate Assets | —  | (675,835)                         | (675,835)           | (649,712)             | (26,123)                   | (18,119,701)  |
| Consolidated Results                        | \$25,013,272                               | \$ —                              | \$25,013,272        | \$27,505,161          | \$(2,491,889)              | \$372,670,597 |

(1) Operating Income represents Total Income less certain special income. Operating Expenses represents Total Expenses less certain special expenses.

(2) Operating Profit represents Operating Income less Operating Expenses.

(3) North America includes the United States of America and Canada, etc., Europe includes the United Kingdom and Republic of France, etc., and Asia/Oceania excluding Japan includes the People's Republic of China (including Hong Kong) and the Republic of Singapore, etc.

**(c) Operating Income from International Operations:** Operating Income of the IBJ Group from International Operations was analyzed as follows:

|  | (in millions of yen) |             |             | (in thousands of<br>U.S. dollars) |
|--|----------------------|-------------|-------------|-----------------------------------|
|  | Fiscal 1997          | Fiscal 1996 | Fiscal 1995 | Fiscal 1997                       |
| Operating Income from International Operations (1) | ¥1,555,875           | ¥1,752,396  | ¥1,591,433  | \$11,778,015                      |
| Total Operating Income                             | 3,304,253            | 3,402,534   | 3,689,836   | 25,013,272                        |
| International Operations' Ratio (2)                | 47.0%                | 51.5%       | 43.1%       | 47.0%                             |

(1) Operating Income from International Operations (Net of intercompany transactions) consists of that of IBJ, consolidated domestic subsidiaries and overseas consolidated subsidiaries.

(2) International Operations' Ratio = Operating Income from International Operations/Total Operating Income.

## 29. Market Values of Securities

The following tables represent the Market Values of Securities held by IBI at March 31, 1998 and 1997.

Trading Securities and Securities Held to Hedge Trading Transactions at March 31, 1998 were included in Trading Assets and excluded from the following tables as they were marked to market and the valuation gains or losses were recognized in the Consolidated Statements of Income.

| (in millions of yen)        |            |            |                     |                 |                 |                |              |                |
|-----------------------------|------------|------------|---------------------|-----------------|-----------------|----------------|--------------|----------------|
|                             |            |            |                     |                 |                 | March 31, 1998 |              | March 31, 1997 |
|                             |            |            | Net Unrealized Gain |                 |                 | Book Value     | Market Value | Unrealized     |
| Listed Securities:          |            |            |                     | Unrealized Gain | Unrealized Loss |                |              | Gain           |
| Trading Account Securities: |            |            |                     |                 |                 |                |              |                |
| Bonds                       |            |            |                     |                 |                 | ¥ 154,988      | ¥ 159,054    | ¥ 4,066        |
| Investment Securities:      |            |            |                     |                 |                 |                |              |                |
| Bonds                       | ¥1,452,837 | ¥1,525,716 | ¥ 72,878            | ¥ 73,324        | ¥ 446           | 1,553,129      | 1,620,945    | 67,815         |
| Stocks                      | 2,548,056  | 2,935,618  | 387,561             | 387,974         | 412             | 2,731,124      | 3,506,625    | 775,500        |
| Others                      | 581,060    | 598,205    | 17,145              | 17,375          | 230             | 508,070        | 519,031      | 10,960         |
| Sub-total                   | 4,581,955  | 5,059,540  | 477,584             | 478,674         | 1,089           | 4,792,324      | 5,646,601    | 854,276        |
| Total                       | ¥4,581,955 | ¥5,059,540 | ¥477,584            | ¥478,674        | ¥1,089          | ¥4,947,313     | ¥5,805,656   | ¥858,342       |

| (in thousands of U.S. dollars) |              |              |                     |                 |                 |                |
|--------------------------------|--------------|--------------|---------------------|-----------------|-----------------|----------------|
|                                |              |              |                     |                 |                 | March 31, 1998 |
|                                |              |              | Net Unrealized Gain |                 |                 |                |
| Listed Securities:             |              |              |                     | Unrealized Gain | Unrealized Loss |                |
| Investment Securities:         |              |              |                     |                 |                 |                |
| Bonds                          | \$10,998,016 | \$11,549,707 | \$ 551,691          | \$ 555,070      | \$3,379         |                |
| Stocks                         | 19,288,849   | 22,222,696   | 2,933,847           | 2,936,972       | 3,125           |                |
| Others                         | 4,398,641    | 4,528,432    | 129,791             | 131,534         | 1,743           |                |
| Total                          | \$34,685,506 | \$38,300,835 | \$3,615,329         | \$3,623,576     | \$8,247         |                |

(1) Bonds included Japanese National Government Bonds, Japanese Local Government Bonds and Corporate Bonds.

(2) The market values of listed securities are primarily calculated by using the closing prices on the Tokyo Stock Exchange.

(3) Others consisted mainly of foreign securities.

(4) Effective on March 31, 1998, the gross unrealized gain or loss were newly presented under the new disclosure requirement.

(5) The tables below represent the estimated market values of not-listed securities held by IBJ for which it is possible to evaluate market values:

| Not-Listed Securities:      | (in millions of yen) |              |                     |                |              |                        |
|-----------------------------|----------------------|--------------|---------------------|----------------|--------------|------------------------|
|                             | March 31, 1998       |              |                     | March 31, 1997 |              |                        |
|                             | Book Value           | Market Value | Net Unrealized Gain | Book Value     | Market Value | Unrealized Gain (Loss) |
| Trading Account Securities: |                      |              |                     |                |              |                        |
| Bonds                       |                      |              |                     | ¥ 212          | ¥ 227        | ¥ 15                   |
| Investment Securities:      |                      |              |                     |                |              |                        |
| Bonds                       | ¥141,253             | ¥144,722     | ¥3,468              | ¥ 3,553        | ¥ 85         | 179,361                |
| Stocks                      | 33,393               | 33,368       | (25)                | 8,978          | 9,004        | 183,602                |
| Others                      | 77,652               | 75,978       | (1,673)             | 378            | 2,051        | 45,358                 |
| Sub-total                   | 252,299              | 254,069      | 1,769               | 12,911         | 11,141       | 52,620                 |
| Total                       | ¥252,299             | ¥254,069     | ¥1,769              | ¥12,911        | ¥11,141      | 272,642                |
|                             |                      |              |                     |                |              | 281,580                |
|                             |                      |              |                     |                |              | ¥8,953                 |

| Not-Listed Securities: | (in thousands of U.S. dollars) |              |                     |                |              |                        |
|------------------------|--------------------------------|--------------|---------------------|----------------|--------------|------------------------|
|                        | March 31, 1998                 |              |                     | March 31, 1997 |              |                        |
|                        | Book Value                     | Market Value | Net Unrealized Gain | Book Value     | Market Value | Unrealized Gain (Loss) |
| Investment Securities: |                                |              |                     |                |              |                        |
| Bonds                  | \$1,069,294                    | \$1,095,550  | \$26,256            | \$26,904       | \$ 648       |                        |
| Stocks                 | 252,790                        | 252,598      | (192)               | 67,970         | 68,162       |                        |
| Others                 | 587,828                        | 575,160      | (12,668)            | 2,864          | 15,532       |                        |
| Total                  | \$1,909,912                    | \$1,923,308  | \$13,396            | \$97,738       | \$84,342     |                        |

(6) The market values of not-listed securities are calculated mainly by the following:

(i) Over-the-counter securities

Trading price table published by the Japan Securities Dealers Association

(ii) Publicly offered not-listed securities

Securities bid-offer table published by the Japan Securities Dealers Association

(iii) Beneficiary certificates of securities investment trusts

Market prices announced by authorized fund management companies

(7) The book values of securities excluded from above tables were mainly as follows:

| Trading Account Securities:   | (in thousands of U.S. dollars) |                |                |
|---|--------------------------------|----------------|----------------|
|   | (in millions of yen)           |                | March 31, 1998 |
|   | March 31, 1998                 | March 31, 1997 | March 31, 1998 |
| Publicly offered not-listed bonds with maturities within 1 year or less |                                | ¥ 69,450       |                |
| Investment Securities:  |                                |                |                |
| Publicly offered not-listed bonds with maturities within 1 year or less | ¥1,951,401                     | 560,352        | \$14,772,156   |
| Domestic not-listed bonds, excluding publicly offered bonds             | 288,907                        | 286,727        | 2,187,037      |
| Not-listed bonds, excluding domestic bonds                              | 1,085,118                      | 382,828        | 8,214,369      |
| Not-listed stocks of subsidiaries and affiliates                        | 336,044                        | 293,604        | 2,543,862      |

### 30. Market Values of Money Held in Trust

The Market Values of Money Held in Trust held by IBJ at March 31, 1998 were presented as follows under the new disclosure requirement:

|                     | (in millions of yen) |              |                     |                 |                 |
|---------------------|----------------------|--------------|---------------------|-----------------|-----------------|
|                     | March 31, 1998       |              |                     |                 |                 |
|                     | Book Value           | Market Value | Net Unrealized Gain | Unrealized Gain | Unrealized Loss |
| Money Held in Trust | ¥172,502             | ¥171,334     | ¥(1,167)            | ¥637            | ¥1,805          |

|                     | (in thousands of U.S. dollars) |              |                     |                 |                 |
|---------------------|--------------------------------|--------------|---------------------|-----------------|-----------------|
|                     | March 31, 1998                 |              |                     |                 |                 |
|                     | Book Value                     | Market Value | Net Unrealized Gain | Unrealized Gain | Unrealized Loss |
| Money Held in Trust | \$1,305,847                    | \$1,297,006  | \$(8,841)           | \$4,828         | \$13,669        |

(1) The market values are calculated by the trustee of the money held in trust according to the following:

- (i) The market values of listed securities are primarily calculated by using the closing prices on the Tokyo Stock Exchange.
- (ii) The market values of over-the-counter securities are calculated by using the trading price table published by the Japan Securities Dealers Association.

### 31. Market Values of Derivatives

The following tables represent the Market Values of Derivatives held by IBJ at March 31, 1998 and 1997. Effective on March 31, 1998, the market values and unrealized gains or losses for over-the-counter contracts were presented under the new requirement.

In the following tables:

- (i) Contract Value represents notional amounts for swap transactions and contract amounts for other transactions.
- (ii) Amounts shown in *italic* characters represent book values of option premium assets/liabilities on the Balance Sheets.
- (iii) Market values of standardized contracts are primarily calculated by using the closing prices of the Tokyo Stock Exchange and the Tokyo International Financial Futures Exchange and others. Market values of over-the-counter contracts are primarily based on the discounted values of future cash flows or option pricing models.



## (a) Interest Rate Related Transactions

|                            |  | (in millions of yen) |              |             |             |                |              |             |             |
|----------------------------|--|----------------------|--------------|-------------|-------------|----------------|--------------|-------------|-------------|
|                            |  | March 31, 1998       |              |             |             | March 31, 1997 |              |             |             |
|                            |  | Contract Value       | Market Value |             | Unrealized  | Contract Value | Market Value |             | Unrealized  |
|                            |  |                      | Over 1 Year  |             | Gain (Loss) |                | Over 1 Year  |             | Gain (Loss) |
| Standardized Contracts     |  |                      |              |             |             |                |              |             |             |
| Futures                    |  |                      |              |             |             |                |              |             |             |
| Sold                       |  | ¥26,817,323          | ¥6,787,093   | ¥26,882,415 | ¥(65,091)   | ¥32,003,822    | ¥7,038,918   | ¥31,955,423 | ¥48,399     |
| Bought                     |  | 26,043,650           | 7,130,200    | 26,088,726  | 45,075      | 30,342,854     | 7,245,264    | 30,285,120  | (57,733)    |
| Options                    |  |                      |              |             |             |                |              |             |             |
| Sold Call                  |  | 5,158,515            | —            |             |             | 5,080,389      | —            |             |             |
|                            |  | 2,446                |              | 2,027       | 419         | 1,228          |              | 235         | 992         |
| Put                        |  | 4,286,676            | —            |             |             | 8,727,518      | —            |             |             |
|                            |  | 2,385                |              | 1,492       | 893         | 943            |              | 1,275       | (332)       |
| Bought Call                |  | 3,214,257            | —            |             |             | 3,131,407      | —            |             |             |
|                            |  | 2,396                |              | 2,463       | 66          | 1,623          |              | 350         | (1,272)     |
| Put                        |  | 2,255,226            | —            |             |             | 5,467,979      | —            |             |             |
|                            |  | 1,985                |              | 1,369       | (615)       | 1,108          |              | 1,558       | 449         |
| Over-the-Counter Contracts |  |                      |              |             |             |                |              |             |             |
| FRAs                       |  |                      |              |             |             |                |              |             |             |
| Sold                       |  | 1,567,823            | 11,053       | 635         | 635         | 1,144,956      | —            |             |             |
| Bought                     |  | 1,623,624            | 35,818       | (1,011)     | (1,011)     | 1,299,120      | —            |             |             |
| Swaps                      |  |                      |              |             |             |                |              |             |             |
| Rec: Fix<br>Pay: Flt       |  | 28,408,864           | 16,151,446   | 899,974     | 617,912     | 40,223,830     | 25,207,831   |             |             |
| Rec: Flt<br>Pay: Fix       |  | 20,841,319           | 12,189,007   | (783,963)   | (641,304)   | 33,513,329     | 22,299,177   |             |             |
| Rec: Flt<br>Pay: Flt       |  | 469,838              | 302,424      | (789)       | (899)       | 833,376        | 628,991      |             |             |
| Rec: Fix<br>Pay: Fix       |  | 185,931              | 140,629      | 3,501       | 1,559       | —              | —            |             |             |
| Swaptions                  |  |                      |              |             |             |                |              |             |             |
| Sold Call                  |  | 42,604               | 18,044       |             |             | 523,927        | 247,160      |             |             |
|                            |  | 915                  |              | 577         | 337         | 7,557          |              |             |             |
| Put                        |  | 33,389               | 13,389       |             |             | 349,318        | 160,395      |             |             |
|                            |  | 709                  |              | 2,304       | (1,595)     | 4,432          |              |             |             |
| Bought Call                |  | 10,389               | 8,389        |             |             | 390,426        | 303,672      |             |             |
|                            |  | 115                  |              | 735         | 656         | 7,919          |              |             |             |
| Put                        |  | 92,496               | 60,936       |             |             | 669,559        | 454,739      |             |             |
|                            |  | 1,987                |              | 218         | (1,769)     | 14,220         |              |             |             |
| Caps                       |  |                      |              |             |             |                |              |             |             |
| Sold                       |  | 490,406              | 329,231      |             |             | 2,781,797      | 2,112,767    |             |             |
|                            |  | 3,513                |              | (1,394)     | 3,144       | 28,140         |              |             |             |
| Bought                     |  | 196,939              | 154,209      |             |             | 1,569,850      | 881,504      |             |             |
|                            |  | 1,876                |              | (57)        | (1,775)     | 13,293         |              |             |             |
| Floors                     |  |                      |              |             |             |                |              |             |             |
| Sold                       |  | 41,769               | 24,769       |             |             | 700,014        | 583,144      |             |             |
|                            |  | 120                  |              | 264         | (170)       | 9,761          |              |             |             |
| Bought                     |  | 153,620              | 97,390       |             |             | 1,310,773      | 713,995      |             |             |
|                            |  | 467                  |              | 872         | 341         | 5,212          |              |             |             |
| Total                      |  |                      |              |             | ¥(43,189)   |                |              |             | ¥(9,497)    |

|                            |                      | (in thousands of U.S. dollars) |              |               |                           |
|----------------------------|----------------------|--------------------------------|--------------|---------------|---------------------------|
|                            |                      | March 31, 1998                 |              |               |                           |
|                            |                      | Contract Value                 | Over 1 Year  | Market Value  | Unrealized<br>Gain (Loss) |
| Standardized Contracts     |                      |                                |              |               |                           |
| Futures                    |                      |                                |              |               |                           |
|                            | Sold                 | \$203,007,747                  | \$51,378,453 | \$203,500,492 | \$ (492,745)              |
|                            | Bought               | 197,151,029                    | 53,975,779   | 197,492,251   | 341,222                   |
| Options                    |                      |                                |              |               |                           |
|                            | Sold                 |                                |              |               |                           |
|                            | Call                 | 39,050,080                     | —            |               |                           |
|                            |                      | 18,520                         |              | 15,345        | 3,175                     |
|                            | Put                  | 32,450,240                     | —            |               |                           |
|                            |                      | 18,060                         |              | 11,295        | 6,765                     |
|                            | Bought               |                                |              |               |                           |
|                            | Call                 | 24,332,000                     | —            |               |                           |
|                            |                      | 18,144                         |              | 18,647        | 503                       |
|                            | Put                  | 17,072,113                     | —            |               |                           |
|                            |                      | 15,027                         |              | 10,367        | (4,660)                   |
| Over-the-Counter Contracts |                      |                                |              |               |                           |
| FRAs                       |                      |                                |              |               |                           |
|                            | Sold                 | 11,868,461                     | 83,675       | 4,812         | 4,812                     |
|                            | Bought               | 12,290,873                     | 271,145      | (7,660)       | (7,660)                   |
| Swaps                      |                      |                                |              |               |                           |
|                            | Rec: Fix<br>Pay: Flt | 215,055,753                    | 122,266,817  | 6,812,826     | 4,677,614                 |
|                            | Rec: Flt<br>Pay: Fix | 157,769,263                    | 92,271,064   | (5,934,618)   | (4,854,687)               |
|                            | Rec: Flt<br>Pay: Flt | 3,556,687                      | 2,289,359    | (5,973)       | (6,810)                   |
|                            | Rec: Fix<br>Pay: Fix | 1,407,504                      | 1,064,567    | 26,506        | 11,805                    |
| Swaptions                  |                      |                                |              |               |                           |
|                            | Sold                 |                                |              |               |                           |
|                            | Call                 | 322,521                        | 136,597      |               |                           |
|                            |                      | 6,933                          |              | 4,375         | 2,558                     |
|                            | Put                  | 252,760                        | 101,360      |               |                           |
|                            |                      | 5,367                          |              | 17,444        | (12,077)                  |
|                            | Bought               |                                |              |               |                           |
|                            | Call                 | 78,650                         | 63,510       |               |                           |
|                            |                      | 872                            |              | 5,570         | 4,967                     |
|                            | Put                  | 700,202                        | 461,287      |               |                           |
|                            |                      | 15,048                         |              | 1,655         | (13,393)                  |
| Caps                       |                      |                                |              |               |                           |
|                            | Sold                 |                                |              |               |                           |
|                            |                      | 3,712,385                      | 2,492,293    |               |                           |
|                            |                      | 26,598                         |              | (10,554)      | 23,807                    |
|                            | Bought               | 1,490,836                      | 1,167,366    |               |                           |
|                            |                      | 14,207                         |              | (438)         | (13,444)                  |
| Floors                     |                      |                                |              |               |                           |
|                            | Sold                 |                                |              |               |                           |
|                            |                      | 316,199                        | 187,509      |               |                           |
|                            |                      | 914                            |              | 1,999         | (1,288)                   |
|                            | Bought               | 1,162,914                      | 737,251      |               |                           |
|                            |                      | 3,542                          |              | 6,608         | 2,588                     |
| Total                      |                      |                                |              |               | \$ (326,948)              |

(1) Derivatives held by IBJ included in Trading Transactions at March 31, 1998 are excluded from above tables, as they were marked to market and the valuation gains or losses were recognized in the Consolidated Statements of Income. The contract values and market values of derivatives held by IBJ included in Trading Transactions at March 31, 1998 were as follows:

|                            |                      | (in millions of yen) |              | (in thousands of U.S. dollars) |              |
|----------------------------|----------------------|----------------------|--------------|--------------------------------|--------------|
|                            |                      | Contract Value       | Market Value | Contract Value                 | Market Value |
|                            |                      | March 31, 1998       |              |                                |              |
| Standardized Contracts     |                      |                      |              |                                |              |
| Futures                    |                      |                      |              |                                |              |
| Sold                       |                      | ¥9,098,772           | ¥9,147,044   | \$68,877,913                   | \$69,243,337 |
| Bought                     |                      | 8,747,833            | 8,799,915    | 66,221,295                     | 66,615,564   |
| Options                    |                      |                      |              |                                |              |
| Sold                       | Call                 | 10,000               |              | 75,700                         |              |
|                            |                      | 2                    | 2            | 21                             | 21           |
|                            | Put                  | 125,000              |              | 946,253                        |              |
|                            |                      | 23                   | 15           | 176                            | 118          |
| Bought                     | Call                 | —                    |              | —                              |              |
|                            |                      | —                    | —            | —                              | —            |
|                            | Put                  | —                    |              | —                              |              |
|                            |                      | —                    | —            | —                              | —            |
| Over-the-Counter Contracts |                      |                      |              |                                |              |
| FRAs                       |                      |                      |              |                                |              |
| Sold                       |                      | 442,051              | (115)        | 3,346,341                      | (873)        |
| Bought                     |                      | 213,007              | (13)         | 1,612,474                      | (99)         |
| Swaps                      | Rec: Fix<br>Pay: Flt | 33,157,397           | 1,207,777    | 251,002,255                    | 9,142,903    |
|                            | Rec: Flt<br>Pay: Fix | 31,409,699           | (1,179,401)  | 237,772,137                    | (8,928,094)  |
|                            | Rec: Flt<br>Pay: Flt | 1,242,206            | (970)        | 9,403,531                      | (7,344)      |
|                            | Rec: Fix<br>Pay: Fix | 339,742              | 530          | 2,571,855                      | 4,014        |
| Swaptions                  |                      |                      |              |                                |              |
| Sold                       | Call                 | 740,687              |              | 5,607,018                      |              |
|                            |                      | 10,646               | 3,365        | 80,596                         | 25,477       |
|                            | Put                  | 579,059              |              | 4,383,490                      |              |
|                            |                      | 6,297                | 13,056       | 47,671                         | 98,834       |
| Bought                     | Call                 | 561,082              |              | 4,247,405                      |              |
|                            |                      | 8,651                | 19,066       | 65,489                         | 144,335      |
|                            | Put                  | 772,726              |              | 5,849,556                      |              |
|                            |                      | 12,223               | 3,700        | 92,532                         | 28,014       |
| Caps                       |                      |                      |              |                                |              |
| Sold                       |                      | 2,955,205            |              | 22,370,972                     |              |
|                            |                      | 28,035               | 9,971        | 212,227                        | 75,481       |
| Bought                     |                      | 2,200,188            |              | 16,655,473                     |              |
|                            |                      | 21,714               | 12,788       | 164,377                        | 96,812       |
| Floors                     |                      |                      |              |                                |              |
| Sold                       |                      | 817,240              |              | 6,186,531                      |              |
|                            |                      | 8,678                | 11,174       | 65,693                         | 84,592       |
| Bought                     |                      | 1,127,603            |              | 8,535,986                      |              |
|                            |                      | 6,845                | 10,016       | 51,818                         | 75,823       |

**(b) Currency-Related Transactions**

|                            |                | (in millions of yen) |            |                        |                |             |
|----------------------------|----------------|----------------------|------------|------------------------|----------------|-------------|
|                            |                | March 31, 1998       |            | March 31, 1997         |                |             |
| Currency                   | Contract Value | Market Value         |            | Unrealized Gain (Loss) | Contract Value |             |
|                            |                | Over 1 Year          |            |                        |                | Over 1 Year |
| Over-the-Counter Contracts |                |                      |            |                        |                |             |
| Currency Swaps             | USD            | ¥5,230,761           | ¥4,463,793 | ¥(196,489)             | ¥41,828        | ¥4,976,087  |
|                            | GBP            | 111,447              | 108,295    | (3,445)                | (1,768)        | 224,200     |
|                            | DEM            | 276,829              | 245,431    | 3,858                  | (3,609)        | 381,451     |
|                            | CHF            | 367,991              | 224,076    | (512)                  | (2,751)        | 298,351     |
|                            | FRF            | 220,710              | 67,202     | 6,572                  | (383)          | 331,818     |
|                            | AUD            | 205,614              | 185,778    | (2,281)                | (3,186)        | 440,864     |
|                            | Others         | 119,708              | 97,055     | 5,925                  | (1,449)        | 348,761     |
| Total                      |                | ¥6,533,063           | ¥5,391,634 | ¥(186,372)             | ¥28,679        | ¥7,001,536  |

|                            |                | (in thousands of U.S. dollars) |              |                        |                |
|----------------------------|----------------|--------------------------------|--------------|------------------------|----------------|
|                            |                | March 31, 1998                 |              | March 31, 1997         |                |
| Currency                   | Contract Value | Market Value                   |              | Unrealized Gain (Loss) | Contract Value |
|                            |                | Over 1 Year                    |              |                        |                |
| Over-the-Counter Contracts |                |                                |              |                        |                |
| Currency Swaps             | USD            | \$39,596,980                   | \$33,791,021 | \$(1,487,432)          | \$316,642      |
|                            | GBP            | 843,660                        | 819,801      | (26,080)               | (13,388)       |
|                            | DEM            | 2,095,603                      | 1,857,925    | 29,209                 | (27,322)       |
|                            | CHF            | 2,785,701                      | 1,696,262    | (3,876)                | (20,831)       |
|                            | FRF            | 1,670,786                      | 508,726      | 49,751                 | (2,902)        |
|                            | AUD            | 1,556,509                      | 1,406,346    | (17,277)               | (24,124)       |
|                            | Others         | 906,198                        | 743,713      | 44,860                 | (10,974)       |
| Total                      |                | \$49,455,437                   | \$40,814,794 | \$(1,410,845)          | \$217,101      |

(1) The differences between market values and unrealized gains or losses for over-the-counter contracts were translation differences between contract date and year-end rates on the currency swaps recorded on the balance sheets and the accrued interest.

(2) Derivatives held by IBJ included in Trading Transactions at March 31, 1998 are excluded from above tables, as they were marked to market and the valuation gains or losses were recognized in the Consolidated Statements of Income. The contract values and market values of derivatives held by IBJ included in Trading Transactions at March 31, 1998 were as follows:

|                |        | (in millions of yen)       |              | (in thousands of U.S. dollars) |              |
|----------------|--------|----------------------------|--------------|--------------------------------|--------------|
|                |        | March 31, 1998             |              | March 31, 1997                 |              |
| Currency       |        | Contract Value             | Market Value | Contract Value                 | Market Value |
|                |        | Over-the-Counter Contracts |              |                                |              |
| Currency Swaps | USD    | ¥ 8,732,055                | ¥ 8,130      | \$66,101,861                   | \$ 61,545    |
|                | GBP    | 322,171                    | (16,464)     | 2,438,846                      | (124,635)    |
|                | DEM    | 564,850                    | (6,037)      | 4,275,930                      | (45,704)     |
|                | CAD    | 235,699                    | (1,523)      | 1,784,247                      | (11,537)     |
|                | CHF    | 800,178                    | 3,557        | 6,057,372                      | 26,930       |
|                | FRF    | 253,457                    | (7,351)      | 1,918,682                      | (55,651)     |
|                | AUD    | 168,726                    | 1,377        | 1,277,264                      | 10,429       |
|                | Others | 186,392                    | 7,985        | 1,410,995                      | 60,451       |
| Total          |        | ¥11,263,532                | ¥(10,326)    | \$85,265,197                   | \$ (78,172)  |

(3) The contract values of foreign exchange forward contracts and currency options at March 31, 1997 and 1998 were as follows:

|                                   |      | (in millions of yen) |                | (in thousand of U.S. dollars) |
|-----------------------------------|------|----------------------|----------------|-------------------------------|
|                                   |      | March 31, 1998       | March 31, 1997 | March 31, 1998                |
|                                   |      | Contract Value       | Contract Value | Contract Value                |
| <b>Standardized Contracts</b>     |      |                      |                |                               |
| Futures                           |      |                      |                |                               |
| Sold                              |      | ¥ —                  | ¥ —            | \$ —                          |
| Bought                            |      | —                    | —              | —                             |
| Options                           |      |                      |                |                               |
| Sold                              | Call | —                    | —              | —                             |
|                                   |      | —                    | —              | —                             |
|                                   | Put  | —                    | —              | —                             |
|                                   |      | —                    | —              | —                             |
| Bought                            | Call | —                    | —              | —                             |
|                                   |      | —                    | —              | —                             |
|                                   | Put  | —                    | —              | —                             |
|                                   |      | —                    | —              | —                             |
| <b>Over-the-Counter Contracts</b> |      |                      |                |                               |
| Forwards                          |      |                      |                |                               |
| Sold                              |      | <b>23,776,709</b>    | 30,607,044     | <b>179,990,234</b>            |
| Bought                            |      | <b>12,290,454</b>    | 15,612,806     | <b>93,039,020</b>             |
| Options                           |      |                      |                |                               |
| Sold                              | Call | <b>497,189</b>       | 783,472        | <b>3,763,733</b>              |
|                                   |      | <b>16,506</b>        | 42,256         | <b>125,366</b>                |
|                                   | Put  | <b>389,896</b>       | 762,225        | <b>2,951,527</b>              |
|                                   |      | <b>2,861</b>         | 4,501          | <b>21,665</b>                 |
| Bought                            | Call | <b>556,985</b>       | 750,693        | <b>4,216,391</b>              |
|                                   |      | <b>17,579</b>        | 38,842         | <b>133,078</b>                |
|                                   | Put  | <b>240,903</b>       | 683,178        | <b>1,823,643</b>              |
|                                   |      | <b>1,683</b>         | 4,376          | <b>12,743</b>                 |

The forward contracts to exchange foreign currencies for other foreign currencies are included in the "Sold" column only in the above table.

**(c) Stock-Related Transactions**

|                                   |          | (in millions of yen) |   |              |               |                |   |              |            |               |
|-----------------------------------|----------|----------------------|---|--------------|---------------|----------------|---|--------------|------------|---------------|
|                                   |          | March 31, 1998       |   |              |               | March 31, 1997 |   |              |            |               |
|                                   |          | Contract Value       |   | Market Value | Unrealized    | Contract Value |   | Market Value | Unrealized |               |
|                                   |          | Over 1 Year          |   | Gain (Loss)  |               | Over 1 Year    |   | Gain (Loss)  |            |               |
| <b>Standardized Contracts</b>     |          |                      |   |              |               |                |   |              |            |               |
| <b>Index Futures</b>              |          |                      |   |              |               |                |   |              |            |               |
| Sold                              | ¥111,074 | ¥                    | — | ¥107,255     | ¥3,818        | ¥95,476        | ¥ | —            | ¥91,275    | ¥4,200        |
| Bought                            | 56,481   |                      | — | 54,605       | (1,876)       | 4,384          |   | —            | 4,284      | (100)         |
| <b>Index Options</b>              |          |                      |   |              |               |                |   |              |            |               |
| Sold                              | —        |                      | — | —            | —             | —              |   | —            | —          | —             |
| Call                              | —        |                      | — | —            | —             | —              |   | —            | —          | —             |
| Put                               | —        |                      | — | —            | —             | —              |   | —            | —          | —             |
| Bought                            | —        |                      | — | —            | —             | —              |   | —            | —          | —             |
| Call                              | —        |                      | — | —            | —             | —              |   | —            | —          | —             |
| Put                               | —        |                      | — | —            | —             | —              |   | —            | —          | —             |
| <b>Over-the-Counter Contracts</b> |          |                      |   |              |               |                |   |              |            |               |
| <b>Options</b>                    |          |                      |   |              |               |                |   |              |            |               |
| Sold                              | —        |                      | — | —            | —             | 30,417         |   | —            | —          | —             |
| Call                              | —        |                      | — | —            | —             | 28,619         |   | —            | —          | —             |
| Put                               | —        |                      | — | —            | —             | —              |   | —            | —          | —             |
| Bought                            | —        |                      | — | —            | —             | —              |   | —            | —          | —             |
| Call                              | —        |                      | — | —            | —             | —              |   | —            | —          | —             |
| Put                               | —        |                      | — | —            | —             | —              |   | —            | —          | —             |
| <b>Total</b>                      |          |                      |   |              | <b>¥1,941</b> |                |   |              |            | <b>¥4,100</b> |

| (in thousands of U.S. dollars) |      |                |             |              |                           |
|--------------------------------|------|----------------|-------------|--------------|---------------------------|
| March 31, 1998                 |      |                |             |              |                           |
|                                |      | Contract Value | Over 1 Year | Market Value | Unrealized<br>Gain (Loss) |
| Standardized Contracts         |      |                |             |              |                           |
| Index Futures                  |      |                |             |              |                           |
| Sold                           |      | \$840,837      | \$ —        | \$811,929    | \$28,908                  |
| Bought                         |      | 427,568        | —           | 413,361      | (14,207)                  |
| Index Options                  |      |                |             |              |                           |
| Sold                           | Call | —              | —           | —            | —                         |
|                                |      | —              |             | —            | —                         |
|                                | Put  | —              | —           | —            | —                         |
|                                |      | —              |             | —            | —                         |
| Bought                         | Call | —              | —           | —            | —                         |
|                                |      | —              |             | —            | —                         |
|                                | Put  | —              | —           | —            | —                         |
|                                |      | —              |             | —            | —                         |
| Over-the-Counter Contracts     |      |                |             |              |                           |
| Options                        |      |                |             |              |                           |
| Sold                           | Call | —              | —           | —            | —                         |
|                                |      | —              |             | —            | —                         |
|                                | Put  | —              | —           | —            | —                         |
|                                |      | —              |             | —            | —                         |
| Bought                         | Call | —              | —           | —            | —                         |
|                                |      | —              |             | —            | —                         |
|                                | Put  | —              | —           | —            | —                         |
|                                |      | —              |             | —            | —                         |
| <b>Total</b>                   |      |                |             |              | <b>\$14,701</b>           |

**(d) Bond-Related Transactions**

|                            |            | (in millions of yen) |              |                           |                |             |              |                           |
|----------------------------|------------|----------------------|--------------|---------------------------|----------------|-------------|--------------|---------------------------|
|                            |            | March 31, 1998       |              |                           | March 31, 1997 |             |              |                           |
| Contract Value             |            | Over 1 Year          | Market Value | Unrealized<br>Gain (Loss) | Contract Value | Over 1 Year | Market Value | Unrealized<br>Gain (Loss) |
| Standardized Contracts     |            |                      |              |                           |                |             |              |                           |
| Futures                    |            |                      |              |                           |                |             |              |                           |
| Sold                       | ¥5,790,664 | ¥ —                  | ¥5,825,521   | ¥(34,857)                 | ¥5,809,805     | ¥ —         | ¥5,840,838   | ¥(31,033)                 |
| Bought                     | 3,952,109  | —                    | 3,944,707    | (7,402)                   | 4,238,133      | —           | 4,233,866    | (4,267)                   |
| Futures Options            |            |                      |              |                           |                |             |              |                           |
| Sold Call                  | 211,055    | —                    |              |                           | 98,755         | —           |              |                           |
|                            | 825        |                      | 661          | 163                       | 622            |             | 252          | 369                       |
| Put                        | 45,564     | —                    |              |                           | 125,964        | —           |              |                           |
|                            | 159        |                      | 178          | (19)                      | 419            |             | 615          | (196)                     |
| Bought Call                | 66,345     | —                    |              |                           | 59,629         | —           |              |                           |
|                            | 244        |                      | 148          | (95)                      | 463            |             | 57           | (405)                     |
| Put                        | 101,709    | —                    |              |                           | 224,688        | —           |              |                           |
|                            | 490        |                      | 213          | (276)                     | 1,282          |             | 1,507        | 224                       |
| Over-the-Counter Contracts |            |                      |              |                           |                |             |              |                           |
| Options                    |            |                      |              |                           |                |             |              |                           |
| Sold Call                  | —          | —                    |              |                           | 70,000         | —           |              |                           |
|                            | —          |                      | —            | —                         | 141            |             |              |                           |
| Put                        | —          | —                    |              |                           | 15,000         | —           |              |                           |
|                            | —          |                      | —            | —                         | 60             |             |              |                           |
| Bought Call                | —          | —                    |              |                           | 15,000         | —           |              |                           |
|                            | —          |                      | —            | —                         | 47             |             |              |                           |
| Put                        | —          | —                    |              |                           | 150,000        | —           |              |                           |
|                            | —          |                      | —            | —                         | 1,096          |             |              |                           |
| <b>Total</b>               |            |                      |              | <b>¥(42,488)</b>          |                |             |              | <b>¥(35,308)</b>          |



| (in thousands of U.S. dollars)    |      |                |             |              |                           |
|-----------------------------------|------|----------------|-------------|--------------|---------------------------|
| March 31, 1998                    |      |                |             |              |                           |
|                                   |      | Contract Value | Over 1 Year | Market Value | Unrealized<br>Gain (Loss) |
| <b>Standardized Contracts</b>     |      |                |             |              |                           |
| Futures                           |      |                |             |              |                           |
| Sold                              |      | \$43,835,463   | \$ —        | \$44,099,333 | \$(263,870)               |
| Bought                            |      | 29,917,561     | —           | 29,861,522   | (56,039)                  |
| Futures Options                   |      |                |             |              |                           |
| Sold                              | Call | 1,597,692      | —           |              |                           |
|                                   |      | 6,246          |             | 5,010        | 1,236                     |
|                                   | Put  | 344,924        | —           |              |                           |
|                                   |      | 1,205          |             | 1,349        | (144)                     |
| Bought                            | Call | 502,240        | —           |              |                           |
|                                   |      | 1,848          |             | 1,122        | (726)                     |
|                                   | Put  | 769,940        | —           |              |                           |
|                                   |      | 3,711          |             | 1,617        | (2,094)                   |
| <b>Over-the-Counter Contracts</b> |      |                |             |              |                           |
| Options                           |      |                |             |              |                           |
| Sold                              | Call | —              | —           |              |                           |
|                                   |      | —              |             | —            | —                         |
|                                   | Put  | —              | —           |              |                           |
|                                   |      | —              |             | —            | —                         |
| Bought                            | Call | —              | —           |              |                           |
|                                   |      | —              |             | —            | —                         |
|                                   | Put  | —              | —           |              |                           |
|                                   |      | —              |             | —            | —                         |
| <b>Total</b>                      |      |                |             |              | <b>\$(321,637)</b>        |

(1) Derivatives held by IBJ included in Trading Transactions at March 31, 1998 are excluded from above tables, as they were marked to market and the valuation gains or losses were recognized in the Consolidated Statements of Income. The contract values and market values of derivatives held by IBJ included in Trading Transactions at March 31, 1998 were as follows.

|                                   | (in millions of yen) |              | (in thousands of U.S. dollars) |              |
|-----------------------------------|----------------------|--------------|--------------------------------|--------------|
|                                   | Contract Value       | Market Value | Contract Value                 | Market Value |
| <b>March 31, 1998</b>             |                      |              |                                |              |
| <b>Standardized Contracts</b>     |                      |              |                                |              |
| Futures                           |                      |              |                                |              |
| Sold                              | ¥113,038             | ¥112,711     | \$855,704                      | \$853,228    |
| Bought                            | 123,292              | 123,045      | 933,324                        | 931,458      |
| Futures Options                   |                      |              |                                |              |
| Sold Call                         | 15,100               |              | 114,307                        |              |
|                                   | 86                   | 83           | 654                            | 635          |
| Put                               | 25,000               |              | 189,251                        |              |
|                                   | 102                  | 61           | 777                            | 462          |
| Bought Call                       | 4,200                |              | 31,794                         |              |
|                                   | 7                    | 3            | 55                             | 29           |
| Put                               | —                    |              | —                              |              |
|                                   | —                    | —            | —                              | —            |
| <b>Over-the-Counter Contracts</b> |                      |              |                                |              |
| Options                           |                      |              |                                |              |
| Sold Call                         | —                    |              | —                              |              |
|                                   | —                    | —            | —                              | —            |
| Put                               | —                    |              | —                              |              |
|                                   | —                    | —            | —                              | —            |
| Bought Call                       | —                    |              | —                              |              |
|                                   | —                    | —            | —                              | —            |
| Put                               | —                    |              | —                              |              |
|                                   | —                    | —            | —                              | —            |

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To the Board of Directors  
The Industrial Bank of Japan, Limited:

We have audited the accompanying consolidated balance sheets of The Industrial Bank of Japan, Limited (“IBJ”) and its consolidated subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended March 31, 1998. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in material respects, the financial position of IBJ and its consolidated subsidiaries at March 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

Tokyo, Japan  
June 26, 1998



Chuo Audit Corporation  
Independent Certified Public Accountants

|   | (in millions of yen) |                    | (in thousands of U.S. dollars) |
|---|----------------------|--------------------|--------------------------------|
|   | March 31, 1998       | March 31, 1997     | March 31, 1998                 |
| <b>Assets</b>   |                      |                    |                                |
| Cash and Due from Banks                               | ¥ 1,367,328          | ¥ 2,683,489        | \$ 10,350,708                  |
| Call Loans  | 1,860,262            | 838,176            | 14,082,226                     |
| Commercial Paper and Other Debt Purchased             | 8,895                | 1,232              | 67,343                         |
| Trading Assets  | 2,119,627            | —                  | 16,045,625                     |
| Trading Account Securities                            | —                    | 224,651            | —                              |
| Money Held in Trust                                   | 172,502              | 674,927            | 1,305,847                      |
| Investment Securities                                 | 8,699,667            | 6,827,613          | 65,856,680                     |
| Loans and Bills Discounted                            | 23,241,545           | 24,713,569         | 175,939,031                    |
| Foreign Exchanges                                     | 310,724              | 359,790            | 2,352,191                      |
| Other Assets  | 4,673,773            | 4,179,170          | 35,380,569                     |
| Premises and Equipment                                | 283,748              | 106,717            | 2,147,986                      |
| Deferred Debenture Charges                            | 16,729               | 26,531             | 126,643                        |
| Customers' Liabilities for Acceptances and Guarantees | 2,386,058            | 2,814,202          | 18,062,516                     |
| <b>Total Assets</b>                                   | <b>¥45,140,863</b>   | <b>¥43,450,071</b> | <b>\$341,717,365</b>           |
| <b>Liabilities and Shareholders' Equity</b>           |                      |                    |                                |
|   | (in millions of yen) |                    | (in thousands of U.S. dollars) |
|   | March 31, 1998       | March 31, 1997     | March 31, 1998                 |
| <b>Liabilities</b>                                    |                      |                    |                                |
| Debentures  | ¥20,239,792          | ¥21,559,693        | \$153,215,691                  |
| Deposits  | 10,139,950           | 10,716,228         | 76,759,656                     |
| Call Money  | 2,322,905            | 1,272,245          | 17,584,447                     |
| Borrowed Money  | 1,917,824            | 1,364,057          | 14,517,974                     |
| Trading Liabilities                                   | 1,738,742            | —                  | 13,162,322                     |
| Foreign Exchanges                                     | 11,298               | 8,990              | 85,529                         |
| Other Liabilities                                     | 4,166,228            | 3,653,780          | 31,538,442                     |
| Reserve for Possible Loan Losses                      | 899,892              | 557,556            | 6,812,205                      |
| Reserve for Retirement Allowances                     | 50,794               | 49,227             | 384,513                        |
| Reserve for Contingent Losses relating to Loans Sold  | 19,776               | 11,115             | 149,706                        |
| Other Reserves  | 7                    | 12,475             | 60                             |
| Acceptances and Guarantees                            | 2,386,058            | 2,814,202          | 18,062,516                     |
| Surplus from Land Revaluation                         | 180,648              | —                  | 1,367,513                      |
| <b>Total Liabilities</b>                              | <b>44,073,919</b>    | <b>42,019,571</b>  | <b>333,640,574</b>             |
| <b>Shareholders' Equity</b>                           |                      |                    |                                |
| Common Stock  | 465,105              | 465,105            | 3,520,857                      |
| Capital Surplus                                       | 361,632              | 361,632            | 2,737,564                      |
| Legal Reserve   | 76,431               | 72,112             | 578,587                        |
| Retained Earnings                                     | 163,775              | 531,649            | 1,239,783                      |
| <b>Total Shareholders' Equity</b>                     | <b>1,066,944</b>     | <b>1,430,500</b>   | <b>8,076,791</b>               |
| <b>Total Liabilities and Shareholders' Equity</b>     | <b>¥45,140,863</b>   | <b>¥43,450,071</b> | <b>\$341,717,365</b>           |

See accompanying "Notes to Non-Consolidated Financial Statements" which are an integral part of these statements.

|  | (in millions of yen) |                  |                    | (in thousands of U.S. dollars) |
|--|----------------------|------------------|--------------------|--------------------------------|
|  | Fiscal 1997*         | Fiscal 1996*     | Fiscal 1995*       | Fiscal 1997*                   |
| <b>Income</b>                            |                      |                  |                    |                                |
| Interest Income on:                      |                      |                  |                    |                                |
| Loans and Discounts                      | ¥ 847,821            | ¥ 872,767        | ¥1,014,634         | \$ 6,418,029                   |
| Securities                               | 212,073              | 187,303          | 218,955            | 1,605,404                      |
| Others                                   | 1,021,222            | 1,250,950        | 1,261,037          | 7,730,678                      |
| Fees and Commissions                     | 94,774               | 52,599           | 62,664             | 717,443                        |
| Trading Income                           | 2,788                | —                | —                  | 21,109                         |
| Other Operating Income                   | 470,977              | 532,904          | 447,928            | 3,565,313                      |
| Other Income                             | 390,874              | 244,248          | 556,709            | 2,958,931                      |
| Transfer from Other Reserves             | 12,467               | 3                | 8                  | 94,378                         |
| <b>Total Income</b>                      | <b>3,053,000</b>     | <b>3,140,778</b> | <b>3,561,938</b>   | <b>23,111,285</b>              |
| <b>Expenses</b>                          |                      |                  |                    |                                |
| Interest Expenses on:                    |                      |                  |                    |                                |
| Debentures                               | 350,756              | 422,415          | 659,462            | 2,655,237                      |
| Deposits                                 | 356,871              | 358,204          | 392,002            | 2,701,528                      |
| Borrowings and Rediscounts               | 162,210              | 110,431          | 99,114             | 1,227,935                      |
| Others                                   | 899,028              | 1,064,091        | 1,018,615          | 6,805,663                      |
| Amortization of Debenture Discounts      | 34,952               | 52,399           | 110,359            | 264,595                        |
| Fees and Commissions                     | 18,744               | 16,656           | 16,848             | 141,893                        |
| Trading Expenses                         | 9,077                | —                | —                  | 68,715                         |
| Other Operating Expenses                 | 428,075              | 521,914          | 337,706            | 3,240,538                      |
| General and Administrative Expenses      | 166,498              | 157,991          | 158,834            | 1,260,400                      |
| Other Expenses                           | 968,564              | 394,544          | 897,894            | 7,332,055                      |
| Transfer to Other Reserves               | 0                    | 833              | 1,493              | 0                              |
| <b>Total Expenses</b>                    | <b>3,394,779</b>     | <b>3,099,482</b> | <b>3,692,332</b>   | <b>25,698,559</b>              |
| <b>Income (Loss) before Income Taxes</b> | <b>(341,778)</b>     | <b>41,295</b>    | <b>(130,394)</b>   | <b>(2,587,274)</b>             |
| Provision for Income Taxes               | 190                  | 123              | 2,167              | 1,444                          |
| <b>Net Income (Loss)</b>                 | <b>¥ (341,969)</b>   | <b>¥ 41,172</b>  | <b>¥ (132,561)</b> | <b>\$ (2,588,718)</b>          |
| <b>Per Share Amounts</b>                 |                      |                  |                    |                                |
|  |                      |                  | (in yen)           | (in U.S. dollars)              |
| Net Income (Loss)                        | ¥ (134.65)           | ¥ 16.94          | ¥ (56.37)          | \$ (1.019)                     |
| Cash Dividends                           | 8.50                 | 8.50             | 8.50               | 0.064                          |

See accompanying "Notes to Non-Consolidated Financial Statements" which are an integral part of these statements.

\*Fiscal 1997, 1996 and 1995 represent the fiscal years ended March 31, 1998, 1997 and 1996, respectively.

|  | (in millions of yen) |                 |                 | (in thousands of U.S. dollars) |
|--|----------------------|-----------------|-----------------|--------------------------------|
|  | Fiscal 1997*         | Fiscal 1996*    | Fiscal 1995*    | Fiscal 1997*                   |
| <b>Balance at the Beginning of Year</b>      | <b>¥531,649</b>      | <b>¥514,463</b> | <b>¥671,226</b> | <b>\$4,024,602</b>             |
| Deductions:                                  |                      |                 |                 |                                |
| Transfer to Legal Reserve                    | <b>4,318</b>         | 3,998           | 4,033           | <b>32,692</b>                  |
| Cash Dividends                               | <b>21,586</b>        | 19,987          | 19,987          | <b>163,409</b>                 |
| Bonuses for Directors and Statutory Auditors | —                    | —               | 180             | —                              |
| Net Income (Loss)                            | <b>(341,969)</b>     | 41,172          | (132,561)       | <b>(2,588,718)</b>             |
| <b>Balance at the End of Year</b>            | <b>¥163,775</b>      | <b>¥531,649</b> | <b>¥514,463</b> | <b>\$1,239,783</b>             |

See accompanying "Notes to Non-Consolidated Financial Statements" which are an integral part of these statements.

\* Fiscal 1997, 1996 and 1995 represent the fiscal years ended March 31, 1998, 1997 and 1996, respectively.

**1. Basis of Presentation**

The accompanying non-consolidated financial statements of The Industrial Bank of Japan, Limited have been prepared from the non-consolidated financial statements filed with the Ministry of Finance of Japan as required by the Securities and Exchange Law of Japan, in conformity with the accounting principles and practices generally accepted in Japan.

The amounts indicated in millions of yen are rounded down by dropping the figures below one million. Totals may not add up exactly because of such rounding down.

The amounts as of March 31, 1998 expressed in U.S. dollars have been translated, for convenience only, at ¥132.10 per dollar, the market exchange rate prevailing on the Tokyo Foreign Exchange Market at March 31, 1998.

For the convenience of readers, certain items on the domestically issued financial statements have been reclassified and rearranged.

**2. Significant Accounting Policies**

Refer to Notes to Consolidated Financial Statements.

**3. Subsequent Events**

Refer to Notes to Consolidated Financial Statements.



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& Lybrand**Chuo  
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To the Board of Directors  
The Industrial Bank of Japan, Limited:

We have audited the accompanying non-consolidated balance sheets of The Industrial Bank of Japan, Limited ("IBJ") as of March 31, 1998 and 1997, and the related statements of income and retained earnings for each of the three years in the period ended March 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in material respects, the financial position of IBJ at March 31, 1998 and 1997, and the results of its operations for the three years in the period ended March 31, 1998, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

Tokyo, Japan  
June 26, 1998



Chuo Audit Corporation  
Independent Certified Public Accountants

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■ **Chairman of the Board of Directors**

Yoh Kurosawa



■ **President and Chief Executive Officer**

Masao Nishimura



■ **Deputy President**

Yoshiyuki Fujisawa



■ **Deputy President**

Yoshiomi Matsumoto

■ **Managing Directors**

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 Yoza Okumoto  
 Fumio Kikuchi  
 Kimizo Shimamura  
 Jun Itoigawa  
 Yuji Igarashi  
 Yuji Suzuki  
 Hiroshi Saito  
 Kisaburo Ikeda  
 Mitsunori Kanesaka  
 Shinji Kubo  
 Hiroshi Suzuki  
 Shoji Noguchi  
 Yuji Watanabe  
 Takashi Okamoto  
 Masayuki Yasuoka

■ **Directors**

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 Minoru Nakai  
 Fumio Nishiwaki  
 Takeo Sekihara  
 Tsutomu Abe  
 Ikuo Kaminishi  
 Takao Suzuki  
 Hiroki Yamada  
 Yukio Shimizu  
 Makoto Kikkawa  
 Shizuhiro Yamauchi

■ **Auditors**

**Standing Auditors**

Masatake Yashiro  
 Naoyuki Hori  
 Yoshitada Shiratori

**Auditors**

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Overseas Subsidiaries ▲  
Major Affiliates ◆

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(As of July 6, 1998)

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### ■ Established

1902

### ■ Capital

¥465,105 million

### ■ Authorized Shares

4,000,000,000

### ■ Outstanding Shares

2,539,579,392

### ■ Number of Shareholders

27,344 (Number of shareholders holding  
one or more full units of 1,000 shares)

### ■ Principal Shareholders

| Name of Shareholder                             | Number of Shares Held<br>(thousands) | Percentage of Total<br>Shares Outstanding (%) |
|---|--------------------------------------|---|
| Meiji Life Insurance Company                    | 115,831                              | 4.56  |
| Nippon Life Insurance Company                   | 98,830                               | 3.89  |
| The Dai-ichi Mutual Life Insurance Company      | 64,149                               | 2.52  |
| Nippon Steel Corporation                        | 48,053                               | 1.89  |
| The Mitsui Trust and Banking Company, Limited   | 46,931                               | 1.84  |
| The Sumitomo Trust and Banking Company, Limited | 42,345                               | 1.66  |
| The Daiwa Bank, Limited                         | 41,005                               | 1.61  |
| Nissan Motor Co., Ltd.                          | 39,597                               | 1.55  |
| The Toyo Trust and Banking Company, Limited     | 29,753                               | 1.17  |
| Hitachi, Ltd.                                   | 28,540                               | 1.12  |

### ■ Changes in Paid-in Capital

| Date             | Amount of<br>Capital Increase | Paid-in Capital<br>after Increase | Type of Issue   | (¥ million) |
|------------------|-------------------------------|-----------------------------------|---|-------------|
| February 1, 1972 | ¥ 16,000                      | ¥ 48,000                          | Allotment (Par value, 0.5 share for 1 share held)                     |             |
| February 1, 1975 | 16,000                        | 64,000                            | Allotment (Par value, 1/3 share for 1 share held)                     |             |
| February 1, 1978 | 22,400                        | 86,400                            | Allotment (Par value, 0.35 share for 1 share held)                    |             |
| August 1, 1981   | 17,280                        | 103,680                           | Allotment (Par value, 0.2 share for 1 share held)                     |             |
| October 1, 1987  | 108,898                       | 212,578                           | Allotment (Price between par and market, 0.05 share for 1 share held) |             |
| October 1, 1988  | 139,466                       | 352,045                           | Allotment (Price between par and market, 0.08 share for 1 share held) |             |
| November 1, 1996 | 113,059                       | 465,105                           | Allotment (Price between par and market, 0.08 share for 1 share held) |             |

### ■ Stock Exchange Listings

Tokyo Stock Exchange  
Osaka Securities Exchange

### ■ Independent Certified Public Accountants

Chuo Audit Corporation

### ■ Branches in Japan

26 Branches

### ■ Overseas Network

22 Branches and Agencies  
1 Loan Production Office  
1 Marketing Office  
1 Sub-branch  
10 Representative Offices  
18 Major Overseas Subsidiaries

### ■ Number of Employees

4,971 (Excluding part-time, temporary,  
and foreign employees: 1,800)



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(As of July 6, 1998)

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