

# Notes to Consolidated Financial Statements

The Bank of Yokohama, Ltd. and Consolidated Subsidiaries  
Years ended March 31, 1998 and 1997

## 1. Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with accounting principles and practices generally accepted in Japan, the Accounting Standards for Banks issued by the Ministry of Finance of Japan and the Securities and Exchange Law of Japan. The consolidated statements of cash flows are not required as part of the basic financial statements in Japan but are presented herein as additional information. In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the financial statements issued domestically in order to present them in a form more familiar to readers outside Japan. In addition, the notes to the consolidated

financial statements include information which is not required under accounting principles generally accepted in Japan but is presented as additional information.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥132.10 to \$1, the rate of exchange at March 31, 1998. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. Summary of Significant Accounting Policies

### *Principles of Consolidation*

The consolidated financial statements include the accounts of The Bank of Yokohama, Ltd. (the "Bank") and substantially all of its subsidiaries (12 and 139 in 1998 and 1997, respectively), including Yokohama Asia Limited (a Hong Kong corporation), Bank of Yokohama (Europe) S.A. (a Belgian corporation), Bank of Yokohama (Schweiz) AG (a Swiss corporation), and BOY Securities Co., Ltd. (a Japanese corporation). All significant intercompany balances, transactions and unrealized profits included in assets are eliminated.

Seven of the consolidated domestic subsidiaries use fiscal years ending March 31, which is the same as the fiscal year of the Bank.

Of the subsidiaries consolidated at March 31, 1998, five have fiscal years ending on December 31, which differs from the Bank's fiscal year. The consolidated financial statements include the financial statements of these subsidiaries for their respective fiscal years after making appropriate adjustments for significant transactions during the periods from their respective year ends to the date of the consolidated financial statements.

On April 2, 1998, the Bank agreed to sell Guinness Mahon Holdings plc (a U.K. corporation) to Investec Group Limited (a South Africa corporation) for the consideration of £95 million. As a result Guinness Mahon Holdings plc and its more than one hundred subsidiaries are excluded from consolidated subsidiaries of the Bank as of March 31, 1998.

### *Trading Account Securities*

Trading account securities are included in trading assets and stated at market value in 1998 (see "Implementation of Mark-to-Market Accounting for Trading Purpose Transactions"), although they were accounted for in 1997 as follows:

Bonds listed on stock exchanges are stated at the lower of cost or market. Other bonds are stated at cost. The cost of securities sold is determined using the moving-average cost method.

### *Implementation of Mark-to-Market Accounting for Trading Purpose Transactions*

Effective April 1, 1997, pursuant to Article 17-2 of the Banking Law, "Transactions for Trading Purposes" (the purpose of seeking to capture gains arising from short-term changes in interest rates, currency exchange rates or market prices of securities and other market-related indices or from gaps among markets) are included in "Trading assets" and "Trading liabilities" on a trade date basis. Trading securities and monetary claims purchased for trading purposes recorded in these accounts are stated at market value and trading-related financial derivatives are at the amounts that would be settled if they were terminated at the end of the fiscal year. As a result, total assets and total liabilities at March 31, 1998, increased by ¥2,071 million (\$15,678 thousand) and ¥2,077 million (\$15,723 thousand) from March 31, 1997, respectively.

Profits and losses on transactions for trading purposes are shown as "Trading profits (losses)" or "Trading losses" on a trade date basis.

Due to the amendment of the regulations for the Banking Law, with respect to establishment of trading accounts, certain revisions were made in the presentation of consolidated balance sheet and consolidated statement of operations in 1998.

As a result of these changes, the following accounts for the year ended March 31, 1998, were affected:

Interest income	
Decreased by	¥417 million (\$3,157 thousand)
Trading profits	
Increased by	¥226 million (\$1,711 thousand)
Total income	
Decreased by	¥191 million (\$1,446 thousand)
Interest expense	
Decreased by	¥576 million (\$4,360 thousand)
Trading expense	
Increased by	¥232 million (\$1,756 thousand)
Total expenses	
Decreased by	¥344 million (\$2,604 thousand)
Loss before income taxes	
Decreased by	¥153 million (\$1,158 thousand)

### **Investment Securities**

Effective March 31, 1998, as permitted under the amended Accounting Standards for Banks issued by the Ministry of Finance of Japan, the Bank changed its valuation method for certain securities from the lower of cost or market method to the cost method. Accordingly, all securities are stated at cost as of March 31, 1998, although, previously, certain securities such as share stocks, convertible bonds and national government bonds of foreign countries listed on stock exchanges held by the Bank were carried at the lower of cost or market value.

The Bank believes that adoption of the cost method is preferable and prevents distortion of the Bank's operating results from short-term market volatility because such investment securities are principally held by the Bank on a long-term basis.

The effect of these changes for the year ended March 31, 1998, was a decrease in loss before income taxes of ¥66,214 million (\$501,241 thousand). Cost of securities sold is determined by the moving-average method.

When the market price of investment securities is substantially less than cost and the decline in the market price is considered to be permanent, the investment securities are valued at the market price.

Investment securities owned by consolidated subsidiaries are principally stated at cost determined by the moving-average cost method.

### **Money Held in Trust**

Share stocks, convertible bonds and national government bonds of foreign countries in money held in trust owned by the Bank listed on stock exchanges are stated at the lower of cost or market. The cost of securities sold is determined using the moving-average cost method.

### **Premises and Equipment**

Premises and equipment are stated at cost less accumulated depreciation.

The cost of premises and equipment of the Bank is depreciated over the estimated useful lives of the assets based on the declining-balance method.

As permitted under the amended Accounting Standards for Banks, depreciation for buildings and equipment is computed using the declining-balance method at the standard rate prescribed by the Corporation Tax Law for the fiscal year ended March 31, 1998. Depreciation for buildings was previously computed at 160% of the standard rate as prescribed by the Corporation Tax Law, in accordance with the Accounting Standards for Banks. The effect of this change for the year ended March 31, 1998, was a decrease in loss before income taxes of ¥1,805 million (\$13,664 thousand).

Depreciation of premises and equipment owned by consolidated subsidiaries is principally computed using the straight-line method over the estimated useful lives of the assets.

### **Land Revaluation**

Under the new "Law of Land Revaluation," promulgated on March 31, 1998, the Bank elected the one-time revaluation for its own-use land to current value based on real estate appraisal information as of March 31, 1998.

Land revaluation excess represents unrealized appreciation of land and is stated as a liability. There is no credit to the profit and loss. Continuous readjustment is not permitted unless the value of the land has subsequently significant declines where the amount of the decline in value should be taken from the land revaluation excess account. The details of the one-time revaluation as of March 31, 1998, are as follows:

Land before revaluation	
	¥26,419 million (\$199,992 thousand)
Land after revaluation	
	¥85,623 million (\$648,168 thousand)
Land revaluation excess	
	¥59,204 million (\$448,176 thousand)

### ***Reserve for Possible Loan Losses***

The amount of the provision for reserve for possible loan losses is determined based on management's judgment and assessment of future losses based on the self-assessment system. This system reflects past experience of credit losses, possible credit losses, business and economic conditions, the character, quality and performance of the portfolio and other pertinent indicators.

From the fiscal year ended March 31, 1998, in accordance with the amendment of the Accounting Standards for Banks, the Bank implemented the self-assessment system for its asset quality. The quality of all loans are assessed by branches and the credit supervisory division with a subsequent audit by the asset review and inspection division in accordance with the Bank's policy and rules for self-assessment of asset quality.

The Bank has established a credit rating system under which its customers are classified into five categories. The credit rating system is used for self-assessment of asset quality. All loans are classified into five categories for self-assessment purposes, such as "normal," "caution," "possible bankruptcy," "virtual bankruptcy" and "legal bankruptcy."

Reserve for possible loan losses is calculated based on the specific actual past loss ratio for normal and caution categories, and the fair value of the collateral for collateral-dependent loans and other factors of solvency, including value of future cash flows for other self-assessment categories.

In addition, provisions for possible loan losses relating to restructuring countries are made in accordance with the Accounting Standards for Banks.

Up to the fiscal year ended March 31, 1997, the reserve for possible loan losses of the Bank comprises three categories of reserves. A general reserve is established based on a fixed percentage (0.3%) of certain outstanding loans as specified by Japanese tax regulations and the Accounting Standards for Banks. Secondly, further provisions are made for specific loans based on management's evaluation of the status of such loans. Provisions for possible loan losses relating to restructuring countries are made at 35% of the related loans as of March 31, 1997.

Consolidated subsidiaries maintain reserves for possible loan losses which are provided as deemed necessary to cover expected losses based on their own experience.

### ***Reserve for Possible Losses on Collateralized Real Estate Loans Sold***

The reserve for possible losses on loans collateralized by real estate sold to the Cooperative Credit Purchasing Company, Limited ("CCPC"), is provided at an amount deemed necessary to cover possible losses based on the estimated fair value of real estate. In accordance with the terms of the loans collateralized by real estate sales contracts, the Bank is required to cover certain portions of losses incurred as defined in the contract, when the CCPC disposes of real estate in satisfaction of debt.

### ***Reserve for Retirement Allowances***

In accordance with the Accounting Standards for Banks, the reserve provided for retirement allowances is determined based on the amount which would have been required if all employees had voluntarily retired at the end of each period concerned.

In addition, the Bank has a contributory funded pension plan covering substantially all employees. The unamortized balance of prior service costs of the pension plan as of March 31, 1997 (the most recent date for which information is available) amounting to ¥4,129 million (\$31,257 thousand) is being amortized over 15 years and 7 months. Certain of the consolidated subsidiaries also have funded pension plans for employees.

### ***Leases***

All leases of the Bank and the consolidated domestic subsidiaries are accounted for as operating leases. Under new Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements. The disclosure requirements of these new standards are being applied on a step-by-step basis beginning with fiscal years starting on or after April 1, 1996, with full implementation expected from fiscal years starting on or after April 1, 1998.

### ***Translation of Foreign Currencies***

Based on the revision of the above accounting standards, the financial statements of foreign consolidated subsidiaries and affiliates are translated into Japanese yen at exchange rates

as of the balance sheet date, except for shareholders' equity, which is translated at the historical exchange rate. Differences arising from such translation are shown as "Other liabilities" in the accompanying consolidated balance sheets.

Assets and liabilities denominated in foreign currencies held by the Bank at the year end are translated into Japanese yen at exchange rates prevailing at the end of each fiscal year, except that certain special accounts, as approved by the Japanese regulatory authorities, are translated at historical rates. Accounts of the Bank's overseas branches are combined with those of the head office after translation into Japanese yen at exchange rates prevailing at the end of each fiscal year.

Foreign currency accounts held by consolidated foreign subsidiaries are translated into the currency of the subsidiaries at the respective year-end exchange rates.

### **Income Taxes**

Deferred income taxes are recognized for timing differences between income for financial and income tax reporting purposes.

### **Statements of Cash Flows**

For the purpose of the consolidated statements of cash flows, cash and cash equivalents represent cash and due from banks.

### **Net Income (Loss) per Share**

Net income (loss) per share is computed based on the weighted average number of shares of common stock outstanding during each fiscal year and is not adjusted for stock splits.

### **Anti-dilution**

Fully diluted net income per share is not disclosed because of the Bank's net loss position in 1998 and because it is anti-dilutive in 1997.

### **Reclassification**

Certain reclassifications have been made in the 1997 consolidated financial statements to conform to the classifications used in 1998.

## **3. Trading Assets**

Trading assets at March 31, 1998, consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Trading securities	¥ 34,985	\$ 264,837
Derivatives of trading securities	58	439
Trading-related financial derivatives	1,855	14,042
Other	111,530	844,285
Total	¥148,428	\$1,123,603

## **4. Trading Account Securities and Investment Securities**

Trading account securities at March 31, 1997, consisted of the following:

	Millions of yen
National government bonds	¥15,677
Local government bonds	202
National government guaranteed bonds	1
Other trading account securities	3,524
Total	¥19,404

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

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
National government bonds	¥ 362,035	¥ 251,746	\$ 2,740,613
Local government bonds	49,979	10,862	378,342
Corporate bonds	339,630	394,354	2,571,007
Equity securities	597,689	631,816	4,524,519
Other securities	245,547	318,755	1,858,797
Total	¥1,594,880	¥1,607,533	\$12,073,278

The carrying values and aggregate market values of the trading account securities and the investment securities of the Parent Company, which are listed on stock exchanges

or over-the-counter markets, at March 31, 1998 and 1997, are as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Trading account securities:			
Carrying value		¥ 2,874	
Aggregate market value		2,896	
Investment securities:			
Carrying value	¥1,289,372	1,213,715	\$9,760,575
Aggregate market value	1,281,022	1,325,878	9,697,366

Trading accounts securities and investment securities not included above are generally not listed on stock exchanges

and over-the-counter markets and are as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Trading account securities		¥ 6,405	
Investment securities	¥314,873	386,982	\$2,383,596

## 5. Loans and Bills Discounted

Loans and bills discounted at March 31, 1998 and 1997, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Bills discounted	¥ 173,582	¥ 190,572	\$ 1,314,020
Loans on bills	1,153,232	1,365,706	8,729,992
Loans on deeds	5,023,926	5,079,361	38,031,234
Overdrafts	1,686,452	1,812,392	12,766,480
Total	¥8,037,192	¥8,448,031	\$60,841,726

In accordance with the Accounting Standards for Banks in Japan, the Bank discontinues the accrual of interest income on loans where the borrowers are in legal bankruptcy or loans on which interest is past due more than six months. Such loans include loans held by the Bank to borrowers in legal bankruptcy totaling ¥98,794 million (\$747,873 thousand) and ¥121,897 million as of March 31, 1998 and 1997, respectively,

as well as past due loans held by the Bank totaling ¥164,784 million (\$1,247,419 thousand) and ¥183,839 million as of March 31, 1998 and 1997, respectively.

“Restructured loans” are defined as loans in respect of which the lender is providing financial support to its borrower by reducing the original interest rate to or below the official discount rate at the time of the renegotiation, reducing

the spread on funding cost to or below zero or agreeing to postpone interest payments. The balance of restructured loans as of March 31, 1998 and 1997, was ¥13,967 million (\$105,731 thousand) and ¥17,765 million, respectively.

“Loans to supported companies” are loans outstanding to customers of which the Bank has forgiven a portion of the loan claims following the approval by the tax authority for the Bank to take a deduction from taxable income. The outstanding balance of loans to supported companies as of

March 31, 1998 and 1997, was ¥19,500 million (\$147,615 thousand) and ¥12,024 million, respectively.

### **Loans Sold under Loan Participation Agreements**

The total principal balance of loans transferred to participating entities under loan participation agreements, which are accounted for as sales due to their nonrecourse nature was ¥153,444 million (\$1,161,575 thousand) as of March 31, 1998.

## **6. Foreign Exchanges**

Foreign exchange assets and liabilities at March 31, 1998 and 1997, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
<b>Assets</b>			
Foreign exchange bills bought	<b>¥18,467</b>	¥29,319	<b>\$139,796</b>
Foreign exchange bills receivable	<b>6,629</b>	9,286	<b>50,182</b>
Due from foreign correspondent accounts	<b>1,943</b>	3,105	<b>14,708</b>
Total	<b>¥27,039</b>	¥41,710	<b>\$204,686</b>
<b>Liabilities</b>			
Foreign exchange bills sold	<b>¥ 55</b>	¥ 106	<b>\$ 416</b>
Foreign exchange bills payable	<b>2</b>	3	<b>15</b>
Due to foreign correspondent accounts	<b>448</b>	7,861	<b>3,392</b>
Total	<b>¥ 505</b>	¥ 7,970	<b>\$ 3,823</b>

## **7. Other Assets**

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

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Accrued income	<b>¥ 46,017</b>	¥ 48,546	<b>\$348,350</b>
Prepaid expenses	<b>6,459</b>	6,579	<b>48,895</b>
Other	<b>65,340</b>	95,651	<b>494,625</b>
Total	<b>¥117,816</b>	¥150,776	<b>\$891,870</b>

## **8. Premises and Equipment**

The accumulated depreciation of premises and equipment at March 31, 1998 and 1997, amounted to ¥113,980 million

(\$862,831 thousand) and ¥120,292 million, respectively.

## **9. Customers' Liabilities for Acceptances and Guarantees**

All contingent liabilities arising from acceptances and guarantees are reflected in acceptances and guarantees. As a contra account, customers' liabilities for acceptances and

guarantees are presented as assets, representing the Bank's right of indemnity from the applicants.

## 10. Deposits

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

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Current deposits	¥ 331,037	¥ 367,064	\$ 2,505,958
Ordinary deposits	2,191,666	2,028,755	16,590,961
Savings deposits	332,043	334,809	2,513,573
Deposits at notice	159,943	158,124	1,210,772
Time deposits	5,157,966	5,669,343	39,045,920
Certificates of deposit	249,963	473,444	1,892,226
Other deposits	540,337	722,772	4,090,363
Total	¥8,962,955	¥9,754,311	\$67,849,773

## 11. Borrowed Money

Borrowed money includes rediscounted bills and borrowings from The Bank of Japan and other financial institutions. The subordinated borrowed money included in borrowed

money at March 31, 1998 and 1997, amounted to ¥173,000 million (\$1,309,614 thousand) and ¥153,000 million, respectively.

## 12. Convertible Bonds

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

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
2-3/8% U.S. dollar convertible bonds due 2001	¥3,274	¥3,427	\$24,784

The 2-3/8% U.S. dollar convertible bonds due 2001 are convertible into common stock of the Bank at a conversion price of ¥825.90 per share at March 31, 1998, subject to adjustment

in certain cases, including stock splits, with a fixed rate of exchange of ¥156.55=U.S.\$1 applicable upon conversion.

## 13. Other Liabilities

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

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Domestic exchange settlement account credit (see below)	¥ 13,681	¥ 10,227	\$ 103,565
Accrued expenses	59,588	77,265	451,082
Unearned income	8,624	9,140	65,284
Income taxes	1,166	1,479	8,827
Employees' deposits	6,237	6,502	47,214
Margin money received under securities lending transactions	137,619		1,041,779
Other	71,211	103,939	539,069
Total	¥298,126	¥208,552	\$2,256,820

The domestic exchange settlement account consists of outstanding remittance bills from other banks and/or collection

bills for which the Bank has received notices for payment from other banks which have not been settled.

## 14. Other Reserves

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

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Reserve for possible losses from trading account securities		¥2,450	
Other	¥2	2	\$15
Total	¥2	¥2,452	\$15

The 1997 reserve for possible losses from trading account securities was computed on the basis prescribed by the Bank Law of Japan.

Due to revisions in the Accounting Standards for Banks, this reserve is not required in fiscal 1998 or thereafter.

## 15. Common Stock and Capital Surplus

At March 31, 1998 and 1997, the authorized numbers of shares were 2,400 million shares of common stock with a par value of ¥50 per share and 100 million shares of non-voting, non-cumulative preferred stock without par value.

The changes in common stock, capital surplus and shares issued and outstanding for the years ended March 31, 1998 and 1997, were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
<b>Common stock:</b>			
Balance, beginning of year	¥134,547	¥134,470	\$1,018,524
Add—conversion of convertible bonds		77	
Balance, end of year	¥134,547	¥134,547	\$1,018,524
(Number of shares issued and outstanding)	(1,137,998 thousand shares)	(1,137,998 thousand shares)	
	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
<b>Capital surplus:</b>			
Balance, beginning of year	¥96,024	¥95,947	\$726,904
Add—conversion of convertible bonds		77	
Balance, end of year	¥96,024	¥96,024	\$726,904

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares, with a minimum of the par value, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to capital surplus.

The Bank may transfer capital surplus to stated capital by resolution of the Board of Directors and also portions of unappropriated earned surplus, available for dividends, to stated capital by resolution of the stockholders.

Under the Code, the Bank may issue new common shares to existing stockholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Bank may make such a stock split to the extent that the aggregate par value of the shares outstanding after the issuance does not exceed the stated capital. However, the amount calculated by dividing the total amount of stockholders' equity by the number of outstanding shares after the issuance shall not be less than ¥50.

## 16. Legal Reserve and Earned Surplus

Under the Bank Law of Japan an amount equivalent to at least 20% of all cash payments made as an appropriation of earned surplus must be appropriated as a legal reserve until the reserve equals 100% of the Bank's stated capital. This reserve is not available for dividends but may be used to

reduce a deficit by resolution of the stockholders or may be capitalized by resolution of the Board of Directors.

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

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Voluntary reserve	¥ 82,216	¥ 77,616	\$ 622,377
Unappropriated profit	63,810	91,283	483,043
Total	¥146,026	¥168,899	\$1,105,420

Under the Code, the voluntary reserve is available for future dividends subject to approval by stockholders.

## 17. Other Income

Other income for the years ended March 31, 1998 and 1997, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Gain on foreign exchange dealing	¥ 1,434	¥ 2,270	\$ 10,855
Gain on sales and redemption of investment securities	78,946	150,531	597,623
Gain on money held in trust	701	878	5,307
Gain on sales of premises and equipment	1,013	761	7,668
Gain on sales of loans and bills discounted	964	1,998	7,298
Other	8,830	4,626	66,843
Total	¥91,888	¥161,064	\$695,594

## 18. Other Expenses

Other expenses for the years ended March 31, 1998 and 1997, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Provision for possible loan losses	¥101,774	¥ 90,669	\$ 770,431
Provision for possible losses on collateralized real estate loans sold	17,924	8,118	135,685
Loss on sales of trading account securities		467	
Loss on sales and redemption of investment securities	20,453	25,427	154,830
Loss on money held in trust	568	357	4,300
Write-down of investment securities	13,748	32,049	104,073
Enterprise tax	(4,428)	689	(33,520)
Loss on sales of premises and equipment	1,550	931	11,734
Loss on sales of loans and bills discounted	12,475	34,963	94,436
Write-down of loans	1,427	3,069	10,802
Other	12,669	15,890	95,904
Total	¥178,160	¥212,629	\$1,348,675

## 19. Income Taxes

The Bank is subject to corporate (national), enterprise and inhabitants (local) taxes based on income which results in an aggregate tax rate of approximately 49% in 1998 and 51% in 1997. The enterprise tax is included in "Other expenses" in the consolidated statements of operations.

The effective income tax rates of the Bank and its consolidated subsidiaries differ from the aggregate tax rates mainly because of permanently non-deductible expenses and losses of subsidiaries.

## 20. Leases

The companies lease certain equipment and other assets.

Lease payments under finance leases for the years ended March 31, 1998 and 1997, amounted to ¥2,422 million

(\$18,335 thousand) and ¥2,335 million, respectively.

Obligations under finance leases as of March 31, 1998, were as follows.

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥1,864	\$14,111
Due after one year	2,322	17,577
<b>Total</b>	<b>¥4,186</b>	<b>\$31,688</b>

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases.

The minimum rental commitments under noncancellable operating leases at March 31, 1998, were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 285	\$2,158
Due after one year	825	6,245
<b>Total</b>	<b>¥1,110</b>	<b>\$8,403</b>

## 21. Segment Information

Summarized information concerning income and expenses of the Bank and its consolidated subsidiaries by geographic area for the years ended March 31, 1998 and 1997, are presented as follows pursuant to the regulations concerning disclosures

of segment information issued by the Ministry of Finance of Japan under which disclosures are expanded on a step-by-step basis during the period from 1994 to 1998:

	Millions of yen					Consolidated
	Japan	Europe	Asia	North and Middle America	Eliminations	
	<b>1998</b>					
<b>Ordinary income:</b>						
Outside customers	¥ 389,579	¥ 51,874	¥ 36,780	¥ 9,092		¥ 487,325
Interarea transfer	13,323	1,273	879	5,552	¥ (21,027)	
	<b>402,902</b>	<b>53,147</b>	<b>37,659</b>	<b>14,644</b>	<b>(21,027)</b>	<b>487,325</b>
<b>Ordinary expenses</b>	<b>428,526</b>	<b>58,110</b>	<b>39,465</b>	<b>15,955</b>	<b>(21,019)</b>	<b>521,037</b>
	¥ (25,624)	¥ (4,963)	¥ (1,806)	¥ (1,311)	¥ (8)	(33,712)
<b>Other income and expenses—net</b>						<b>1,924</b>
Loss before income taxes and minority interest						¥ (31,788)
<b>Assets</b>	<b>¥11,047,685</b>	<b>¥179,052</b>	<b>¥272,932</b>	<b>¥239,040</b>	<b>¥(479,007)</b>	<b>¥11,259,702</b>

Thousands of U.S. dollars						
1998						
	Japan	Europe	Asia	North and Middle America	Eliminations	Consolidated
<b>Ordinary income:</b>						
Outside customers	\$ 2,949,122	\$ 392,687	\$ 278,426	\$ 68,827		\$ 3,689,062
Interarea transfer	100,855	9,637	6,654	42,029	\$ (159,175)	
	3,049,977	402,324	285,080	110,856	(159,175)	3,689,062
<b>Ordinary expenses</b>	3,243,951	439,894	298,751	120,780	(159,114)	3,944,262
	\$ (193,974)	\$ (37,570)	\$ (13,671)	\$ (9,924)	\$ (61)	(255,200)
<b>Other income and expenses—net</b>						14,565
Loss before income taxes and minority interest						\$ (240,635)
<b>Assets</b>	\$83,631,227	\$1,355,428	\$2,066,101	\$1,809,538	\$(3,626,094)	\$85,236,200

Millions of yen				
1997				
	Japan	Outside Japan	Eliminations	Consolidated
<b>Ordinary income:</b>				
Outside customers	¥ 476,548	¥ 85,970		¥ 562,518
Interarea transfer	11,187	9,410	¥ (20,597)	
	487,735	95,380	(20,597)	562,518
<b>Ordinary expenses</b>	482,976	95,116	(19,735)	558,357
	¥ 4,759	¥ 264	¥ (862)	4,161
<b>Other income and expenses—net</b>				469
Income before income taxes and minority interest				¥ 4,630
<b>Assets</b>	¥11,154,888	¥1,214,310	¥(341,855)	¥12,027,343

“Ordinary income” represents total income less certain special income included in other income in the accompanying consolidated statements of operations. Such ordinary income and ordinary expenses are summarized by geographic area based on the countries where branches or subsidiaries are located.

“Ordinary expenses” represent total expenses less certain special expenses included in other expenses in the accompanying consolidated statements of operations.

Ordinary income arising from international operations both in and outside Japan was ¥142,628 million (\$1,079,697 thousand) and ¥129,821 million for the years ended March 31, 1998 and 1997, respectively.

The Bank and its consolidated subsidiaries operate predominantly in the banking business, while certain subsidiaries operate in securities trust and leasing businesses which are minor in relation to the total business. Accordingly, the presentation of industry segment information is not required under the related regulations.

## 22. Derivative Information of the Parent Company

The Bank uses swap, futures, forward and option contracts, and other similar types of contracts based on either interest rates or foreign exchange rates. These financial instruments are used in trading activities to generate trading revenues and fee income, and are also used in asset and liability management activities to control exposure to fluctuations in interest and foreign exchange rates.

The Bank uses derivatives to provide customers with risk hedging methods, to complement its Asset/Liability Management (“ALM”) activities and to strengthen earnings. The Bank carefully studies the risks involved with derivatives transactions and maintains a policy of limiting the volume of transaction risk within a range it is capable of managing based on its financial strength.

Similar to other market transactions, derivatives transactions are subject to a variety of risks, including market, credit, liquidity, systematic and legal risks. Among those risks, the Bank emphasizes the management of market risk and credit risk. The Bank’s derivative-related credit risk exposure at March 31, 1998, was ¥123.3 billion.

The Bank has adopted an integrated management approach in developing an organization-wide risk management system that is based on global standards. The Bank has established a Risk Management Office (“RMO”) to perform the integrated management of all market and credit risks. A team from the RMO, which has a middle office function, inspects and audits the activities of the front office (the Bank’s

Treasury and Capital Markets Department (“TCMD”)) on a daily basis. To secure the independence of its market risk management sections, in 1997 the Bank separated the middle office functions of the TCMD and integrated them into the RMO. As a result, the Bank’s front (TCMD), middle (RMO) and back (Market Operations Department) office activities are completely separated.

The volume of risk associated with interest rate, currency, securities and other transactions is gathered and managed on an integrated basis. The ultimate decision on a risk position limit is made by the Executive Committee. Based on this limit, each department establishes loss-cutting rules and maximum risk exposures for each type of derivatives transaction and product. The middle office ensures that risk exposure limits and other rules are observed while using value-at-risk (“VAR”), basis-points-value, and other methods to calculate quantitative measures of risk volume. The RMO reports the total volume of the Bank’s market risk to the ALM Committee. Credit risk associated with derivatives transactions are managed in combination with other off-balance-sheet as well as on-balance-sheet transactions. The RMO calculates the Bank’s total credit exposure and reports this amount to the Credit Portfolio Committee.

The parent company has the following derivatives contracts, which are quoted on listed exchanges, outstanding at March 31, 1998 and 1997:

	Millions of yen		Thousands of U.S. dollars	
	1998		1998	
	Contract or notional amount	Fair value	Contract or notional amount	Fair value
Interest rate contracts:				
Futures written	<b>¥85,625</b>	<b>¥85,684</b>	<b>\$648,183</b>	<b>\$648,630</b>
Futures purchased	<b>3,116</b>	<b>3,115</b>	<b>23,588</b>	<b>23,581</b>
Options written	<b>6</b>	<b>2</b>	<b>45</b>	<b>15</b>
Bond contracts:				
Futures written	<b>10,408</b>	<b>10,414</b>	<b>78,789</b>	<b>78,834</b>
Futures purchased	<b>1,426</b>	<b>1,432</b>	<b>10,795</b>	<b>10,840</b>
Stock contract—futures written	<b>13,436</b>	<b>12,991</b>	<b>101,711</b>	<b>98,342</b>

	Millions of yen	
	1997	
	Contract or notional amount	Fair value
Interest rate contracts:		
Futures written	¥78,611	¥78,591
Futures purchased	41,474	41,588
Bond contracts—futures written	18,174	17,983
Stock contracts:		
Options written	190	
Options purchased	170	1

The parent company has the following derivatives contracts, which are not quoted on listed exchanges, outstanding at March 31, 1998 and 1997:

	Millions of yen		Thousands of U.S. dollars	
	1998		1998	
	Contract or notional amount	Fair value	Contract or notional amount	Fair value
Interest rate contracts:				
Forward rate agreements written	¥ 127,869	¥ (65)	\$ 967,971	\$ (492)
Forward rate agreements purchased	48,558	30	367,585	227
Interest rate swaps	2,231,646	(31,672)	16,893,611	(239,758)
Cap written	15,203	23	115,087	174
Cap purchased	15,203	23	115,087	174
Foreign exchange:				
Forward exchange contracts written	433,827		3,284,080	
Forward exchange contracts purchased	425,430		3,220,515	
Currency swap	869,656	2,556	6,583,316	19,349
Options written	6,675		50,530	
Options purchased	7,278		55,095	
	Millions of yen			
	1997			
	Contract or notional amount			
Interest rate contracts:				
Forward rate agreements written	¥ 110,953			
Forward rate agreements purchased	87,734			
Interest rate swaps	2,689,540			
Other written	30,473			
Other purchased	13,963			
Foreign exchange:				
Forward exchange contracts written	261,613			
Forward exchange contracts purchased	257,595			
Currency swap	1,398,776			
Options written	2,556			
Options purchased	2,494			

The contracts or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Parent Company's exposure to credit or market risk.

The amounts of fair value of unlisted derivatives at March 31, 1997, are not required to be disclosed under Accounting Standards in Japan.

### 23. Subsequent Event

On June 26, 1998, the stockholders of the Bank approved the following appropriations of earned surplus as of March 31, 1998.

	Millions of yen	Thousands of U.S. dollars
Transfer to legal reserve	¥ 570	\$ 4,315
Dividends (¥2.5-\$0.02 per share)	2,845	21,537