



In fiscal 1998, ended March 31, 1999, the Bank of Yokohama, Ltd., continued to restructure its operations in line with the strategies of its medium-term business plan, INNOVATION 21. As a regional financial institution, we see our major mission as contributing to the development of the regional community while strengthening

our management structure to ensure our ability to respond quickly to changes in the demand for financial services.

I would like to outline some of the measures that were implemented in fiscal 1998 to meet your needs.

S STRENGTHENING OUR CAPITAL BASE

Strengthening Our Capital Base

In March 1999, our capital base was reinforced by a ¥200 billion injection of public funds. The money was made available under the Financial Function Early Strengthening Law, which was implemented for the purpose of restoring domestic and overseas confidence in the recovery of the Japanese financial system. Specifically, the law facilitates the expeditious disposal of problem loans and the capital reinforcement of financial institutions. The ultimate aim of these measures is to ensure the smooth provision of the credit required for the revitalization of the Japanese economy. We will use these funds to strengthen the credit resources available to customers in our home market.

As part of a concentrated effort to finalize the process of problem loan disposal, we increased our reserve ratios for problem loans, excluding secured loans, in accordance with the guidelines set by the Financial Reconstruction Committee: 100% coverage for loans to clients that are bankrupt or effectively bankrupt, 75% coverage for loans to clients in danger of bankruptcy, and 15% coverage for loans requiring special attention. Furthermore, we have made adequate provision for loans in need of attention. As a

result, we incurred a total of ¥213.5 billion in credit costs during the fiscal year in review, including the amount allocated to the general reserve for problem loans.

The presence of deflationary pressures in fiscal 1999 and beyond increases the probability of further declines in the values of assets provided as loan security as well as losses attributable to other normal credit and market risks. Nevertheless, we believe that any losses incurred in the future will be minimal compared with those that we have already made provisions for. We estimate that an annual 5% decline in land prices from the current fiscal year would increase our losses on existing loans between ¥25 billion and ¥30 billion a year.

With our renewed funding strength, by fiscal 2003 we plan to increase loans to small and medium-sized companies 7.5%, compared with the level in fiscal 1998, and raise our personal loans 17.3%. (This estimate for loans to small and medium-sized companies does not include future loan write-offs.)

(1) Risk-Managed Claims

As of March 31, 1999	Non-consolidated basis	Consolidated basis	(¥ billion)
			Amount after partial direct write-off (non-consolidated basis)
Loans to bankrupt clients	¥115.7	¥116.8	¥ 40.4
Delinquent loans	225.3	252.2	149.7
Subtotal	341.0	369.1	190.1
Loans more than three months in arrears	14.5	17.3	14.5
Restructured loans	231.1	203.8	231.1
Total risk-managed loans	¥586.6	¥590.3	¥435.7

(2) Asset Amounts Based on Financial Reconstruction Law Categories

As of March 31, 1999	Surveyed assets	Loans included in surveyed assets	(¥ billion)
			Amount after partial direct write-off
Loans to clients that are bankrupt or effectively bankrupt	¥ 240.9	¥ 238.6	¥ 88.9
Loans to clients in danger of bankruptcy	337.4	330.8	337.4
Loans to clients requiring special attention	72.1	72.0	72.1
Loans in need of special attention	(58.9)	(58.9)	(58.9)
Other loans (A)	(13.2)	(13.0)	(13.2)
Loans to clients requiring attention, excluding loans to clients requiring special attention (B)	1,708.8	1,686.8	1,708.8
Loans to ordinary clients (C)	6,339.4	5,808.3	6,339.4
Total normal loans (A) + (B) + (C)	8,061.4	7,508.2	8,061.4
Total	¥8,698.8	¥8,136.7	¥8,546.8

(3) Collateral

(¥ billion)

As of March 31, 1999	Loans to clients that are bankrupt or effectively bankrupt	Loans to clients in danger of bankruptcy	Subtotal	Loans in need of attention	Total
Outstanding balance (A)	¥240.9	¥337.4	¥578.4	¥72.1	¥650.6
Collateral and other securities (B)	82.1	172.8	255.0	37.5	292.5
Unsecured amount (C) = (A) - (B)	158.8	164.5	323.4	34.6	358.0
Specific reserves based on loan risk category (D)	158.8	124.4	283.3	5.2	288.5
Reserve coverage (D) ÷ (C) × 100 (%)	100.0	75.6	87.6	15.0	80.5
Collateral coverage ((B) + (D)) ÷ (A) × 100 (%)	100.0	88.0	93.0	59.2	89.3

R RESTRUCTURING TO DELIVER QUALITY RETAIL SERVICES

Fiscal 1998 was a year of drastic restructuring in our overseas operations. In April 1998, we concluded the agreement to sell our British merchant bank subsidiary, Guinness Mahon Holdings plc, and thereafter converted branches in Hong Kong, New York, London, and Singapore to representative offices and closed our subsidiaries in Switzerland and Hong Kong. In addition, we modified the status of our subsidiary in Brussels from a banking institution to a securities company to focus on underwriting and investment business. Personnel, capital, and other resources invested in these bases have been relocated to our home market.

In recent years, to meet our customers' needs for securities-related and asset management services we have steadily developed the operations of two Group companies, BOY Securities Co., Ltd., which provides securities-related services with emphasis on underwriting, and Hamagin Investment Management Co., Ltd., which is primarily involved in pension fund management. However, with the aim of improving the risk profile of our securities-related business as well as raising efficiencies, in February 1999 we reached an agreement with Tokai Bank Group company Tokai International Securities Co., Ltd., to work together in the securities field. BOY Securities and Hamagin Investment Management will be liquidated in the middle of the current fiscal year to facilitate the move to operations under the alliance.

We will continue to meet our customers' underwriting needs through the Corporate Finance Department (Yokohama) of Tokai International Securities that was set up in April 1999. Under the agreement, we will refer customers to Tokai Asset Management Co., Ltd., and set up sales desks at selected branches in our network to sell investment trust products developed by that company.

As outlined above, we are strengthening our management structure as a regional bank by accelerating the restructuring process and concentrating management resources on local retail banking businesses.

RECORDING A 35% YEAR-ON-YEAR INCREASE IN NET OPERATING PROFIT

As a result of comprehensive measures to dispose of and increase reserves for problem loans, we posted a consolidated net loss for the second consecutive year. Nevertheless, these measures, together with the injection of public funds, have greatly strengthened our asset base, thereby placing us in a position to realize a recovery in results in the near future. Net operating profit on a non-consolidated basis, which is regarded as the best measure of the core profitability of Japanese banks, rose 35.1%, to ¥68.2 billion (before subtracting the general reserve for problem loans), and exceeded our original projections. In fiscal 1999, we forecast total income of ¥310 billion, recurring profit of ¥45 billion, net operating profit of ¥74 billion, and net income of ¥26 billion.

In the current fiscal year, we aim to build on the progress we have made restructuring our asset base, reducing operating expenses, streamlining operations, and raising efficiency. The management foundation created through such measures will enable us to pursue aggressive strategies to strengthen personal banking transactions, in particular, housing loans, and to provide refined financial services that meet the needs of our corporate clients, with the ultimate goal of improving profitability.

ENHANCING OUR ABILITY TO SUPPORT REGIONAL CUSTOMERS

In addition to the Implementation Ordinances for the Financial Reconstruction Law and the revision of Ordinances for Implementing the Banking Law, the pace of deregulation in the financial sector continues to accelerate. The future of financial institutions will be determined by their ability to respond to new market needs arising from this process.

While we are blessed with a very strong customer base in our home market, the competition among financial institutions in this market is strong. We are committed to maintaining our preeminent position as a provider of financial services to the people and businesses of Kanagawa Prefecture and southwest Tokyo and will continue to assemble the management resources required to meet their needs.

June 1999



Sadaaki Hirasawa, President