

1. Basis of Presentation

The accompanying consolidated financial statements of The Bank of Yokohama, Ltd. (the "Bank" or the "Parent Company") and consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Accounting Standards for Banks issued by the Ministry of Finance of Japan and in accordance with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. 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 consolidated statements of cash flows are presented herein as additional information.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank 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 ¥120.55 to \$1, the rate of exchange at March 31, 1999. 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 and substantially all of its subsidiaries (19 and 12 in 1999 and 1998, respectively), including Yokohama Finance (Europe) S.A. (a Belgian corporation) and BOY Securities Co., Ltd. (a Japanese corporation). All significant intercompany balances, transactions and unrealized profits included in assets are eliminated.

The excess of the cost of the investments of the Bank in consolidated subsidiaries and associated companies accounted for by the equity method, over its equity in the net assets at the respective dates of acquisition, is being amortized over a period of five years.

Effective April 1, 1998, the Bank changed its consolidation scope from the application of the ownership concept to the control concept. Under the control concept, those companies in which the Parent Company, directly or indirectly, is able to exercise control over operations are to be fully consolidated.

The consolidated financial statements for the year ended March 31, 1998, are not retroactively adjusted. The change of related earnings arising from the change in the consolidation scope is recognized as "Adjustment of retained earnings for newly applied accounting for tax allocation" in the consolidated statements of stockholders' equity for the year ended March 31, 1999.

Sixteen 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, 1999, three 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.

An affiliated company, over which the Parent Company is able to exercise significant influence, Yokohama Shoji Co., Ltd. (a Japanese corporation), is accounted for by the equity method of accounting.

The consolidated financial statements do not include the accounts of Yokohama Asia Limited (a Hong Kong corporation) and two other subsidiaries in 1999, because the combined total assets, total income, net income and earned surplus of these entities would not have had a material effect on the consolidated financial statements. Investments in these three unconsolidated subsidiaries and four other affiliates are stated at cost.

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

"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.

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

Investment Securities

All securities are stated at cost, cost being determined using the moving-average cost 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. Other securities are stated at cost. 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. Depreciation of premises and equipment owned by the Bank is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998.

Depreciation of premises and equipment owned by consolidated subsidiaries is principally computed using the declining-balance method over the estimated useful lives of the assets and depreciation of leased property and equipment is provided on the straight-line method over lease periods.

Land Revaluation

Under the new "Law of Land Revaluation," promulgated and revised on March 31, 1998 and 1999, respectively, the Bank elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 1998.

The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of stockholders' equity in 1999. The resulting land revaluation excess represents unrealized appreciation of the land and is stated as a liability in 1998. There is no effect on the consolidated statements of operations. Continuous re-adjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and deferred tax liabilities. The details of the one-time revaluation as of March 31, 1999 and 1998, were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Land before revaluation	¥ 25,798	¥26,419	\$ 214,002
Land after revaluation	84,843	85,623	703,799
Land revaluation excess	¥ 59,045	¥59,204	\$ 489,797
(Net of income taxes)	¥(34,252)		\$ (284,131)

Stock Issuance Costs

Stock issuance costs are charged to income when paid.

Reserve for Possible Loan Losses

The Bank and certain consolidated finance companies reserve provision 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.

The Bank implemented the self-assessment system for its asset quality. The quality of all loans is 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 in Japan.

Other 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 Contingent Liabilities

Reserve for contingent liabilities is provided at an amount deemed necessary to cover possible losses based on the estimated fair value of loans sold under loan participation agreements.

Reserve for Retirement Allowances

In accordance with the Accounting Standards for Banks in Japan, 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, 1998 (the most recent date for which information is available) amounting to ¥8,282 million (\$68,701 thousand) is being amortized over two years. 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 for 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 are translated into Japanese yen at exchange rates as of the balance sheet date, except for stockholders' 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 certain special accounts that 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 fiscal year-end exchange rates.

Income Taxes

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

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 Loss per Share

Net loss per share calculations represent net loss dividends on preferred shares, divided by 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 1999 and 1998.

Reclassification

Certain reclassifications have been made in the 1998 consolidated financial statements to conform to the classifications used in 1999.

3. Trading Assets

Trading assets at March 31, 1999 and 1998, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Trading securities	¥13,598	¥ 34,985	\$112,800
Derivatives of trading securities		58	
Trading-related financial derivatives	4,516	1,855	37,462
Other	34,795	111,530	288,635
Total	¥52,909	¥148,428	\$438,897

4. Investment Securities

Investment securities at March 31, 1999 and 1998, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
National government bonds	¥ 345,164	¥ 362,035	\$ 2,863,244
Local government bonds	116,498	49,979	966,387
Corporate bonds	322,625	339,630	2,676,275
Equity securities	522,384	597,689	4,333,339
Other securities	155,404	245,547	1,289,125
Total	¥1,462,075	¥1,594,880	\$12,128,370

The carrying values and aggregate market values of the investment securities of the Parent Company, which are listed on stock exchanges or over-the-counter markets, at March 31, 1999 and 1998, are as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Investment securities:			
Carrying value	¥1,171,079	¥1,289,372	\$9,714,467
Aggregate market value	1,191,754	1,281,022	9,885,973

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
	1999	1998	1999
Investment securities	¥284,322	¥314,873	\$2,358,540

5. Loans and Bills Discounted

Loans and bills discounted at March 31, 1999 and 1998, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Bills discounted	¥ 132,229	¥ 173,582	\$ 1,096,881
Loans on bills	943,213	1,153,232	7,824,247
Loans on deeds	5,286,553	5,023,926	43,853,613
Overdrafts	1,770,307	1,686,452	14,685,251
Total	¥8,132,302	¥8,037,192	\$67,459,992

In accordance with the Accounting Standards for Banks in Japan, the Bank discontinues the accrual of interest income on loans where the borrowers are legally bankrupt 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 totalling ¥98,794 million as of March 31, 1998, as well as past due loans held by the Bank totalling ¥164,784 million as of March 31, 1998.

“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, was ¥13,967 million.

“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, was ¥19,500 million.

“Nonaccrual loans” are defined as loans in respect of which the Bank and certain consolidated subsidiaries discontinue the accrual of interest income on loans where the borrowers are generally placed on nonaccrual status when substantial doubt is judged to exist as to ultimate collectibility of either principal or interest if they are past due for certain period or for other reasons. Loans to borrowers in bankruptcy represent nonaccrual loans, to debtors who are legally bankrupt, which are defined in Article 96, Paragraph 1, Subparagraphs 3 and 4 of Enforcement Ordinance for the Corporation Tax Law. Past due loans are nonaccrual loans

other than loans to borrowers in bankruptcy and loans of which interest payment is deferred in order to assist the financial recovery of debtor in financial difficulties. Such loans include loans held by the Bank and certain consolidated subsidiaries to borrowers in legal bankruptcy totalling ¥116,846 million (\$969,274 thousand) as of March 31, 1999, and past due loans held by the Bank and certain consolidated subsidiaries totalling ¥252,289 million (\$2,092,816 thousand) as of March 31, 1999.

“Accruing loans past due three months or more” are defined as loans on which principal or interest is past due more than three months. Loans classified as loans to borrowers in bankruptcy or past due loans are excluded. The balance of accruing loans past due three months or more as of March 31, 1999, was ¥17,330 million (\$143,758 thousand).

“Restructured loans” are defined as loans in respect of which the lender is providing financial support to its borrower by reduction of the interest rate, deferral of interest payment, extension of maturity date, reduction of the face amount or maturity amount of the debt or accrued interest. Loans classified as loans to borrowers in bankruptcy or past due loans or accruing loans contractually past due three months or more are excluded. The balance of restructured loans as of March 31, 1999, was ¥203,844 million (\$1,690,950 thousand).

Loans Sold under Loan Participation Agreement

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 ¥149,879 million (\$1,243,293 thousand) and ¥153,444 million as of March 31, 1999 and 1998, respectively.

6. Foreign Exchanges

Foreign exchange assets and liabilities at March 31, 1999 and 1998, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Assets			
Foreign exchange bills bought	¥ 6,881	¥18,467	\$57,080
Foreign exchange bills receivable	2,895	6,629	24,015
Due from foreign correspondent accounts	953	1,943	7,906
Total	¥10,729	¥27,039	\$89,001
Liabilities			
Foreign exchange bills sold	¥ 29	¥ 55	\$ 241
Foreign exchange bills payable	4	2	33
Due to foreign correspondent accounts	49	448	406
Total	¥ 82	¥ 505	\$ 680

7. Other Assets

Other assets at March 31, 1999 and 1998, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Accrued income	¥ 37,300	¥ 46,017	\$ 309,415
Prepaid expenses	5,790	6,459	48,030
Other	90,155	65,340	747,864
Total	¥133,245	¥117,816	\$1,105,309

8. Premises and Equipment

The accumulated depreciation of premises and equipment at March 31, 1999 and 1998, amounted to ¥246,687 million (\$2,046,346 thousand) and ¥113,980 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, 1999 and 1998, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Current deposits	¥ 329,012	¥ 331,037	\$ 2,729,258
Ordinary deposits	2,415,368	2,191,666	20,036,234
Savings deposits	302,499	332,043	2,509,324
Deposits at notice	180,403	159,943	1,496,499
Time deposits	4,868,650	5,157,966	40,386,976
Certificates of deposit	386,410	249,963	3,205,392
Other deposits	384,295	540,337	3,187,847
Total	¥8,866,637	¥8,962,955	\$73,551,530

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, 1999 and 1998, amounted to ¥398,947 million (\$3,309,390 thousand) and ¥173,000 million, respectively.

12. Convertible Bonds

Convertible bonds at March 31, 1999 and 1998, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
2-3/8% U.S. dollar convertible bonds due 2001	¥3,274	¥3,274	\$27,159

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, 1999, 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, 1999 and 1998, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Domestic exchange settlement account credit (see below)	¥ 16,339	¥ 13,681	\$ 135,537
Accrued expenses	51,845	59,588	430,071
Unearned income	24,382	8,624	202,256
Income taxes	1,007	1,166	8,353
Employees' deposits	5,658	6,237	46,935
Borrowed bond	25,000		207,383
Margin money received under securities lending transactions	50,298	137,619	417,238
Other	96,640	71,211	801,659
Total	¥271,169	¥298,126	\$2,249,432

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. Capital Stock and Capital Surplus

At March 31, 1999 and 1998, the authorized numbers of shares were 2,600 million shares of common stock with a par value of ¥50 per share and 400 million shares of non-voting, non-cumulative preferred stock without par value.

The changes in common stock, preferred stock and capital surplus for the years ended March 31, 1999 and 1998, were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Common stock:			
Balance, beginning of year	¥134,547	¥134,547	\$1,116,109
Balance, end of year	¥134,547	¥134,547	\$1,116,109
(Shares issued and outstanding, end of year)	(1,137,998 thousand shares)	(1,137,998 thousand shares)	
Preferred stock:			
Issuance of preferred stock	¥ 50,000		\$ 414,766
Balance, end of year	¥ 50,000		\$ 414,766
(Shares issued and outstanding, end of year)	(200,000 thousand shares)		
Capital surplus:			
Balance, beginning of year	¥ 96,024	¥96,024	\$ 796,549
Add—issuance of preferred stock	50,000		414,766
Balance, end of year	¥146,024	¥96,024	\$1,211,315

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.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Bank's books. At March 31, 1999, retained earnings recorded on the Bank's books were ¥11,447 million (\$94,956 thousand) which is available for future dividends subject to the approval of stockholders and legal reserve requirements (see Note 22).

On March 31, 1999, the Bank issued 200,000,000 shares of non-voting, non-cumulative preferred stock without par value convertible into shares of common stock at the issue price of ¥500 per share. The preferred stock shall be entitled, in priority to any payment of dividends on or in respect of any other class of shares, to an annual dividend of ¥5.66 (the first preferred) and ¥9.46 (the second preferred) per share.

15. 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, 1999 and 1998, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Legal reserve	¥29,748	¥ 28,553	\$246,769
Voluntary reserve	22,859	82,216	189,623
Unappropriated profit	(8,150)	63,810	(67,607)
Total	¥44,457	¥174,579	\$368,785

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

16. Other Income

Other income for the years ended March 31, 1999 and 1998, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Gain on foreign exchange dealing	¥ 1,096	¥ 1,434	\$ 9,092
Gain on sales and redemption of investment securities	19,567	78,946	162,314
Gain on money held in trust	354	701	2,936
Gain on sales of premises and equipment	605	1,013	5,019
Gain on sales of loans and bills discounted		964	
Lease receipt	38,117		316,192
Other	15,229	8,830	126,330
Total	¥74,968	¥91,888	\$621,883

17. Other Expenses

Other expenses for the years ended March 31, 1999 and 1998, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Provision for possible loan losses	¥183,699	¥101,774	\$1,523,841
Provision for possible losses on collateralized real estate loans sold	13,635	17,924	113,107
Loss on sales and redemption of investment securities	27,662	20,453	229,465
Loss on money held in trust	893	568	7,408
Loss on write-down of investment securities	25,034	13,748	207,665
Loss on sales of premises and equipment	2,577	1,550	21,377
Loss on sales of loans and bills discounted	6,600	12,475	54,749
Loss on write-down of loans	3,763	1,427	31,215
Lease cost	30,386		252,061
Other	36,535	12,669	303,069
Total	¥330,784	¥182,588	\$2,743,957

18. Income Taxes

The Bank and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 47.6% and 48.6% for the years ended March 31, 1999 and 1998, respectively. On March 31, 1999, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 47.6% to

42.0%, effective for years beginning April 1, 1999. The effect of this change on deferred taxes in the consolidated statements of operations for the year ended March 31, 1999, is approximately ¥17,073 million.

The tax effects of significant temporary differences and loss carryforwards, which result in deferred tax assets at March 31, 1999, are as follows:

	Millions of yen	Thousands of U.S. dollars
Reserve for possible loan losses	¥100,171	\$ 830,949
Reserve for retirement allowances	4,133	34,285
Premises and equipment	3,985	33,057
Investment securities	18,757	155,595
Reserve for possible losses on collateralized real estate loans sold	12,952	107,441
Tax loss carryforwards	46,349	384,479
Other	6,656	55,214
Total deferred income taxes	¥193,003	\$1,601,020

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 1999, and the actual

effective tax rates reflected in the accompanying consolidated statements of operations is as follows:

Normal effective statutory tax rate	47.6%
Effect of tax rate reduction	(13.7)
Other—net	(1.0)
Actual effective tax rate	32.9%

19. Leases

Lessee

The Bank and subsidiaries lease certain equipment and other assets.

Lease payments under finance leases for the years ended March 31, 1999 and 1998, amounted to ¥562 million (\$4,662 thousand) and ¥2,422 million, respectively.

Pro forma information of leased property, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an 'as if capitalized' basis for the year ended March 31, 1999, were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Equipment	Other assets	Total	Equipment	Other assets	Total
Acquisition cost	¥2,195	¥15	¥2,210	\$18,208	\$124	\$18,332
Accumulated depreciation	913	12	925	7,574	99	7,673
Net leased property	¥1,282	¥ 3	¥1,285	\$10,634	\$ 25	\$10,659

Obligations under finance leases as of March 31, 1999 and 1998, were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Due within one year	¥ 385	¥1,864	\$ 3,194
Due after one year	839	2,322	6,960
Total	¥1,224	¥4,186	\$10,154

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of operations, computed by the straight-line method and the interest method were ¥400 million (\$3,318 thousand) and

¥51 million (\$423 thousand), respectively, for the year ended March 31, 1999.

The minimum rental commitments under noncancellable operating leases at March 31, 1999 and 1998, were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Due within one year	¥142	¥ 285	\$1,178
Due after one year	389	825	3,227
Total	¥531	¥1,110	\$4,405

Lessor

The consolidated subsidiaries lease certain equipment and other assets.

Lease receipts under finance leases for the year ended March 31, 1999, were ¥38,378 million (\$318,358 thousand).

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest income of finance leases that do not transfer ownership of the leased property to the lessee for the year ended March 31, 1999, were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Equipment	Other assets	Total	Equipment	Other assets	Total
Acquisition cost	¥195,257	¥5,020	¥200,277	\$1,619,718	\$41,642	\$1,661,360
Accumulated depreciation	109,818	2,643	112,461	910,975	21,924	932,899
Net leased property	¥ 85,439	¥2,377	¥ 87,816	\$ 708,743	\$19,718	\$ 728,461

Rights under finance leases at March 31, 1999, were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥30,235	\$250,809
Due after one year	61,543	510,518
Total	¥91,778	\$761,327

Depreciation expense and interest income, which are not reflected in the accompanying consolidated statements of operations, computed by the straight-line method and the interest method were ¥33,679 million (\$279,378 thousand) and

¥4,793 million (\$39,759 thousand), respectively, for the year ended March 31, 1999.

The minimum rental commitments under noncancellable operating leases at March 31, 1999, were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥424	\$3,517
Due after one year	447	3,708
Total	¥871	\$7,225

20. Segment Information

	Millions of yen					
	1999					
	Japan	Europe	Asia	North and Middle America	Eliminations	Consolidated
Ordinary income:						
Outside customers	¥ 372,231	¥ 4,485	¥6,344	¥ 2,604		¥ 385,664
Interarea transfer	3,438	582	700	4,824	¥ (9,544)	
	375,669	5,067	7,044	7,428	(9,544)	385,664
Ordinary expense	553,888	6,017	7,446	8,724	(9,506)	566,569
	¥ (178,219)	¥ (950)	¥ (402)	¥ (1,296)	¥ (38)	(180,905)
Other income and expense—net						(1,916)
Loss before income taxes and minority interest						¥ (182,821)
Assets	¥11,605,785	¥18,405	Nil	¥151,722	¥(516,364)	¥11,259,548

	Thousands of U.S. dollars					
	1999					
	Japan	Europe	Asia	North and Middle America	Eliminations	Consolidated
Ordinary income:						
Outside customers	\$ 3,087,773	\$ 37,204	\$ 52,625	\$ 21,601		\$ 3,199,203
Interarea transfer	28,519	4,828	5,807	40,017	\$ (79,171)	
	3,116,292	42,032	58,432	61,618	(79,171)	3,199,203
Ordinary expense	4,594,674	49,913	61,767	72,368	(78,855)	4,699,867
	\$ (1,478,382)	\$ (7,881)	\$ (3,335)	\$ (10,750)	\$ (316)	(1,500,664)
Other income and expense—net						(15,894)
Loss before income taxes and minority interest						\$ (1,516,558)
Assets	\$96,273,621	\$152,675	Nil	\$1,258,582	\$ (4,283,401)	\$93,401,477

	Millions of yen					
	1998					
	Japan	Europe	Asia	North and Middle America	Eliminations	Consolidated
Ordinary income:						
Outside customers	¥ 389,579	¥ 51,874	¥ 36,780	¥ 9,092		¥ 487,325
Interarea transfer	13,323	1,273	879	5,552	¥ (21,027)	
	402,902	53,147	37,659	14,644	(21,027)	487,325
Ordinary expense	432,954	58,110	39,465	15,955	(21,019)	525,465
	¥ (30,052)	¥ (4,963)	¥ (1,806)	¥ (1,311)	¥ (8)	(38,140)
Other income and expense—net						1,924
Loss before income taxes and minority interest						¥ (36,216)
Assets	¥11,047,685	¥179,052	¥272,932	¥239,040	¥(479,007)	¥11,259,702

“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.

21. 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 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, 1999 and 1998, were ¥74.1 billion and ¥123.3 billion, respectively.

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. Teams

Ordinary income arising from international operations both in and outside Japan was ¥51,820 million (\$429,863 thousand) and ¥142,628 million for the years ended March 31, 1999 and 1998, 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.

from the RMO are assigned to the Treasury and Capital Markets Department (“TCMD”), where having a middle office function, they inspect and audit front office activities 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, 1999 and 1998:

	Millions of yen		Thousands of U.S. dollars	
	1999		1999	
	Contract or notional amount	Fair value	Contract or notional amount	Fair value
Interest rate contracts:				
Futures written	¥145,670	¥145,792	\$1,208,378	\$1,209,390
Futures purchased	1,432	1,432	11,879	11,879
Options written				
Stock contracts—futures written	1,660	1,670	13,770	13,853

	Millions of yen	
	1998	
	Contract or notional amount	Fair value
Interest rate contracts:		
Futures written	¥85,625	¥85,684
Futures purchased	3,116	3,115
Options written	6	2
Bond contracts:		
Futures written	10,408	10,414
Futures purchased	1,426	1,431
Stock contracts—futures written	13,436	12,991

The Parent Company has the following derivatives contracts, which are not quoted on listed exchanges, outstanding at March 31, 1999 and 1998:

	Millions of yen		Thousands of U.S. dollars	
	1999		1999	
	Contract or notional amount	Fair value	Contract or notional amount	Fair value
Interest rate contracts:				
Forward rate agreements written	¥ 33,151	¥ 1	\$ 274,998	\$ 8
Interest rate swaps	1,548,245	(35,963)	12,843,177	(298,324)
Cap written	18,336	54	152,103	448
Cap purchased	18,186	52	150,859	431
Foreign exchange:				
Forward exchange contracts written	169,709		1,407,789	
Forward exchange contracts purchased	176,913		1,467,549	
Currency swap	643,171	4,165	5,335,305	34,550
Options written	4,797		39,793	
Options purchased	5,091		42,231	

	Millions of yen	
	1998	
	Contract or notional amount	Fair value
Interest rate contracts:		
Forward rate agreements written	¥ 127,869	¥ (65)
Forward rate agreements purchased	48,558	30
Interest rate swaps	2,231,646	(31,672)
Cap written	15,203	23
Cap purchased	15,203	23
Foreign exchange:		
Forward exchange contracts written	433,827	
Forward exchange contracts purchased	425,430	
Currency swap	869,656	2,556
Options written	6,675	
Options purchased	7,278	

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.

22. Subsequent Events

At the general stockholders meeting held on June 25, 1999, the Bank's stockholders approved the following appropriations

of earned surplus as of March 31, 1999, and stock option plan:

a. Appropriation of earned surplus as of March 31, 1999

	Millions of yen	Thousands of U.S. dollars
Transfer to legal reserve	¥ 570	\$ 4,728
Dividends:		
The first preferred (¥0.02-\$0.0002 per share)	3	25
The second preferred (¥0.03-\$0.0002 per share)	2	17
Common (¥2.5-\$0.02 per share)	2,845	23,600

b. Stock option plan

The plan provides for granting options to directors and executive officers to purchase up to 310 thousand shares of the Company's common stocks in the period from June 26, 2001 to June 25, 2009. The option will be granted at the price of

105% of the fair market value at the date of option grant. The Company plans to use acquired treasury stocks to issue shares upon exercise of stock options.