

Activities to Improve Asset Quality

Self-Assessment of Assets and Policies for Write-Offs and Reserves

Under the Self-Assessment of Assets, banks examine the actual quality of their assets pursuant to the Prompt Corrective Action System*1, in order to prepare financial statements which accurately reflected the content of their assets. This is a preparatory step for carrying out appropriate write-offs and transfers to reserves under the generally accepted auditing standards in Japan and other rules and regulations.

To measure the actual quality of its assets, DKB conducts the Self-Assessment of Assets twice a year at the time of the interim and annual closing of accounts. The Self-Assessment for fiscal 1999 was carried out in accordance with the uniform Standards on Self-Assessment of Assets prepared by DKB, The Fuji Bank, and The Industrial Bank of Japan.

Based on DKB's Credit Risk Rating System*2, all obligors are first placed in one of five Obligor Classifications: Normal Obligor, Watch Obligor, Intensive Control Obligor, Substantially Bankrupt Obligor or Bankrupt Obligor.

Next, claims outstanding to all obligors except Normal Obligor are placed in one of four Asset Classifications, Category I, II, III or IV, based on judgments regarding the difficulty of recovering the specific individual claims and the risk of impairment of the value of the claim. These judgments are based on such specific considerations as the use of the funds, the likelihood of recovery and coverage by collateral and guarantees.

Write-offs and transfers to reserves are executed according to the matrix shown below, which is based on the Obligor Classifications and Asset Classifications under the Self-Assessment of Assets.

In fiscal 1999, DKB, The Fuji Bank, and The Industrial Bank of Japan unified the Standards for Write-offs and Reserves Based on Self-Assessment of Assets, and DKB implemented write-offs and transfers to reserves as shown in the table below. For example, for claims in Category IV to Substantially Bankrupt Obligor and Bankrupt Obligor, the full amounts were eliminated from the balance sheet by offsetting the claims with corresponding reserves (Partial Direct Write-Offs*3).

Policies for Write-Offs and Reserves

Obligor Classifications under the Self-Assessment of Assets	Claim Classifications under the Financial Reconstruction Law	Asset Classifications under the Self-Assessment of Assets				DKB's Policy for Write-Offs and Reserves in Fiscal 1999	Opinion of the Financial Reconstruction Commission Regarding Write-Offs and Reserves
		Category I	Category II	Category III	Category IV		
• Bankrupt Obligor • Substantially Bankrupt Obligor	Claims against Bankrupt and Quasi-Bankrupt Obligor					100% of Category III and IV	100% of the Unsecured Portion of the Claims in the Classification "Bankrupt Obligor and Substantially Bankrupt Obligor"
Intensive Control Obligor	Claims with Collection Risk					76% of Category III	Approximately 70% of the Unsecured Portion of the Claims in the Classification "Intensive Control Obligor"
Watch Obligor	Claims for Special Attention Loans Past Due for 3 Months or More and Restructured Loans		Unsecured Portion			15% of the Unsecured Portion	Approximately 15% of the Unsecured Portion of the Claims in the Classification "Claims for Special Attention"
	Normal Claims Claims against Watch Obligor Other than Special Attention Obligor					Expected Loss for the Coming 3 Years	Claims Against Watch Obligor Other than Special Attention Obligor: Adequate Default Ratio Considering the Average Life, etc.
Normal Obligor	Normal Claims					Expected Loss for the Coming Year	

Classification according to the Degree of Difficulty of Collection and Possible Impairment of Value

Implementation of Write-Offs and Reserves Based on the Results of Classification

And, for claims against obligors classified as “Bankrupt Obligors and Substantially Bankrupt Obligors,” specific reserves for possible loan losses were set aside equivalent to 100% of their value in Category III. And then for claims against obligors classified as “Intensive Control Obligors,” specific reserves for possible loan losses were set aside equivalent to 76% of their value in Category III.

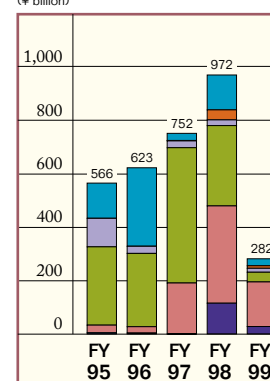
Disposal of Problem Loans in Fiscal 1999

During fiscal 1999, DKB executed the Self-Assessment of Assets in strict accordance with established guidelines and made appropriate write-offs and transfers to reserves with the objective of maintaining the soundness of its asset portfolios. DKB also continued to make every effort to accelerate the final disposal of problem loans as one of

its high-priority management tasks.

As a consequence, Losses on Write-Offs of Loans amounted to ¥167.3 billion, and Net Transfer to Specific Reserve for Possible Loan Losses amounted to ¥36.4 billion, thus bringing Expenses Related to Portfolio Problems to ¥254.2 billion. Combined with the ¥28.0 billion of Transfer to General Reserve for Possible Loan Losses, Credit-Related Costs amounted to ¥282.2 billion.

Credit-Related Costs
(¥ billion)



Non-Consolidated Statement of Income Summary

	(¥ billion)		
	Fiscal 1999	Fiscal 1998	Change
Net Business Profits			
(Before Transfer to General Reserve for Possible Loan Losses)	¥ 373.8	¥ 294.1	¥ 79.6
Transfer to General Reserve for Possible Loan Losses (A)	(28.0)	(115.5)	87.4
Net Business Profits	345.7	178.5	167.1
Net Non-Recurring Gains/Losses	(126.8)	(783.0)	656.2
Net Gains/Losses Related to Stocks and Other Securities	147.8	102.4	45.3
Gains on Sales of Stocks	345.6	159.7	185.8
Losses on Sales of Stocks	(25.1)	(38.7)	13.6
Devaluation of Stocks	(172.4)	(18.6)	(153.7)
Transfer to Reserve for Devaluation of Investment Securities	(0.2)	—	(0.2)
Expenses Related to Portfolio Problems (B)	(254.2)	(856.4)	602.2
Losses on Write-Offs of Loans	(167.3)	(365.1)	197.8
Net Transfer to Specific Reserve for Possible Loan Losses	(36.4)	(301.4)	264.9
Losses on Sales of Loans to CCPC	(14.8)	(21.4)	6.5
Losses on Bulk Sales of Loans	(9.5)	(37.6)	28.1
Transfer to Reserve for Losses on Loans Sold	(69.9)	(49.5)	(20.3)
Losses Due to Support of Borrowers	(20.5)	—	(20.5)
Transfer to Reserve for Possible Losses on Support of Specific Borrowers	69.7	(65.1)	134.8
Transfer to Reserve for Possible Losses on Loans to Restructuring Countries	(0.1)	(11.4)	11.3
Other Losses on Sales of Loans	(5.1)	(4.6)	(0.4)
Others	(20.4)	(28.9)	8.5
Ordinary Profits (Losses)	218.9	(604.4)	823.3
Net Extraordinary Gains/Losses	(11.8)	(49.9)	38.1
Income (Loss) before Income Taxes	207.1	(654.4)	861.5
Current Income Tax Expenses	(39.5)	(5.0)	(34.4)
Deferred Income Tax Expenses	(78.7)	283.2	(361.9)
Net Income (Loss)	88.8	(376.1)	465.0
Credit-Related Costs (A) + (B)	¥(282.2)	¥(972.0)	¥ 689.7

Disclosure of Non-Accrual, Past Due and Restructured Loans

DKB has been disclosing Non-Accrual, Past Due and Restructured Loans according to voluntary criteria established by the Japanese Bankers Association (formerly, the Federation of Bankers Associations of Japan), with the aim of providing information on the soundness of assets to shareholders, investors,

depositors and other interested parties. Following the revision of the Banking Law Enforcement Regulations in December 1998, beginning from the fiscal year ended March 31, 1999, in addition to the disclosure of these loans on a non-consolidated basis, DKB has also disclosed this information on a consolidated basis. The figures for Non-Accrual, Past Due & Restructured Loans in fiscal 1998 and 1999 are shown below.

Non-Accrual, Past Due & Restructured Loans on a Non-Consolidated Basis

	Mar. 31, 2000	Mar. 31, 1999	(¥ billion) Change
Loans to Bankrupt Borrowers	¥ 201.4	¥ 196.3	¥ 5.0
Non-Accrual Delinquent Loans	1,125.6	1,640.7	(515.0)
Loans Past Due for 3 Months or More	63.0	38.2	24.7
Restructured Loans	336.0	329.4	6.5
Total	¥1,726.0	¥2,204.7	¥(478.6)

Non-Accrual, Past Due & Restructured Loans on a Consolidated Basis

	Mar. 31, 2000	Mar. 31, 1999	(¥ billion) Change
Loans to Bankrupt Borrowers	¥ 213.8	¥ 253.3	¥ (39.5)
Non-Accrual Delinquent Loans	1,213.7	1,843.9	(630.2)
Loans Past Due for 3 Months or More	67.7	61.9	5.7
Restructured Loans	349.2	275.2	73.9
Total	¥1,844.5	¥2,434.5	¥(590.0)

Disclosure of Claims Based on Asset Assessments under the Financial Reconstruction Law

Disclosed Claims under the Financial Reconstruction Law on a Non-Consolidated Basis

Under the Financial Reconstruction Law and the Financial Reconstruction Law Enforcement Regulations, which were implemented in October 1998, DKB has been disclosing the following four types of classified claims since the previous fiscal year-end based on the asset condition and/or financial performance of the obligors: Normal Claims, Claims for Special Attention, Claims with Collection Risk and Claims against Bankrupt and Quasi-Bankrupt Obligors.

Under the classifications used in DKB's Self-Assessment of Assets, Claims against Bankrupt and Quasi-Bankrupt Obligors corresponds to Claims against Bankrupt Obligors and Claims against

Substantially Bankrupt Obligors. Claims with Collection Risk corresponds to Claims against Intensive Control Obligors. Claims for Special Attention corresponds to Loans Past Due for 3 Months or More and Restructured Loans among Claims against Watch Obligors. Loans placed in the Claims for Special Attention category are extracted on an individual loan basis.

As of March 31, 2000, Disclosed Claims under the Financial Reconstruction Law on a non-consolidated basis were as follows:

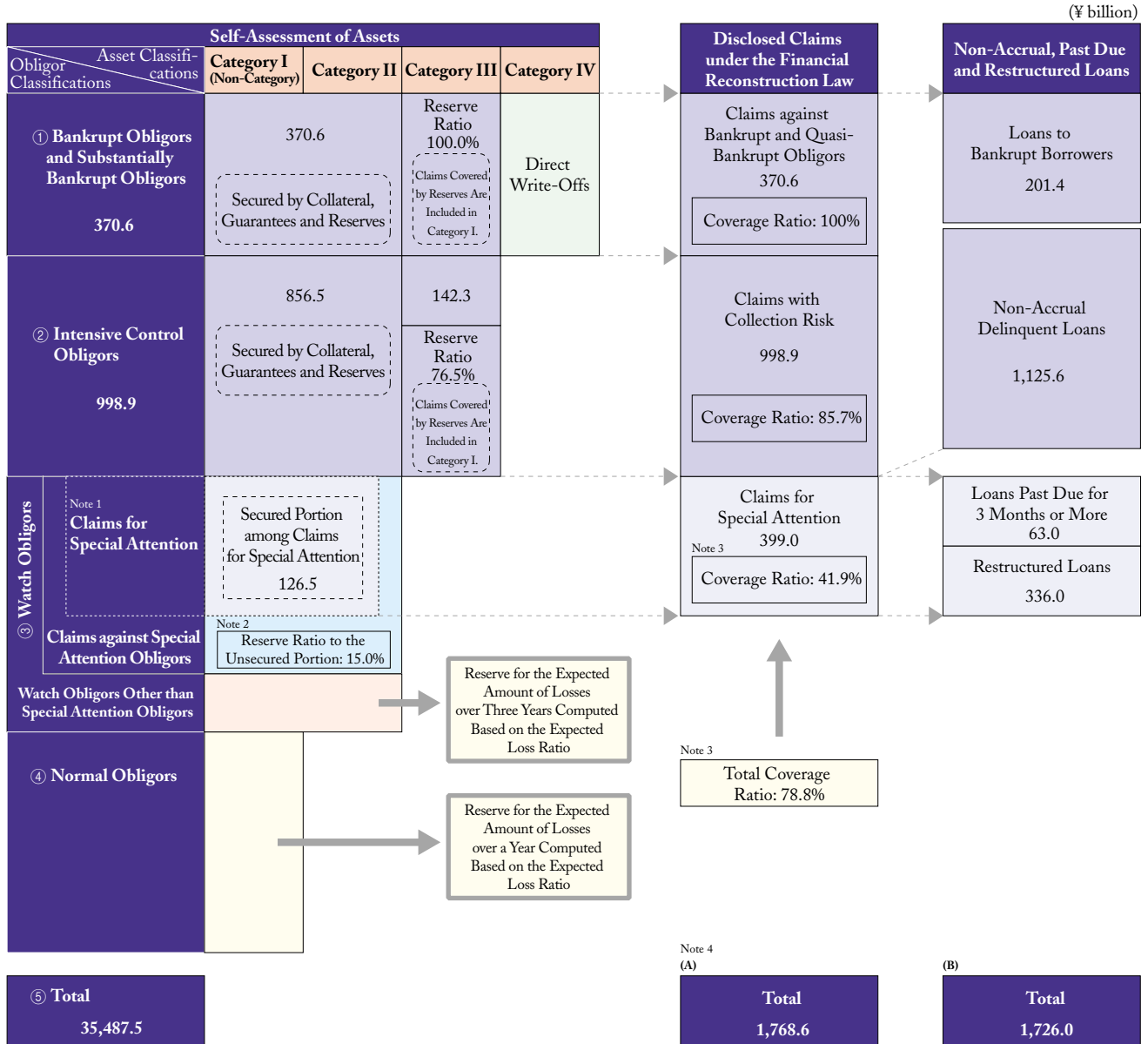
Claims against Bankrupt and Quasi-Bankrupt Obligors, ¥370.6 billion, Claims with Collection Risk, ¥998.9 billion, and Claims for Special Attention, ¥399.0 billion. Cumulatively, these claims totaled ¥1,768.6 billion, representing a decline of ¥484.7 billion from the previous fiscal year-end.

In addition, the difference between ¥1,768.6 billion of Disclosed Claims under the Financial Reconstruction Law and ¥1,726.0 billion of Non-Accrual, Past Due and Restructured Loans,

amounting to ¥42.5 billion, was due to the inclusion of Acceptances and Guarantees and certain other assets, other than loans, in the Disclosed

Claims under the Financial Reconstruction Law, while Non-Accrual, Past Due and Restructured Loans include only loans.

Disclosed Claims under the Financial Reconstruction Law and Secured Status



Disclosed Claims under the Financial Reconstruction Law on a Non-Consolidated Basis

	(¥ billion)		
	Mar. 31, 2000	Mar. 31, 1999	Change
Claims against Bankrupt and Quasi-Bankrupt Obligors	¥ 370.6	¥ 506.5	¥(135.8)
Claims with Collection Risk	998.9	1,379.1	(380.2)
Claims for Special Attention	399.0	367.6	31.3
Total	¥1,768.6	¥2,253.4	¥(484.7)

*Disclosed Claims under
the Financial Reconstruction
Law on a Consolidated Basis*

As of March 31, 2000, Disclosed Claims under the Financial Reconstruction Law on a consolidated basis were as follows: Claims against Bankrupt and

Quasi-Bankrupt Obligors, ¥451.8 billion, Claims with Collection Risk, ¥1,025.7 billion, and Claims for Special Attention, ¥416.9 billion. Cumulatively, these claims totaled ¥1,894.4 billion, representing a decline of ¥636.8 billion from the previous fiscal year-end.

Disclosed Claims under the Financial Reconstruction Law on a Consolidated Basis

	(¥ billion)		
	Mar. 31, 2000	Mar. 31, 1999	Change
Claims against Bankrupt and Quasi-Bankrupt Obligors	¥ 451.8	¥ 780.7	¥(328.9)
Claims with Collection Risk	1,025.7	1,435.7	(410.0)
Claims for Special Attention	416.9	314.8	102.0
Total	¥1,894.4	¥2,531.3	¥(636.8)

**Disclosed Claims under the Financial Reconstruction Law
by Type of Industry (Domestic, Non-Consolidated)**

	(¥ million)
	Mar. 31, 2000
Total	¥1,660,574
Manufacturing	73,101
Agriculture	19,978
Forestry	0
Fisheries	126
Mining	1,674
Construction	263,713
Utilities	124
Transportation and Communication	13,681
Wholesale and Retail	287,458
Finance and Insurance	138,841
Real Estate	286,677
Service	410,429
Local Government	—
Others	164,765

Note: The above figures exclude the Tokyo offshore account for international transactions.

Glossary

***1 Prompt Corrective Action System** (page 51)
The Prompt Corrective Action System was introduced in April 1998 as a supervisory method, with the objective of ensuring the soundness of the management of financial institutions. Under this system, financial institutions prepare financial statements that reflect the quality of their assets according to strict standards. Depending on the risk-based capital ratio computed from these financial statements, the Financial Services Agency can require certain institutions to prepare business improvement plans, to forego entry into new business fields and to take other measures deemed appropriate.

***2 Credit Risk Rating System** (page 51) With the aim of structuring credit risk management systems that meet international standards, DKB has introduced a system to rank the credit risk of obligors based on an absolute and uniform standard. This is the first step toward a system that uniformly monitors and evaluates the credit risk for all its obligors and all types of credit on a bankwide basis and can be used to control credit risks.

***3 Partial Direct Write-Offs** (page 51) This is an accounting treatment in which the irrecoverable loan amount is eliminated from the balance sheet by offsetting it with reserves. This irrecoverable amount is loans to obligors classified as Bankrupt Obligors and Substantially Bankrupt Obligors less anticipated proceeds from the sales of collateral pledged against the loan and anticipated recoveries from guarantors of the loan. The irrecoverable amount is equivalent to the Category IV amount under the Self-Assessment of Assets and is offset by transfers from the Reserve for Possible Loan Losses.

Definitions

SELF-ASSESSMENT OF ASSETS		THE FINANCIAL RECONSTRUCTION LAW	
Method of Classification	Obligor-based	Method of Classification	Obligor-based (Claim-based as to Claims for Special Attention)
Covered Assets	All Claims (Loans, Guarantees, etc.)	Covered Assets	All Claims (Loans, Guarantees, etc.) (Loans only as to Claims for Special Attention)
Obligor Classification (A)	Definition (<i>Financial Inspection Manuals</i> *)	Claim Classification (B)	Definition (Article 4 of the Financial Reconstruction Law Enforcement Regulations)
Bankrupt Obligors	Obligors who have already gone bankrupt, both legally and financially.	Claims against Bankrupt and Quasi-Bankrupt Obligors	Claims against bankrupt obligors under bankruptcy, corporate reorganization, composition or any other equivalent procedures and claims corresponding to the said conditions.
Substantially Bankrupt Obligors	Obligors who are neither legally nor formally bankrupt but whose financial positions are extremely distressed, and whose prospects for financial rehabilitation are so low as to render them substantially bankrupt.		
Intensive Control Obligors	Obligors who are not currently facing bankruptcy but are having business difficulties, and whose progress on their business improvement plan or other measures are not satisfactory, resulting in a high probability that they will go bankrupt.	Claims with Collection Risk	Claims against obligors who are not currently bankrupt but whose financial position and business performance have deteriorated materially with a high probability that the principal and interest will not be paid in accordance with the contracts.
Watch Obligors	Obligors who require increased credit monitoring, including obligors with problematic loan conditions, such as interest suspended or reduced, obligors with problems in payment, such as those who are in arrears in the principal repayment or the interest payment, obligors whose business conditions are unstable or poor, and obligors who have problems in their financial conditions.	Claims for Special Attention	
		Loans Past Due for 3 Months or More	Loans for which principal repayment or interest payment is in arrears for three months or more calculated from the next day of the contractual due date of payments.
		Restructured Loans	Loans for which lending conditions have been modified in favor of the obligors for the purpose of restructuring and supporting obligors in financial difficulties and for the purpose of making progress in collection of the loans.
Normal Obligors	Obligors generally recognized to be experiencing good business conditions and having no significant financial problems.	Normal Claims	Claims against obligors that are not experiencing any financial or business difficulties and are not included in the abovementioned classifications.

* *Financial Inspection Manuals* In July 1999, the Financial Supervisory Agency of Japan issued *Financial Inspection Manuals* that clearly state appropriate procedures for financial inspections. These manuals explain the guidelines that inspectors use at the time of examinations of financial institutions. Moreover, these manuals require that banks should make efforts to establish sound and appropriate operations under responsible management, taking the essence of the manuals into consideration.

NON-ACCUAL PAST DUE AND RESTRUCTURED LOANS		
	Method of Classification	Claims-based
	Covered Assets	Loans-only
(B) corresponds to (A)	Loan Classification	Definition (Article 19, Section 2 of the Banking Law Enforcement Regulations)
Claims against Bankrupt Obligors and Claims against Substantially Bankrupt Obligors	Loans to Bankrupt Borrowers	Non-accrual loans to obligors that are undergoing bankruptcy, corporate reorganization, composition or suspension of banking transactions.
	Non-Accrual Delinquent Loans	Loans classified as non-accrual—other than loans to bankrupt borrowers—for which there are no prospects of collection or repayment of principal or interest because payment of principal or interest has not been received for a substantial period or for other reasons.
Claims against Intensive Control Obligors		
Loans Past Due for 3 Months or More and Restructured Loans among Claims against Watch Obligors	Loans Past Due for 3 Months or More	Loans for which payments of principal or interest have not been received for a period of three months or more beginning with the next business day following the last due date for such payment and are not included in Loans to Bankrupt Borrowers or Non-Accrual Delinquent Loans.
	Restructured Loans	Loans for which the Bank has provided more favorable terms and conditions—including reducing interest rates, rescheduling interest and principal payments or the waiving of claims on the borrower—to the borrower than those in the original loan agreement, with the aim of providing restructuring assistance and support. Such loans exclude Loans to Bankrupt Borrowers, Non-Accrual Delinquent Loans and Loans Past Due for 3 Months or More.
Claims against Normal Obligors and Claims in the Classification Watch Obligors exclusive of those Corresponding to Claims for Special Attention		