To Our Shareholders and Customers

Masao Nishimura
President and Chief Executive Officer

The financial year under review, ended March 31, 2000, was a year of great significance for IBJ in a fast-changing world.

Last August, IBJ announced an epoch-making consolidation with The Dai-Ichi Kangyo Bank, Limited and The Fuji Bank, Limited. Significant progress has been made in preparation for this consolidation to found the Mizuho Financial Group ("MHFG"). In particular, the Shareholders' Meetings held in June 2000 approved the incorporation of the group holding company, Mizuho Holdings, Inc. ("MHHD") through the stock-for-stock exchange method. In Phase 1, the period after the establishment of MHHD, the business of the three banks will be conducted on an integrated basis through business unit structures. In Phase 2, from Spring 2002, the business unit operations of the three banks will be reorganized according to business lines and customer segments subject to the expected legislative and tax code changes for corporate split in Japan, and will be consolidated into legally separate subsidiaries under MHHD.

Operating Environment

We saw many indications of the likely future global financial services industry landscape during the year under review.

In the U.S., the Glass-Steagall Act was amended to remove certain regulatory boundaries between banking, securities, and insurance services. This move was designed to permit the future reinforcement of the international competitiveness of the U.S. financial industry. With the advent of the euro and a single market in financial services, the European financial institutions continue to face major consolidation challenges. It is a global landscape of heightened integration and competitiveness. Japan is no exception.

Performance Overview

Despite this increasingly competitive operating environment, the performance of the bank was generally sound in the year under review. Total Income decreased by ¥387.0 billion to ¥2,999.6 billion but Total Expense decreased by ¥810.3 billion to ¥2,832.6 billion. Income before Income Taxes and Others was ¥167.0 billion against the prior Loss before Income Taxes and Others of ¥256.2 billion. As a results Net Income was ¥70.7 billion against the prior Net Loss of ¥181.2 billion.

Net Income per Share of Common Stock was ¥25.59, as compared to the prior year Net Loss per Share of Common Stock of ¥70.64.

On a fully diluted basis, Net Income per Share of Common Stock was ¥23.15. The Return on Equity, ROE, rose from a negative 14.3% for the prior year to a positive 5.4% for the year under review. The Risk-Based Capital Ratio (BIS Capital Ratio) rose from 11.34% as of March 31, 1999 to 12.19% as of March 31, 2000.

Each of the Bank’s business units, set up in June 1999, made significant progress. The Corporate Banking Unit enhanced its RAROA. The Treasury Unit achieved new business by providing non-interest-related derivatives to customers. Investment Banking Unit achieved strong earnings growth. The Securities & Asset Management Unit also enjoyed growth in gains from securities and custodian services.

Strategic Progress

At the start of the year under review, IBJ’s Fourth Medium-Term Management Plan was launched, a four year initiative in accordance with the Restructuring Plan, submitted to the Government when the Bank received public funds along with the other major Japanese banks.

The three priorities under the Fourth Medium-Term Management Plan are to enhance profitability and financial strength, clarify management strategy, and shift to a new management framework.

The balance sheet position as of March 31, 2000 was greatly improved by writing-off non-performing loans and reserving for problem loans.

Consolidated Expenses Relating to Portfolio Problems totaled ¥227.3 billion (¥271.9 billion, excluding the net reversal of the Provision of General Reserve for Possible Loan Losses). The Bank also shed low quality assets and reduced the capital locked up in its large portfolio of equities.

The Bank reformed its system of corporate governance by the introduction of executive directors system separating the process of policy formulation from its business implementation. The Board of Directors has been redefined as the body responsible for policy formulation and the oversight of its implementation. The Executive Committee was established which is clearly responsible for the implementations of Board policy under its oversight.

A new functional management system by business units has been set up that identifies four sectors as core business units: the Corporate Banking Unit, the Investment Banking Unit, the Treasury Unit, and the Securities & Asset Management Unit. The business units are headed by unit heads, each of managing director level, and full advantage has been taken of the budget independence of each unit to achieve clear profit and loss accountability for the capital allocated to each unit from April 2000.

Also during the year under review, corporate governance was further strengthened by appointing prominent opinion leaders to a new Advisory Board and by establishing the Corporate Auditors Office to strengthen the internal audit function.

The risk management capability and consolidated risk management system were enhanced by reorganizing the Market Risk Management Department into the Risk Management Department which oversees market and credit risks more comprehensively. Another important move was to raise the compliance function to departmental status and have the new Compliance Department report directly to the Executive Committee. The Legal, Credit Examination, Auditing and Compliance Departments have been integrated as the internal auditing group to provide day-to-day oversight of the business operations on an independent basis.

Significant progress in strategic alliances was made during the year. The Bank entered into three joint ventures with The Nomura Securities Co., Ltd., in the promising area of derivatives and asset management. In regard to the comprehensive strategic alliance with The Dai-ichi Mutual Life Insurance Company, two joint ventures have been formed: IBJ-DL Financial Technology Co., Ltd. and DLIBJ Asset Management Co., Ltd.

With regard to the Y2K Problem, no serious information technology failure occurred over the year 2000 event. Nevertheless, the system of IT risk management planning remains in place and the Bank will remain vigilant for IT related problems over the remainder of the year 2000.

Tackling New Challenges

Earlier, I mentioned that the business units are managed with clearly defined profit and loss accountability. From April 2000, capital has been allocated to each business unit, and the business unit performance and control of risk is being evaluated by using the Risk Adjusted Return on Capital, RAROC, as the yardstick. Using this yardstick, IBJ is optimizing its business portfolio by the most efficient allocation of management resources. This process of profit and loss accountability by business unit and detailed monitoring by using RAROC is to be adopted by MHFG as it strives for business supremacy through offering an extraordinarily diverse range of top quality financial services.

To permit MHFG to become an innovative financial group that will lead the new era through cutting-edge comprehensive financial services, the following management goals have been established:

- One of the top five global banks and the leading financial institution in Japan.
- A top financial group in terms of customer satisfaction.
- A front-runner in IT (information technology) and FT (financial technology).
- No.1 in domestic commercial banking.
- A market leader in securities business and investment banking.
- A top-class in trust, asset management, and settlement businesses.
- A management structure with "best practices".

MHFG will provide comprehensive financial services supported by its core competences arising from the combined primary strengths of the three banks: an overwhelming customer base in the domestic market, the high quality and comprehensive financial service capabilities, and expanded IT investment capability for high-growth areas.

Finally, I recognize that realizing this concept of the future MHFG will depend in part on whether it can meet the needs for customer-initiated business models. The information technology revolution is replacing supplier dominance with customer empowerment as the core focus of business models. The senior management of the three banks will ensure that MHFG responds decisively to that paradigm shift to establish its rightful position in global finance.

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