REPORT TO OUR STOCKHOLDERS

Toru Hashimoto
Chairman of the Board

Yoshiro Yamamoto
President and Chief Executive Officer

Introduction

The Japan Big Bang, which aims to transform the Tokyo market into a truly international one in line with other major markets, will open the financial market to intense competition among existing players and new, non-traditional participants, namely foreign financial institutions. Along with this transformation, the continuing rapid development of information technology will change marketing channels and the way banks do business with their customers. While these drastic changes are challenging, they also provide financial institutions with abundant business opportunities.

The global economic environment, characterized in part by the steady expansion of the U.S. economy, has contributed to robust corporate earnings, creating a very competitive business environment. Europe also offers enormous potential, as the EU economies take the final step toward economic unification and the emerging markets of Eastern Europe continue to mature. Several Asian economies, on the other hand, are suffering economic turmoil which severely affects the business environment of the entire region.

Under these circumstances, we are confident that the Bank has the vision, corporate strategy and management resources to both meet the challenges and capitalize on the opportunities that lie ahead.

Financial Performance in Fiscal 1997

Overview

With respect to our business performance, our net business profit (which measures the performance of our core business activities) was ¥320.3 billion (US$2,424 million). Although this figure is lower compared to last fiscal year, it is nevertheless above our forecast and represents our strong and sound profitability, and once again ranks us among the top Japanese banks.

In fiscal 1997, we took all the steps necessary toward eliminating our problem loans. In accordance with the Prompt Corrective Action Policy, which the Japanese Ministry of Finance introduced this April, we undertook a comprehensive self-assessment of our entire loan portfolio and made appropriate provisions for potential loan losses. Regrettably, this action resulted in the Bank posting a loss for the year. After deducting credit costs of approximately ¥1 trillion (US$7.5 billion) for problem loans, we posted a full-year net loss of ¥518.7 billion (US$3,926 million), which was fully covered by our retained earnings. With respect to dividends, we decided to make an annual dividend payment of ¥8.50 per common share and ¥7.50 per preferred share as originally scheduled.

Problem Loans and Asset Quality Issues

We made it a top management priority to quickly face the issue of our problem loans and put all our efforts into reducing the level of problem loans on our books. In particular, the introduction of the Prompt Corrective Action Policy now permits Japanese banks to make provisions against problem loans without prior approval or application to the tax authorities. Consequently, we introduced a new, more precise internal system for classifying loan assets, undertook a comprehensive self-assessment of our entire loan portfolio, and made wide-ranging and proactive provisions for any potential losses. We also completed all necessary financial assistance to our affiliated finance companies and set up a special reserve to cover any potential future losses from these companies.

In the meantime, by accelerating the recovery and direct disposal of nonperforming loans, we were able to reduce the amount of problem loans on our balance sheet by ¥621.2 billion (US$4,702 million) compared to the previous fiscal year. Using the current standard, at fiscal year end in March, problem loans stood at ¥1,218.4 billion (US$9,223 million), which represented our loan loss reserve ratio of 74.3 percent of total problem loans. On a tax-adjusted basis, the reserve ratio went up to 118.6 percent.

In order to clarify our financial position, we have begun to disclose the amount of our problem loans based on rules derived from the U.S. Securities Exchange Commission. On this basis, our total current problem loans at fiscal year end amounted to ¥1,692.7 billion (US$12,813 million), 53.5 percent of which were covered by our reserves for possible loan losses. On a tax-adjusted basis, the reserve ratio increased to 85.4 percent.

The outlook for the Japanese economy continues to be uncertain. The government has introduced various economic stimulus packages, but it will take time for their effect on the economy to be felt. Given these unfavorable economic conditions and the rise in corporate bankruptcies in Japan, it is important for us to be prudent and cautious. Our lending exposure to the real estate and construction industries, and non-bank financial institutions is the lowest among our major Japanese peers. While this represents a relatively low level of potential problem loans, we will nevertheless continue to be cautious in managing our loan assets.

Loan Exposure in Asia

In light of the recent turmoil in many of the economies in Asia, there has been keen interest in our loan exposure to the region. Total loans to Asian countries (South Korea, Indonesia, Thailand, Hong Kong, Singapore, Malaysia, China, and the Philippines) amounted to US$10,890 million, the lowest level among major Japanese banks, representing 4.5 percent of our total loans and bills discounted at the fiscal year end in March. Forty percent of our loans in Asia were made to local subsidiaries of Japanese parent companies, and we consider the risk associated with these loans to be ultimately that of the Japanese parent companies. In addition, 47 percent of our loans in Asia were made to local companies, most of which represent exposure to leading corporate names as part of a syndicate, while the remaining 13 percent consist of loans to government-owned or major local banks. Support from the International Monetary Fund and the international community has somewhat mitigated the crisis in the region; however, there are certain countries that still require close monitoring. For example, the Bank's loan portfolio in Indonesia totals approximately US$1.4 billion, which is equivalent to 0.6 percent of the Bank's total loans and bills discounted. We have made over ¥10.5 billion (US$79 million) in provisions against our exposure to Indonesia.

Capital Base

In conjunction with our disposal of problem loans, we also undertook measures to strengthen our capital base. In March this year, we raised US$1.6 billion overseas through a preferred share issue made by our subsidiary in the U.S. In addition, in accordance with legislation passed by the Japanese government to create an emergency financial system stabilization package, we issued ¥100 billion (US$757 million) in subordinated debt to a special government purchase fund. As a result of these measures, our BIS capital ratio was 9.4 percent at year end, with a Tier I capital ratio of 4.8 percent. We plan to continue our efforts to improve our capital strength and are aiming for a BIS ratio exceeding 10 percent by the end of fiscal 2000. On May 1 this year, our wholly owned U.S. subsidiary Heller Financial Inc. raised US$1,040 million through an Initial Public Offering on the New York Stock Exchange, aiming to strengthen its capital base. Consequently, it contributed a 0.3 percent increase to our consolidated base Tier I ratio.

Business Activities

During fiscal 1997, we developed and introduced new services to further strengthen our relationships with our clients. In the domestic market, we launched the “Fuji First Club,” a membership reward program that offers special benefits to sustain and enhance our strong customer base in Japan. In the first three months of the program, more than 40,000 customers became members. In addition, we are introducing many new products targeting our domestic customers such as the Fuji International Cash Card (FICC) that can be used at ATMs around the world. We have already issued approximately 70,000 FICCs. As for improvements to our existing services, among other things, we have extended the hours of our ATMs to better accommodate our customers’ needs.

In addition, we devoted considerable effort to develop our overseas business which generates a significant part of our business profit. In 1997, Fuji Bank was ranked first among euro venture capital debt providers of acquisition finance in *Corporate Money* magazine and was selected for “The Deal of the Year for Buyouts” in *Corporate Finance* magazine. We were also ranked fourth in the number of leveraged buy-out agent transactions in *Gold Sheet*’s league table, which represents our strong position in the global acquisition finance market. We were ranked thirteenth in *Euromoney Loanware* project finance global arranger league table. As for financial advisory services in project finance, in 1997, we were ranked ninth in the Americas in *Project Finance International*.

In the field of yen-dominated custody service, our Fuji Kabuto Custody and Proxy Services have been “Top Rated” among Japanese banks for six consecutive years since 1992 according to *Global Custodian* magazine. During fiscal 1997, we won a number of large-scale custody mandates and, consequently, handled over ¥15 trillion (US$113 billion) in equities and bonds representing a 35 percent market share.

Financial Forecast for Fiscal 1998

We expect that the difficult business climate for Japanese banks will continue in fiscal 1998. With interest rates hovering at historical lows, we foresee a reduction in income from our bond trading during this fiscal year, and as a result, our net business profit is projected to be approximately ¥280 billion (US$2,119 million). Due to our significant efforts to dispose of our problem loans in fiscal 1997, we anticipate that credit costs will fall substantially in fiscal 1998, and therefore, we are forecasting a return to the black with ¥60 billion (US$454 million) in net income.

Medium-term Strategy

In March this year, we announced a new three-year business plan — “Strategic Plan 120” — aimed at improving efficiency, productivity, and profitability through rationalization. Through Strategic Plan 120, we will work toward becoming a highly profitable and efficient global financial services group providing superior financial services with a high level of customer satisfaction. In addition, under the policy of prioritizing our business areas and clients to enhance productivity, we will strive to further strengthen and streamline our organization, establish our competitive advantages in specific services and business areas, and realize a solid financial base. With respect to financial performance targets, we plan to achieve a return on equity of more than 7 percent, a 10 percent BIS ratio, and a rating in the upper range of single A in three years.

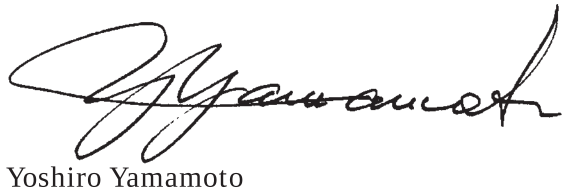
The five basic goals of Plan 120 are to:

- establish a strong and sound financial base;
- bolster high-end risk management systems;
- strengthen the five specific business areas, namely financial technology and information services, personal loans, asset management, settlement services, and trading;
- establish superior marketing channels; and
- strengthen the expertise of all employees.

Our new strategy includes cost-cutting measures, such as staff reductions and branch network consolidation, as well as reconstruction of our asset portfolio by focusing on more profitable transactions, especially in the medium-size corporate market and consumer retail market in Japan. In our overseas business, we will concentrate on providing superior financial products that are competitive and highly profitable, such as acquisition finance, project finance and syndicated loan placement.

In closing, we would like to express our appreciation for the kind assistance and support our shareholders and customers have extended to us over the years. We look forward to continuing to serve you in the future.

Toru Hashimoto
Chairman of the Board



Yoshiro Yamamoto
President & Chief Executive Officer