

CONSOLIDATED FINANCIAL STATEMENTS

Fuji Bank Group

Balance Sheet

March 31,	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
ASSETS			
Cash and Due from Banks	¥ 2,821,634	¥ 4,341,701	\$ 21,359,834
Call Loans and Bills Purchased	1,453,230	2,230,223	11,000,989
Commercial Paper and Other Debt Purchased	43,216	188,430	327,152
Trading Assets (Note 3)	3,265,412	—	24,719,248
Trading Account Securities	—	845,037	—
Money Held in Trust	84,989	117,271	643,369
Securities (Note 4)	6,044,830	5,607,096	45,759,507
Loans and Bills Discounted (Note 5)	34,028,201	35,714,787	257,594,257
Foreign Exchange	580,018	541,793	4,390,753
Other Assets (Note 6)	3,326,086	3,480,573	25,178,551
Premises and Equipment (Note 7)	693,955	357,330	5,253,257
Deferred Taxes	441,043	256,925	3,338,712
Consolidation Difference	8,153	—	61,724
Customers' Liabilities for Acceptances and Guarantees (Note 14)	2,322,736	2,529,984	17,583,168
Total Assets	¥ 55,113,509	¥ 56,211,154	\$ 417,210,521

The accompanying notes are an integral part of these statements.

March 31,	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities			
Deposits (Note 8)	¥ 34,552,361	¥ 38,649,481	\$ 261,562,164
Call Money and Bills Sold	3,755,273	4,310,517	28,427,509
Trading Liabilities	2,057,167	—	15,572,803
Borrowed Money (Note 9)	2,947,169	2,252,185	22,310,138
Foreign Exchange	113,221	82,000	857,087
Bonds and Notes (Note 10)	1,657,224	1,322,494	12,545,228
Convertible Bonds (Note 11)	12,582	12,582	95,248
Other Liabilities (Note 12)	4,381,799	3,943,584	33,170,318
Reserve for Possible Loan Losses	904,217	1,022,030	6,844,945
Reserve for Retirement Allowances	48,312	48,816	365,727
Other Reserves (Note 13)	176,066	60,243	1,332,829
Minority Interest in Consolidated Subsidiaries	282,392	42,885	2,137,717
Acceptances and Guarantees (Note 14)	2,322,736	2,529,984	17,583,168
Land Revaluation Account	326,529	—	2,471,834
Total Liabilities	53,537,054	54,276,804	405,276,715
Stockholders' Equity			
Common Stock (Note 15)	424,087	424,087	3,210,348
Preferred Stock (Note 15)	105,000	105,000	794,852
Capital Surplus (Note 15)	419,954	419,954	3,179,064
Legal Reserve (Note 16)	89,216	86,616	675,369
Earned Surplus	538,210	898,696	4,074,262
Treasury Common Stock, at cost	(11)	(4)	(89)
Total Stockholders' Equity	1,576,455	1,934,349	11,933,806
Total Liabilities and Stockholders' Equity	¥ 55,113,509	¥ 56,211,154	\$ 417,210,521

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Statement of Income

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
INCOME			
Interest Income:			
Interest on Loans and Discounts	¥1,399,707	¥1,283,411	\$10,595,818
Interest and Dividends on Securities	121,337	138,348	918,531
Other Interest Income	661,991	751,895	5,011,292
	2,183,037	2,173,655	16,525,641
Fees and Commissions	137,765	128,630	1,042,885
Trading Revenue (Note 17)	56,913	—	430,834
Other Operating Income (Note 18)	151,504	96,938	1,146,893
Other Income (Note 18)	350,069	345,469	2,650,038
Total Income	2,879,290	2,744,693	21,796,291
EXPENSES			
Interest Expenses:			
Interest on Deposits	703,442	697,473	5,325,076
Interest on Borrowings, Bonds and Notes	418,061	313,706	3,164,732
Other Interest Expenses	519,472	485,111	3,932,416
	1,640,975	1,496,291	12,422,224
Fees and Commissions	49,247	47,265	372,802
Other Operating Expenses (Note 19)	46,816	55,291	354,398
General and Administrative Expenses	470,091	443,807	3,558,604
Other Expenses (Note 19)	1,128,236	602,934	8,540,772
Total Expenses	3,335,366	2,645,590	25,248,800
Income (Loss) before Income Taxes and Others	(456,076)	99,103	(3,452,509)
Income Taxes (Note 20):			
Current	17,528	7,549	132,694
Deferred	(133,182)	(18,390)	(1,008,198)
Minority Interest in Net Income	7,584	4,891	57,414
Amortization of Consolidation Difference	2,038	1,171	15,432
Equity in Earnings of Affiliates and Unconsolidated Subsidiaries	4,735	5,163	35,849
Net Income (Loss)	¥ (345,309)	¥ 109,044	\$ (2,614,002)
Net Income (Loss) per Share (single currency unit).....			
	¥(119.35)	¥37.54	\$(0.90)
Net Income per Share (diluted)			
	—	37.27	—
Dividend Declared per Share (single currency unit):			
Common Stock	8.50	8.50	0.06
Preferred Stock	7.50	3.75	0.06

The accompanying notes are an integral part of these statements.

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Statement of Earned Surplus

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Balance at Beginning of Year	¥898,696	¥ 815,747	\$6,803,157
Deductions:			
Transfer to Legal Reserve	(2,600)	(4,362)	(19,682)
Dividends	(12,577)	(21,731)	(95,211)
Net Income (Loss)	(345,309)	109,044	(2,614,002)
Balance at End of Year	¥538,210	¥ 898,696	\$4,074,262

The accompanying notes are an integral part of these statements.

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Statement of Cash Flows

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest on Loans and Discounts Received.....	¥ 1,157,721	¥1,096,621	\$ 8,763,974
Interest and Dividends on Securities Received.....	123,581	142,353	935,517
Other Interest Received.....	919,027	596,948	6,957,060
Fees and Commissions Received.....	134,140	131,950	1,015,444
Other Operating Revenue.....	58,727	59,963	444,570
Total.....	2,393,198	2,027,836	18,116,565
Interest on Deposits Paid.....	702,069	710,000	5,314,679
Interest on Borrowings, Bonds and Notes.....	408,574	308,862	3,092,919
Other Interest Paid.....	435,337	32,638	3,295,516
Fees and Commissions Paid.....	52,699	46,900	398,939
Other Operating Expenditures.....	14,984	6,916	113,430
General and Administrative Expenses Paid.....	417,823	403,413	3,162,937
Total.....	2,031,489	1,508,732	15,378,420
Net Decrease in Due from Banks.....	1,327,070	999,013	10,045,954
Net Decrease (Increase) in Call Loans and Bills Purchased.....	776,993	(612,551)	5,881,857
Net Decrease (Increase) in Commercial Paper and Other Debt Purchased.....	145,214	(62,135)	1,099,275
Net Increase in Trading Accounts.....	(465,862)	—	(3,526,593)
Net Proceeds from Trading Account Securities Transactions.....	—	262,383	—
Net Proceeds from (Expenditures of) National Government Bonds and Other Transactions.....	(81,925)	186,951	(620,178)
Net Decrease (Increase) in Loans and Bills Discounted.....	1,148,344	(2,133,099)	8,692,991
Net Increase in Foreign Exchange.....	(38,520)	(81,370)	(291,600)
Net Increase in Other Assets.....	(989,472)	(529,182)	(7,490,332)
Total.....	1,821,840	(1,969,991)	13,791,374
Net Increase (Decrease) in Deposits and Other.....	(4,097,119)	1,369,103	(31,015,287)
Net Decrease in Call Money and Borrowed Money.....	(279,667)	(830,373)	(2,117,087)
Net Increase in Foreign Exchange.....	31,221	4,949	236,344
Net Increase in Other Liabilities.....	1,524,678	404,482	11,541,853
Total.....	(2,820,886)	948,162	(21,354,177)
Net Cash Used in Operating Activities.....	(637,337)	(502,724)	(4,824,658)
CASH FLOWS FROM OTHER ACTIVITIES			
Proceeds from Sales of Stocks and Other.....	1,281,553	1,359,380	9,701,390
Proceeds from Settlements of Money Held in Trust.....	239,591	82,316	1,813,712
Proceeds from Sales of Premises and Equipment.....	55,363	38,102	419,100
Other Proceeds.....	6,971	10,348	52,773
Total.....	1,583,479	1,490,148	11,986,975
Purchases of Stocks and Other.....	1,340,433	1,352,885	10,147,111
Investments on Money Held in Trust.....	209,136	47,519	1,583,165
Purchases of Premises and Equipment.....	58,432	60,690	442,334
Other Payments.....	488,306	97,406	3,696,493
Total.....	2,096,308	1,558,502	15,869,103
Net Cash Used in Other Activities.....	(512,829)	(68,354)	(3,882,128)
DIVIDENDS AND INCOME TAXES			
Dividends Paid.....	12,577	21,731	95,211
Income Taxes Paid.....	12,072	3,765	91,387
Total.....	24,649	25,497	186,598
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of Preferred Stock.....	—	210,000	—
Issuance of Preferred Securities of Subsidiaries.....	227,681	—	1,723,555
Issuance of Bonds and Notes.....	1,029,093	296,629	7,790,259
Total.....	1,256,774	506,629	9,513,814
Principal Payments of Convertible Bonds, Bonds and Notes.....	274,955	190,262	2,081,419
Total.....	274,955	190,262	2,081,419
Net Cash Provided by Financing Activities.....	981,819	316,367	7,432,395
Net Decrease in Cash and Cash Equivalents.....	(192,996)	(280,208)	(1,460,989)
Cash and Cash Equivalents at Beginning of Year.....	1,233,508	1,513,717	9,337,688
Cash and Cash Equivalents at End of Year.....	¥ 1,040,512	¥1,233,508	\$ 7,876,699

The accompanying notes are an integral part of these statements.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

Fuji Bank Group

1. Basis of Presentation

The accompanying consolidated financial statements have been prepared on the basis of accounting principles and practices generally accepted in Japan and have been compiled from the consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan. Certain items presented in the consolidated financial statements filed with the Minister of Finance have been reclassified for the convenience of readers outside Japan.

Certain previously reported amounts have been reclassified to conform with the current period presentation.

Although not required to be filed with the Minister of Finance, consolidated statements of cash flows for the years ended March 31, 1998 and 1997 have been prepared and included in the accompanying consolidated financial statements. For the purposes of reporting cash flows, cash and cash equivalents consist of cash and demand deposits with the Bank of Japan in accordance with the guideline for Statement of Cash Flows issued in June 1991.

As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals in yen shown in the consolidated financial statements do not necessarily agree with the sum of the individual amounts.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥132.10=U.S.\$1, the rate of exchange on March 31, 1998, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

Differences between the accounting policies followed by The Fuji Bank, Limited ("the Bank") and its consolidated subsidiaries (the "Fuji Bank Group") and International Accounting Standards ("IAS") are described in Note 2. (m) below.

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**2. Summary of Significant
Accounting Policies**

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Bank and 114 of its subsidiaries including Fuji Securities Co., Ltd. (a Japanese corporation), The Fuji Trust and Banking, Co., Ltd. (a Japanese corporation), Fuji Bank (Schweiz) AG (a Swiss corporation), The Fuji Bank and Trust Company (a U.S. corporation), and Fuji America Holdings, Inc. (a U.S. corporation) and its subsidiaries (including the Heller Group), principally Heller Financial, Inc. and Heller International Group, Inc.

The unconsolidated subsidiaries and affiliated companies of Fuji America Holdings, Inc. are accounted for by the equity method. Investments in other unconsolidated subsidiaries (majority-owned) and other affiliates (20 to 50 percent owned) are carried at cost as they are not material.

Fuji Business Agency, Ltd. and other domestic subsidiaries have not been consolidated since these subsidiaries are not significant and their results have no material impact on the consolidated financial statements of the Bank.

All significant intercompany accounts and transactions have been eliminated.

The financial statements of the consolidated subsidiaries whose fiscal year-ends are principally December 31 are included in the consolidated financial statements on the basis of their respective fiscal years after making appropriate adjustments for significant transactions during the periods from their respective year-end dates to the date of the consolidated financial statements.

The difference, not significant in amount, between the cost and underlying interest in the net assets of consolidated subsidiaries is charged or credited to income in their acquisition year.

(b) Trading Assets and Liabilities

Effective April 1, 1997, the Bank introduced a new method of valuation of trading accounts included in trading assets and trading liabilities as prescribed under Article 17-2 of the Banking Law of Japan.

The effects of the introduction of the new method for trading transactions resulted in a decrease of loss before income taxes and others of ¥21,551 million and increases in total assets and liabilities of ¥1,842,739 million and ¥1,814,168 million, respectively.

Trading assets and liabilities are valued using quoted market prices, where available. However, quoted market prices are not available for a substantial portion of financial instruments. Fair value for such financial instruments is estimated using discounted cash flow models or other valuation techniques.

(c) Translation of Foreign Currencies

(i) The financial statements of consolidated foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the ends of their respective fiscal years for the consolidated financial statements for the years ended March 31, 1998 and 1997, except for the beginning and ending balances of their earned surpluses which are translated at historical exchange rates.

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- (ii) a) Foreign currency accounts held by the Bank are translated into Japanese yen at the exchange rates prevailing at the end of the fiscal year, except that certain special accounts, as approved by the Japanese regulatory authorities, are translated at historical exchange rates.
- b) Foreign currency accounts held by the consolidated foreign subsidiaries are translated into the currency of the subsidiary at their respective year-end exchange rates.
- (iii) Foreign exchange trading positions, including spot, forward, currency futures and currency options contracts, are valued at fair value and the resulting gains and losses are included in the accompanying consolidated statements of income.

(d) Securities

Securities are stated at the moving average cost method.

Effective April 1, 1997, the Bank changed its method of valuation of listed securities and listed securities held in separately managed trusts, including in the securities account from the lower of cost or market to the moving average cost method. Japanese government bonds have been stated at the moving average cost method prior to this change. The effect of this change in accounting for securities resulted in a decrease of loss before income taxes and others of ¥433,195 million.

Securities owned by the consolidated subsidiaries are carried principally at cost or at the lower of cost or market value.

(e) Depreciation of Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation.

Depreciation of premises and equipment owned by the Bank is computed under the declining-balance method over the estimated useful lives of the assets and is provided in the full amount permitted under the Rules for Bank Accounting issued by the Ministry of Finance.

Effective April 1, 1997, the Bank introduced a new method of depreciation of buildings using the declining-balance method at the standard rate in accordance with amendments to the Uniform Accounting Standards for Banks.

The effects of the change in accounting for depreciation resulted in a decrease of loss before income taxes and others of ¥6,940 million.

Depreciation of premises and equipment owned by consolidated subsidiaries is mainly computed by the straight-line method over the estimated useful lives of the assets.

Estimated useful lives for premises range between three and 65 years and for equipment between two and 20 years.

(f) Reserve for Possible Loan Losses

Effective April 1, 1997, the Bank implemented a new methodology of calculating reserves for possible loan losses.

The reserves for possible loan losses of the Bank are made in accordance with the policies regarding write-offs and reserve standards in the Uniform Accounting Standards for Banks. Pursuant to the internal rules for self-assessment of asset quality and the internal rules for providing reserves for possible credit losses, a reserve for possible loan losses is provided for as described below:

For loans to borrowers which are classified as substantially bankrupt or which are bankrupt in the formal legal sense a reserve is provided based on the amount remaining after deduction of the amount of collateral considered to be disposable and amounts recoverable under guarantees.

For loans to borrowers which although not actually bankrupt in the legal sense, have experienced serious management difficulties and whose failure is imminent. In this case, a reserve is provided based on the amount remaining after deduction of the amount of collateral considered to be disposable and amounts recoverable under guarantees and an overall comprehensive analysis of the likelihood of repayment.

For other loans, a reserve is provided based on historical loan loss experience.

The reserve relating to loans to certain lesser developed countries is provided based on the prospective loss after consideration of the relevant country's political and economic situation, etc. (including reserves for losses on overseas investments as prescribed under Article 55-2 of the Exceptions to Tax Laws Act).

The above procedures for providing reserves are made on the basis of the quality of all the Bank's loan assets, using the Bank's internally established rules for self-assessment.

Consolidated subsidiaries provide reserves for possible loan losses at the amounts considered reasonable in accordance with local accounting standards and also based on their management's assessment of the loan portfolio.

(g) Reserve for Retirement Allowances and Pension Plans

The reserve for retirement allowances of the Bank is provided in accordance with the Rules for Bank Accounting, based on the amount which would have been required to be paid if all employees covered by the retirement plan had voluntarily terminated their employment at the balance sheet date.

In addition, the Bank has contributory pension plans for eligible employees. The unamortized balance of prior service cost at March 31, 1997 (based on the most recent available information on the pension plan) was ¥21,785 million. Prior service cost is being amortized over a period of 15 years and nine months.

The consolidated subsidiaries principally have funded pension plans for their employees.

(h) Land Revaluation Account

Land used for the Bank's business activities has been revalued on the basis prescribed by the law concerning revaluation of land. The difference between the book value and the revaluation is included in liabilities.

(i) Lease Transactions

Finance leases under which the ownership of the leased property is deemed to have been transferred to the lessee are capitalized, while other finance leases are accounted for as operating leases.

(j) Income Taxes

Deferred income taxes arising from timing differences between financial and tax reporting are provided for consolidated financial statement purposes.

(k) Appropriation of Earned Surplus

Cash dividends, transfers to the legal reserve and bonuses to the directors and the senior overseers are recorded in the fiscal year in which the proposed appropriations of earned surplus are approved by the Board of Directors and/or the general meeting of the stockholders.

(l) Net Income (Loss) per Share

Net income (loss) per share is computed based on the average number of shares of common stock outstanding during the year.

Net income per share (diluted) is computed based on the average number of shares of common stock outstanding during the year, after giving effect to the dilutive potential of the common stock to be issued upon the conversion of convertible bonds and preference shares. It was not necessary to disclose net income per share (diluted) for the year ended March 31, 1998 because a net loss was recorded.

(m) Differences between Japanese Accounting Principles and Practices and International Accounting Standards (IAS)

The accompanying consolidated financial statements of the Fuji Bank Group are prepared in conformity with accounting principles and practices generally accepted in Japan. Such principles and practices differ from International Accounting Standards in a number of material respects which include accounting for income taxes (IAS 12), accounting for leases (IAS 17), retirement benefit cost (IAS 19), foreign translation (IAS 21), cash flow statements (IAS 7), disclosures in the financial statements of banks and similar financial institutions (IAS 30) and other disclosures.

**NOTES TO CONSOLIDATED
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**3. Trading Assets and
Trading Liabilities**

Trading Assets

Trading assets at March 31, 1998 and 1997 consisted of the following:

	Millions of yen	
	1998	*1997
Trading securities	¥ 877,934	¥ —
Derivatives of trading securities	409	—
Securities related to trading transactions	111,068	—
Derivatives of securities related to trading transactions	0	—
Trading-related financial derivatives	1,391,380	—
Other trading assets	884,619	—
	¥ 3,265,412	¥ —

Trading Liabilities

Trading liabilities at March 31, 1998 and 1997 consisted of the following:

	Millions of yen	
	1998	*1997
Trading securities sold for short sales	¥ 561,405	¥ —
Derivatives of trading securities	294	—
Securities related to trading transactions sold for short sales	12,231	—
Trading-related financial derivatives	1,483,235	—
	¥ 2,057,167	¥ —

* Differences in the basis of presentation mean that figures for 1997 are not comparable, and have therefore been excluded.

4. Securities

Securities at March 31, 1998 and 1997 were as follows:

	Millions of yen	
	1998	1997
Japanese national government bonds	¥ 1,090,825	¥ 1,052,713
Japanese local government bonds	368,933	235,094
Japanese corporate bonds and financial debentures	538,052	468,161
Japanese corporate stocks	3,474,758	3,292,109
Other securities	572,261	559,017
	¥ 6,044,830	¥ 5,607,096

**5. Loans and Bills
Discounted**

Loans and bills discounted at March 31, 1998 and 1997 consisted of the following:

	Millions of yen	
	1998	1997
Bills discounted	¥ 726,927	¥ 823,032
Loans on notes and deeds	27,583,391	30,831,007
Overdrafts	5,408,580	3,943,665
Financing receivables, including factoring, leasing and property financing	309,301	117,082
	¥ 34,028,201	¥ 35,714,787

6. Other Assets

Other assets at March 31, 1998 and 1997 consisted of the following:

	Millions of yen	
	1998	1997
Accrued income and prepaid expenses	¥ 583,851	¥ 1,673,269
Securities in custody	1,327,847	509,426
Other	1,414,387	1,297,877
	¥ 3,326,086	¥ 3,480,573

**7. Premises and
Equipment**

Premises and equipment at March 31, 1998 and 1997 consisted of the following:

	Millions of yen	
	1998	1997
Land	¥ 408,168	¥ 84,400
Buildings	297,937	300,977
Equipment	234,549	230,201
Other	96,249	79,984
	1,036,905	695,563
Accumulated depreciation	342,950	338,232
Net book value	¥ 693,955	¥ 357,330

8. Deposits

Deposits at March 31, 1998 and 1997 consisted of the following:

	Millions of yen	
	1998	1997
Current deposits	¥ 1,492,644	¥ 1,979,431
Ordinary deposits	5,713,618	4,997,303
Deposits at notice	1,081,426	1,015,713
Time deposits	19,429,290	23,229,608
Other deposits	3,649,892	3,501,387
	31,366,873	34,723,445
Negotiable certificates of deposit	3,185,488	3,926,036
	¥ 34,552,361	¥ 38,649,481

9. Borrowed Money

Borrowed money at March 31, 1998 and 1997 consisted of the following:

	Millions of yen	
	1998	1997
Bills rediscounted	¥ 8,741	¥ 11,769
Borrowings from the Bank of Japan and other financial institutions	2,636,846	1,880,264
Commercial paper	301,580	360,151
	¥ 2,947,169	¥ 2,252,185

Subordinated borrowed money amounting to ¥891,300 million at March 31, 1998 and ¥1,021,800 million at March 31, 1997 was included in "Borrowings from the Bank of Japan and other financial institutions".

10. Bonds and Notes

Bonds and Notes at March 31, 1998 and 1997 consisted of the following:

	Millions of yen	
	1998	1997
Subordinated bonds and notes	¥ 818,075	¥ 708,938
Other	839,148	613,555
	¥ 1,657,224	¥ 1,322,494

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11. Convertible Bonds

Convertible bonds at March 31, 1998 and 1997 consisted of the following:

	Millions of yen	
	1998	1997
2 3/4 percent U.S. dollar convertible bonds due 2000	¥ 2,854	¥ 2,854
1 3/4 percent U.S. dollar convertible bonds due 2002	9,727	9,727
	¥ 12,582	¥ 12,582

These convertible bonds unless previously redeemed are convertible into shares of common stock of the Bank. The conversion price of each is subject to adjustment in certain cases including stock splits.

The conversion prices per share were as follows:

	Conversion price per share at March 31, 1998	Fixed exchange rate
2 3/4 percent U.S. dollar convertible bonds due 2000	¥ 1,394.00	¥ 239.60 = U.S.\$1
1 3/4 percent U.S. dollar convertible bonds due 2002	¥ 2,928.40	¥ 146.45 = U.S.\$1

12. Other Liabilities

Other liabilities at March 31, 1998 and 1997 consisted of the following:

	Millions of yen	
	1998	1997
Accrued expenses and unearned income	¥ 650,369	¥ 1,754,730
Accrued income taxes	18,391	12,853
Securities borrowed	1,312,619	482,978
Securities sold not yet purchased	—	689,917
Other	2,400,418	1,003,104
	¥ 4,381,799	¥ 3,943,584

13. Other Reserves

Other reserves at March 31, 1998 and 1997 consisted of the following:

	Millions of yen	
	1998	1997
Reserve for possible losses on loans sold off	¥ 52,717	¥ 38,834
Reserve for specific borrowers under support	122,300	—
Reserve for price fluctuation of Japanese national government bonds	—	7,513
Reserve for possible losses from trading account securities transactions	995	13,855
Reserve for financial futures transaction liabilities	47	31
Reserve for securities transaction liabilities	5	9
	¥ 176,066	¥ 60,243

The reserve for possible losses on loans sold off has been provided against possible future losses after consideration of the value of the collateral of the loans sold off to the Cooperative Credit Purchasing Company.

The reserve for specific borrowers under support has been provided for loans to support the rehabilitation of specific borrowers. An estimate has been made of the future amount likely to be required in supporting such borrowers and the necessary amount is accounted for under the above reserve. This reserve is stipulated under Article 287-2 of the Commercial Code of Japan.

14. Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are included in this account. As a contra-account, "Customers' Liabilities for Acceptances and Guarantees" is shown on the assets side of the balance sheets and represents the Fuji Bank Group's right of indemnity from its customers.

Acceptances and guarantees at March 31, 1998 and 1997 consisted of the following:

	Millions of yen	
	1998	1997
Acceptances	¥ 41,164	¥ 36,370
Letters of credit	257,351	304,611
Guarantees	2,024,220	2,189,002
	¥ 2,322,736	¥ 2,529,984

15. Common Stock, Preferred Stock and Capital Surplus

The Bank's authorized number of shares of capital stock (common stock and preferred stock) as of March 31, 1998 and 1997 was as follows:

(i) 4 billion shares of common stock, voting and ranking equally with any other class of shares (except for preference shares) with respect to the payment of dividends and distributions on the liquidation or winding-up of the Bank. The dividend rate and redemption and conversion rights, if any on such shares, are to be determined by the Board of Directors of the Bank prior to issuance.

(ii) 100 million preference shares, non-voting and ranking prior to shares of common stock with respect to the payment of dividends and distributions on the liquidation or winding-up of the Bank. The dividend rate and redemption and conversion rights, if any on such shares, are to be determined by the Board of Directors of the Bank prior to issuance.

The information relating to Common Stock, Preferred Stock and Capital Surplus is as follows:

	Millions of yen	
	1998	1997
Common Stock:		
Balance at beginning of year	¥ 424,087	¥ 423,873
Add:		
Conversion of convertible bonds	—	213
Balance at end of year	¥ 424,087	¥ 424,087
(Shares issued and outstanding at end of year)	(2,897,614 thousand shares)	(2,897,614 thousand shares)
Preferred Stock:		
Balance at beginning of year	¥ 105,000	¥ —
Add:		
Issuance	—	105,000
Balance at end of year	¥ 105,000	¥ 105,000
(Shares issued and outstanding at end of year)	(70,000 thousand shares)	(70,000 thousand shares)
Capital Surplus:		
Balance at beginning of year	¥ 419,954	¥ 314,740
Add:		
Issuance of Preferred Stock	—	105,000
Conversion of convertible bonds	—	213
Balance at end of year	¥ 419,954	¥ 419,954

On December 28, 1996, the Bank issued 70 million preference shares at a price of ¥3,000 per share for gross proceeds of ¥210,000 million, of which ¥105,000 million was credited to the capital surplus account. The issuance costs were expensed when paid. The preference shareholders are entitled, with priority over any payment of dividends and distributions on the liquidation of the Bank to any other class of shares of the Bank, to annual noncumulative dividends of ¥7.5 per preference share and a distribution of ¥3,000 per preference share.

The preference shares are convertible on or after July 1, 1997 and up to and including January 31, 2002, at the option of the holders, into fully-paid shares of common stock of the Bank at an initial conversion price of ¥2,002 per share of common stock, subject to adjustment in certain limited circumstances. The conversion price will be reset initially on October 1, 1997 and on October 1 of each year thereafter through October 1, 2001 to the then prevailing average market price of the shares of common stock, if lower than the conversion price prior to such reset, but not lower than 65% of the initial conversion price. All outstanding preference shares on February 1, 2002 will be subject to mandatory conversion into shares of common stock.

The number of preference shares can be obtained by multiplying (i) the number of such preference shares by (ii) the product obtained by dividing ¥3,000 by the higher of (a) the average of the closing prices of the Bank's shares of common stock for 30 consecutive trading days commencing on the 45th trading day prior to the final mandatory conversion date, and (b) 35% of the initial conversion price, and such shares of common stock will be delivered to the holders of the preference shares.

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16. Legal Reserve

Under the Banking Law of Japan, an amount equivalent to at least 20 percent of any distribution of earned surplus must be appropriated to the legal reserve until the reserve equals 100 percent of the stated capital. This reserve is not available for dividends but may be used to reduce a deficit or may be transferred to the common stock account.

Information relating to the legal reserve is summarized as follows:

	Millions of yen	
	1998	1997
Balance at beginning of year.....	¥86,616	¥82,253
Transfer from earned surplus	2,600	4,362
Balance at end of year	¥89,216	¥86,616

.....

17. Trading Revenue

The composition of trading revenue for the years ended March 31, 1998 and 1997 was as follows:

	Millions of yen	
	1998	*1997
Revenue from trading securities and derivatives	¥28,298	¥ —
Revenue from securities and derivatives related to trading transactions.....	6,239	—
Revenue from trading-related financial derivatives transactions	19,366	—
Other trading revenue	3,008	—
	¥56,913	¥ —

* Differences in the basis of presentation mean that figures for 1997 are not comparable, and have therefore been excluded.

18. Other Operating Income and Other Income

Other Operating Income

The composition of other operating income for the years ended March 31, 1998 and 1997 was as follows:

	Millions of yen	
	1998	1997
Gains on foreign exchange transactions	¥ 18,822	¥ 5,840
Gains on trading account securities transactions.....	—	3,034
Gains on sales of bonds.....	105,512	83,095
Gains on redemption of bonds.....	3,834	1,806
Other	23,334	3,161
	¥151,504	¥96,938

Due to the amendment of the Enforcement Regulations of the Banking Law, "Gains on trading account securities transactions" has been included in "Trading revenue" since the fiscal year ended March 31, 1998.

Other Income

The composition of other income for the years ended March 31, 1998 and 1997 was as follows:

	Millions of yen	
	1998	1997
Gains on sales of stocks and other securities.....	¥275,928	¥301,495
Gains on money held in trust	904	485
Gains on disposal of premises and equipment	45,814	33,329
Collection of written-off claims	70	48
Reversal of reserve for price fluctuation of Japanese national government bonds	7,513	—
Reversal of reserve for possible losses on trading account securities.....	13,362	—
Reversal of reserve for securities transaction liabilities.....	5	3
Other	6,469	10,107
	¥350,069	¥345,469

.....

19. Other Operating Expenses and Other Expenses

Other Operating Expenses

The composition of other operating expenses for the years ended March 31, 1998 and 1997 was as follows:

	Millions of yen	
	1998	1997
Losses on sales of bonds	¥28,561	¥45,908
Losses on redemption of bonds	2,864	2,267
Losses on devaluation of bonds.....	472	186
Other	14,917	6,928
	¥46,816	¥55,291

20. Income Taxes

Other Expenses

The composition of other expenses for the years ended March 31, 1998 and 1997 was as follows:

	Millions of yen	
	1998	1997
Transfer to reserve for possible loan losses.....	¥ 326,519	¥ 151,951
Write-off of loans.....	68,966	25,767
Losses on sales of stocks and other securities	2,137	233
Losses on devaluation of stocks and other securities	56,999	191,048
Losses on money held in trust.....	1,817	3,234
Losses on disposal of premises and equipment.....	5,027	9,553
Transfer to reserve for price fluctuation of Japanese national government bonds.....	—	33
Transfer to reserve for possible losses on trading account securities transactions.....	503	101
Transfer to reserve for financial futures transaction liabilities	16	14
Transfer to reserve for securities transaction liabilities	1	1
Losses on sales of loans collateralized by real estate to Cooperative Credit Purchase Company	202,768	83,157
Other	463,478	137,836
	¥1,128,236	¥602,934

“Other” in “Other Expenses” for the year ended March 31, 1998 includes losses of ¥226,637 million incurred from supporting certain borrowers, including Japan Mortgage Co., Ltd.

“Other” in “Other Expenses” for the year ended March 31, 1997 includes losses of ¥35,467 million incurred from supporting certain borrowers.

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Income taxes in Japan applicable to the Bank and its domestic subsidiaries for the years ended March 31, 1998 and 1997 comprised corporation tax, inhabitants’ taxes and enterprise tax at the approximate rates indicated below:

	1998	1997
Corporation tax.....	37.5%	37.5%
Inhabitants’ taxes	7.7%	7.7%
Enterprise tax	12.5%	12.5%
	57.7%	57.7%

Enterprise tax is included in “Other Expenses” in the accompanying consolidated statements of income.

Unlike other income taxes, enterprise tax is deductible for tax purposes when paid. Accordingly, the effective tax rate on income was approximately 51.3 percent for the years ended March 31, 1998 and 1997.

The consolidated foreign subsidiaries are subject to the income taxes of the respective countries in which they operate.

21. Lease Transactions

Other Finance Leases

Lessors

The total lease amounts due from the lessee under other finance leases, where the ownership of the property is not deemed to have been transferred to the lessee, and total lease amounts received at March 31, 1998 and 1997 were as follows:

	Millions of yen	
	1998	1997
Due within one year.....	¥ 355	¥*
Greater than one year	627	*
	¥983	¥*
Total lease amounts received.....	¥497	¥213

Lessees

The total lease amounts due to the lessor under other finance leases, where the ownership of the property is not deemed to have been transferred to the lessee, and total lease amounts paid at March 31, 1998 and 1997 were as follows:

	Millions of yen	
	1998	1997
Due within one year.....	¥ 574	¥*
Greater than one year	949	*
	¥1,524	¥*
Total lease amounts paid.....	¥ 697	¥547

Operating Leases

The total lease amounts due to the lessor under operating leases at March 31, 1998 and 1997 were as follows:

	Millions of yen	
	1998	*1997
Due within one year.....	¥ 6,704	¥—
Greater than one year	43,540	—
	¥50,245	¥—

* Differences in the basis of presentation mean that figures for 1997 are not comparable, and have therefore been excluded.

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22. Segment Information

(a) Business Segment Information

Certain consolidated subsidiaries are engaged in securities, trust, leasing, and other businesses in addition to the commercial banking business. As those activities are not deemed material, business segment information has not been disclosed.

(b) Geographic Segment Information

Total adjusted income represents total income excluding “Gains on disposal of premises and equipment”, “Collection of written-off-claims” and reversals of “Other Reserves”.

Total adjusted expenses represents total expenses excluding “Losses on disposal of premises and equipment” and transfers to “Other Reserves”.

The following tables represent geographic segment information on the Total adjusted income, Ordinary profit (loss) and Assets of the Bank’s head office, branches and subsidiaries according to the country of domicile of the respective entities.

The Bank changed the method of accounting for securities referred to in Note 2 (d). This influenced the result as indicated in the segment information on Japan.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

Fuji Bank Group

CONSOLIDATED

Year ended March 31, 1998	Millions of yen				
	Japan	Foreign*	Combined Total	Elimination /Corporate	Consolidated Total
I. Total adjusted income:					
Customers.....	¥ 1,448,385	¥	¥ 2,812,522	¥ —	¥ 2,812,522
Intersegment.....	158,201		417,610	(417,610)	—
Total adjusted expenses..	1,606,586		3,230,133	(417,610)	2,812,522
	2,189,234		3,708,994	(379,176)	3,329,817
Ordinary profit (loss)....	¥ (582,647)	¥	¥ (478,861)	¥ (38,433)	¥ (517,295)
II. Assets	¥44,653,364	¥	¥66,201,238	¥(11,087,728)	¥55,113,509

* Foreign amounts consisted of the following:

	Millions of yen		
	The Americas	Asia and Oceania	Europe
I. Total adjusted income:			
Customers.....	¥ 748,474	¥ 356,614	¥ 259,048
Intersegment.....	47,581	102,053	109,774
Total adjusted expenses.....	796,055	458,668	368,822
	725,667	456,434	337,658
Ordinary profit (loss).....	¥ 70,387	¥ 2,234	¥ 31,164
II. Assets.....	¥9,447,530	¥8,235,922	¥3,864,420

Year ended March 31, 1997	Millions of yen				
	Domestic	Foreign	Combined Total	Elimination /Corporate	Consolidated Total
I. Total adjusted income:					
Customers.....	¥ 1,617,297	¥ 1,094,014	¥ 2,711,312	¥ —	¥ 2,711,312
Intersegment.....	278,985	186,809	465,794	(465,794)	—
Total adjusted expenses..	1,896,283	1,280,823	3,177,106	(465,794)	2,711,312
	1,929,828	1,168,207	3,098,035	(462,148)	2,635,887
Ordinary profit (loss)....	¥ (33,545)	¥ 112,616	¥ 79,071	¥ (3,646)	¥ 75,425
II. Assets	¥38,791,585	¥23,238,311	¥62,029,897	¥(5,818,743)	¥56,211,154

(c) Total Adjusted Income from International Operations

Years ended March 31,	Millions of yen	
	1998	1997
(i) Total adjusted income from international operations.....	¥ 1,779,636	¥ 1,578,911
(ii) Consolidated total adjusted income	¥ 2,812,522	¥ 2,711,312
(i)/(ii)	63.2%	58.2%

Total adjusted income from international operations represents the sum of total adjusted income generated from the international operations of the Bank and domestic consolidated subsidiaries, and total adjusted income of its consolidated foreign subsidiaries excluding all intercompany transactions within the Fuji Bank Group.

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23. Subsequent Events

At a general meeting of stockholders held on June 26, 1998 a year-end dividend of ¥8.50 per share of common stock totalling ¥24,629 million, and of ¥7.50 per share of preferred stock totalling ¥525 million were approved in respect of the year ended March 31, 1998. In accordance with Japanese accounting practice, these dividends were not accrued and have not been reflected in the financial statements for the year ended March 31, 1998.

**Report of Independent Certified Public
Accountants on the Consolidated Financial Statements**

The Board of Directors
The Fuji Bank, Limited

We have examined the consolidated balance sheets of The Fuji Bank, Limited and consolidated subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of income, earned surplus and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above, expressed in Japanese yen, present fairly the consolidated financial position of The Fuji Bank, Limited and consolidated subsidiaries at March 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan consistently applied during the period except for the change, with which we concur, in the method of accounting for securities as described in Note 2 (d) to the consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 1998 are presented solely for convenience. Our examination also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Tokyo, Japan
June 26, 1998

Showa Ota & Co.

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