Application for Public Funds and Preparation of the Business Improvement Plan

Application for Public Funds

As a number of financial institutions became insolvent mainly due to their non-performing loan problems, the functions of Japan's financial system deteriorated seriously during the fiscal year, leading to a decline in confidence in financial systems both in Japan and overseas. In view of these developments, in October 1998 two pieces of legislation—the Law Concerning Emergency Measures for Reconstruction of the Functioning of the Financial System (the Financial Reconstruction Law) and the Law Concerning Emergency Measures for Early Strengthening of Financial Function (the Bank Recapitalization Law)—were enacted. In particular, the Bank Recapitalization Law was intended to swiftly restore the soundness of the Japanese financial system, to reestablish smooth financial intermediary functions, and to revitalize the economy by facilitating the rapid disposal of the non-performing loans of financial institutions and implementing emergency measures to strengthen their capital base.

In accordance with the intent of these government measures, in March 1999 DKB received an infusion of public funds to strengthen its capital base and formulated a Business Improvement Plan. As a result of this capital infusion, DKB's financial position has improved. DKB has committed itself to taking positive measures to restructure its operations according to its Business Improvement Plan and, by enhancing its profitability through the implementation of rationalization measures, to better performing its role as a financial intermediary, thereby contributing to the proper functioning of Japan's financial system and the revitalization of Japan's economy.

Dealing with Problem Loans

DKB has given the highest priority to dealing with problem loans. In view of the current status of the Japanese economy and general decline of confidence in the Japanese financial system, DKB considers the recommendations received from the Financial Reconstruction Commission (FRC) in January 1999 regarding write-offs and provisions accompanying capital increases to be minimum requirements. Accordingly, for the year under review, DKB took a significant and precautionary step in dealing with the problem loans. The amount of reserves we set aside was far larger than the amount under the previous criteria we adopted. Also, we drastically accelerated the disposal of non-performing loans. As a consequence, DKB reported approximately ¥970 billion in credit-related losses and completed the write-offs and provisions necessary to dispose of non-performing loans during fiscal 1998.

Conditions for Receiving Public Funds

DKB applied for ¥900 billion in public funds—sufficient to maintain a BIS capital ratio of 10% or higher, which is regarded as necessary to meet the requirements of international financial markets. The application for public funds was submitted on March 4, 1999, and was approved by FRC on March 12. The Resolution and Collection Corp. (RCC) directly underwrote ¥700 billion in preferred stocks and provided ¥200 billion in subordinated loans to DKB. The conditions of this capital infusion were as follows:

Outline of Terms and Conditions of Preferred Stocks

Type of Security	Second Series of Preferred Stocks (Second Class: Convertible)	Third Series of Preferred Stocks (Second Class: Convertible)	Fourth Series of Preferred Stocks (Fourth Class: Non-convertible)
Amount	¥200 billion	¥200 billion	¥300 billion
Number issued	100 million	100 million	150 million
Price per share	¥2,000 per share	¥2,000 per share	¥2,000 per share
Preferred dividends per share (Dividend rate)	¥8.20 per share (0.41%)	¥14.00 per share (0.70%)	¥47.60 per share (2.38%)
Convertibility to common stock	Yes	Yes	No
Period for conversion	August 1, 2004 to July 31, 2006	August 1, 2005 to July 31, 2008	—
Final date for conversion	August 1, 2006	August 1, 2008	—
Requirements for amortization	None	None	Required (After August 1, 2004)

Outline of Subordinated Loans

Type of Loan	Subordinated Term Loan (Tranche I)	Subordinated Term Loan (Tranche II)
Amount	¥100 billion	¥100 billion
Term	March 31, 2009 (10 years)	March 31, 2010 (11 years)
Prepayment	Full amount or a portion repayable on or after the fifth year on the date of interest payments (Conditional on prior approval by the Financial Supervisory Agency)	Full amount or a portion repayable on or after the sixth year on the date of interest payments (Conditional on prior approval by the Financial Supervisory Agency)
Interest rates	First five years: Six-month yen LIBOR plus 75 basis points Sixth year and thereafter: Six-month yen LIBOR plus 125 basis points	First six years: Six-month yen LIBOR plus 75 basis points Seventh year and thereafter: Six-month yen LIBOR plus 125 basis points

Repayment of Public Funds

The Bank Recapitalization Law stipulates that recipient institutions must endeavor to repay funds provided by RCC through the underwriting of stocks and subordinated loans at the earliest time possible. In view of this requirement, DKB will work to improve its profitability and enhance the soundness of its financial position and, through the accumulation of retained earnings, secure the necessary financial resources as soon as possible to retire or amortize the public funds. Management believes that the market's appraisal of DKB will improve, and, as a result, it will be possible to retire the preferred stocks and repay subordinated loans at an early date.

Outline of the Business Improvement Plan

The principal objectives of DKB's Business Improvement Plan are to restructure operations, rationalize operations, and strengthen financial intermediary functions.

To achieve these objectives, DKB is undertaking the actions described below:

- To restructure its operations, DKB is selecting high-priority areas to achieve greater focus and efficiency in its activities.
- To rationalize its operations, DKB is reducing the number of personnel, reviewing its branch network, and implementing other measures to substantially lower personnel and non-personnel expenditures.
- To strengthen its financial intermediary functions, DKB is enhancing the soundness of its loan portfolio and is facilitating credit creation. Specifically, DKB is actively making credit available to qualified small, medium-sized, and upper middle market companies, as well as individuals, and is working to deal with its problem loans at an early date.

Specific details of DKB's plans in this respect are provided below.

Restructure Operations

Under its First Corporate Plan, DKB has placed strong emphasis on providing commercial banking services in its core markets, namely, individuals, small, medium-sized, and upper middle market companies, and large corporations having close relationships with DKB. Moreover, within these core customer markets, DKB is actively expanding its capabilities in the field of asset management and administration, which is expected to undergo substantial expansion in the years ahead. At the same time, DKB has focused on those areas within investment banking and international banking that have important synergies with transactions in its core markets as well as on financial technologies that add value to services provided for customers in DKB's core markets.

In addition, DKB is considering obtaining services from outside sources through the formation of joint ventures and other means to provide the highest-quality products and services best suited to customer needs. Based on this management policy, DKB has concluded a tie-up with J.P. Morgan in the field of investment trusts. Also, DKB has formed The Dai-Ichi Kangyo Fuji Trust & Banking Co., Ltd., through the merger of The Dai-Ichi Kangyo Trust and Banking Co., Ltd., and The Fuji Trust & Banking Co., Ltd. This company has, in turn, absorbed the trust and fiduciary business of The Yasuda Trust & Banking Co., Ltd.

Rationalize Operations

Expenses DKB will reduce expenses by 10%, or ¥42.7 billion, from fiscal 1998 through fiscal 2002. By fiscal 2002, personnel expenses will be lowered by ¥27.3 billion, or 16.5%, from fiscal 1998 levels.

At the same time, non-personnel expenses will be cut by ¥14.0 billion, or 6.5%, through a restructuring of the branch network, a revision of employee welfare facilities and systems, and other measures. As a consequence of these reductions in expenses, the ratio of expenses to gross business profit is expected to decrease, from 58% in fiscal 1998 to 49% in fiscal 2002.

(¥ billion)

	March 31, 1997 (Actual)	March 31, 1998 (Actual)	March 31, 1999 (Proposed)	March 31, 1999 (Actual)	March 31, 2003 (Planned)	Compared with March 31, 1999 (Proposed)
Expenses	402.3	394.1	405.9	388.7	363.2	-42.7
Personnel expenses	174.1	169.9	165.6	162.5	138.3	-27.3
Non-personnel expenses	202.1	196.3	214.9	201.4	200.9	-14.0

Number of Employees Over the five years from fiscal 1998 to fiscal 2002, the number of employees will be reduced by a total of 3,800, or 22%, to 13,200.

	March 31, 1997 (Actual)	March 31, 1998 (Actual)	March 31, 1999 (Proposed)	March 31, 1999 (Actual)	March 31, 2003 (Planned)	Compared with March 31, 1998
Number of employees	17,425	16,965	16,130	16,090	13,200	-3,765

Number of Offices The number of conventional, full-service domestic branches will be reduced by 109, from 339 as of March 31, 1998, to 230 as of March 31, 2003. Approximately 60 branches will be reorganized as specialize in providing services for individuals. Sub-branches will be newly established as in-store branches and in other forms requiring less capital investment. Thus, between March 31, 1998, and March 31, 2003, the number of manned branches and other offices will be reduced by 23, from 372 to 349. The number of overseas offices will be decreased by 15, from 46 as of March 31, 1998, to 31, as of March 31, 2003.

	March 31, 1997 (Actual)	March 31, 1998 (Actual)	March 31, 1999 (Proposed)	March 31, 1999 (Actual)	March 31, 2003 (Planned)	Compared with March 31, 1998
Number of domestic branches	340	339	334	334	290	-49
Conventional, full-services branches	340	339	334	334	230	-109
Number of staffed domestic branches, including sub-branches	375	372	361	360	349	-23
Number of overseas branches	25	25	19	19	16	-9
Number of overseas subsidiaries	21	21	20	20	15	-6

Number of Directors DKB has reduced the number of members of the Board of Directors by 8, and, over the three-year period beginning with fiscal 1999, will make an additional reduction of 10 or more through the introduction of the non-board-member executive director system.

	March 31, 1997 (Actual)	March 31, 1998 (Actual)	March 31, 1999 (Proposed)	March 31, 1999 (Actual)	March 31, 2003 (Planned)	Compared with March 31, 1998
Number of directors	43	35	35	35	25 or less	-10 or less

Directors' Compensation and Bonuses From fiscal 1996 to 1998, the total amount of directors' compensation has been reduced 29%, and a further reduction of 31% will be made from fiscal 1998 to fiscal 2002. DKB has ceased the payments of bonuses for directors for the six consecutive fiscal years between fiscal 1993 and fiscal 1998. No bonuses will be paid in fiscal 1999 or subsequent years until DKB's financial position and earning structure have improved and these improvements are recognized in the market.

(¥ million)

	March 31, 1997 (Actual)	March 31, 1998 (Actual)	March 31, 1999 (Proposed)	March 31, 1999 (Actual)	March 31, 2003 (Planned)	Compared with March 31, 1998
Directors' compensation	1,377	1,070	984	984	681	-389
Directors' bonuses	0	0	0	0	0	0

Strengthen Financial Intermediary Functions

Based on the spirit of the Bank Recapitalization Law, financial institutions in Japan are expected to facilitate the granting of credit to contribute to the revitalization of the economy. Regarding domestic loans, which account for the largest portion of DKB's total loan assets, DKB will actively work to provide loans to small, medium-sized, and upper middle market companies, as well as loans to individuals, with the aim of improving its asset structure and promoting the efficient use of the assets. At the same time, DKB will endeavor to collect its non-performing loans at the earliest time possible and improve the soundness of its domestic loan portfolio. DKB plans to increase its loan assets with the aim of strengthening its earnings base and attaining other positive objectives, in spite of negative factors such as the continuing stagnation in domestic demand, the activities of corporations to reduce their borrowings, and DKB's efforts to accelerate the disposal of non-performing loans.

Profit Plan

(As submitted with the Business Improvement Plan)

(¥ billion, except as indicated)

	March 31, 1997 (Actual)	March 31, 1998 (Actual)	March 31, 1999 (Proposed)	March 31, 1999 (Actual)	March 31, 2003 (Planned)	Compared with March 31, 1999 (Proposed)
Gross profit	797.1	717.4	695.1	682.8	738.9	+43.8
Net operating profit	391.3	323.0	221.6	178.5	386.8	+165.2
Ordinary profit	-349.8	-154.9	-627.9	-604.4	279.0	+906.9
Net profit	-353.9	-146.4	-392.0	-376.1	160.7	+552.7
Profit available for payment of dividends	514.8	366.2	305.7	317.4	543.5	+237.8
Dividends	26.5	26.5	19.4	19.4	28.7	+9.3
Total return on earning assets (%)	0.43	0.23	0.17	0.23	0.34	+0.17
Shareholders' equity	1,516.9	1,442.9	2,073.0	2,404.2	2,382.4	+309.4
Retained earnings	617.8	439.5	366.8	380.9	652.3	+285.5
Risk-Based Capital Ratio (BIS Capital Ratio)	8.75	9.08	10.70	11.46	12.37	+1.67

Notes: 1. The exchange rate assumed for the plan was US$1=¥135.35, the rate prevailing during the period the plan was prepared.

2. The actual figures of Shareholders' equity as of March 31, 1998, and March 31, 1999, include public funds in the amount of ¥99 billion and ¥799 billion, respectively.

3. The contents of the Plan are also pasted on DKB's Internet Web site.