

# *International Banking Company*



*Takatsugu Murai  
President, IBC*



## *Our Strategy*

"We are able to provide client-focused solutions to the complex financial needs of companies, be they multi-national corporations engaged in business around the world or Japanese companies looking to expand overseas."



### **Message from the Company President**

By every measure, fiscal 1999 was a turnaround year for the IBC. Operating profit and ROE were up significantly, while expenses across the board were lower. We streamlined operations, sharpened the focus of our business strategies and established forward-looking priorities in key areas, ensuring that the IBC will remain on a steady path to improved performance and continuing success. Our strong performance and commitment to excellence, combined with the synergy effects generated by the launch of the Mizuho Financial Group, will make us one of the leading institutions in the arena of international finance.

### *Performance and Results*

Fiscal 1999—our first year of operations under the Customer Segment-Based Business Management System—posed many challenges for the IBC. We met these challenges, and, as a result, the performance of the IBC for the fiscal period improved significantly, as can be seen in the highlights below:

- Expenses were reduced ¥6.1 billion from fiscal 1998 levels.
- Net operating profit reached ¥22.9 billion, an increase of ¥17.1 billion.
- Gross profit rose ¥11 billion, to ¥39.2 billion.
- ROE for fiscal 1999 was 10%, up from the fiscal 1998 figure of -22.6%.

## IBC Performance

	(¥ billion)		
	Fiscal 1998	Fiscal 1999	Change
<b>Gross Profit</b>	¥28.2	¥39.2	¥11.0
Overseas Non-Japanese			
Companies	24.0	22.6	(1.4)
<i>United States</i>	10.5	10.8	0.3
<i>Europe</i>	3.5	5.2	1.7
<i>Asia</i>	10.0	6.6	(3.4)
Foreign Companies			
in Japan	1.3	1.6	0.3
Dividends, etc.	2.9	15.0	12.1
Expenses	22.4	16.3	(6.1)
<b>Net Operating Profit</b>	5.8	22.9	17.1
<b>Ordinary Profit (Loss)*</b>	(68.0)	29.4	97.4
<b>ROE (%)</b>	(22.6)	10.0	32.6
	(\$1=¥136)	(\$1=¥117)	

\*Ordinary Profit (Loss) is Net Operating Profit less Credit Cost (Reserve for Possible Loan Losses and other credit-related losses).

### *Focused Strategies and Priorities*

The IBC faced a difficult business environment in fiscal 1999. Asian economies were still recovering from the Asian currency crises, and many Japanese banks were feeling the effects of an unstable domestic financial system and a sluggish economy. In response to these conditions, we sharpened the focus of our fundamental business strategies and shifted our priorities to key areas, holding firm to our commitment to provide the highest-quality financial services on a global scale. By concentrating resources and realigning priorities to match the changing conditions in the financial markets and industry, we have taken the steps necessary to ensure the continuing success of the IBC.

### *Commitment to Global Finance*

The IBC remains committed to providing the best financial services and products to clients around the world. From our PFI operations in the United Kingdom to our syndicated loan activities in Asia, our dedication to custom-tailored solutions for our customers remains unchanged. With access to the more than 400 branches and offices that make up DKB's global network, we are able to provide client-focused solutions to the complex financial needs of companies, be they multinational corporations engaged in business around the world or Japanese companies looking to expand overseas.

### *Streamlined Organization*

In order to improve efficiency and stay ahead of the competition, we have streamlined our overseas

office network and implemented a new organizational structure. IBC's international network has been placed under the management of three regional general managers (the Americas, Europe and Asia), and the number of overseas branches has been significantly reduced. This has allowed us to reduce costs, delegate authority, and increase flexibility, preparing us for the fast-paced changes that will take place as the New Economy evolves and the globalization of business progresses.

### *Financial Technology*

Over the last several years, financial technology in the U.S. and Europe has advanced in leaps and bounds, while in Japan, such development has lagged, primarily due to structural impediments and a slow economy. Recent deregulation and promising signs of economic recovery, however, have given impetus to change, and DKB has responded by importing the financial techniques and know-how the IBC has acquired through its successes in the U.S. and Europe and applying them to operations in Japan. The result has been immensely rewarding, with DKB securing the number one position in syndicated loan transactions in Japan. DKB considers the development of leading-edge financial services and products to be of paramount strategic importance, and we view the introduction of this cutting-edge financial technology into Japan not only as a necessary means to provide relationship-focused solutions to our customers, but also as part of our responsibility, as a leading Japanese financial institution, to contribute to the advancement and development of the Japanese financial industry.

### *Toward the Future with Mizuho*

In autumn 2000, Mizuho Holdings, Inc. will be established, giving birth to the Mizuho Financial Group. In combination with its counterparts at The Fuji Bank and The Industrial Bank of Japan, the IBC will continue in its commitment to provide financial products and services of the highest caliber on a global basis. With the added resources and infrastructure provided by the synergy created by the consolidation, the IBC—as part of the international operations of the Mizuho Financial Group—will be more capable than ever to provide optimal solutions to the diverse and complex needs of clients and customers.

## Review of Businesses

### Asia

Asia is considered to be a strategically important region for two primary reasons. First, Asia is expected to undergo high rates of economic growth in the medium-to long-term. Although economies of non-Japan Asia moved into a slump following the outbreak of the Asian currency crises in 1997, these economies are, for the most part, on a path toward recovery. Second, many of DKB's domestic corporate customers have operations in Asia, making Asia an integral part of DKB's overall business strategy. In order for DKB to remain flexible and respond rapidly to new developments, business promotion activities in Asia have been centralized mainly under the General Manager of Asia, allowing the IBC to develop and implement strategies focused on current conditions in the region.

The IBC provides myriad financial services to customers, both Japanese and non-Japanese, throughout Asia. Through our extensive branch and subsidiary network, we provide commercial banking, lease financing, trade finance and other financial services, enabling a flexible response to the needs of our customers. Additionally, our International Finance Division (based in Tokyo, with offices in Singapore and Hong Kong) offers customized solutions—such as project finance—to meet the specialized needs of customers. Under the New Miyazawa Initiative, DKB is also actively engaged in co-finance activities, in cooperation with public-sector financial institutions, such as the

Japan Bank for International Cooperation and the Asian Development Bank.

### Loans to Asian Countries

As of March 21, 2000, DKB's total loans outstanding to borrowers in non-Japan Asia (based on the location of the borrower) amounted to ¥893.9 billion. Of this total, loans outstanding to Japan-affiliated companies accounted for 39%. In the wake of the Asian currency crises, the IBC has been increasingly selective in its loan activities involving non-Japanese and public sector borrowers.

Non-accrual, past due and restructured loans to borrowers in Asia, as of March 31, 2000, amounted to ¥62.9 billion, or 7% of DKB's total exposure to the region. As a result of DKB's successful efforts to accelerate the reduction of problem loans and the continuing recovery of Asian economies, the amount of such loans was reduced 40% from the amount at the end of the previous fiscal year. In addition, reserves for possible loan losses against these loans totaled ¥45.7 billion, representing approximately 5% of DKB's total loans outstanding in the region. The reserve coverage ratio for non-accrual, past due and restructured loans was approximately 72%, a level which DKB deems appropriate to cover the risk associated with the recovery of these claims. We will continue to monitor changes in the political and economic conditions—as well as the economic recovery—of countries in Asia, to ensure the profitability of our operations and the strength of DKB's presence in the region.

### Loans Outstanding to Borrowers in Asia (Balance Outstanding as of March 31, 2000, by Location of Borrower)

	Loans Outstanding				Reserves for Non-Accrual, Past Due & Restructured Loans		Coverage Ratio
	Total	Japanese	Non-Japanese	Public	Possible Loan Losses*	Reserve for Possible Loan Losses*	
Thailand	¥141.2	¥ 74.6	¥ 62.4	¥ 4.1	¥10.4	¥ 6.4	61%
Indonesia	93.9	26.6	54.2	13.0	23.3	22.5	96
South Korea	72.0	5.0	63.3	3.5	3.5	1.4	41
Hong Kong	253.3	84.0	159.2	10.0	7.6	4.7	61
Malaysia	37.4	8.9	12.6	15.8	0.2	0.2	89
People's Republic of China	99.2	38.2	41.0	20.0	13.8	8.6	62
Taiwan	56.4	35.0	21.3	0.0	0.0	0.3	—
Singapore	91.2	73.9	17.2	0.0	3.1	0.7	25
Others	49.0	0.2	31.2	17.5	0.7	0.4	—
<b>Total</b>	<b>¥893.9</b>	<b>¥346.7</b>	<b>¥462.9</b>	<b>¥84.1</b>	<b>¥62.9</b>	<b>¥45.7</b>	<b>72%</b>

\* Includes the general reserve for possible loan losses

## The Americas

Financial markets in the United States are highly sophisticated, and, while competition is intense, the development of business activities in the region offers many exciting opportunities. Under the General Manager of the Americas (based in New York), an efficient network to service the needs of DKB customers has been established. The New York Branch and Los Angeles Agency are responsible for Japan-affiliated corporate customers, while non-Japanese companies are serviced through the New York Branch. The concentration of operations primarily in New York and Los Angeles not only increases efficiency but also allows us to strengthen our marketing capabilities through greater focus on highly specialized operations. The Americas Specialized Finance Division of the New York Branch provides client-tailored solutions to financing needs, including credit derivative structures, responding to the demand generated by the growing diversity and increasing sophistication of customer needs in the Americas.

In November 1999, CIT—DKB's affiliated finance company in the United States—acquired Newcourt Credit Group, Inc., a Canadian company that provides financial services to high-technology and telecommunications enterprises. This forward-looking strategic acquisition will expand the scope of CIT's operations, in preparation for the growth and opportunity the New Economy will generate. CIT continues to record excellent results, reporting income-after-income-taxes of \$390 million for the year ended December 31, 1999—an increase of 15% over the previous year. This was CIT's 12th consecutive year of increased net income and 9th consecutive year to report record net income. Through the use of customized leasing and factoring arrangements, CIT is focusing on expanding its presence in the U.S. middle market and strengthening relationships with Japanese companies operating in the region. CIT provides tailor-made financing solutions to the wide-ranging needs of Japanese companies doing business in the Americas, having established business relationships with more than 200 such companies and having

increased the balance of corresponding assets to more than \$1.6 billion.

## Europe

European monetary unification has created a vast single-currency region and stimulated industrial realignments, mergers and acquisitions throughout the region, thereby creating many new business opportunities. To take advantage of the opportunities presented by the trend toward economic integration, the IBC has created a business promotion structure to bring its operations in London and on the Continent under unified management, under the direction of the General Manager of Europe (based in London). For Japanese companies operating in Europe, DKB provides custom-made business solutions through close teamwork between its offices in the region, with the Japanese Corporate Department (Europe) playing a central coordinating role. For non-Japanese corporate clients, DKB provides financing and other services primarily through the London Branch. These financial services included PFI arrangements where DKB has considerable expertise, project finance for energy-related projects and financing for media and telecommunications companies.

## Project Finance and Syndicated Loans

### *Project Finance*

DKB's project finance specialists provide services on a global basis through DKB offices in London, New York, Hong Kong, Singapore and Tokyo. In fiscal 1999, DKB participated in 38 project financings, acting as the lead-arranging bank for 6 of these.

In the United Kingdom, DKB continued to take an active role in the participation of PFI arrangements, joining in six deals and acting as the lead arranger in three of them. This placed DKB in the number one position in PFI financings among Japanese banks and seventh among all financial institutions. (Please refer to the accompanying ranking of PFI arrangers.)

PFI arrangements adapted for Japan have begun to draw attention as a new way to implement public works projects. Following the enactment of the new Japanese law on PFI arrangements, DKB has brought a number of PFI undertakings to the implementation stage. In this area, DKB is actively drawing on the know-how it has gained in the United Kingdom as the leading Japanese bank participating and lead arranging such financing. In fiscal 1999, DKB was appointed as the arranger for the first PFI undertaking in Japan, which will involve the construction of electric power facilities for the operation of a water purification plant in Kanamachi, Tokyo. DKB has therefore left a lasting imprint on the history of Japanese PFI arrangements through such efforts. Further, DKB plans to build on this record of accomplishments in the PFI arrangement field drawing on its capabilities for providing advice and financing to meet customer needs.

#### *Syndicated Loans*

The number of corporations making use of syndicated loans for financing is expanding even in Japan, where this form of financing is relatively new. Syndications can respond flexibly to meet large funding requirements and permit companies to improve the efficiency of their financing operations.

#### Ranking of PFI Arrangers

(£ million)

Ranking	1996		1997		1998		1999	
1	BZW	165	Morgan Stanley/IBJ	230	Royal Bank of Scotland	347	NatWest	308
2	<b>Dai-Ichi Kangyo</b>	143	Royal Bank of Scotland	180	Barclays Capital	293	Barclays Capital	247
3	Midland	125	Schroders	147	Bank of America	286	Bank of Scotland	246
4	Bayerische Landesbank	88	Bank of America	61	Bank of Scotland	256	Royal Bank of Scotland	190
5	Royal Bank of Scotland	88	Dresdner Kleinwort Benson	53	HSBC	153	Bayerische Landesbank	140
6	Lehman Brothers	83	Deutsche Morgan Grenfell	36	ABN AMRO	143	Royal Bank of Canada	109
7	SBC Warburg	83	Rabobank	36	Dresdner Kleinwort Benson	140	<b>Dai-Ichi Kangyo</b>	107
8	ABN AMRO	77	United Bank of Kuwait	36	Morgan Stanley Dean Witter	136	ABN AMRO	93
9	Citibank	63	Santander	35	Halifax	92	Bank of America	88
10	Credit Foncier	63	Bank of Scotland	34	<b>Dai-Ichi Kangyo</b>	83	Toronto Dominion	88
11	Dresdner Kleinwort Benson	63	ABN AMRO	28	Bayerische Landesbank	70	Abbey National	83
12	UBS	63	Bank of Nova Scotia	28	SG	55	DNIB	73
13	Credit Suisse	46	Export Development Corp.	28	Deutsche	52	Dresdner Kleinwort Benson	70
14	Indosuez	46	Nations Bank	20	Paribas	52	Credit Lyonnais	70
15	Lloyds	46	<b>Dai-Ichi Kangyo</b>	13	Rabobank	52	Bank of Tokyo-Mitsubishi	60
16	NatWest Markets	46	Credit Lyonnais	13	Abbey National	48	Deutsche	56
	Others	177	Others	0	Others	106	Others	247
Total		1,465		978		2,364		2,275

Source: Project Finance International

### *Project Finance Arrangements in Fiscal 1999*

#### U.K. Country Route A130

PFI arrangements are financing schemes that draw on the capabilities of private-sector business interests to implement projects that heretofore have been regarded as public sector undertakings. DKB has the top record of accomplishments among Japanese banks in this area and in the United Kingdom has successfully arranged three highway projects that are among the largest PFI undertakings to date. One of these, A130, a new bypass highway in Essex in the northern suburbs of London, was arranged by DKB in fiscal 1999. This initiative attracted attention in the market for being the first PFI undertaking in the United Kingdom on behalf of a regional government.

As a result, the market for syndicated loans is growing rapidly.

*Project Finance Arrangements  
in Fiscal 1999*

**Japan's First PFI Arrangement**

DKB is acting as PFI arranger and jointly organizing the financing with the Development Bank of Japan, for Kanamachi Purification Plant Energy Service Co., Ltd., Japan's first PFI to construct electric power facilities for operating a water purification plant in Kanamachi, Tokyo. Representing a model for future Japanese PFI, the project is generating strong interest in the public and private sectors.

DKB has created a specialized unit to make the know-how developed in syndicated loan arrangements in overseas financial markets available to companies in Japan. This unit, made up of staff with extensive international experience who have developed a broad base of investors, is providing sophisticated services for DKB customers and steadily expanding DKB's record of syndication activities in this rapidly developing market.

In 1999, DKB stood first in the Asian syndication market in terms of volume of syndications, and, in fiscal 2000, these activities are continuing to expand. (Please refer to the accompanying table, Asian Syndicated Loans (Excluding Australasia) Arranged by DKB.)

**Asian Syndicated Loans (Excluding Australasia)  
Arranged by DKB**

(January 1, 1999, to December 31, 1999)

Row		(US\$ million)	% of Total	No. of Issues
1	<b>Dai-Ichi Kangyo</b>	8,125.0	10.9	22
2	Citibank	7,782.2	10.4	72
3	Fuji Bank, Limited	5,992.4	8.0	14
4	Bank of Tokyo-Mitsubishi, Ltd.	4,933.6	6.6	13
5	HSBC	3,900.8	5.2	44
6	ABN AMRO	3,243.5	4.3	51
7	Sanwa Bank, Limited	3,016.7	4.0	15
8	Chase Manhattan Corp.	2,414.9	3.2	20
9	Sumitomo Bank, Limited	2,289.3	3.1	12
10	Bank of America	1,837.6	2.5	35
Total		74,582.8	100.0	331

Source: Thomson Financial Securities Data

*Syndicated  
Loans*

**For the Japanese Subsidiary  
of Cable & Wireless**

DKB successfully arranged a syndicated loan amounting to ¥60 billion jointly with the Chase Manhattan Bank. This loan was arranged to meet the funding needs of the finance company of the Cable & Wireless Group, a leading international telecommunications service company, and was the full-scale medium-to-long term syndication arranged for the first time in Japan. Successful completion of this syndicated loan substantially enhanced DKB's presence in the domestic syndicated loan market. Initially, plans called for raising ¥40 billion, but, because of strong interest in the market, the syndication was oversubscribed, and the total amount was increased to ¥60 billion.

**Business Support for Foreign Companies**

A growing number of foreign companies are entering the Japanese market in the wake of deregulation and changes in the economic environment. Many of these companies enter the market on their own, while others form alliances and joint ventures. In addition, the number of acquisitions of companies in Japan by foreign business interests is rising. These developments have generated a variety of needs within many foreign companies, and, in order to respond to these needs, DKB has established the International Corporate Banking Division. As the unit specializing in providing services to foreign companies, this division utilizes DKB's vast network in Japan and overseas, as well as the expertise and know-how of its staff, to develop business solutions and provide advice on funding methods, cash management and other services.