

REPORT TO OUR STOCKHOLDERS



Toru Hashimoto
Chairman of the Board

Yoshiro Yamamoto
*President and
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The Japanese financial industry, as well as the Japanese economy as a whole, experienced a year of volatile changes and sweeping reforms in fiscal 1998. As Japan was gearing up for its Big Bang financial reforms last year, we witnessed dramatic alliances that broke through business and geographical barriers as confidence in the Japanese financial industry plummeted and the global financial market weathered a string of economic upheavals. In an effort to counter stagnation and asset deflation in the Japanese economy, the government has introduced various economic stimulus measures, and corporations are in the midst of restructuring in order to survive.

We are facing an era of unprecedented competition as foreign financial institutions and companies from different business sectors venture into the financial industry. The future of Japanese banks will be shaped by changes in banking regulations that meet global standards and innovation in information technology which can lead to a paradigm shift. Therefore, we too must reform our management infrastructure and adopt a flexible corporate structure that can respond to changes in a timely manner. Hence, it is essential for us to establish a strong and sound financial base in order to maintain our competitive edge.

Report to Our Stockholders

In fiscal 1998, we have strengthened our capital base and implemented various strategies and reforms in our management infrastructure with considerable results. In particular, we have built a solid base to take bold steps in strategic development by strengthening our capital base. We are confident that we will capitalize on these reforms to position ourselves to make great strides into the future.

Review of Fiscal 1998

In fiscal 1998, we have focused on establishing a strong and sound financial base, reforming our management infrastructure and strengthening consolidated business management which laid the groundwork for our medium-term strategic plan.

■ *Building Financial Strength*

In order to build our financial strength, we have set out to achieve three goals.

- First, we have made significant progress in upgrading the soundness of our assets. As the Japanese economy continued to stagnate, we addressed the bad loan problem by accelerating the disposal of non-performing loans with write-offs and provisions amounting to over ¥700 billion. This resulted in lifting the burden of problem loans after fiscal 1999. We also took the drastic step of eliminating approximately ¥350 billion yen of latent losses on stockholdings. This led to an unrealized gain of ¥183.9 billion on our stockholdings as of the end of March 1999.
- Second, we have significantly improved and strengthened our capital base. In May 1998, we listed Heller Financial, Inc., our financial subsidiary in the US, on the New York Stock Exchange and raised more than US\$1 billion through an Initial Public Offering. Following that, in January 1999, we raised additional capital by issuing approximately ¥217 billion in common stock. In accordance with the legislation passed by the Japanese government to create an emergency financial system stabilization package in March 1999, we received a capital injection of public funds amounting to ¥1 trillion (¥800 billion in preference shares and ¥200 billion in perpetual subordinated notes). As a result, our BIS capital adequacy ratio improved 1.83% over the same period last year to 11.24% as of the end of March 1999. With the renewed strength in our capital base, we are well positioned to respond to the needs of our customers.
- Third, we have adopted aggressive measures toward disclosure. We believe that a high level of disclosure is necessary for establishing the credibility of the Bank and improving the transparency of our management structure. In order for the public to have a better understanding of the Bank's financial position, in September 1998, we were the first Japanese city bank to disclose the results of our self-assessment of our assets. Moreover, we conducted a special investigation by engaging a major US auditor, including a review of market risk transactions and loan portfolios, in an effort to improve disclosure and recover credibility in the market.

■ *Strategic Reforms Supported by
Management Infrastructure Reforms*

With respect to strategic reforms, we are pursuing three dynamic strategies.

● First, we have begun to implement our medium-term business plan -Strategic Plan 120- early in fiscal 1998. We have also focused our management resources on corporate and consumer banking in the domestic market, which are two areas where we have made the enhancement of productivity a top priority. At the same time, we have reviewed our overlapping and non-strategic businesses, and have actively reorganized our business portfolio. Our actions in this area include the sale of our retail banking subsidiary in Hong Kong. In addition to providing a wide range of finely-tuned products and services to respond to the needs of our customers, we have also established an efficient and timely service structure based on the diversification of service channels through information technology innovation. At the same time, we have also stepped up our efforts in restructuring. We have increased efficiency by closing and consolidating our domestic and overseas offices, while at the same time maintaining our level of service to our customers. We have reduced the number of offices in our overseas network by 40 percent and have concentrated our remaining resources on core branches. These branches will deal with overseas subsidiaries of Japanese corporations and strengthen specific products such as MBO and project finance. Furthermore, in addition to trimming our staff by 640 people, we have made significant efforts to reduce expenses.

● Second, in order to bolster our operations in asset management services, an area that is expected to expand considerably in the future, we announced our strategic alliance with The Dai-Ichi Kangyo Bank, Ltd. last November. The trust banking subsidiaries of the Bank and Dai-Ichi Kangyo Bank merged to form The Dai-Ichi Kangyo Fuji Trust & Banking Co., Ltd. on April 1. The new company will take over the pension trust, stock transfer agency services and custodial services operations of the asset management department of The Yasuda Trust and Banking Co., Ltd. (YTB) on October 1, 1999. The fusion of the customer bases of the Bank and of Dai-Ichi Kangyo Bank, and the highly specialized expertise of YTB will provide the impetus for propelling the new company into the leading role in the domestic asset management and administration markets. Moreover, in March, we made YTB a consolidated subsidiary with the underwriting of ¥300 billion of new shares in order to strengthen important fields such as private banking operations and to maximize its synergies with Fuji Bank. Capitalizing on these synergies, YTB is making solid progress toward increasing its profitability and strengthening its management base.

● Third, in order to support our strategic reforms, we have made sweeping changes in our management infrastructure with respect to corporate organization, human resources systems and managerial accounting. In January 1998, we restructured our corporate organization, creating a flexible business group structure with well-defined roles, tasks and responsibilities which allow us to respond swiftly to shifts in the business environment. In April 1998, we introduced a new managerial accounting system which enables us to control revenue on a consolidated basis for each business group. Furthermore, in July of the same year, we abolished the seniority-based promotion and compensation system and introduced a new personnel system that rewards performance.

■ *Reinforcement of Consolidated Business*

Management

As customer needs become more diversified as a result of the Big Bang financial reforms, consolidated business management is becoming an important means of providing the best specialized services to our customers. Recognizing this, we have integrated more group companies into our consolidated accounting for fiscal 1999 while applying the new consolidation guidelines. This enables us to establish a more dynamic consolidated business management strategy through integration of our group companies and improves the transparency of the management structure.

Under these various changes, the net business profit for fiscal 1998 increased ¥15.1 billion to ¥306.6 billion. However, since we had addressed problem loans and latent losses on our stockholdings in order to improve our asset portfolio, we posted a loss of ¥392.9 billion for the term. Our capital base has been strengthened considerably with the capital injection of public funds, and we are now well-positioned to take on the challenges that will lead to a prompt recovery in our business performance.

The annual dividend payment for common shares was set at ¥7 per share which was ¥1.50 less than last year, and the annual dividend for preferred shares was maintained at a level previously set by the board of directors.

Outlook for Fiscal 1999

The difficult economic environment is likely to continue in fiscal 1999. With the Japan Big Bang financial reforms in full swing, competition is likely to intensify among Japanese and major foreign financial institutions. Under these circumstances, we will focus our resources on the following four objectives in order to become a leading bank in the 21st century.

● First, we will focus our efforts on improving the profitability of our corporate and consumer banking businesses in the domestic market in order to realize our profit targets. In corporate banking, we will enhance efficiency by reviewing the business promotion structure. We will

focus on actively pursuing small- and medium-sized businesses and providing a comprehensive range of services to large corporations. In consumer banking, we will diversify our range of service channels for customer convenience and reinforce our traditionally strong housing loan and promising asset management operations.

● Second, we will step up our restructuring efforts. We have already reorganized our operations by consolidating branches, reducing personnel and reviewing employee benefits. In addition, we will streamline our management structure, optimize our branch network and reduce personnel further.

● Third, we will continue to strengthen our group strategy. In 1999, The Dai-Ichi Kangyo Fuji Trust & Banking Co., Ltd. and The Yasuda Trust and Banking Co., Ltd. will work together to achieve the goals of the Fuji Bank Group.

● Fourth, we will continue to reinforce risk management. We have already strengthened our management controls by putting into place a new business organizational structure, which we began to implement on May 21. A senior executive has been designated as Chief Risk Officer (CRO) to oversee the control of various risks across business areas, and we have also reinforced the audit structure and process throughout the organization.

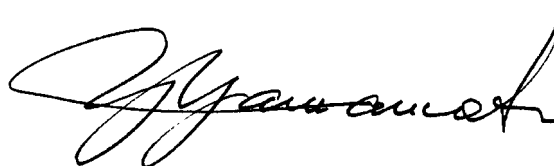
In closing, looking back on 1998's very challenging business environment, we believe that we have successfully remained on track by increasing transparency in our management structure and implementing well-defined management policies in a timely manner. While we face additional challenges in fiscal 1999, the Fuji Bank Group is well-positioned to embrace these changes as we work toward becoming a highly profitable and efficient global financial services group supported by our stockholders and customers.

We look forward to continuing to serve you.

July 1999



Toru Hashimoto
Chairman of the Board



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