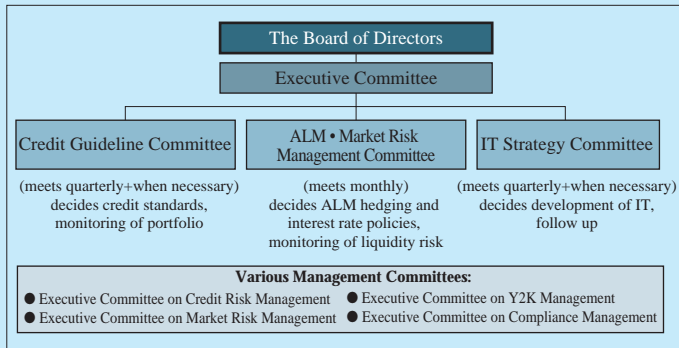


RISK MANAGEMENT

The business environment is changing dramatically under the impact of financial liberalization, globalization and securitization. As a result, the risks inherent in banking operations are rapidly becoming more complex and diverse. This makes it more important than ever to ensure that bank management identify, analyze and manage many kinds of risk, including credit risk and market risk. We have made risk management one of our key managerial priorities, reorganizing and strengthening our operational and administrative structures as a means of reinforcing our corporate health.



Specifically, special risk management meetings are convened to decide policies on and monitor specific risks, and various risk committees follow up flexibly on these policies. In addition to holding monthly meetings, the committees meet twice yearly to discuss comprehensive policies for all risks. (See organization of risk committee structure above.)

Furthermore, we established the specialist post of Chief Risk Officer (CRO) to consolidate bank-wide control and supervision of credit risk, market risk, operational risk, systems risk, legal risk and other kinds of risk. The CRO thus fulfils a crucial function by monitoring and containing risk throughout the Bank.

I. Credit Risk

Of the various kinds of risk that banks face, credit risk is associated with a wide range of operations, from lending and market transactions in products such as derivatives to settlements. We are striving to ascertain all possible sources of risk and devise appropriate means of dealing with them. The most important issue in the area of credit risk management is ensuring the soundness of loan assets, which account for the lion's share of credit risk. We take a dual approach to this issue. On the one hand, we assess and monitor each individual loan transaction; on the other, we manage the entire loan asset portfolio on an all-inclusive basis.

To provide overall control of credit risk management, we established the Executive Committee on Risk Management and charged it with the specific task of controlling the entire risk portfolio. The Committee sets guidelines for dealing with credit transactions on the basis of the portfolio management policies set forth by management meetings. It also serves a credit risk portfolio management function by monitoring the management situation and initiating flexible reviews of the guidelines as necessary.

The Credit Risk Management Division and the International Credit Division are responsible, respectively for domestic and overseas credit matters. They specialize in devising means of examining and managing individual loan transactions, and in planning and developing methods for analyzing the risk inherent in the overall loan portfolio. They are also in charge of the in-house credit rating system and self-assessment of bank assets.

*In-house credit rating system

Our in-house rating system uses 16 grades and in principle is applied to all loan assets other than housing loans. First, the marketing or credit division in charge prepares rating studies on the basis of a manual. Then, the Credit Assessment and Audit Division, which is completely independent of our operational and credit divisions, confirms the validity of the results from a neutral, objective viewpoint. Reviews are conducted at least once every twelve months, but they may also be carried out at any time on a case-by-case basis when there are changes in the customer's position.

To strengthen our credit risk management of our portfolio, we established the Credit Guideline Committee with the specific task of controlling the credit risk portfolio for each banking unit. The Committee consists of the Deputy President in charge, the heads of the related groups, the Chief Risk Officer, the executive in charge of credit and others.

The Committee sets guidelines for dealing with credit transactions on the basis of the portfolio management policies set forth by the Executive Committee. It also fulfils a concrete credit risk portfolio management function for each banking unit by monitoring the management situation and initiating flexible reviews of the guidelines as necessary.

1. Credit Assessment and Monitoring of Individual Transactions

Each proposed loan transaction is carefully assessed for risk and profitability by the branch in charge. If the amount involved exceeds the branch manager's authority, the appropriate credit division at Head Office carries out the assessment. At this stage, active use is made of the in-house credit rating system*, which provides the standards needed for assessing the risk and profitability of each loan application as well as the tools for monitoring the transaction after its execution.

Within the head office credit divisions, specialist departments are set up to deal with large and medium-sized enterprises by type of industry and operational scale, and with individuals and smaller businesses by region. To cope with the rapid structural changes taking place in industry, we have also established an evaluation system based on a pool of specialist know-how that embraces sectoral knowledge and the ability to evaluate new technologies. For example, we set up the Credit for New Business Department to specialize in advanced sectors where technological innovation is progressing rapidly. The credit divisions thus provide branches with appropriate advice in a timely manner according to the characteristics of the customers and markets involved.

Overseas, credit divisions have been established in New York and London with responsibility for America and Europe, respectively, while credit personnel have been assigned to Hong Kong who work with head office credit divisions to deal with the Asian region. These staffers engage in information-gathering activities in connection with the laws, commercial customs, and political and economic conditions in their respective jurisdictions, and use this information as the basis for carefully focused credit assessment and management activities in each region.

In December 1998, we formulated the "Credit Operation Fundamentals and Policy" to clarify the rules that should be observed in credit operations, such as laws and regulations, and lay down the basic principles involved when making credit decisions. "Credit Operation Fundamentals and Policy" serves to define our lending policy by stipulating the standard approaches and mechanisms on which our lending procedures are based. In this way, we have endeavored to lay down common rules to be observed by all bank staff in lending operations as a means of promoting the formation of a universal lending stance and assuring the soundness of our loan assets.

We have also established departments at home and abroad to carry out industrial surveys designed to gather and analyze information on sectoral trends, and new products and technologies, and make the results available for use in credit decisions.

Nurturing human resources to support this credit evaluation system is extremely important. In addition to making efforts to train specialists in assessing loans, the management team is paying particular attention to implementing practical training programs according to the type of specialization involved.

This system is used in analyzing and quantifying the overall credit risk associated with our loan portfolio. In fact, we make use of our credit ratings at all phases of the lending process, from pricing for individual cases and evaluations of an industry's performance through to the risk-assessment process.

The system provides infrastructural support for the examination and management of individual transactions, as well as the basis for managing the loan portfolio and credit risk. It has been revised and upgraded repeatedly, and now provides an objective indication of the credit risk associated with our loan assets. We have also endeavored to ensure ample consistency between it and the ratings of rating agencies, asset self-assessment systems and the asset classifications used by the financial supervisory authorities.

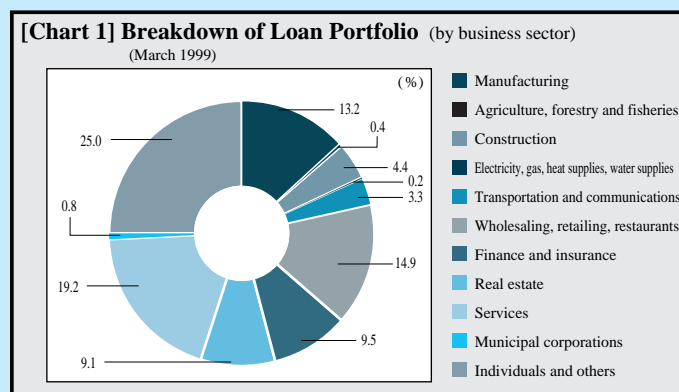
2. Portfolio Management

While assessing and managing individual projects and proposals is important, we also go to great lengths to ensure the overall soundness of our loan assets by analyzing and managing the loan portfolio, which is the aggregate of all individual loans.

Our Executive Committee and Credit Guideline Committee regularly monitor and analyze the entire loan portfolio by business sector, region, in-house rating and other criteria. This enables us to manage the credit risk held both by each banking unit and the Bank as a whole by keeping it within levels that are appropriate.

(1) Breakdown of Loan Portfolio by Business Sector

Generally speaking, we do not specify upper limits on outstanding loans in advance according to business sector. We do, however, through the Executive Committee and Credit Guideline Committee, monitor the makeup of our portfolio constantly to ensure that there is no bias toward any specific industrial sector and to avoid any adverse changes in portfolio structure.



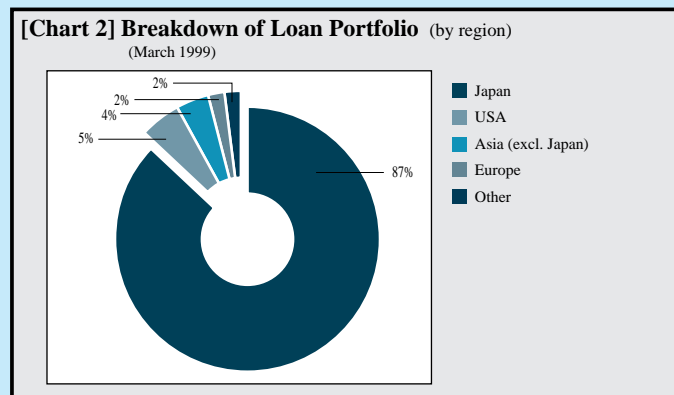
Note: Domestic offices (excluding loans booked in the Japan offshore market)

(2) Breakdown of Loan Portfolio by Region

Through the country risk/exposure system, upper limits are set for each country for all credit transactions, including loans. This upper limit is reviewed at least once every six months to reflect conditions in the world economy and political and economic conditions in each country.

As of the end of March 1999, loans to Asian countries were as shown below in Table 1. Affiliates of Japanese companies accounted for just under 40 % of loans to the private sector.

Almost all of the loans to non-Japanese borrowers are to the largest business groups in each country.



Note: Non-consolidated basis.

[Table 1] Loans to Asian Countries

	Millions of U.S. dollars						
	Balance	Public Sector/ Financial Institution	Project Finance	Private Sector			
				Total	Japanese	(% of total)	Non-Japanese
South Korea	\$1,172	\$ 762	\$ —	\$ 410	\$ 81	(19.8%)	\$ 329
Indonesia	797	167	135	494	202	(40.9)	291
Thailand	1,062	87	191	783	458	(58.5)	325
Hong Kong	2,550	94	126	2,330	765	(32.8)	1,565
Singapore	408	11	—	397	217	(54.7)	179
Malaysia	490	229	—	260	39	(15.0)	220
China	1,048	357	30	660	269	(40.8)	391
Philippines	202	89	8	105	54	(51.4)	50
India	319	147	11	160	8	(5.0)	152
Taiwan	352	89	0	261	28	(10.7)	233
Vietnam	22	—	18	4	0	(14.4)	3
Other	3	0	2	—	—	(—)	—
Total	\$8,431	\$2,036	\$526	\$5,868	\$2,125	(36.2%)	\$3,743

Note: Non-consolidated basis.

3. Measuring Credit Risk

Our approach to measuring credit risk is multifaceted, focusing on integrating the management of credit and market risk, and promoting the efficiency of portfolio management and the allocation of management resources. We now quantify the credit risk associated with virtually all credit transactions, including derivative and other off-balance sheet transactions, on a daily basis. After measuring and analyzing credit risk according to such criteria as transaction type, rating,

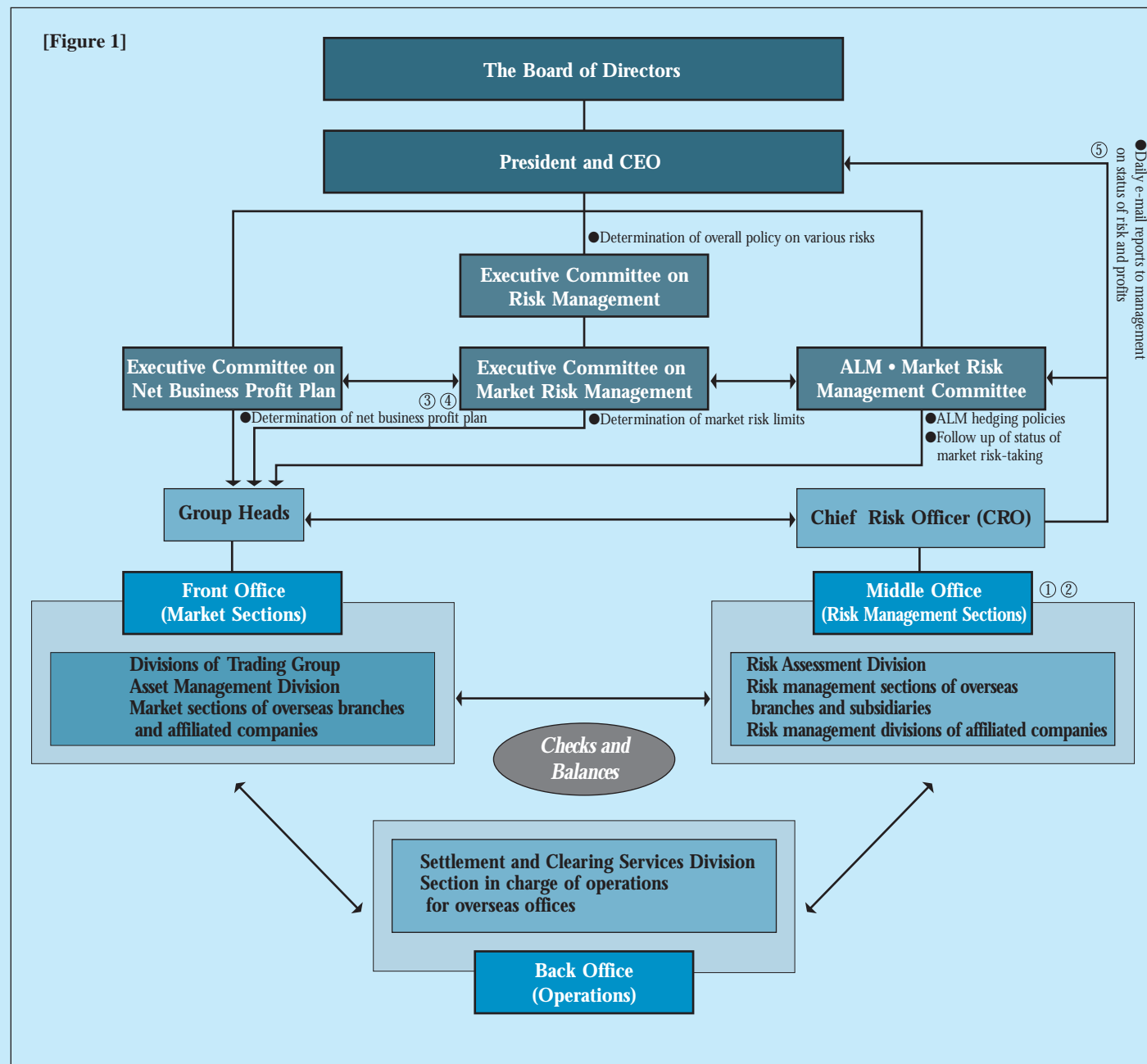
region and business sector, we submit reports on our findings. Our management then uses this information in decisions relating to integrated risk management. The information is also applied in marketing strategies to ensure appropriate loan spreads, and in management information systems to compute profits following adjustment for risk according to bank division.

II. Market Risk Management and Derivative Transactions

1. Market Risk Management Structure

Since we act as a global dealer, we engage in market making for interbank dealers and customers, and the development of derivatives and other new products. Our policy for business related to market transactions is to maximize the profitability of our market divisions while controlling risk in an appropriate manner.

Accordingly, we have established a sophisticated organization for managing market risks, including the asset liability management (ALM) of interest rate risk on yen deposits and loans. Since this gives us an overall grasp of market risk, we are better able to control such risk and thus ensure greater stability in earnings. Figure 1 outlines our market risk management organization.



The following five features constitute the main elements of our market risk management organization.

- ① Establishment of an independent risk management division.
- ② Sophisticated methodologies for measuring and managing market risk.
- ③ Market risk management policy determined by the Board.
- ④ Risk limits determined by the Board.
- ⑤ Regular reporting to the Board and senior management.

① Establishment of an independent risk management division.

In 1994, we became the first Japanese bank to set up a risk control unit to identify, assess and control our overall market risk on a consolidated basis. The responsibilities of the Market Risk Assessment Division (now the Risk Assessment Division) extend not only to domestic activities but also to overseas branches and subsidiaries. To guarantee the neutrality of the Division's decisions, it is completely independent of front office sections involved in transactions, dealing and other business activities.

Overseas branches and subsidiaries have also established their own market risk management sections that are independent from trading units involved in market activities. Duties within each office are therefore segregated by the separation of the front office (market activities), the middle office (risk management) and the back office (operations), thus allowing checks and balances between them to work effectively.

② Sophisticated methodologies for measuring and managing market risk.

Virtually all the business units engaged in market activities manage profit and loss on a mark-to-market basis. In order to obtain clearly an overall grasp of profit and loss, it is important to have a clear picture not only of a bank's realized profit and loss as we are used to, but also of its unrealized gains and losses.

We use the Value at Risk (VaR) methodology to manage market risk. To manage and control the risk that cannot be ascertained by VaR alone, we supplement it with additional market risk information and tools. We set limits on other risk sensitivities such as Basis Point Value (BPV), carry out stress tests and back tests, and set stop-loss limits according to actual transactions in each division. For further information, refer to "3. Overall Market Risk Activities."

The Risk Assessment Division is constantly striving to absorb and make use of advanced financial theory and know-how. It conducts research into upgrading management techniques, and devotes a great deal of energy to constructing improved and streamlined systems and infrastructure.

③ Market risk management policy determined by the Board.

We have drawn up our own risk management policies in order to clarify our standards for setting risk-taking limits, organizational structures, lines of authority, procedures and techniques for evaluating and controlling risks. Risk management policy is reviewed every six months and approved by the board of directors. The policy is also fully consistent with the risk management principles issued by banking regulators in Japan and the Bank of International Settlements (BIS).

④ Risk limits determined by the Board.

We believe that our exposure to potential losses arising from all kinds of risk, including market, credit and operational risk, should be kept within levels that can be covered by our own capital. We incorporate this principle into our business strategies for market activities, setting aggregate limits for VaR by earmarking a portion of our capital as coverage for market risk. We then set VaR limits for each division by allocating a portion of the aggregate VaR according to the market outlook, business strategies and other criteria. The President and CEO and the board of directors set risk-taking limits at the aggregate and business unit levels every six months.

Value at Risk (VaR)

VaR is one of the methods used to measure market risk. It is defined as the maximum possible loss that could be incurred on our portfolio as a result of adverse market movements within a certain time horizon and degree of probability. The actual amount of the VaR may vary according to the confidence interval and the length of the holding periods, as well as the models used for measuring the volatility of market risk factors.

⑤ Regular reporting to the Board and senior management.

[Daily] E-mail

A daily report summarizing VaR, trading activities, profits and losses and market risk by division is sent by e-mail to the Chairman, the President and CEO and other members of the board of directors and senior management.

[Monthly] ALM • Market Risk Management Committee

The presiding Deputy President convenes the ALM • Market Risk Management Committee every month. The Committee reviews trading activities, profits and losses and market risk by division, as well as liquidity risk to close our position and in funding, and makes decisions on ALM hedging strategy.

The above procedures provide senior management with an accurate and timely grasp of our market risk exposure, and create an organizational structure that makes appropriate management decisions swiftly.

The following measures have also been adopted to deal with ALM activities, particularly in respect of interest rate risk on yen deposits and loans:

- The Treasury Division deals exclusively with ALM hedging operations.
- To upgrade ALM procedures in managerial accounting, the Head Office-Branch rate has been abolished in favor of individual settlement rates for different products and maturities based on market interest rates.
- Each month, the ALM • Market Risk Management Committee sets its ALM hedging strategy. The Treasury Division follows this strategy in its actual ALM hedging operations, submitting its report to the Committee the following month.

2. Special Investigation Project on the Market Risk Management Function through the Engagement with Ernst & Young LLP

We performed a "special investigation" through the engagement with Ernst & Young, LLP (EY), in November 1998.

Although the procedures did not constitute an "audit" of the financial statements, the results of the investigation indicate the following:

- The net unrealized gains and losses related to market risks are fairly stated. There are no undisclosed losses in derivative contracts or other financial products.
- The market risk management function at Fuji Bank is on the defacto standard of most sophisticated global banks.

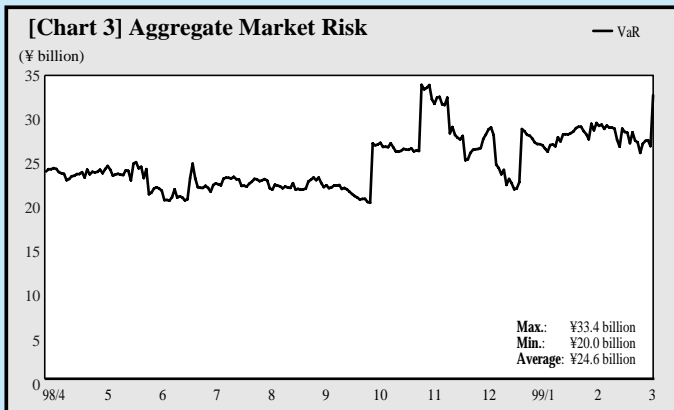
3. Overall Market Risk Activities

(1) Level of Market Risk

Chart 3 shows the trend in market risk (VaR - amount) in fiscal 1998. Market risk amount (VaR) covers almost all market risk on a consolidated basis, including most of our overseas branches and subsidiaries, and also the trading sections of The Yasuda Trust and Banking Co., Ltd. However, it excludes price fluctuation risk in the form of stocks held for strategic purposes, such as stocks held for long-term appreciation.

Basis Point Value (BPV)

BPV shows how much net present value on transactions varies when interest rates change by 1 basis point (0.01%).



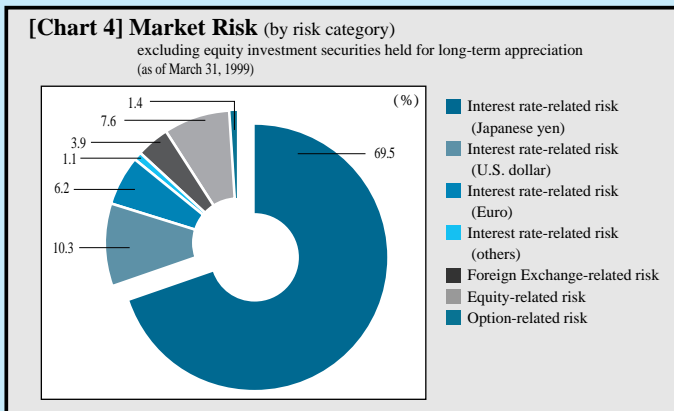
* The standards used for calculating VaR in Chart 3 are as follows. From this fiscal year, the figure used for the confidence interval was altered from 97.5% to 99.0%.

- Confidence interval: one-tailed 99.0% (two-tailed 98.0%)
- Holding period: one day
- Historical observation period: six months
- Discretion to recognize empirical correlations across broad risk categories: variance/covariance method
- Measurement models: (delta plus method)

We have been using our own internal models for calculating VaR using the above parameters for many years. This has enabled us to confirm on an ongoing basis that our capital and other business resources are enough to cover VaR.

(2) Component of Market Risk

Chart 4 gives a breakdown of our market risk on a value basis by risk category as of March 31, 1999. It shows the impact each risk element has on overall market risk. For example, “Interest rate-related risk (Japanese yen) = 69.5%” indicates that fluctuations in Japanese yen interest rates affect 69.5% of total market risk.



As Chart 4 shows, while risk in other categories is dispersed in a well-balanced fashion, most of our market risk consists of yen interest rate risk, an area in which we are fully capable of exploiting our strengths as a Japanese bank. Meanwhile, non-linear risk arising from options and other derivatives transactions accounts for a very small 1.4% of the total.

(3) Yen Interest Rate Risk

Table 2 provides a more detailed analysis of yen interest rate risk, which forms the largest portion of our aggregate market risk. It shows yen interest rate risk in terms of interest rate sensitivity by period (grid sensitivity).

[Table 2] Yen Interest Rate (BPV) Sensitivity by Period

	Billions of yen		
	1 year or less	1-5 years	5 years or more
March 31, 1999			
Interest rate (BPV) sensitivity	¥0.1	¥(1.3)	¥(1.1)

Basis Point Value (BPV) is an index of interest rate sensitivity that shows how much unrealized gains increase when interest rates rise by 1 basis point (0.01%). In Table 2, the negative numbers thus show that unrealized gains decline when interest rates increase during the periods in question. The impact of interest rate movements on unrealized gains can therefore be gauged more accurately even when short- and long-term interest rates behave differently.

(4) Simulation of Earnings at Risk

Regular simulations of earnings at risk regarding interest rate portfolios on the accrued banking account in various major currencies excluding securities investments enable us to measure in greater detail the impact of interest rate levels on our term earnings. Table 3 shows how earnings at risk (March 31, 1999 figures) would be affected should interest rates rise by 0.5%.

[Table 3] Earnings at Risk

(Difference between estimated accrued term earnings under current conditions and in the case where interest rate rise by 0.5%.)

	Billions of yen		
	Yen	U.S. dollar	Euro
April 1999 – September 1999	¥(3.3)	¥(1.8)	¥(1.4)
October 1999 – March 2000	¥(7.4)	¥(1.8)	¥(2.3)

We have enough capital and earnings to cover potential negative impact on accrued term earnings as a result of changes in interest rates.

In this way, we evaluate market risk by VaR methodology, other risk sensitivities such as BPV and earnings simulations even more sensitively.

(5) Liquidity Risk to Close Positions

In the case where a particular bank accounts for an unusually large share of total market transactions in a particular instrument, it may take several days before it is able to offset the position risk. There is thus a possibility that price fluctuations might cause it to incur far greater losses than VaR. This sort of risk is known as liquidity risk to close positions. In our case, we calculate the volume that we can trade in each instrument at a reasonable price on a single day and compute the number of days it takes to close our positions based on that daily volume. We then calculate potential loss for the market risk (VaR) for the number of days to close our positions, and manage this kind of risk accordingly. In this way, we are confident that if necessary we can offset our positions at reasonable prices in a very short time.

At the end of March 1999, liquidity risk to close our position stood at ¥76.2 billion. In terms of the market size and the time to close our positions, our capital and earnings are enough to cover the maximum possible loss on liquidity risk to close our position. (This is based on a conservative measurement that does not include the correlation between market risk factors.)

The President and CEO sets the limit on total liquidity risk to close our position every six months, and reports on the status of liquidity risk to close our position are submitted to the ALM • Market Risk Management Committee every month.

(6) Liquidity Risk in Funding

Liquidity risk in funding is the risk of potential inability to raise the funding necessary for executing transactions. We have managed liquidity risk in funding strictly. Based on analyzing the gap between asset and liability, and funding resources, our President and CEO sets position limits on the gap every six months while reports are submitted to the ALM • Market Risk Management Committee every month.

4. Methodologies for Evaluating Market-related Transactions

(1) Trading Transactions

To estimate fair market values in trading transactions, we use current market prices (fair market value) when they are available. When they are not available, we use discounted present value or other evaluation techniques. Our valuations and valuation methods incorporate significant assumptions that we regard as adequate, and different valuations may result in cases where different assumptions are used.

(2) Non-trading Transactions

Although we use accrued accounting for non-trading transactions, for management purpose we calculate unrealized gains and losses using mark-to-market evaluations as in trading transactions.

(3) Evaluation Adjustments in Management Accounting

Although they are not reflected in financial accounts, we monitor close-out costs (costs arising from the difference of market rates between mid price and bid or offer price) and credit costs (possible potential losses computed by quantitative methods) and use them in evaluation adjustments for management accounting purposes.

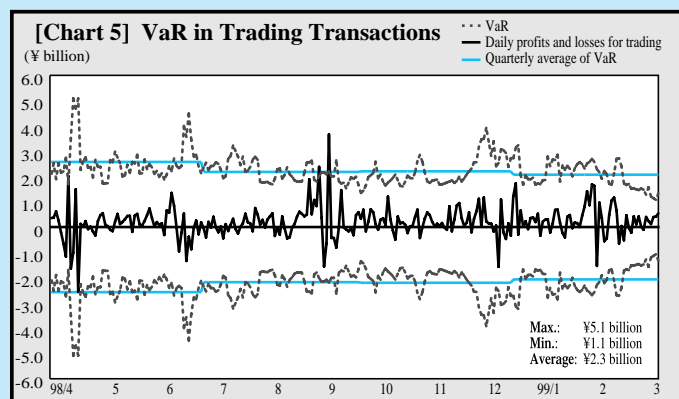
[Table 4] Close-out and Credit Cost

March 31, 1999	Billions of yen	
	Close-out cost	Credit cost
Trading Transactions	¥6.6	¥5.6
Non-trading Transactions	0.3	3.4
Total	¥6.9	¥8.9

5. Risk-taking of Trading Transactions

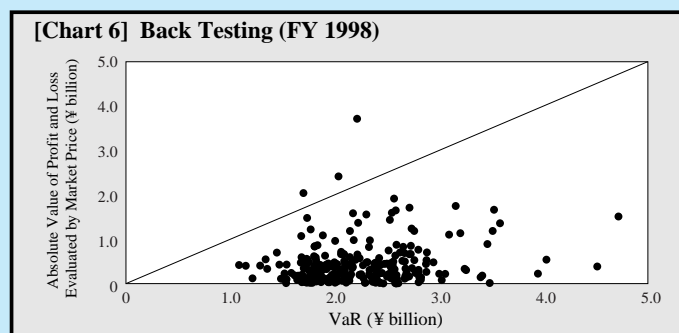
The following sections provide more detailed information on transactions subject to mark-to-market accounting, which include foreign exchange transactions as well as trading transactions.

(1) VaR



(2) Back Testing

To evaluate the accuracy of the models we use for measuring risk, we carry out “back tests” to compare actual profits and losses with VaR predictions.



The dots above the diagonal line in the above chart show the number of days on which profits and losses exceeded the VaR predictions. In fiscal 1998, this happened on three business days. In other words, profits and losses exceeded VaR predictions in 1.2% of all cases, very close to the probability of 2% (100%-98%) predicted by our models. We believe this confirms that our VaR models are sufficiently accurate in measuring our market risk exposure.

(3) Stress Testing

Since markets are inherently unstable, price fluctuations sometimes far exceed normal expectations. To prepare for such situations, we draw up worst-case scenarios that analyze the maximum potential losses that might occur. The procedure is known as “stress testing,” and the scenarios we prepare are called “stress scenarios.” Reports on the results of such tests are submitted to the Board and reflected in business decisions.

We use two approaches to stress testing. The first scenario postulates a confidence interval that, at 99.9%, is tougher than usual while maintaining the correlation between market risk factors. The second postulates the most extreme price movement based on historical price fluctuation data over a period of ten years and assumes the correlation between market risk factors is destroyed.

[Table 5] Stress Testing

	Billions of yen
	Maximum potential loss
VaR (confidence interval 99.0%)	¥ 5.1
Stress Scenario (confidence interval 99.9%)	6.8
Stress Scenario (worst case)	27.2

(4) Risk-adjusted Return

It is necessary for bank management to recognize accurately the risk it is possible to take, to allocate assets properly and to ensure appropriate profit levels. For this reason, it is extremely important to monitor whether the trade off between risk and profits is healthy, and whether potential losses are being kept within safe limits.

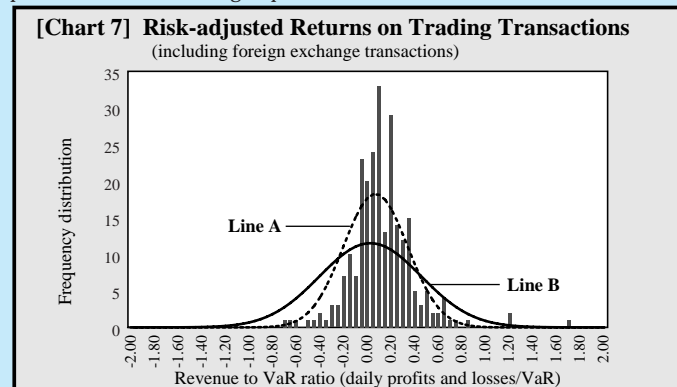


Chart 7 shows the relationship between our risk and profits/losses by frequency (profits and losses/VaR = risk-adjusted return). Line A (normal distribution curve) depicts risk-adjusted return calculated on the basis of the probability distribution of our revenues. Line B depicts the probability distribution for risk-adjusted return in the case where transactions are executed without interest rate or market predictions.

We can draw the following conclusions from a comparison of Line A and Line B.

- The peak of the curve described by Line A (the mean), which represents our performance during the fiscal year ended March 1999, is skewed more to the positive side than Line B. This confirms that we were effective overall in earning revenues.
- Line A's distribution peak is sharper than that of Line B, showing that fluctuations in daily revenue are very small. In other words, while we were able to post stable revenues, we kept conspicuous losses at a very low frequency.

Our ability to achieve the stable revenue distribution demonstrated by Chart 7 results from our solid client transaction base and our well-diversified trading portfolio. Risk-adjusted returns are thus a key indication of our ability to obtain an overall grasp of risk and returns, and make effective decisions on distributing risk limits among our divisions.

In this way, we use VaR supported by other methods to evaluate and manage overall market risk effectively. This has enabled us to confirm that our capital and other business resources are enough to cover our market risk.

6. Derivative Transactions

(1) Status and Purpose of Derivative Transactions

Derivative transactions are transactions that are not recorded in the balance sheet because there are no fund transfers involving the principal. We use derivative transactions, particularly transactions in swaps, futures, options and others, to satisfy the risk-hedging needs of customers, to hedge against the interest and exchange risk held by us in asset liability management, and in market transactions.

(2) Derivative Transactions and Market Risk

For further information on the market risk, liquidity risk to close our position and in funding to which derivative transactions may be exposed, please turn to Page 57, "3. Overall Market Risk Activities."

(3) Derivative Transactions and Credit Risk

Tables 6 and 7 show the contract amounts, notional amounts and credit risk equivalents for derivative transactions.

"Credit risk equivalent" in derivatives is the equivalent amount of loans.

To control credit risk for individual customers, our credit departments set and regularly monitor transaction limits according to their creditworthiness. Furthermore, limits are set according to the type of transaction.

[Table 6] Credit Risk of Derivative Transactions (calculated into BIS capital adequacy ratio)

March 31,	Billions of yen			
	Notional amount		Credit risk equivalent (BIS base)	
	1999	1998	1999	1998
Interest Rate Swaps..	¥301,291.7	¥265,698.7	¥4,181.2	¥3,098.7
Currency Swaps.....	7,307.0	4,919.8	363.6	506.3
FX Forward	13,374.0	34,008.5	504.7	1,518.3
Interest Rate Options (buying)	3,464.4	3,723.5	41.1	40.4
Currency Options (buying)	1,442.3	2,415.6	41.1	73.8
FXA	2,287.9	154.3	134.1	3.8
FRA	34,482.2	26,860.6	44.3	25.7
Other Derivatives	—	7.5	—	0.1
Effect of Netting Arrangement			(3,742.6)	(3,040.4)
Total.....	¥363,649.9	¥337,788.8	¥1,567.7	¥2,227.0

[Table 7] Credit Risk of Derivative Transactions (not calculated into BIS capital adequacy ratio)

March 31,	Billions of yen	
	1999	1998
Financial Futures Transactions	¥63,236.3	¥66,329.3
Interest Rate Swaps	—	—
Currency Swaps.....	—	—
FX Forward	2,009.9	3,796.1
Interest Rate Options (buying)	1,111.5	1,249.8
Currency Options (buying)	98.3	51.9
Interest Rate Options (selling)	4,584.3	6,862.8
Currency Options (selling)	1,389.9	2,480.7
FRA, FXA	—	—
Others	117.6	10.1
Total.....	¥72,547.9	¥80,780.7

Note: Since counterparties have lodged deposits with the relevant exchange and the transactions themselves are very short-term, the risks involved are extremely small. As a result, these transactions are excluded from calculations of credit risk equivalents under BIS international capital adequacy standards.

The following tables show quantitative data concerning credit risk in derivative transactions. The data cover virtually all of our non-consolidated and consolidated derivative transactions.

[Table 8] Breakdown by Creditworthiness

	Billions of yen			
	Credit exposure	Credit cost	Credit risk amount	Maximum potential loss
Non-consolidated Base:				
Customers whose creditworthiness is generally equivalent to AAA/Aaa - BBB/Baa rating from rating agencies ...	¥ 845.5	¥0.3	¥2.1	¥ 2.4
Customers whose creditworthiness is generally equivalent to BB/Ba rating from rating agencies	101.2	0.5	1.1	1.6
Others	49.2	2.8	0.7	3.5
Total	¥ 995.9	¥3.6	¥3.9	¥ 7.5

Consolidated Base:

Customers whose creditworthiness is generally equivalent to AAA/Aaa - BBB/Baa rating from rating agencies ...	¥1,366.7	¥0.7	¥5.5	¥ 6.2
Customers whose creditworthiness is generally equivalent to BB/Ba rating from rating agencies	121.9	0.6	1.3	1.9
Others	58.8	3.4	1.2	4.6
Total	¥1,547.4	¥4.6	¥7.9	¥12.5

Notes: 1. Based on our own standards, which differ slightly from the BIS capital ratio standards.

2. "Credit cost" is a statistical forecast of possible potential loss amounts based on past defaults.

3. "Credit risk volume" is a statistical forecast of the unexpected potential loss amounts derived after taking into account possible future deviations in the default ratio.

4. "Maximum potential loss" refers to the total of credit cost and credit risk volume, and is a worst-case statistical forecast of maximum losses.

[Table 9] Breakdown by Region

	Billions of yen			
	Credit exposure	Credit cost	Credit risk amount	Maximum potential loss
Non-consolidated Base:				
Japan	¥519.0	¥3.1	¥2.2	¥5.3
Asia	33.2	0.4	0.8	1.2
USA	270.1	0.0	0.4	0.4
Europe	151.7	0.1	0.5	0.6
Others	21.9	0.0	0.1	0.1
Total.....	¥995.9	¥3.6	¥3.9	¥7.5

Note: Based on countries in which head offices are located.

[Table 10] Breakdown by Industry

	Billions of yen			
	Credit exposure	Credit cost	Credit risk amount	Maximum potential loss
Non-consolidated Base:				
Banking, Securities, Insurance	¥600.9	¥0.7	¥2.8	¥3.5
Manufacturing	63.4	0.1	0.1	0.2
Wholesale	50.7	0.4	0.1	0.5
Transportation and Communications ...	39.7	0.1	0.2	0.3
Services	16.9	0.2	0.1	0.3
Construction	9.1	0.0	0.0	0.0
Real Estate	12.9	0.5	0.1	0.6
Other Financial Institutions	108.2	0.5	0.5	1.0
Others	94.2	1.1	0.1	1.2
Total.....	¥995.9	¥3.6	¥3.9	¥7.5

The most important figure for grasping the credit risk on our derivative transactions is ¥12.5 billion as shown in Table 8 “Breakdown by Creditworthiness” (Consolidated Base). This figure is a statistical forecast and indicates that the probability that we may suffer losses of approximately ¥12.5 billion following the bankruptcy of counterparties is once in one hundred years. It does not represent a loss or unrealized loss affecting our financial position. In other words, even if the worst case occurs once in one hundred years, the impact on our management will be negligible in light of our net worth and profitability.

As the above tables show, approximately 85% of “credit risk equivalent” of our derivative transactions on a non-consolidated basis, and approximately 88% on a consolidated basis, were conducted with counterparties whose creditworthiness was the investment-grade ratings awarded by independent ratings agencies.

The majority of the counterparties for derivative transactions are those from developed countries such as Japan, United States and those in Europe. There were very few transactions with countries in Asia and other regions.

By business sector, also, most of our transactions were with banks and other financial institutions that deal with derivative products as part of their regular business.

We have almost no derivative transactions considered to be highly speculative.

III. Other Risks

We have established an organizational structure that enlists the full participation of top management in obtaining a clear grasp of the nature and size of risk other than credit and market risk, and spare no effort in ensuring that it runs at maximum efficiency.

In addition to clarifying divisional lines of authority to deal with operational risk, systems risk and other important risk factors, we monitor all kinds of risk across the board. We have also prepared comprehensive disaster recovery plans and manuals to deal with various emergency scenarios, such as disasters that affect wide areas.

(1) Operational Risk

Operational risk refers to the danger that losses may result from accidents arising in back-office operations as a result of inappropriate procedures performed by personnel.

The System and Operations Administration Division is responsible for operational risk and is independent of the Bank’s various business groups. The Division has established rules and procedures to be followed by domestic branches, overseas offices and market divisions when dealing with each type of operational activity. It also designates a responsible person in each division to check periodically that the prescribed procedures are being properly observed.

We have separated the front, middle and back offices in our market divisions and instituted other measures to provide a system of mutual checks and balances within the organization. We are also incorporating the latest results of technical innovation into a program to computerize and centralize data processing functions at our computer center as part of our efforts to build an efficient operational processing system that reduces human error to a minimum.

Every year, the Inspection Division carries out inspections to check the status of operational and office management activities at each branch, and submits reports on its findings directly to top management. The Inspection Division is thus in a position to prevent problematic incidents, evaluate the efficiency of our system for managing operational risk and, where necessary, put forward proposals for improvement to top management.

(2) Computer-related Risk

We have adopted a dual approach to dealing with computer systems risk. One of these involves measures to forestall system problems by making our systems better able to withstand natural disasters and faults arising from various other causes. The other covers operational procedures to deal with possible system malfunctions.

On the preventive side, we have worked for many years to create an extremely reliable system. Among other things, we have installed our computer systems in specially-designed buildings that incorporate the very latest in earthquake-proofing technology, created a dual-center organization that boasts fully redundant hardware and software systems for foolproof backup, and a state-of-the-art network that features an automatic rerouting function to avoid circuit faults. We have also established a separate department that is independent of the systems development divisions to check and supervise system configurations and security when new systems are being designed and installed. In this way, everything is done to eliminate possible problems.

A full range of contingency plans lay down procedures to be followed and emergency measures to be adopted in the case of system malfunctions. We also hold regular drills to provide practice through dealing with simulated emergencies.

To strengthen our measures for dealing with systems risk, we have recently established the Information Technology Risk Control Department to evaluate, monitor and manage systems risk in a comprehensive manner. The Department is responsible for streamlining basic policies and regulations dealing with systems risk management, and its jurisdiction extends to overseas offices and branches, and subsidiaries.

(3) Legal Risk

We established the Legal Division to specialize in the management of legal risk, which we consider to be a matter of the greatest importance. The Legal Division serves in an advisory capacity and is responsible for analyzing the legal risk involved in the Bank’s domestic and international business operations, and for devising means to deal with it. It is also working to create a healthy operational system in which bank employees from all divisions can go about their work in full knowledge of the legal risks involved. To this end, and to ensure that legal requirements are observed, the Legal Division holds seminars on legal matters, and has prepared and distributed a compliance manual to all employees. (See “Compliance” on following page.)

(4) Settlement Risk

Settlement risk arises not only from timing differences in the payments and receipts involved in settling foreign exchange transactions, but also from various transactions within the same domestic market. We view such settlement risk as a sort of credit risk, and are working to shorten the settlement timing difference and use netting to reduce the amounts involved in settlements.

Year 2000 Compliance Measures

The Year 2000 ("Y2K") problem could have a major impact on banking operations unless appropriate, timely measures are taken to deal with it. We have given such measures top priority status and are doing everything necessary to ensure that the issue is properly dealt with.

Countermeasures

We have planned for measures to deal with the possible impact of the Y2K problem on our computer systems since 1996 and have been following up on their progress. And, since July of 1998, we have been focusing on the Y2K issue on a bank-wide basis. We established the Executive Committee on Y2K Management with the President and Chief Executive Officer as its Chairman, and set up the Y2K Project, Corporate Planning Division to deal exclusively with the Y2K problem. The Bank's countermeasures involve not just the parent company but the entire Fuji Bank Group, extending from principal subsidiaries and affiliates in Japan to overseas subsidiaries.

Progress in Implementing Countermeasures

Our measures to deal with the Y2K problem cover clearing and other key systems as well as end user systems and systems associated with subcontracted businesses undertaken by the Bank on behalf of

outside entities. Measures also cover all equipment that use microchips, including meters associated with telecommunications equipment, and machinery and equipment associated with electric power facilities.

According to the current schedule, all measures to ensure Y2K compliance for vital systems associated with the Bank's account and settlement operations will be completed by June 1999. Measures for other systems will be in place by September 1999. We are also in the process of carrying out full-scale testing of connections with key settlement centers, such as the Bank of Japan, Zengin Center, SWIFT, CHIPS, and FEDWIRE, as well as customers that use our firm banking electronic services.

Contingency Plan

We have long-standing contingency plans for dealing with normal computer system failures and crises arising from disasters. We have also drawn up separate contingency plans based on analyses of the various risks specifically associated with the Y2K problem, and stand ready to review and reformulate these plans swiftly and flexibly should the need arise.

Compliance

Banking is of vital importance to the public interest, and banks have a major social role to play in contributing to economic development at home and abroad through their transactions with customers and other activities.

Based on a renewed awareness of this and in order to fulfil our responsibilities and earn the unwavering trust of society, we have positioned compliance as one of the most important issues facing management. Our basic policy is to comply strictly with all laws, ordinances, rules and regulations, and carry out our business activities with honesty and integrity and according to social models.

For this reason, our Legal Division is responsible for compliance throughout the Bank, and the Compliance Department is the focal point for streamlining our compliance structure and carrying out activities to promote compliance. Further details on our thoroughgoing efforts in this area are given below.

Compliance Structure

Our compliance structure comprises of the board of directors, the Executive Committee on Compliance Management, compliance officers and the Legal Division. The Executive Committee on Compliance Management was established to debate issues of key importance to compliance within the Bank and meets on a regular basis under the chairmanship of the President and CEO. The board of directors then approves matters discussed by the Committee.

Compliance officers are deployed at head office and all business offices at home and abroad. In addition to ensuring full compliance within their respective organizational sectors, these officers serve as advisors to other bank employees, and as a liaison with the Compliance Department. In light of the specialist nature of the market securities business and the risks it involves, we have established the Compliance for Trading and Investment Banking Department. This office is independent of the business divisions and falls under the jurisdiction of the Legal Division, where its task is to ensure maximum compliance. We have also retained the services of legal advisors and accounting firms in Japan and overseas to provide us with maximum specialist support.

Compliance Activities

Each year, we draw up a practical compliance program to streamline our compliance structure and organize activities to promote compliance.

We also compile compliance manuals to serve as detailed guides to our corporate principles of behavior, scope of activities and the key laws, ordinances and in-house rules that have to be observed. These manuals are distributed to all employees, who are expected to become very familiar with its contents.

To promote the strict observance of rules on compliance by each head office division and each business office, we have established a system of primary checks conducted by the compliance officers in the respective organizations, and secondary checks conducted by the Inspection Division and the Internal Audit Division.

We provide various levels of education in compliance, ranging from training for general staff to more advanced studies for compliance officers, in order to ensure that the basic framework of our compliance structure is well-understood.

Compliance remains the bedrock of the banking business. To ensure the continued trust of our customers, we are committed to reviewing our compliance structure on an ongoing basis with a view to making improvements that will maintain and enhance its effectiveness.

Compliance Structure

