

# Overview of Results for Fiscal Year 2004

## THE ECONOMIC AND FINANCIAL SITUATION

During fiscal 2004, ended March 31, 2005, the global economy sustained the strong growth of the previous fiscal year in the early part of the term, and continued to expand. Growth slowed later in the term, however, due to rising prices for crude oil and other raw materials, along with adjustments in the balance between worldwide supply and demand for IT-related goods. The U.S. economy continued to improve in both the household and corporate sectors, while the Asian economy also expanded, led by growth in China.

The Japanese economy followed these overseas trends, with improvements in the early part of the term in the corporate sector driven by foreign demand. During the latter half of the term, however, the slowing pace of expansion in the global economy led to a slowdown in export growth, and economic expansion came to a temporary standstill. Corporate performance was nevertheless relatively positive, led by progress in balance sheet adjustments, continuing to push strong capital investment. The employment situation also continued to recover, and wages showed signs of halting their longstanding downward slide. There was no clear improvement in personal income, however, and individual consumption remained at a level on par with that of the previous fiscal year.

Business conditions for small and medium-sized enterprises (SMEs) improved, with the index of the Bank's Monthly Survey of SME Business Sentiment surpassing 50—the demarcation between positive and negative sentiment—from the early part of the year. Sales continued to increase, and the recovery in performance continued, marked by a rise in corporate earnings. Improvement in the business sentiment index came to a standstill after the summer, however, with the degree of improvement varying by region and industry, making it difficult to conclude that the economy was experiencing a full-scale recovery.

On the financial front, although there was continued recovery in the economy, the Bank of Japan (BOJ) maintained its quantitative easing policy amid speculation that deflation would continue. Long-term interest rates (newly issued 10-year government bond yields) rose significantly on the back of the worldwide economic recovery, temporarily reaching a four-year high of just over 1.9%. A subsequent announcement of economic indicators dampened expectations for continued recovery, however, and long-term interest rates returned to prior levels.

In the foreign exchange market, the yen rose steadily against the U.S. dollar from the beginning of autumn over worries about the twin deficits in United States, but at the end of the period under review the steady rise in U.S. official interest rates led to repurchasing of the dollar. The exchange rate stood at around ¥107 to the U.S. dollar at the end of the fiscal year.

Stock prices were soft until mid-year, affected by the slowdown in growth and appreciation of crude oil prices. Although there was a pickup in certain sectors as a result of the rise in U.S. stock prices, the Nikkei Stock Average—the Tokyo Stock Exchange's main market indicator—did not recover to the 12,000 point level.

Although Japan's economy is in the process of recovering, forecasts are difficult to make in light of long-running deflationary pressures. Consequently, the government has taken all possible steps to provide a safety net for SMEs by, among other things, adopting various measures so as to continue to promote a smoother supply of funds.

## SUMMARY OF RESULTS

### Loans

The balance of outstanding loans as of the end of fiscal 2004 declined ¥235.6 billion, to ¥9,588.8 billion at year-end. The balance of loans through agencies including credit cooperatives totaled ¥19.2 billion. There were 158 agencies at fiscal year-end.

### Debentures

Interest bearing debentures decreased ¥143.6 billion compared to the previous year and discount debentures, ¥289.3 billion, for an overall decline in fiscal 2004 of ¥433.0 billion. As a result, the balance of debentures at year-end totaled ¥7,811.2 billion, a figure that includes ¥107.9 billion underwritten by the government.

### Deposits and Negotiable Certificates of Deposit

The balance of deposits increased ¥33.2 billion, to ¥2,390.0 billion at the end of fiscal 2004. Negotiable certificates of deposit decreased ¥30.6 billion from the previous year-end, to ¥20.9 billion.

### Securities

Over-the-counter sales of government bonds and other securities amounted to ¥1.3 billion. Dealings in government bonds and other securities totaled ¥11.7 billion. The balance of trading securities at the end of fiscal 2004 was ¥0.9 billion.

### Domestic and Foreign Exchange

Domestic exchange transactions in fiscal 2004 totaled ¥25,716.5 billion. Foreign exchange transactions totaled US\$3,751 million.

### Income and Expenditures

Total operating income amounted to ¥189,454 million, while operating expenses totaled ¥174,106 million, resulting in Income before income taxes and others of ¥15,348 million. Other gains amounted to ¥323 million and other losses came to ¥564 million. Income taxes amounted to ¥3,087 million, and there was a ¥2,740 million income tax adjustment. As a result, net income for the year totaled ¥9,281 million.

