II. Principles of Management

1. Basic Principles of Management

The Bank's basic management principles are as follows:

- To provide higher value-added services to our customers and together with them achieve growth.
- To create sustainable shareholder value through business growth.
- To provide a challenging and professionally rewarding work environment for our dedicated employees.

Under these principles, the Bank will endeavor to meet customer and market expectations and its economic and social responsibilities in order to acquire solid customer credibility and market credibility.

2. Dividend Policy

With respect to the interest of shareholders, the Bank subscribes to a fundamental policy of conducting appropriate dividends, with certain outlook for enriching capital and preserving sound management basis.

3. Management Strategy

The business environment has changed remarkably for banks in recent years with the implementation of various regulatory reforms, the globalization of the financial sector and other parts of the economy, and the changes in the structure of industry and society. In order to achieve further growth by capturing various business chances amid these environmental changes, the Bank will concentrate on the following courses of action:

(1) Improving profitability in consumer banking through refined customer segmentation, increased sales of profitable products and services, and a lower cost structure.

(2) Achieving higher asset efficiency in the transactions with domestic and overseas corporations.

(3) Renewed initiatives in international banking business based on a selective regional focus and targeted strategies.

(4) Strategic investment in IT in order to heighten competitiveness in database marketing and providing network platforms to serve small and medium-sized corporate customers.

(5) Establishing a leading position in Internet-related financial business.

4. Issues to be Addressed

During the first half of this fiscal year, the Japanese economy remained stagnant, as reflected in sluggish consumer spending and a materializing trend of decreasing exports and capital investment, with the downward tendency of the global economy gradually becoming apparent. In response to these economic circumstances, the Bank of Japan has repeatedly taken further steps to ease the money supply, and both short- and long-term interest rates have been at low levels. Though the stock market moved upward at the beginning of this fiscal year, it has continued to decline since then amid the concern about the deterioration of corporate earnings.

Concern about the Japanese economy has been spurring amid the uncertainty over the world economy, especially since the terrorist attacks in the United States. Moreover, the business environment surrounding the banking industry will continue to be unfavorable.

In light of such an economic and industrial environment, the Bank has already begun taking steps to further strengthen its profitability and reduce costs in pursuit of early realization of merger synergy, and to realize more synergy than we had originally expected. In order to reinforce its profitability, the Bank has been adopting truly customer-oriented business models to seize the business opportunities arising from the expansion of its customer base by the merger—a base which is one of the broadest among Japanese banks. Meanwhile, the Bank formulated intensive cost reduction plans and began implementing them at a company-wide level immediately after the merger without being bound by conventional ideas and without having any sanctuaries. In order to construct a solid financial position, the Bank will accelerate the workout of problem assets and the reduction of its shareholdings. The Bank has been keen to continue to make every effort to create shareholder value under the recognition that the merger is merely a first step to strengthen its true competitiveness.

5. Financial Targets

The Bank aims to achieve banking profit (excluding transfer to general reserve) of 950.0 billion yen and consolidated ROE of more than 10% in FY2004 through business restructuring and strengthening of earning power. The Bank intends to pay back half of the public funds by FY2004, and will strive to accelerate the repayment of the rest as much as possible.

6. Pursuit of Enlightened Corporate Governance

The Bank has two principal institutions for corporate governance: the Board of Directors and Executive Officers. This system aims to clearly divide the responsibility for policy implementation and the responsibility for providing strategic direction and oversight for the Bank's operations.

The role of the Board of Directors to supervise the Bank's operation from the viewpoint of the interest of shareholders has come to be more emphasized than before, and the day-to-day running of the Bank is in the Executive Officers' charge. In addition, the Risk Management Committee, Compensation Committee, and Nominating Committee have been constituted from within the Board of Directors. These committees include outside directors and have been established in order to deliberate from a broad and objective perspective matters such as risk management, compliance, and compensation and personnel affairs of members of the Board of Directors and Executive Officers

To supplement the functions of the Board of Directors, the Bank has the Advisory Board consisting of members such as top executives of blue-chip companies, leading management consultants, and academics, to provide wide-ranging and unhindered management advice.