



Masahiro Takasaki, Chairman (Left), and Akishige Okada, President

The Business Environment for Financial Institutions

In reviewing the economy and business environment for financial institutions over the 12 months ended March 31, 1999, we note that several countries verged on economic crisis and were brought back through concerted international cooperation. Moreover, the Japanese economy finally seems to have stabilized.

Overseas, an acute global crisis was averted through coordinated international efforts, halting the financial crisis that started in Russia after summer and quickly spread to Latin America. In Asia, the instability that appeared after the financial and economic crises of the previous term appears to have subsided. Although conditions are still difficult, the region's economies have ceased their downward spiral and some are even beginning to inspire hopes for recovery. All through these developments, the U.S. economy remained robust while the European economies continued to slacken despite the successful launch of the Euro in January 1999.

In Japan, the progress achieved by companies adjusting their inventories, numerous government fiscal stimuli and measures for stabilizing the financial system appear to

have succeeded in halting the recession. Confidence in the financial system began to recover gradually as an outcome of various schemes to restore stability, such as the injection of public capital into the major banks. Stock prices rallied as the recession appeared to ease and calm was restored to the markets. This served to improve the immediate outlook of most market participants. Nevertheless, pressure is mounting to adjust manufacturing capacity and employment levels, making it more difficult than ever to predict the timing of a domestic demand-led recovery.

Fiscal 1998 Developments

We describe the Bank's results for fiscal 1998, ended March 31, 1999, in the Financial Review later in this report. In this space, we would like to highlight the measures taken to deal with the operating environment described above. First and foremost, it is our strong belief that the restoration of confidence in the financial system is a critical part of our corporate mission. For this reason, we subscribed to the government program to use public funds to augment our capital base. We applied for and received an infusion of

¥800.0 billion. Prior to this, we raised ¥369.9 billion in equity from the private sector. We took advantage of this strengthened position to deal decisively with nonaccrual loans. During the period, we wrote off or set aside provisions for problem assets totaling ¥1,023.5 billion. This places us in a strong position to weather any downturn in the economy in the near future. Regrettably, it also caused the Bank to record a net loss of ¥375.3 billion for the period.

Faced with these results and a tough business environment, we sought to maintain our financial soundness by redoubling efforts to heighten efficiency and by reducing the year-end dividend by ¥1.25 per share, to ¥3.00 per share. Combined with the interim dividend of ¥4.25 per share, total cash dividends for the period amounted to ¥7.25.

Measures to Address Nonperforming Loans

This period we placed top priority on disposing of nonperforming loans to reduce the Bank's risk factors in an effort to strengthen our credibility and financial position to the extent required to implement our strategies in Japan's post Big Bang financial markets. In determining the appropriate transfers to reserves, we assumed further economic decline, transferring sufficient funds to cover even those loans that are not yet showing visible signs of distress. We improved our methodology, employing a greater degree of loan segmentation and raising the loan loss coverage ratio to values higher than the actual historical rate. We also sought to circumvent the risk of a decline in collateral value by selling nonaccrual loans. As a result, we disposed of nonperforming loans amounting to ¥1,023.5 billion as mentioned in the prior section.

We based written-off and reserve ratios on the rates specified in the audit manual produced by the Financial Supervisory Agency and the reserve guidelines released by the Financial Reconstruction Commission. Amounts equal to

15% of the unsecured portions of "special attention" loans were transferred to reserves. Other claims in the "caution" category, excluding "special attention loans," were classified into two categories according to their risk rating. Amounts equal to the estimated potential loss were transferred to reserves according to the probability of bankruptcy, which is correlated to the average remaining period to maturity for each category. A ratio of 100% was applied to the unsecured portions of claims in the "legal bankruptcy" and "virtual bankruptcy" categories. Similarly, a 70% rate was applied to claims in the "possible bankruptcy" category. We also increased the reserve for loans to restructuring countries to cover loans extended overseas.

We are extending additional support to Sakura Mortgage Co., Ltd., and three other non-bank affiliates to upgrade their financial positions. These affiliates are using the same "self-assessment" methodology as the parent bank and applying the same written-off and reserve ratios to their loan portfolios. Our support is being used to write down and make provisions for the nonaccrual loans remaining on their balance sheets. Currently, these non-bank affiliates are primarily engaged in the factoring and leasing businesses. We intend for them to play a strategic role in the future development of the Bank's retail strategy as specialists in supporting businesses. That is why we are assisting in their reorganization and integration.

Building a Vision for the 21st Century

As we fine-tune our future operating strategies, the key question will be how we achieve profitability in an era of increased competition to achieve the ultimate objective of increasing the value of the Bank on the behalf of shareholders. Our plan to raise profitability is to maintain a clear grasp of economic trends, the changing industrial structure and evolving market needs, and to use this information to stay ahead of the competition with business strategies

that meet the approval of both customers and the financial markets.

In the “Plan toward Soundness of Management” submitted to the Financial Reconstruction Commission when we applied for public funds, we outlined our prime strategy of making commercial banking our core business. Our top share in the personal loan market demonstrates the lead we already enjoy in this segment. Drawing upon our large customer base, we will focus our management resources on the retail market to meet customer needs with products and services delivered via highly efficient, advanced processes.

We are also working toward our vision of a completely networked society in the 21st century. We are accelerating the development of unique, next-generation service channels, such as Convenience Store Banking (see page 12) and Browser Banking (see page 25). During the period under review, we formed a strategic alliance with am/pm Japan, Co., Ltd., operator of a large convenience store chain, to launch approximately 500 joint branches by the end of March 2000. This is one example of the ways in which we plan to secure solid profitability in the retail banking segment and to increase our brand recognition by becoming known to consumers as the most convenient choice for all of their banking needs.

Toward Performance-Based Incentives

We are stepping up restructuring efforts to support implementation of these long-range visions. In addition to bolstering corporate governance to global standards, we are endeavoring to establish an invigorated corporate culture featuring faster decision-making and merit-based personnel systems. In June 1999, we introduced a performance-based promotion system, reduced the number of bank executives to 13 from 45 and launched a stock option plan and performance-based remuneration system for

executives. In July 1999, we launched a new personnel system for regular employees that replaces the previous seniority system with one that clarifies expected results and responsibilities. Targets have been fixed for each job description and post in the Bank, and remuneration is tied to the extent to which each employee meets these targets. In this manner, we aim to achieve our goal of establishing highly competitive and effective operations.

Good Corporate Citizen

The programs we have outlined in the foregoing sections will revolutionize our operations and position us to thrive well into the 21st century. Management and staff at Sakura Bank are joining together in a sincere effort to create a bank that is committed to being a good corporate citizen and to managing its affairs in a transparent fashion. We reaffirm our pledge to meet the rising standard of disclosure asked of financial institutions and to provide timely information in an easily understood format. We look forward to your continued support and guidance as we strive toward these goals.

August 1999



Masahiro Takasaki
Chairman



Akishige Okada
President

Acceptance of Public Funds and the “Plan toward Soundness of Management”

In March 1999, Sakura Bank issued ¥800.0 billion of preferred shares in accordance with the Financial Function Early Strengthening Law, which was enacted in October 1998. We concurrently began implementing the “Plan toward Soundness of Management” that was submitted with our application for public funds. The objective of this plan is to restructure and rationalize our operations to raise our competitiveness and profitability.

Rationale for Accepting Public Funds

Sakura Bank accepted ¥800.0 billion in public funds on the rationale that it would strengthen its balance sheet to the point where it could secure the confidence of the domestic and international financial markets, lower its fund-raising costs and provide stable financing. We saw this as an effective way in which to achieve these goals and improve shareholder value. At the time, the capital injection was expected to raise our capital ratio to more than 12% as of March 31, 1999, and increase the absolute capital ratio, after deduction of unrealized losses on marketable securities, as at September 30, 1998, to above 10%.

“Plan toward Soundness of Management”

The plan targets an increase of approximately ¥100 billion in fiscal 1997 gross operating income by fiscal 2002, excluding gains/losses on bond dealing. This is to be achieved primarily by raising interest income in line with credit costs in domestic lending operations, expanding the portfolio of consumer loans, and launching sales of investment trusts and other new products.

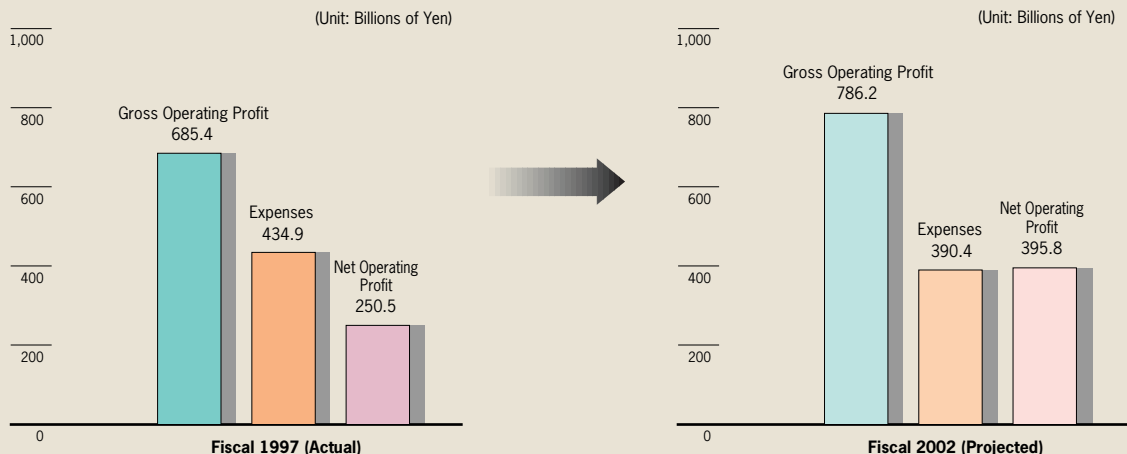
On the cost side, we plan to save about ¥45.0 billion in expenses, which will involve the restructuring of our human resources and branch networks. This will yield net operating profit (*gyomu juneki*) on the order of ¥400 billion.

The target for capital adequacy in this plan is a ratio of 10% or greater, which is to be obtained by maintaining and strengthening the Bank’s financial position.

We are adapting the following basic policies to our efforts to concentrate resources on promising business segments.

- Thoroughly restructure and revise all operating procedures and processes.
- Concentrate on commercial banking as our core business. (Realize a low-cost retail operation by drawing on the strengths of our customer franchise, network and marketing might.)
- Create a comprehensive financial services group offering world-class services. This may involve alliances with leading domestic or foreign financial institutions.

Earning Targets



Note : Gross operating profit excludes gains/losses on bond related transactions.
 Net operating profit excludes gains/losses on bond related transactions and reserve for possible loan loss.

A New Service Combining Banking and Convenience Store Functions

Convenience Store Banking

Convenience stores have become so ubiquitous that it's difficult to imagine life without them. In March 1999, we formed an alliance with am/pm Japan, operator of a major convenience store chain, to develop a network of branches in am/pm convenience stores—a move that adds new meaning to the term “convenience” store. As of June 1999, we offered services through eight convenience store branches, all in Tokyo-area am/pm stores.





Implementation of the “Plan toward Soundness of Management” and Achieving New Growth—Explanation of Our Main Operating Strategies

Vision for the 21st Century—Bolstering Profitability

The current “Plan toward Soundness of Management” calls for us to raise net operating profit to the ¥400 billion level by the end of fiscal 2002, which will require an increase of approximately ¥100 billion over fiscal 1997 results, the base year for the calculation. We have assigned this top priority. As we work toward this target and implement additional measures to increase the value of the Bank, we are clarifying targets for each customer segment, initiating new operations, stimulating demand in both new and existing markets, and establishing new channels and products.

Reinforcing Commercial Banking Operations to Boost Profitability

Our primary strategy for attaining the plan’s target is to reinforce our commercial banking operations and focus on the domestic retail banking market. The “Plan toward Soundness of Management” states: “Drawing on its significant competitive edge in the domestic market, the Bank will allocate to and concentrate resources on the retail market, lending primarily to consumers and small and medium-sized businesses. To raise gross operating profit, the Bank will improve its lending margins with rates appropriate to the credit risk, seek to increase consumer loans as a component of its portfolio, and launch sales of investment trusts and other new financial instruments. It will also continue in its quest to heighten customer convenience by reforming its service channels to establish an effective rapport with the public while cutting costs to establish itself as a low-cost retail banking operation.” Stated differently, by making our core commercial banking business more profitable, we will build upon and further extend our established business base. To attain heightened profitability, we will continue to fulfill our social mission of both providing stable financing to small and medium-sized business customers while securing interest rates appropriate to the corresponding credit risks as well as increasing lending to individual consumers. At the same time, we will thoroughly restructure operations to create a robust bank capable of thriving in post-Big Bang Japan.

Securing Lending Margins Appropriate to the Credit Risk

To achieve the first goal of securing lending margins appropriate to the credit risk, we are pressing forward with pricing that better reflects credit costs. We believe that there is sufficient scope to achieve the lending margins forecast in our “Plan toward Soundness of Management” even when the growing momentum and narrowing price spread of the corporate debt markets are considered.

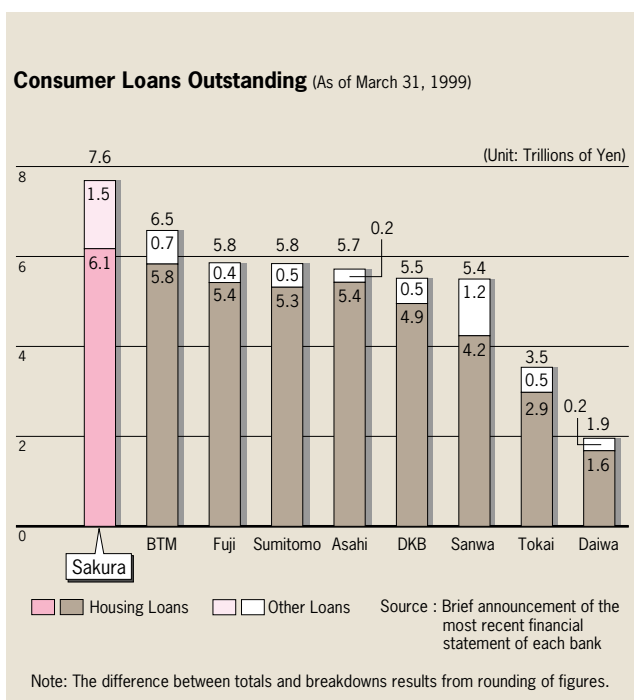
Having stated the above, it is important to acknowledge that getting customers to accept higher margins is not easy. It is necessary to offer highly personalized services tailored to each customer segment and to formulate separate strategies for each segment. The middle market offers the best prospects for higher lending margins weighted against the attendant credit risk. We are now strengthening our front line manpower in terms of both quantity and quality to bolster our ability to offer a “one-to-one” response. As we move in this direction, we expect that the structure of our lending portfolio will change, assuming a greater bias toward the middle market.

Nevertheless, we will continue to serve large corporate customers and to look to this segment to improve lending margins as well. We will also continue to offer comprehensive financial services, in addition to regular deposit-taking and lending services, as well as services for employees of these customers to improve overall profitability.

The Sakura CRM information system (see page18) will also contribute to higher lending margins. We will use the continuous monitoring of information gathered through interaction with customers to grasp and offer solutions to their current and latent needs. We are also using our IT systems to upgrade credit processes. The Sakura CRM is the gateway to access the portfolio database at each branch. With this system we can sort the data by credit ratings or industry, which provides us with a powerful management tool.

Increasing Lending to Consumers

Our second task is to expand our consumer loan business. Although this market is the most hotly contested among Japanese banks, we already enjoy the leading share and it is the market in which we have honed our skills to the



greatest extent. It is our intention to secure a dominant position in this market.

Our strength in the housing loan market, the primary consumer loan product, is due to our relationships with large numbers of real estate sales companies, as well as with the employees of these companies—the so-called “occupational route.” These relationships constitute an extensive business base. Our network of 4,000 real estate sales client companies, which is covered by our 44 housing loan centers, is the largest in Japan. Twenty-three of the housing loan centers feature Sakura L.A. loan advisory desks, which remain open on weekends for customer convenience. Moreover, the current trend toward the outsourcing of corporate benefit and pension plans and the replacement of corporate in-house benefits with employee loan schemes in partnership with financial institutions is helping to create a large market. Based on the factors mentioned above, we believe that we are well-prepared to tap into this market and to steadily expand our portfolio of housing loans.

Cultivating Network Channels

Basic Strategies for Service Channels

Reforming our service channels is key to two vital issues for thriving in the post-Big Bang market: increasing contact

with customers and shifting to a low-cost banking structure. These issues are the driving force behind the development of our channel strategies.

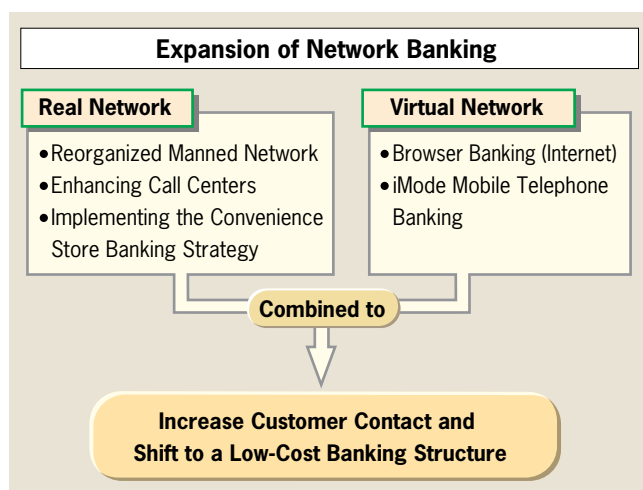
We are approaching the development of service channels from two directions. The first involves equipping and enhancing our real network, including such measures as reorganizing our manned branch network, expanding our call centers and our strategic alliance with convenience store chain operator am/pm Japan to launch joint branches. The second involves enhancing our virtual network with services such as Browser Banking (Internet-based banking) and iMode mobile telephone banking. The combination of our real and virtual networks will strengthen our contact with customers while lowering the overall cost of our service channels and making us more competitive.

Equipping and Enhancing Our Real Network

Reorganization of Our Manned Network

As demand rose for more diverse and sophisticated services in recent years, it became increasingly difficult to accurately gauge individual customer needs and deliver solutions in a timely manner when all branches were expected to serve the entire range of clientele from individuals to corporations. Our new strategy, therefore, is to situate business offices staffed by experts in specific locations within each territory to serve customers requiring specialized services. In March 1999, we established three of these specialized business offices in the Tokyo area. To improve service to individual customers requiring





standardized transactions, we have expanded teller functions, notably with respect to loan consultation and investment products. To assist in this effort, we have introduced the Branch Navigation System, a new branch reception system, to a portion of our branches. This is one of the ways in which we plan to strengthen our branch systems.

We are also expanding opportunities for effective face-to-face contact with customers through our Sakura L.A. loan advisory desks and manned in-store branches in large supermarkets. At the same time, we will be rationalizing our traditional branches in areas where services overlap. We expect to reduce the number of traditional branches by 40% from the peak, thereby realizing significant cost savings and a competitive edge.

In this fashion, we intend to shift promptly from our traditional branch model to new, next-generation service channels that reflect customer needs while at the same time realizing a low-cost structure for our manned branches.

Expanding Our Call Centers

In January 1999, we proudly brought one of the largest call centers among the city banks on-line to serve our network. The center offers 24-hour service so that customers can access their account balances and transfer funds as well as obtain information about loan and investment products. Use of the center is increasing rapidly, and we plan to further enhance services as it develops into a major service channel. In July 1999, we opened a second call center,

which is located in the Kansai region, bringing the total number of operator stations to 350, the total number of operators to 1,000 and the service call capacity to 400,000 per month.

@BANK Convenience Store Banking

In March 1999, we formed an alliance with am/pm Japan Co., Ltd., to launch joint branches in am/pm convenience stores. The name for the new network is @BANK, the first symbol signifying "convenience whenever, wherever you happen to be." As a symbol associated with Internet addresses, it also suggests a futuristic image unconstrained by space or time.

We consider convenience store banking to be a key channel for reaching individual consumers. From the customers' perspective, the Bank will offer a full range of service channels from manned branches, convenience store branches and card kiosks to call centers and Internet banking. Our plan is to start with 500 convenience store branches in the Tokyo region in fiscal 1999 to become known as "the most convenient bank" in Japan.

Convenience store branches can be operated at a lower cost than conventional card kiosks, providing them with substantial merit from the cost-savings perspective. According to a survey conducted by Nikkei Sangyo Consumer Research, 80% of convenience store patrons have favorable views of automated teller machines (ATMs) in convenience stores. Moreover, the convenience stores consider financial services to be an important means of differentiating their services. In short, convenience store banking will benefit all three parties, the customer, the convenience store operator and Sakura Bank.

Convenience store banking will not be limited to the cash deposit and withdrawal services of an ATM, but will combine banking functions with convenience store functions with the goal of creating a new, hybrid service. This will provide us with a quasi-manned channel that combines the services of a call center with virtually all of the functions of a financial institution, with the exception of tax and government related transactions.

Enhancing Our Virtual Network

Browser Banking

Viewed from the perspective of developing our retail business, it is imperative to rapidly upgrade our ability to meet the needs of consumers that have a strong need for convenience and fast service. In anticipation of a fully networked future society, we intend to create a range of high-quality transaction and payment services.

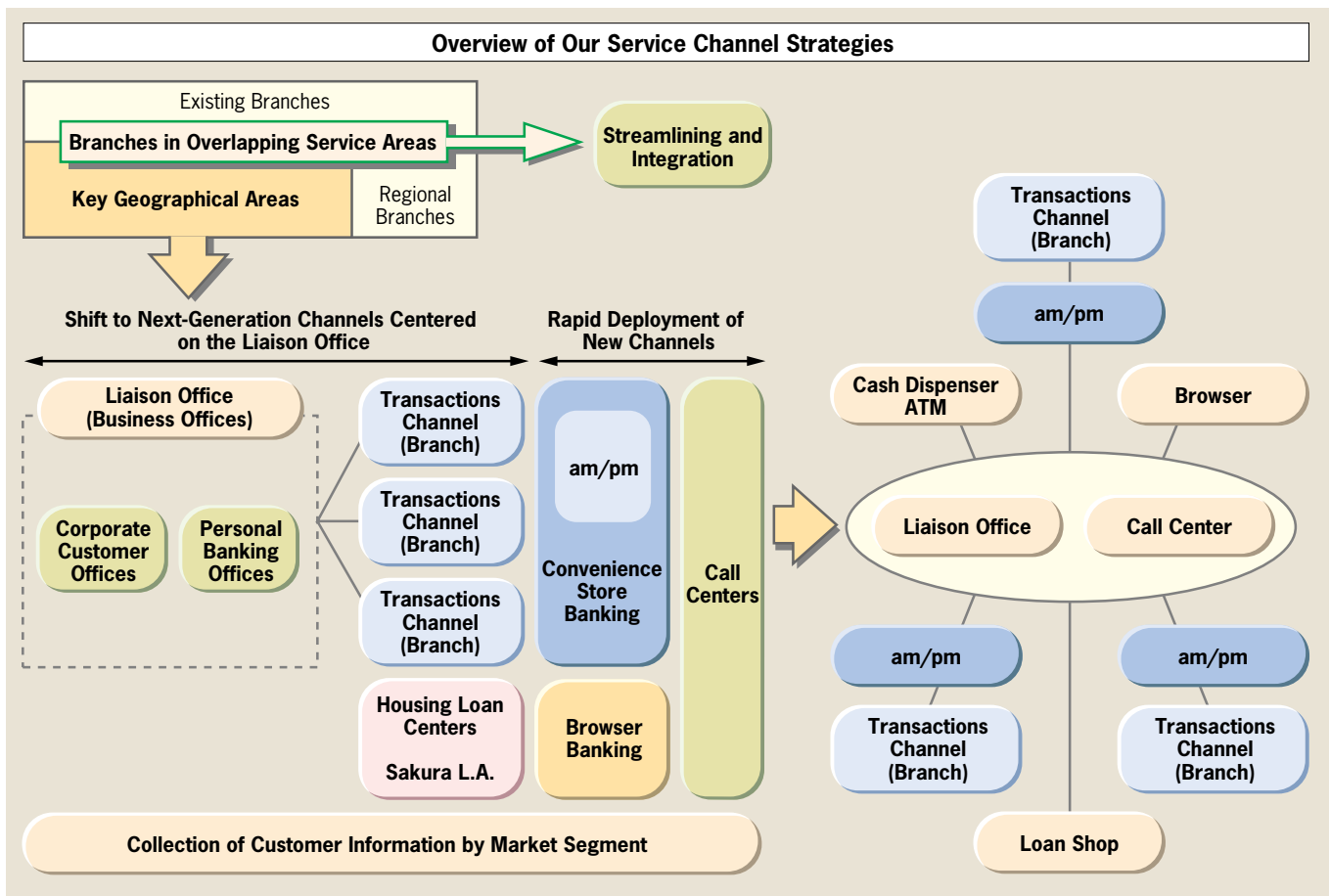
Since we launched the Browser Banking service in July 1998, our list of subscribers has already topped 22,000, which places us in the top class of Japanese banks. The service offers the functions of an ATM, except for deposits and withdrawals, and will be upgraded to 24-hour service by spring 2000. We believe that this channel will increase in importance over time and look forward to enhancing the services it offers.

Launch of iMode Mobile Telephone Banking Services

In February 1999, it became possible to access the Browser Banking service via iMode mobile telephones offered by NTT Mobile Communications Network, Inc. (NTT DoCoMo). Later in June, we concluded an agreement with NTT DoCoMo to distribute Browser Banking contracts through their 1,000 outlets nationwide and to advertise the service jointly. The equipment operates as if it were an ATM, permitting consumers to verify account balances and transfer funds, advancing us closer to our goal of becoming "the most convenient bank" in Japan.

Toward the 21st Century

As mentioned in the preceding paragraphs, we are formulating the strategies that draw on the dual fields of commercial banking and advanced network banking. We are confident that these strategies will contribute significantly toward our fundamental goal of increasing profitability over the long term.



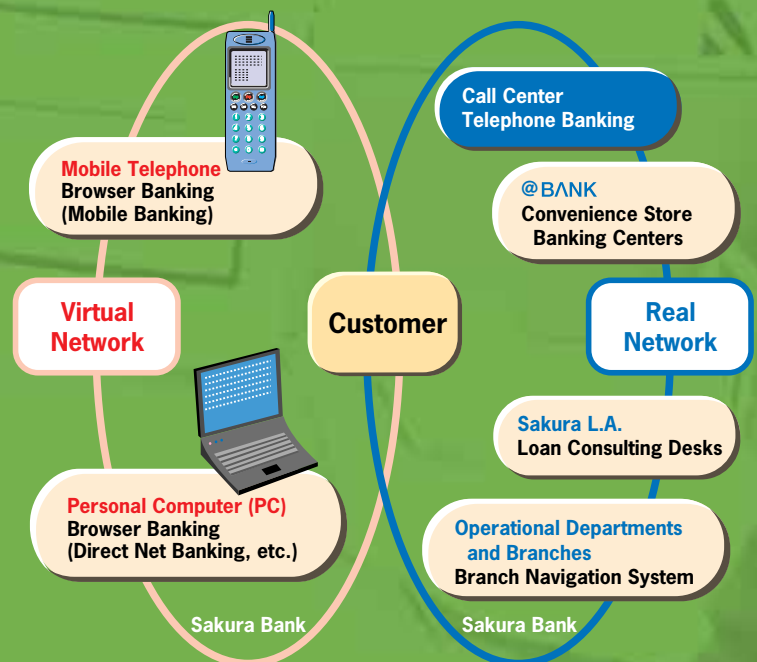




One of the Largest Call Centers in Japan

Call Centers

Technological advances and changing lifestyles are spurring demand for telephone banking services. Sakura Bank customers can obtain 24-hour access to account balance and product information simply by calling one of our call centers. In January 1999, we opened a state-of-the-art call center in Tokyo that is one of the largest such facilities among Japan's city banks. We plan to further enhance our call center services to improve convenience and responsiveness to customer needs.







One-to-One Personalized Services

Branch Navigation System

More than simply an on-line branch service information system, our new Branch Navigation System enable cus-

tomers to access personalized services simply by making the appropriate selections on the easy-to-use touch screen. Based on the customer's needs, tellers offer carefully tailored product information and advice. As of the end of June 1999, Branch Navigation System services were available at three branches, serving a total of 130,000 customers. We plan to introduce the system into other branches in the near future.



Information Technology Strategies

Basic Approach

As Sakura Bank streamlines its cost structures, information technology (IT) system expenditures too are coming under scrutiny as part of cost-cutting measures. However, we view investments in these technologies as a priority for the long-term profitability of the Bank, particularly with regard to retail banking, and are forging ahead with new investments in strategic areas.

Main System Investments

At the end of fiscal 1997, we completed the backbone of our systems infrastructure that will serve as the framework for our strategic systems over the next few years. Full-scale work on individual strategic systems was launched in March 1999. The chart below shows the main systems we are now introducing. Most of these systems fall into the category of strategic investments that will affect the future course of the Bank, such as systems that will be used to reform our service channels. We consider investment in these systems to be timely and a critical component of our drive for greater efficiency.

Main System Investments

System	Purpose
Transaction Channels and Marketing Related Systems	Reform service channels, upgrade telephone banking services, launch iMode mobile telephone banking, introduce convenience store banking ATMs, upgrade Browser Banking, introduce Sakura CRM, introduce Sakura Intranet, upgrade database marketing, introduce new information gathering systems
New Product Development and Customer Service Systems	Process 401K forms, assist with insurance sales, upgrade ATMs, reduce customer waiting times
Risk Management Systems	Strengthen risk management functions, introduce new electronic credit application and approval process systems, introduce new transaction and accounting systems

Using IT Systems to Upgrade Processes

The Bank is rolling out a program of strategic investments that place priority on systems for transaction processing

and marketing activities. We plan to apply information technology to all the essential operating processes in the Bank so that information can be shared and managed. We started building a personal computer network (Sakura PC Network) in 1995. This network now encompasses more than 11,000 PCs and 500 servers throughout the Bank, adding up to a 1:1 ratio of machines to front-line staff members. We will use the Sakura PC Network to efficiently mine the information collected in our databases and use this information to leverage the growth of our operations.

Information Strategies

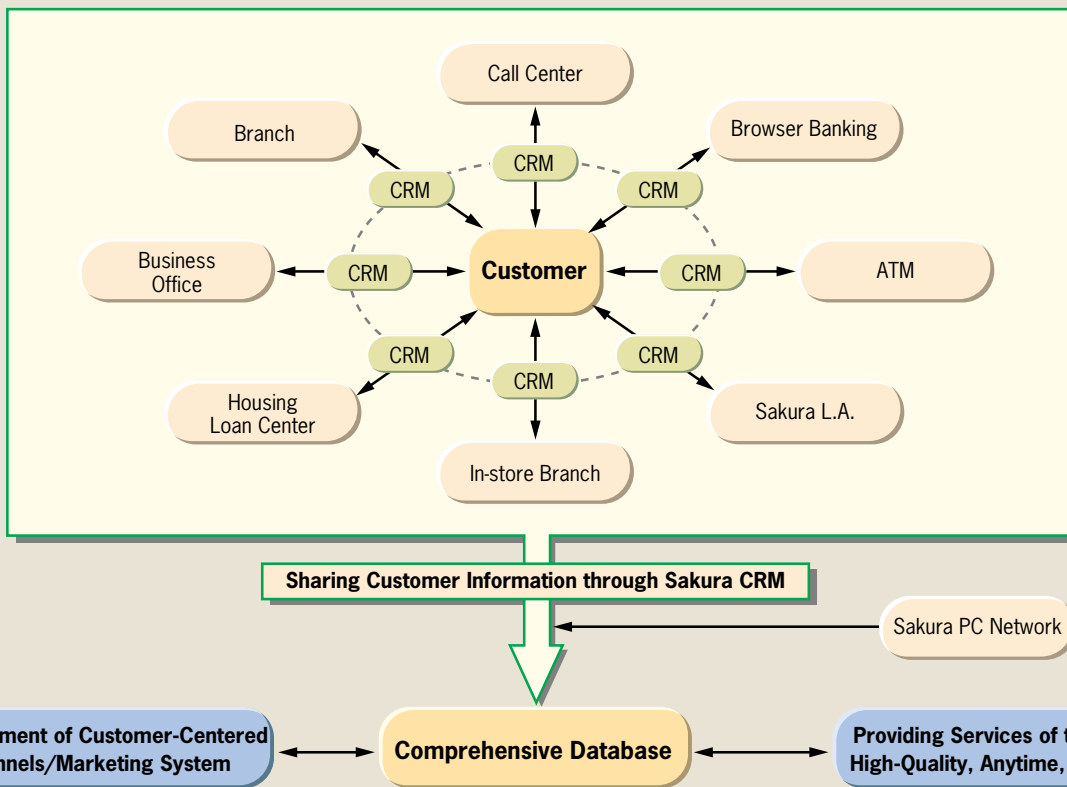
The Sakura CRM system, an electronic system for credit application and approval processes and the Sakura Intranet, which is used for business process reengineering, are the current focus of our information strategies.



The acronym portion of Sakura CRM stands for “continuous relationship marketing,” referring to the ongoing, systematic collection and use of customer information. We are using the Sakura CRM system to reengineer and standardize the business processes used in our front-line operations. Information collected at the branch level is used within the branch and simultaneously shared with the head office for the purposes of developing new business opportunities.

We have taken the credit application and approval process system past the trial stages and are now entering an expansion phase. When it is fully operational, this system will use the various types of information collected in databases to assist with self-assessment analyses, portfolio management and credit monitoring to flesh out our risk management systems, making it possible to manage risk with a greater degree of sophistication. (Please see page 37 for a description of risk management procedures.)

Sharing Information between Various Channels through Sakura CRM



The Sakura Intranet was started in 1998 as a means to disseminate information throughout the Bank and to form part of the infrastructure for each business unit. This system has allowed us to share product and marketing information more readily between different departments and to reengineer the processes for our internal administration. It will also function as an effective means of presenting and sharing information between the various channels that are being developed in our service channel strategy.

In step with our channel development strategy, our information strategy for the various channels, such as the call centers, Sakura L.A., housing loan centers or convenience store banking centers, is to collect and integrate information separately within each channel. This data will then be integrated at an organization level to provide us with the ability to swiftly analyze and respond to customer needs throughout the Bank.

IT Systems as a Source of Competitive Advantage

We regard information technology as a major competitive advantage because it will furnish us with the ability to pursue a market-driven “pull” approach instead of a producer-driven “push” approach. We will be stepping up efforts to apply these technologies to our operations. Specifically, we will:

- Be able to improve individual employee performance and achieve higher standards of excellence by sharing information and knowledge,
- Be able to create systems that collect and employ information obtained from interaction with customers through various channels,
- Be able to provide each and every employee with the ability to use the information, and
- Be able to integrate separate management, financial and marketing strategies in a single unified strategy.

Another component of our IT strategy concerns security. We aim to be a “secure company” so that our information assets are appropriately safeguarded. To this end, we are instituting information security processes and will continue to heighten security as we go along.



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An ATM in Your Palm

NTT DoCoMo iMode Mobile Telephone Banking Services

A boon for busy individuals, our new mobile telephone banking service enables customers to check their account balance or make bank transfers around the clock, from wherever they are, using an NTT DoCoMo iMode mobile telephone. With network-based banking taking on increasing importance, we will continue to respond to the diverse needs of customers by expanding our selection of convenient, high-quality network services.





The New Look of Our Manned Branch Channels

Sakura L.A. Loan Consultation Desks

To better serve customers in an era when their personal lives are becoming more fragmented, we are revamping the settings for face-to-face encounters with customers. Many customers are busy during regular business hours and are only free in the evenings or on their days off. These are the perfect times to reach out to these busy people with financial advice. This is the underlying concept of our Sakura L.A. loan consultation desks, which provide week-end, after-hours and holiday advice on housing mortgages, educational loans other borrowing needs.

