

## Restructuring Efforts

The Bank recognizes the creation of a strong management structure and enhanced management efficiency as key management tasks to ensure prosperity in post-Big Bang Japan. Capitalizing on the success of ongoing efforts to streamline management since the merger of its two predecessors in 1990, the Bank will shift its focus to a comprehensive restructuring aimed at reinforcing competitiveness and enhancing corporate value.

### Background

The Bank believes that restructuring efforts must not be limited simply to reducing its payroll and streamlining its branch network to reduce personnel and non-personnel expenses, but must also contribute to the creation of a highly profitable and financially sound management structure. The Bank has expanded its new career selection system, which assists employees who retire voluntarily to reestablish themselves in new careers, and introduced an Executive Officer system. At the same time, the Bank has bolstered cost competitiveness through service-channel reform, aimed at creating highly cost-competitive new channels, and upgraded its information technology capabilities to facilitate the early introduction of a highly efficient and highly profitable new operating structure.

### Accomplishments in Fiscal 1998

In fiscal 1998, the Bank's payroll was reduced by approximately 1,000 people. Over the past nine years, the Bank has achieved an overall reduction of nearly 30%, or 6,870 employees, from 23,200 as of the merger in 1990. A total of 24 manned branches were closed down during the period, contributing to a total reduction of 149 branches since the merger, at which time there were 618. The Bank also accelerated restructuring efforts overseas, rationalizing a total of eight operating bases, four of which were closed down. Personnel reductions and a review of base salaries enabled a

total reduction in personnel expenses of ¥17.6 billion in fiscal 1999. To enhance the competitiveness and vitality of its human resources and improve the efficiency of personnel expenses, in July 1999 the Bank introduced a new performance-based personnel management system.

### Looking Ahead

The Bank will proceed with efforts to restructure its domestic and overseas networks with the aim of reducing its payroll to 13,200 by the end of March 2003. This represents a reduction of approximately 10,000 employees, or 50%, from the total at the time of the merger.

By closing down inefficient operating units and promoting the establishment of next-generation manned service channels, the Bank will endeavor to reduce its domestic network of manned operating units by the end of March 2003 by 30% from the fiscal 1997 year-end level, or 40% from the merger level. The Bank will also expand its network of ATMs through its alliance with am/pm Japan, as well as expand new channels, such as call centers and its Browser Banking service, to create a more efficient channel cost structure.

Overseas, the Bank will narrow its focus to services for Japanese companies. By the end of March 2003, the Bank intends to scale back its overseas network to five core and 19 satellite operating bases, 14 of which will result from the integration of existing branches, representative offices and agencies. This represents a reduction of 21 operating bases from the end of March 1998 level, or 70% from the peak.

As a result of these efforts, as well as reforms to its employee welfare system and further revisions to its system of remunerations and bonuses for directors, the Bank expects to achieve significant reductions in personnel and non-personnel expenses, enabling it to lower expenses by about ¥45.0 billion from the fiscal 1997 level by fiscal 2003.

### Executive and Personnel Management System Reforms: Achievements and Targets

	Fiscal 1997	Fiscal 1998		Fiscal 2003	
			Difference (Compared with Fiscal 1997)		Difference (Compared with Fiscal 1997)
Number of Employees at Fiscal Year-End	17,420	<b>16,330</b>	<b>(1,090)</b>	13,200	(4,220)
Number of Domestic Operating Bases	493	<b>469</b>	<b>(24)</b>	352	(141)
Domestic Branches	430	<b>412</b>	<b>(18)</b>	319	(111)
Number of Overseas Operating Bases	40	<b>32</b>	<b>(8)</b>	19	(21)
Overseas Branches	23	<b>18</b>	<b>(5)</b>	13	(10)
Expenses (Billions of Yen)	¥434.9	<b>¥425.0</b>	<b>¥ (9.9)</b>	¥390.4	¥(44.5)
Personnel Expenses	195.7	<b>178.1</b>	<b>(17.6)</b>	152.1	(43.6)
Non-personnel Expenses, Taxes	239.2	<b>246.9</b>	<b>7.7</b>	238.3	(0.9)

## Executive and Personnel Management System Reforms

### Executive Officer System and Performance-Based Remuneration System for Directors and Executive Officers

In the interest of better corporate governance and more efficient management, in June 1999 the Bank introduced an executive officer system and reduced the size of its Board of Directors to 13, from 45, a move that has expedited decision-making by the Board of Directors and reinforced internal auditing functions.

In another important move, the Bank replaced its fixed remuneration and retirement allowance system for directors with a performance-based system, whereby amounts are calculated based on the performance of the Bank and the individual. As an added incentive for directors and executive officers, the Bank also introduced a stock option scheme.

### New Employee Remuneration System

In July 1999, the Bank implemented a drastic reorganization of its employee remuneration system with a flexible system linking employee remuneration to individual contribution, thus providing an additional incentive and improving employee morale. Under the new system, base salaries are linked directly to individual contribution, while the degree of achievement of clear corporate objectives determines bonus calculations and is also reflected in total salary calculations.

In another move aimed at facilitating the strategic reallocation of highly capable human resources, the Bank created a competence model to enable more accurate evaluation of performance. At the same time, the Bank eliminated its traditional system of promotions, which was based on length of service, thereby paving the way for motivated, skilled young employees to rise to positions of responsibility in areas to which they have exhibited a particular aptitude and/or achievement. To ensure individual preferences are also considered in determining personnel assignments, the number and variety of positions open to application has been greatly increased to include general manager, assistant general manager of branches and all other lower- and middle-management positions.

## Environmental Management

### ISO 14001 Certification

In line with its commitment to being a good corporate citizen and to conducting its business in harmony with the communities it serves, the Bank places a high priority on environmental protection at the branch and departmental level. In November 1996, the Bank concluded an environmental preservation agreement with the city of Kobe. Pursuant to this agreement, the Bank implemented a waste paper recycling system at its branches in Hyogo and Osaka prefectures. In March 1997, the Bank introduced an award-winning centralized waste recycling system to recycle waste paper generated by its operations in Tokyo into ordinary, recyclable paper.

In September 1998, the Bank obtained ISO 14001 certification, the International Organization for Standardization's global benchmark for environmental management systems, for the Sakura EMS (environmental management system), becoming the first Japanese bank to be so endorsed. This system, which promotes responses to environmental problems as an integral component of the Bank's activities, was launched in April 1998 to unify the Bank's various environmental management activities.

### Environmental Management Activities

The Bank classifies its environmental management activities into two categories: those through which it can contribute directly to environmental protection, through its own actions, and those whereby it can do so indirectly, through its business relationships. The former encompasses efforts to reduce waste paper output, increase energy efficiency, and reduce resource consumption by promoting the use of recycled paper. The latter involves providing information and advice through seminars for clients endeavoring to improve environmental management and introducing clients seeking ISO 14001 certification to consultants in the field.