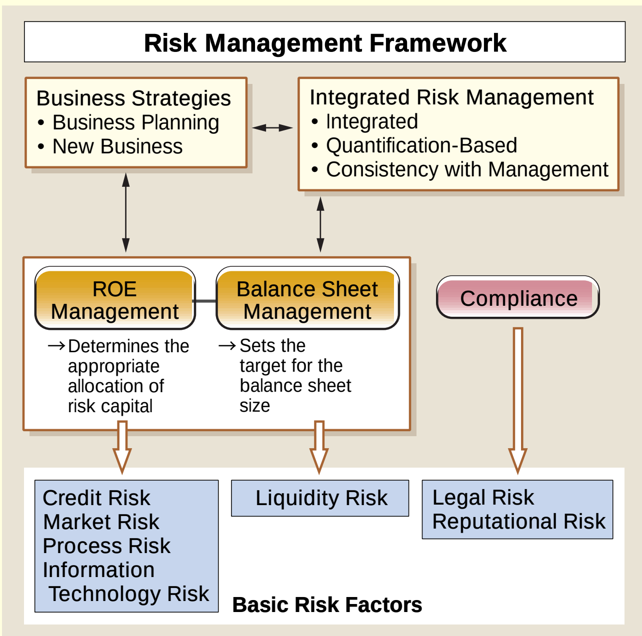
Financial liberalization and advances in financial techniques are helping to increase the diversity and complexity of risks facing financial institutions. Risk management is a key issue at Sakura Bank. We are making concerted efforts to strengthen and flesh out our risk management capabilities and systems.

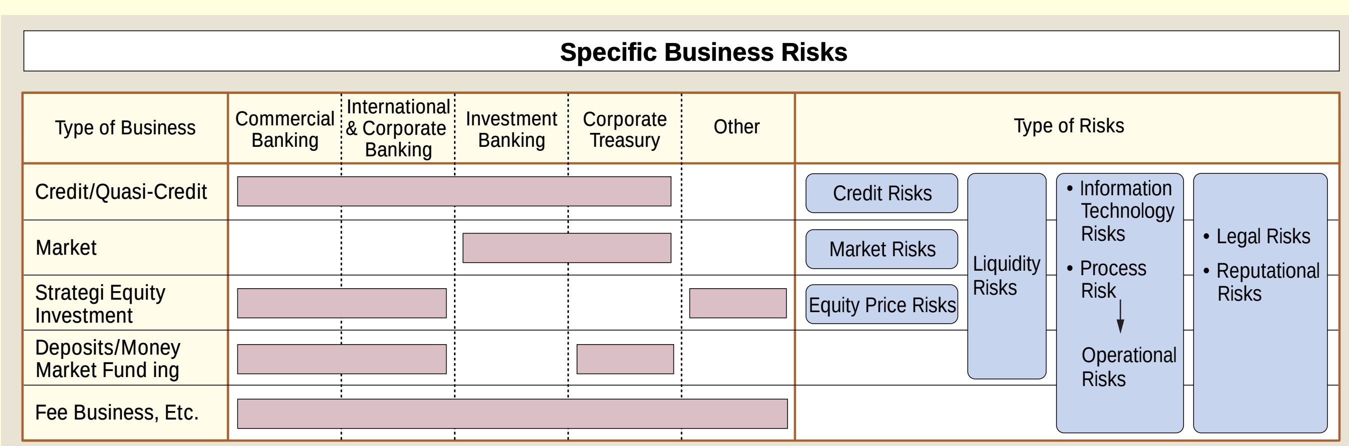


Policies for Integrated Risk Management

Risk management policies at Sakura Bank are predicated on three concepts. First, the various types of risk are managed on an integrated basis rather than in isolation. Second, where possible, risks are measured and captured on a quantitative basis. Third, risk management is integrated with business operations to achieve a tightly bonded response throughout the organization. These three concepts allow us to mount an effective response to the risks we must face to generate revenues.

The process of integrated risk management starts with classification of the various risk types by their characteristics. We consider the basic risk factors to include credit risk, market risk, liquidity risk, process risk, information technology risk, legal risk and reputational risk. Credit and market risks are quantified and covered by the allocation of our risk capital as part of our ROE management process. Operational and information technology risks are also quantified and covered by the allocation of risk capital. Liquidity risk is managed within the context of the balance sheet management process.

ROE management and balance sheet management are part of both the risk management and business planning functions. If exposure to credit risk is undertaken to increase profits, matching capital is allocated to cover it as part of the ROE management process, while the necessary funds to cover the consequent liquidity risk are raised as part of the balance sheet management process. Legal risk is managed as part of the Bank's compliance regime (see Corporate Governance and Compliance on page 51).



The Dynamic Relationship between Integrated Risk Management and Planning

Within the framework of ROE management and balance sheet management, the Strategic Planning Group formulates the Bank's management strategies and plans based on its grasp of the risk limits and profit targets set for each department and the amount of capital out of the total that must be allocated to cover the relevant risks. In a parallel process, the Credit Policy and Risk Management Group assess the plans for appropriateness. This provides us with a system of checks and balances at the management level.

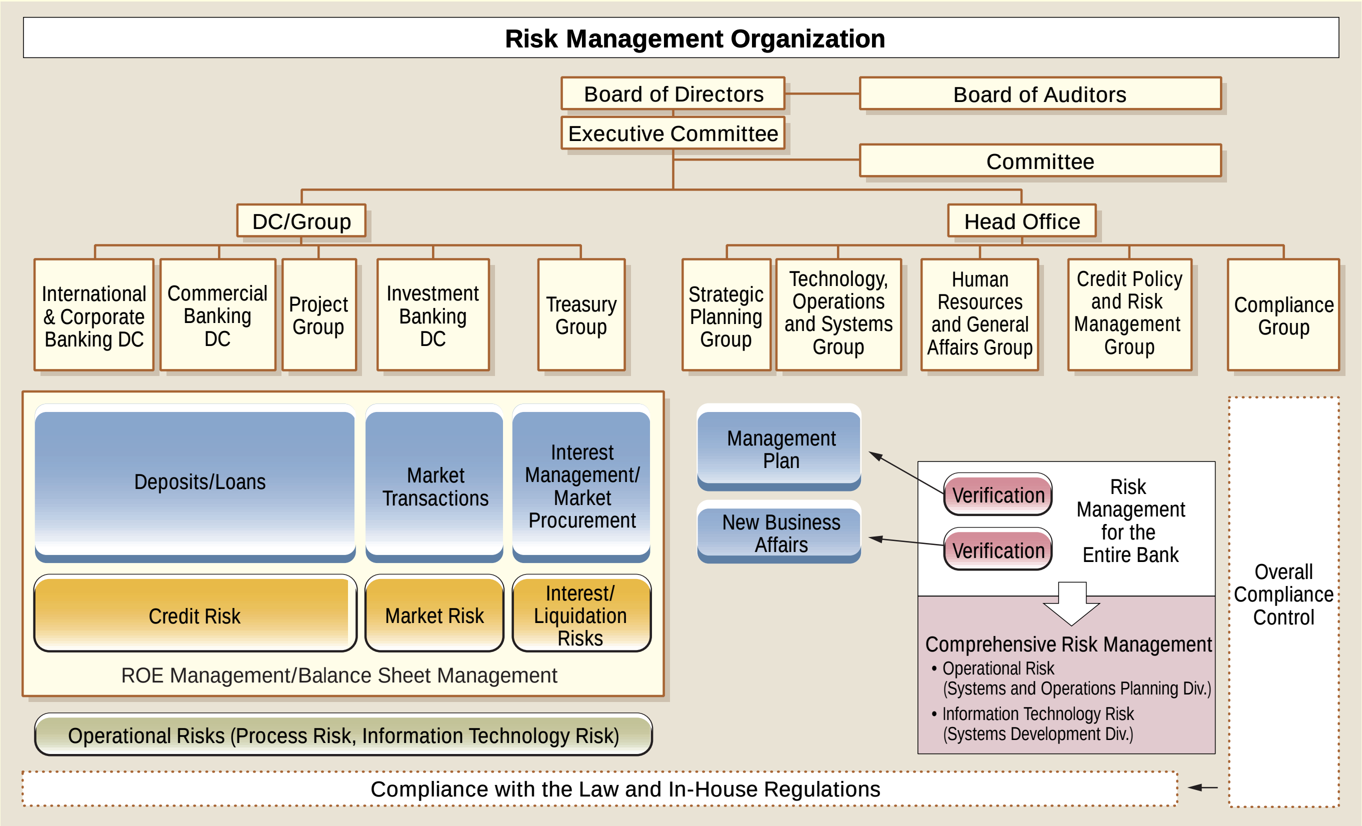
New businesses are also examined within the context of the integrated risk management system to get a complete handle on the risks posed. By determining the risk limits and the return structure in advance, we can determine the feasibility of entering a new business. These assessments are also carried out after we have entered a new business segment.

Risk Management Organization

The first line of our risk management organization is the managers in each department charged with day-to-day supervision. Then there is the Corporate Risk Management Division, which is completely independent of the Strategic Planning Group and specializes in Bank-wide risk management. This division sets risk management policies and reviews operating strategies for the risks involved. At the Executive Committee level, it carries out required changes to risk management policies and monitors risk levels in the ALM and Credit Risk Management committees.

ROE Management

ROE management is a tool for allocating capital to business segments with high returns on equity to maintain sound and profitable operations. Within Sakura Bank, it is a key instrument for achieving the objectives of our “selection and focus” strategy as well as for conducting risk management. In the



ROE management process, the profitability of each division company and group is assessed against the risks incurred and is then allocated risk capital. Each business unit has to limit its risk exposure within the bounds of its allocated capital. This enables the Bank as a whole to maintain financial soundness by limiting its exposure to a level that can be safely covered by its capital.

Each business unit is charged with pricing its services in line with the risks incurred to heighten profitability while maintaining capital integrity. Business unit performance is judged with the risk-adjusted return on equity, a measure we call "integrated ROE." Integrated ROE is calculated by subtracting both expenses and credit costs from gross operating profit and dividing the result by the allocated capital. Within this measure, credit costs are calculated as the average future expected losses based on historical data. The maximum loss, which is measured along with the expected loss, refers to the worst case statistically predicted. Since the amount of loss exceeding the expected loss should be covered by capital, "Credit Risk Capital" is defined as "Maximum Loss – Expected Loss."

Integrated ROE is used extensively in the planning process. The process starts with an initial allocation of capital to each business unit. Individual business units then attempt to maximize their integrated ROE. The results are evaluated and capital is reallocated with a bias toward better performers so that, over time, capital is assigned to the most efficient businesses. As a result, the Bank is able to build up its profitability and financial soundness.

(See our Web site: http://www.sakura.co.jp/bank/roe/frame_risk.htm)

Balance Sheet Management

Balance sheet management is the framework under which liquidity risk is managed in constantly moving financial markets. While ROE management is used to maintain quality, in terms of the balance between safety and profitability, balance sheet management is a tool for adjusting magnitude, in terms of funding and lending volumes.

There are three key features of balance sheet management. First, the Bank must correctly estimate the amount of funds it can raise over a period of time. Second, it must set lending targets based on that amount. Third, it must fine-tune the two during the period to operate according to the management plan. At Sakura Bank, the ALM Committee sets the balance sheet targets and strategies. Based on these targets, the business units gather and analyze market information to implement the various strategies to control in a gradual manner the liquidity on hand and the maturity structures of the assets and liabilities. These preventative measures, including the efficient funding in foreign currencies, are part of the daily risk management procedures that maintain the Bank on a solid footing.

Profit by Segment and Integrated ROE

Billions of Yen

	Fiscal 1999				Fiscal 1998			
Segment	**Gross Operating Profit**	**Expenses**	**Profit after Deducted Expenses**	**Integrated ROE**	Gross Operating Profit	Expenses	Profit after Deducted Expenses	Integrated ROE
Domestic	**¥578.2**	**¥318.1**	**¥260.1**	**12.5%**	¥527.8	¥333.5	¥194.3	0.1%
Overseas	**27.2**	**19.4**	**7.8**	**2.0**	26.1	28.1	(2.0)	(6.9)
Investment Banking	**25.8**	**17.4**	**8.4**	**1.4**	50.1	20.4	29.7	5.7
Treasury	**115.7**	**2.4**	**113.3**	**15.9**	141.8	2.2	139.6	20.9
Other	**(35.7)**	**40.5**	**(76.2)**	**(9.7)**	(46.7)	40.8	(87.5)	(12.7)
Total	**¥711.2**	**¥397.8**	**¥313.4**	**5.6%**	¥699.1	¥425.0	¥274.1	1.9%

Note: ¥0.6 billion is subtracted from gross operating profit for fiscal 1999 as the amortization of bonds.

Credit Rating		Degree of Credit Risk		Self-Assessment/ Borrower Categories	Grading of Rating Agencies	Write-Offs and Allowances
1		Essentially No Risk	Low Credit Risk	Normal	(AAA • AA)	Amounts are recorded as general reserves in proportion to the expected losses over the next 12 months.
2		Very Limited Risk			(A)	
3		Limited Risk			(BBB)	
4		Better than Average				
5		Average				
6		Permissible				
7		Worse than Average				
8	A	Preventative Management Required		Caution A		Provisions corresponding to the expected losses are transferred to general reserve according to the risk of default correlated to the average length of time to maturity.
	B			Caution B		
	Z			Special Attention		Provision amounting to 15% of the unsecured portions of "special attention" borrowers.
9		Careful Management Required		Possible Bankruptcy		As a rule, amounts corresponding to 70% or more of the unsecured portions of individual assets are set aside as specific reserves.
10	**I**			Virtual Bankruptcy		As a rule, 100% of Class **III** and **IV** assets are written or set aside as specific reserves. (see page 30)
	II		High Credit Risk	Legal Bankruptcy		

Credit Risk

As the primary risk in banking, it is the risk where a credit event, such as deterioration in the financial condition of the borrower, will cause the asset (including off-balance sheet assets) to lose value or become valueless, resulting in a loss to the bank.

Sakura Bank is striving to enhance its credit risk management with the following framework, which is based on the concept that credit risk should be controlled in an integrated, quantitative basis.

Credit Policy—A Systematic Guide

In July 1999, we replaced the various regulations and systems previously in effect at the Bank with the issue of our "Credit Policy," the guidelines for universal application to credit management throughout the Bank. This document clarifies the underlying concepts, thinking and objectives of the credit business as well as valuation standards, the scope of action and credit analysis standards. It also systematically lays out the credit management organization and systems, the definitions of credit limits, the credit risk evaluation methods and credit granting processes.

Credit Risk Models—Quantifying Risk

Sakura Bank is developing and refining credit risk modeling that complies with Bank for International Settlements (BIS) recommended standards and ranks at the top of the techniques employed by the industry in Japan. Borrowers, both domestic and offshore, are assessed with the finely calibrated rating system depicted in the table above. It is integrated with evaluations that combine statistical analyses of financial statements with qualitative assessments of business health. We also categorize borrowers according to the "self-assessment" criteria and review their long-term credit ratings from external credit rating institutions. Borrowers are rated on a scale of 1 to 10 with lower numbers indicating better ratings.

After a credit application has been individually evaluated on the basis of our rating system for the potential redemption rate of each loan, including collateral and guarantees, the credit risk is quantified using various parameters, including the borrower's ratings history, relationships with other industries and other companies, and the expected recovery rate from the collateral. At a practical level, we attempt to compute the probable distributions of losses for the entire portfolio, calculating credit costs as the average predicted losses and capital subject to credit risk as the maximum possible loss beyond credit costs at a confidence interval of 99%. In addition, we analyze the marginal risk of each credit rating using the Credit Risk Delta method. A characteristic of our credit risk quantification system is that we integrate the results of such quantification techniques as Monte Carlo simulations to reveal portfolio risk distribution effects and concentration risks, so that they can be applied to the complete range, from overall risk management to individual borrowers.

Lending Business Models—Raising Efficiency to a Higher Plane

At Sakura Bank, we are using credit risk models and information technology to create and refine lending business models for each market. These help to control risks at a low cost while providing returns commensurate with the risks. This is being accomplished in part through the use of the Internet and other channels that heighten customer convenience and raise our lending efficiency.

Portfolio Management—Sustaining Diversification

In addition to focusing on individual credit, we manage credit at the portfolio level. Our portfolio is assessed at regular intervals and fine-tuned. Using the individual branch portfolio database system developed at the Bank, we can quickly grasp the status of a branch's portfolio, formulate strategies in response and follow up on the results to manage the portfolio on a daily basis. This allows us to adjust the credit structure and calculate the profit margins and appropriate interest rates for individual clients.

Credit Risk Organization—A System of Checks and Balances

Under the Bank's division company system, the Credit Planning Division within the Credit Policy and Risk Management Group at the head office is charged with grasping credit risk exposure, formulating plans to optimize the overall loan portfolio and focusing on risk management. The same department is responsible for credit rating systems, for developing and revising models for the quantification of credit risk, for determining credit limits, for loan approval systems, and for loan monitoring systems. In addition, it maintains a credit supervision division in each division company. These divisions audit individual loans and the portfolios under their jurisdiction, helping to clarify the responsibility for profits and risks in each division company and accelerating the speed of audit processes. Each division is managed independently of its host division company's operating divisions, to provide adequate checks and balances and preserve the independence of the audit process.

Country Risk

As one of the most critical risks encountered in overseas lending, it is the risk that an adverse change in the political, social or economic condition of a country or region will result in default.

Credit Rating	Degree of Credit Risk	Credit Agency's Rating
S rank	Little or No Risk	(AAA)
A rank	Very Low Risk	(AA)
B rank	Low Risk	(A)
C rank	Average Risk	(BBB)
D rank	Relatively High Risk	(BB)
E rank	High Risk	(B)
F rank	Extremely High Risk	(CCC)
G rank	Bankruptcy	

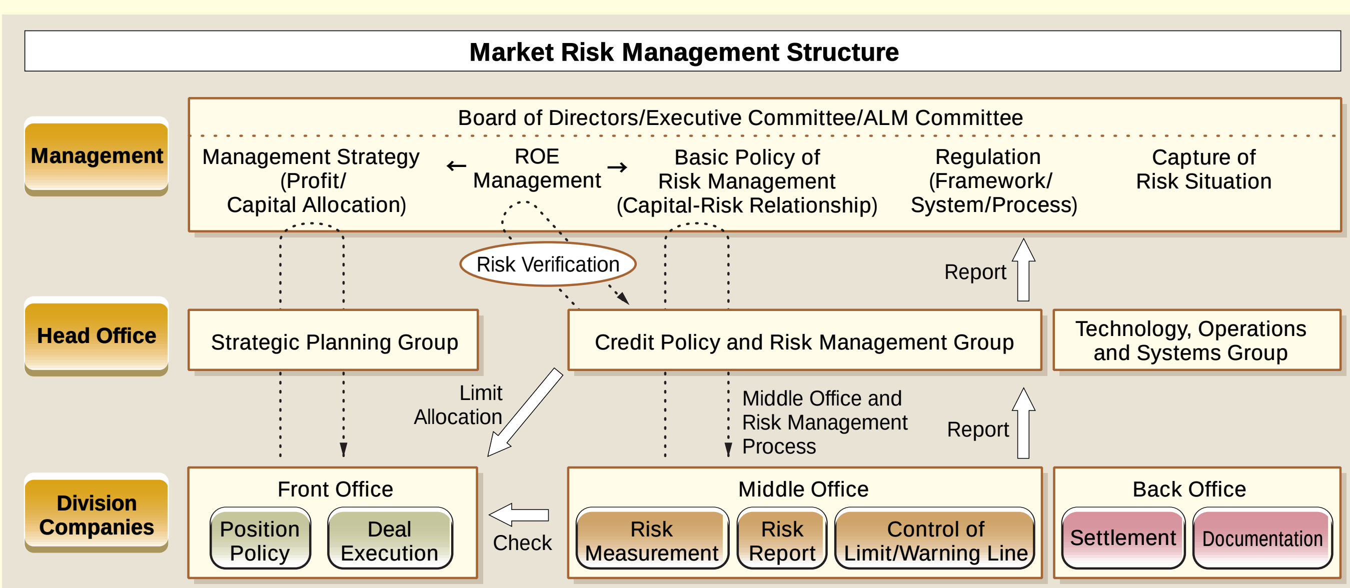
Our basic policy is to set individual country lending limits according to the risks posed and to keep our loan portfolio geographically diversified to avoid over-concentration in any one country or region. To help us stay within these guidelines, we have established a specialized section within the Credit Planning Department that is charged with gathering information on each country and evaluating it for risk, setting lending limits and managing exposure. Using the analytical techniques developed at the Bank and the credit ratings provided by rating agencies, we rate each country according to a eight-rank scale.

We have established numerous preventative systems to avoid defaults, monitoring each country closely and downgrading their ratings or freezing credit as required by their changing political, social and economic conditions. For high-risk countries, we also set aside provisions in the special reserve that reflect the average losses per risk category.

Market Risk

The risk of losses arising from changes in the prices of financial products owing to fluctuations in interest rates, foreign currency exchange rates and so forth.

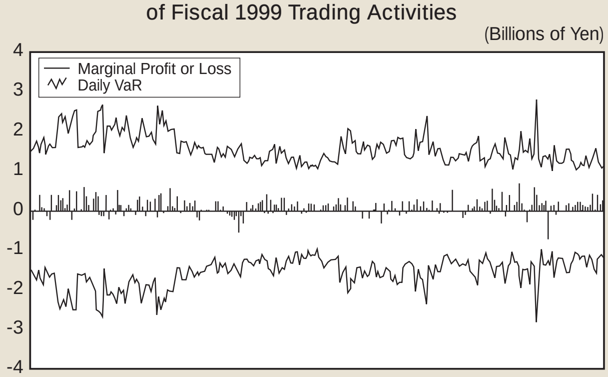
At the Bank, market risk management policies, which determine the market risk management process and responsibilities, are set every six months by the Executive Committee and we allocate risk capital based on risk quantification, part of the ROE management process. The market risk management process is applied to the entire consolidated group, including overseas offices, local subsidiaries and affiliates. In addition to the daily management activities, the results are reported at regular intervals to the ALM Committee.



The market risk management organization consists of the front, middle and back offices. The monitoring and reporting of positions, risk and profits and losses in the various division companies and groups are performed by the middle office, which is managed autonomously from the operating division managers (front office) and the administrative managers (back office). The functions of the front, middle and back offices are clearly separated, and the three provide checks and balances on each other.

To assess market risk, we utilize internal models based on the value at risk (VaR) model recognized for market risk measurement under the BIS regulation. Once the maximum loss amount has been determined, we can set the limits within which market risk must be contained and the required risk capital to cover it. In line with the specifications of the BIS regulation, our modeling techniques make extensive use of Monte Carlo simulations for a two-week holding period at a 99% confidence interval based on one year of market data. As shown in Diagram 1, the VaR of the Bank's consolidated trading account in fiscal 1999 ranged between a peak of ¥8.9 billion and a low of ¥3.1 billion, with the mean reaching ¥5.0 billion.

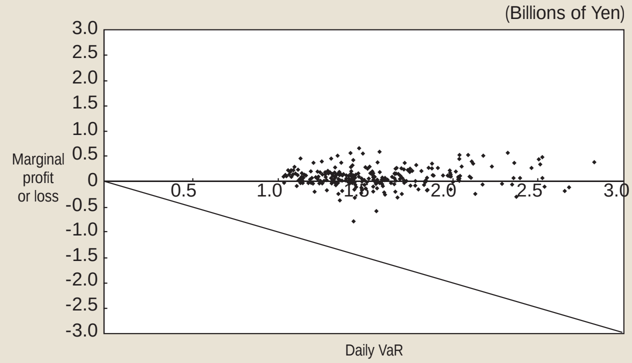
Daily VaR and Marginal Profit or Loss
of Fiscal 1999 Trading Activities



Our internal models have been evaluated by external auditors and determined to be accurate. We are continuing to refine them with back testing, which compares the calculated VaR with the actual profit and loss data after the fact.

The chart below shows the back testing data for fiscal 1999. We also conduct periodic stress testings, which pose scenarios that exceed normal market conditions to calculate potential losses. This allows us to control risk exposure within the scope of our capital.

Backtesting (April 1999 to March 2000)



Asset and Liability Management

Asset and liability management (ALM), used to control the interest rate and liquidity risks inherent in the Bank's own deposit taking and lending operations, has proven to be highly effective at Sakura Bank. By using interest rate forecasting to manage assets and liabilities with respect to interest rate and liquidity risk, we have been able to stabilize and raise medium-to long-term profitability.

To remain abreast of the fast pace of change in market climates, we entrust asset and liability management to managing directors with decision-making authority. The results and decisions are then reviewed monthly by the ALM Committee, which is chaired by the Bank president. This provides a risk management system that is directly linked to top management.

The Corporate Treasury Division handles daily ALM transactions, centrally managing the interest rate and liquidity risks derived from deposit and lending activities. It also manages fund procurement in the markets, yen-denominated bond investments, and derivatives dealing, including interest rate swaps.

To assist in ALM operations, we use a variety of sophisticated and multifaceted risk analysis tools and indicators, including funding gap analyses employing maturity ladder models, market interest rate sensitivity analyses (delta values), VaR modeling, earnings at risk (EaR) modeling and period profit and loss simulations.

As part of asset and liability management, we employ a range of swaps, interest rate futures and other derivatives. These transactions are entered into for the purpose of hedging the interest rate risks arising from our banking activities.

Liquidity Risk

A risk used when normal funding is hindered and a bank is forced to raise funds at extremely high interest rates to fulfill its obligations.

Backed by solid yen-denominated funding capabilities, the Bank manages its balance sheets so that it does not have to rely too heavily upon market based funding, such as call money and negotiable certificates of deposit. The ALM Committee oversees our balance sheet management, setting the policies and measures used to comprehensively manage both foreign currency and yen denominated liquidity risk.

The Corporate Treasury Division, the Global Portfolio Management Division and the overseas offices gather and analyze information on the market environment to carry out the risk management objectives of the ALM Committee. They engage in a variety of preventative measures such as management of cash liquidity in a gradual manner, control of the maturity structures of assets and liabilities and efficient funding in foreign currencies.

In daily risk management operations, we prevent liquidity risk from reaching extreme levels by limiting the maturity gap in unsecured funding. We have also prepared for contingencies with a predefined control structure so that the Bank-wide action plans can be swiftly executed in a market crisis. In case market disruptions prevent orderly trading, we maintain reserves of highly liquid assets, such as U.S. treasuries, and pre-arranged emergent borrowing facilities to ensure the fulfillment of our funding needs in foreign currencies.

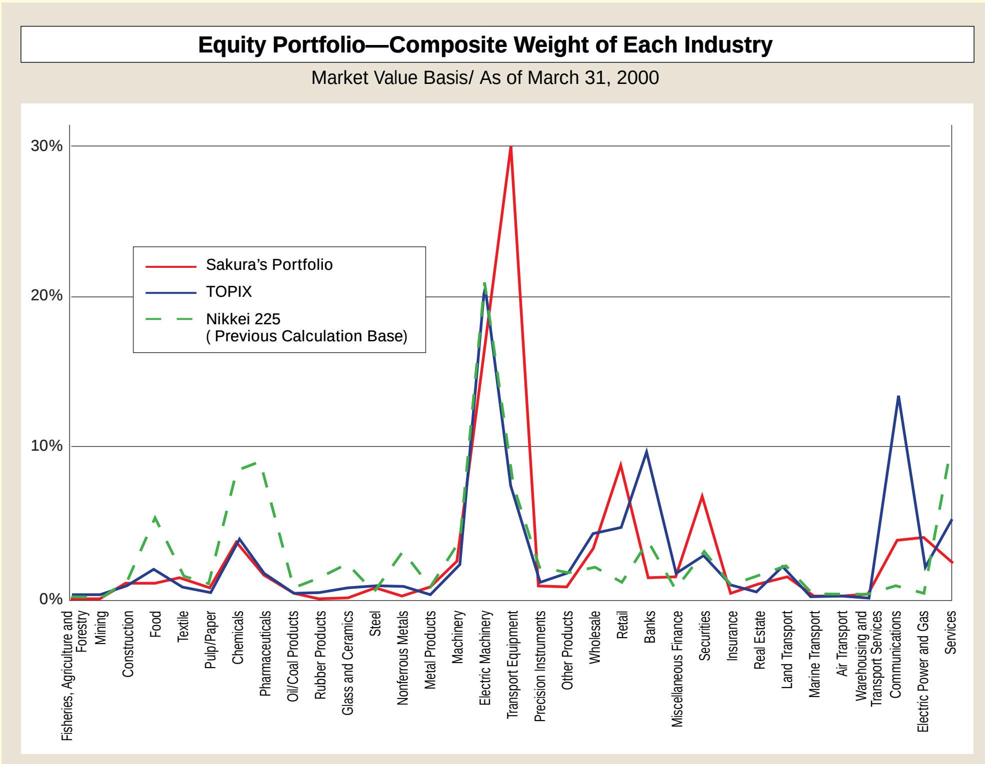
Market Risk of Strategic Equity Investment

A subset of market risk, the risk that stock market fluctuations will cause the market value of strategically invested equities to fluctuate.

The Bank holds a portion of its equities on a long-term basis as strategic investments in corporate customers to promote long-term relationships. We presently value these equities with the cost method, a method we consider appropriate since they are long-term holdings and not trading products. At year-end, the value of this portfolio at cost was approximately ¥3,500 billion. The large scale of these holdings means that price fluctuations and the required shift to the market cost method of accounting will have a potentially large impact on our balance sheets. We are working on methods to manage this impact.

One of the methods we are using to manage this situation is to treat these holdings as a portfolio, quantify the risk using VaR analysis to measure expected maximum losses, allocate capital to cover the value at risk, and maintain the portfolio within set limits in the ROE management process. Accordingly, the risk exposure attributable to these holdings can be managed along with other market and credit risk as part of the Bank's total risk exposure, which is maintained at levels appropriate to capital resources.

We also periodically evaluate the average value of the estimated losses arising from this portfolio as part of our transition to the market cost method of accounting. As an indicator, estimated losses allow a grasp of the current



situation as well as a glimpse at potential futures through portfolio simulations, which can be used to manage the portfolio.

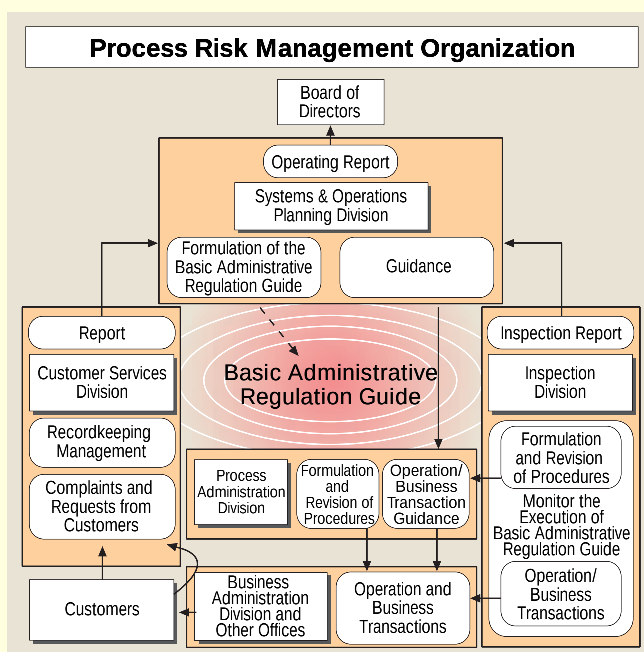
In our reorganization in October 1999, we upgraded the Equity Management Office to the Equity Management Division, giving it independent status to manage the price fluctuation risk of long-term securities and to manage the portfolio itself.

Process Risk

The risk of losses arising from officers or employees neglecting stipulated procedures, or from accidents and improper conduct.

We are fine-tuning our systems both to make it easier to gauge process risk and administrative costs, and to improve customer service through enhanced administrative efficiency. In parallel with the major reorganization of the operating divisions into division companies in October 1999, we strengthened our process risk management capabilities with the establishment of a specialized group within the head office's Systems and Operations Planning Division. At the same time, we revised the administrative systems and released the "Basic Administrative Regulations Guide," which clarifies administrative systems and identifies the roles of each department.

For the purposes of managing process risk, this guide divides responsibilities among five categories: the systems and operations planning division, process administration divisions, business administration divisions (branches), inspection divisions and customer service divisions. Their various roles, operating mandates and management responsibilities are set out in the guide.



Recognizing that process risk is not limited to operating divisions, we are applying measures to manage it throughout the organization, including domestic and overseas offices and consolidated subsidiaries and affiliates.

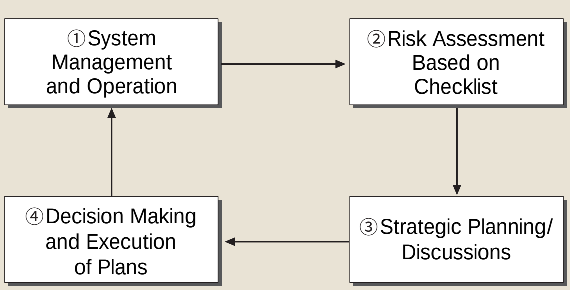
Our general risk management policy is to quantify, monitor and control risk wherever possible. In the process risk arena, we are devising ways of analyzing and quantifying the potential scope and probabilities of loss-causing events from operational sources. The results of the quantitative analyses are used to revise business processes and enhance risk-reduction strategies. As of the latter half of fiscal 2000, we shall also be allocating risk capital to cover process risks in a bid to further elevate our financial soundness.

Information Technology Risk

The risk of losses due to information system breakdowns, malfunctions or inadequacies, and the risk of losses due to unauthorized information system use.

From a long-standing recognition of the importance of controlling information technology risk, the Board of Directors has formulated risk control policies and updated them from time to time. These policies set out the means for detecting and understanding the scope of risks inherent in the system configuration and all aspects of its operation, from design and development through to administration and daily functioning. It also suggests how to respond to those risks and implement countermeasures.

Information Technology Risk Management Process Flowchart



We established the System Risk Management Planning Department to manage system risk throughout the entire Sakura Group and supervise the various information system departments in the organization. As part of our risk control procedures, we conduct regular internal audits using our own independent inspectors as well as periodic audits run by external accounting firms.

To evaluate risks, we use a checklist based on the security standards espoused by the Financial Supervisory Agency's (now the Financial Service Agency) financial auditing manual, the FISC and the FFIEC. This checklist is applied to each sub-system and the results are used to beef up security measures where required. As a further measure, we are also working on ways to reliably quantify information technology risk.

Since any failure of our computer systems can have a large negative impact on society, we have taken thorough measures to ensure their stable operation. As a precaution against large-scale disasters, we back up our main system center in the Kanto region with our system center in the Kansai region. Both are equipped with various disaster countermeasures and independent power sources, and all infrastructures are duplicated and supplied with redundant equipment and networks. We also conduct emergency training to ensure that staff is familiar with damage control procedures.

We were pleased to note that the Bank did not experience any problems arising from the year 2000 problem. Our computer systems, telecommunications equipment and building continued to operate without incident. We do recognize, however, that sources of system risk are becoming more diverse and pervasive as the IT revolution progresses, networks and the Internet are widely adopted and personal computers come into greater use. We will remain vigilant and continue to introduce fresh countermeasures as new technologies are introduced and used in new configurations.

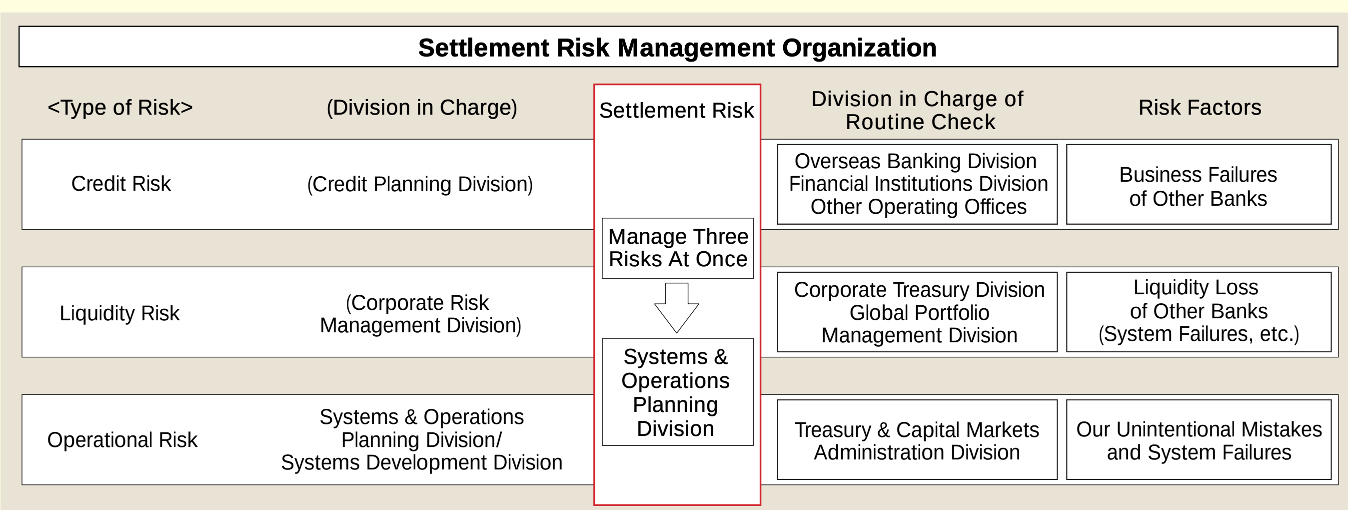
Settlement Risk

The risk that transactions with a participant in a settlement system (Bank of Japan Financial Network System (BOJ-NET), Zengin System, Bank Clearing System) or a customer (payroll transfers, overdrafts, correspondent account money market operations and others) do not clear as expected.

Settlement risk comprises (1) the risk that the Bank will incur losses because of the bankruptcy or failure of a party to a transaction or a member of the clearance system; (2) the risk that the inability of a party to a transaction or a member of the clearance system to clear funds will advance the requirements for funding (liquidity risk); and (3) the risk of losses originating from the Bank's own administration or information technology system (operational risk). Although settlement risk is derived from many types of risk, we believe that it is also essential to manage settlement risk as a unified set of risks incurred in the attempt to complete transactions. With this in mind, we created a centralized system for controlling the three types of risk mentioned above and defined the Systems and Operations Planning Division as a Settlement Risk Management Section.

Divisions in charge of managing credit, liquidity and operational risk (including information technology risk) set the policies and procedures for coping with settlement risk. The Systems and Operations Planning Division also monitors compliance with the policies and revises them from time to time.

Settlement operations are divided into two categories for the purposes of risk management: direct customer transactions and settlement system transactions. To manage and reduce risk arising from direct customer transactions, individual customers are evaluated for settlement risk, settlement limits are imposed upon them, and netting procedures are followed. To manage the risk involved with settlement systems, we follow the provisions contained in the settlement rules for each system, such as loss share rules and DVP, and work at managing and reducing losses in each individual system. The head office also periodically assesses settlement risk in terms of credit risk and liquidity risk, ensuring appropriate measures are in place to control any exposure incurred by the Bank.



We are strengthening our systems for corporate governance and compliance as part of our overall measures to maximize shareholder and corporate value. The corporate governance system monitors the Bank's activities from the perspectives of the shareholders and stakeholders, while the compliance system ensures conformity with laws and ethics.

Incentives to Perform—Fine-Tuning Corporate Governance

We are improving our corporate governance measures to make our decision-making processes more transparent, to render management more accountable and to place the institution on a sounder footing. In June 1999, we introduced a performance-based remuneration system and cut the number of board members from 45 to 13 to streamline decision making. In June 2000, the supervisory function of the Board of Directors was further strengthened by appointing two directors from outside the Bank.

According to the performance-based remuneration system introduced last year, executive pay and retirement bonuses have been linked to the Bank's results and fluctuate on an annual basis. Moreover, we have instituted a stock option system that only pays when the Bank's share price rises. These measures have created a stronger link among executive incentives, bank earnings and share value.

After the merger with Sumitomo, the Board of the new bank will have several subcommittees that will further improve corporate governance. A Human Resource Committee will judge the selection, dismissal and promotion of board members, a Compensation Committee will be charged with evaluating the achievements and salaries of board members and executive officers, and a Risk Management Committee will set risk management policy.

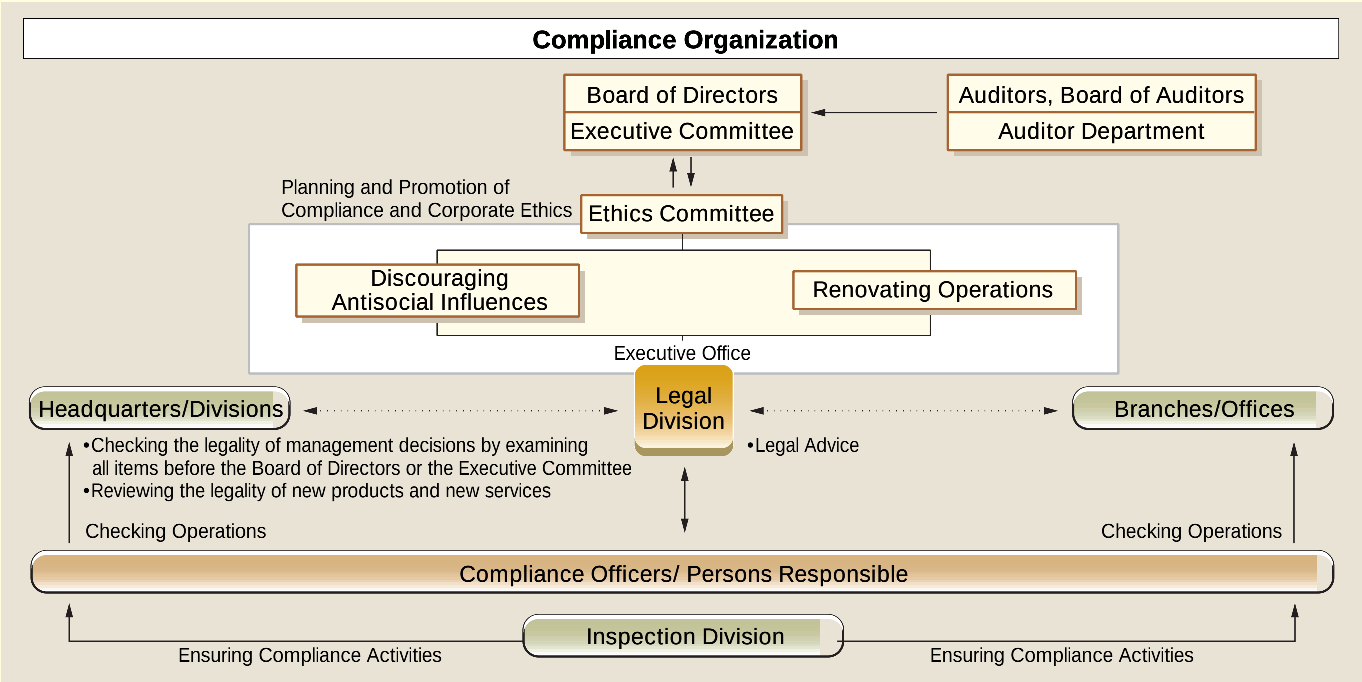
An Ethical Approach—Tightening Compliance

At Sakura Bank, we are taking a proactive stance toward compliance because we recognize that observing societal standards and laws contributes to the growth of our own business, raises the value of our services to customers and helps us create lasting value for our shareholders. It is also essential to maintain order and stability, the preconditions for a prosperous society.

In November 1996, we established the Ethics Committee, which is chaired by the director of the Compliance Group, to plan and design compliance measures. This committee reports to the Board of Directors, which bears the final decision-making authority. In December 1996, we produced a Code of Conduct, which sets out the principles of conduct by the Bank and standards of comportment for employees. This was followed in April 1999 by the Compliance Code, a detailed explanation of the laws and ordinances with which the Bank must comply, as well as the methods to cope with illegal behavior. Most recently, we issued a Compliance Manual in March 2000, which combines the contents of the above two precursors in one document. In April 1999, we launched a compliance program to instruct Bank employees in compliance issues, which was further revised in March 2000 based on our experience with its implementation and target achievement.

On an organizational level, the Legal Division, which functions as the administrative wing of the Ethics Committee, is charged with ensuring compliance with various laws, regulations and Bank policies. Its specific roles include checking management proposals prior to the Board of Directors and the Executive Committee, providing advice and guidelines to each Bank department and branch, reviewing the legality of new products from the customer's perspective, and supervising the creation of the Investment Compliance Manual for investment trust products. We have also designated a compliance officer in each major branch and individuals charged with oversight in each department, supported by the Legal Division.

To assure our risk management organization is effective, our Inspection Division is completely independent of operating divisions. It is responsible for inspecting each



operation for compliance. The Auditors and Board of Auditors, independent of the Board of Directors, maintain the autonomy of the auditing functions with the support of the Auditor Department. This allows them to audit operations with an appropriate emphasis on compliance. In addition, we have retained highly renowned external lawyers in each field to serve in advisory capacities with the aim of preventing and ensuring the early resolution of compliance issues.

In March 2000, we settled by agreement a dispute involving introductions of housing loans to the former housing loan companies in the civil conciliation proceedings, wherein we recognized that there would have been excessive financial practices during the "bubble economy" period and reaffirmed to retain our commitment of our current management policy to conduct our business recognizing our public responsibilities and role.

A Concentrated Focus—Reorganizing Audit Practices

In July 1999, the Financial Supervision Authority (now the Financial Service Agency) released the Financial Inspection Manual. In response, we completely revamped our inspection practices. Past inspections were uniform and inclusive across all head office and branch operations. With the new approach, we analyze the risks incurred by the target operation in advance so the main effort can be placed on high-risk fields. Moreover, we vary the frequency, duration and scope of the inspections according to the scale and business segment of the target department or branch, allowing for more effective audits. Instead of merely pointing out problems and inadequacies and suggesting remedies, an attempt is made to find the underlying causes of the issues and to seek fundamental resolutions.

Along with the change in procedures, we are placing greater emphasis on verifying internal processes to confirm their adequacy. The five-item verification checklist includes inspections of the control environment, the recognition and evaluation of risk, control procedures, information reporting and monitoring. While section managers are expected to understand the special characteristics of the risks involved in their own organization based on the principles of self-responsibility, a top-down check is conducted to ensure compliance procedures are appropriate for the organization, with special emphasis placed on the control environment. The object of the inspection is to verify the target organization's policies and conduct, organizational structure, personnel management, and compliance measures constitute an adequate control environment.

The inspection system can be divided into two main parts. One involves comprehensive inspections by the Inspection Division to check the various departments and branches for internal control systems and compliance with regulations, as well as spot checks of specific documents and key data. The other involves internal checks by each department and branch, consisting of monthly audits and special succession audits when branch managers are rotated on routine transfers.

The Inspection Division comprises a branch inspection group, an international inspection group, a head office & subsidiaries inspection group, a market risk inspection group, a systems inspection group and other specialized groups. In the United States, Americas Audit Department in New York is also charged with inspecting operations in North America.

Due Diligence—Asset Review and Inspection

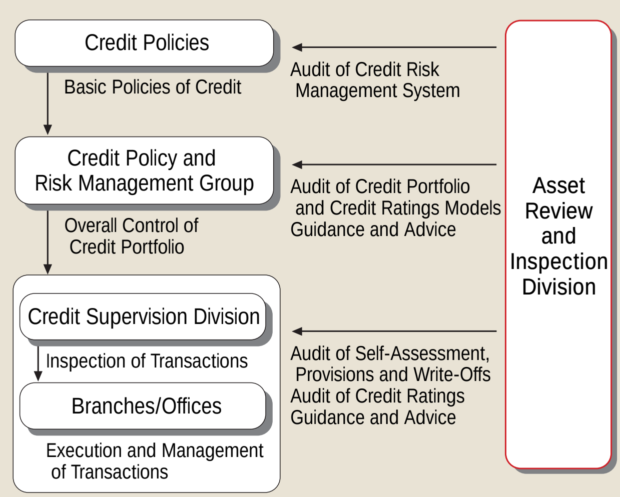
As a widely held incorporated entity, the Bank has a responsibility to increase shareholder value. On the other hand, the Bank also has a quasi-public role to provide a safe place for depositors to place their savings and to serve as a stable source of credit to help foster economic development. To fulfill this latter responsibility, financial institutions must set up adequate organizations to maintain sound financial conditions and operate in a highly transparent, prudent manner.

Sakura Bank was at the forefront of the domestic banking industry in April 1997 when it established an Asset Review and Inspection Division independent of the credit supervision and operating divisions to inspect assets for the attendant credit risks. The primary role of the Asset Review and Inspection Division is to test self-assessments and reserve allocations for appropriateness. Self-assessments are the process of classifying loans and other assets according to the degree of potential loss based on an early prevention system. The reserve allocations and write-offs are based on the self-assessments and are a means of making assets more sound.

In October 1999, we established a Credit Research Department within the Asset Review and Inspection Division to strengthen our credit auditing functions. In addition to augmenting our ability to check the appropriateness of borrower credit ratings, it provides us with the means to check the status of our credit portfolio and the credit rating models upon which the self-assessments are based. This has realized the best practice-credit monitoring system as required in the Financial Inspection Manual. It also audits credit policies, operating divisions, administrative procedures and other aspects of the credit risk management system. And it advises the operating divisions and affiliates how to improve credit risk management systems and asset portfolios as part of its audit feedback and follow-up procedures.

These are all part of a well-integrated set of checks and balances employed by the Bank to ensure its mission and objectives are attained in the most efficient and ethical manner.

Credit Policy Flowchart



Environmental Management

We continue to pledge our commitment to protecting the environment. Environmental activities not only lend to improving the trust society has in Sakura but also exhibits the Bank's dedication to being a good corporate citizen. Sakura has elected one of its directors to head the Bank's Environmental Committee and to carry out related policies.

In September 1998, we became the first bank to receive ISO 14001 certification. The Sakura EMS (environmental management system) guides the entire Bank's environmental activities through planning, implementation, evaluation and review stages to achieve set targets and to realize the continual improvement of environmental efforts. Under this system, the Bank urges all its employees to participate in creating a sustainable environment.

Recycling is another area in which the Bank is actively involved. During fiscal 1999, the Bank recycled 593 tons of paper, as well as 1,175 tons of other waste. A Business Process Re-engineering (BPR) program was also implemented to achieve a paperless work environment, through such measures as the use of e-mail to replace inter-bank memos. In addition, the Bank utilizes recycled paper for printers and copiers, and recyclable toner cartridges for computer printers.

In March 2000, in conjunction with Sakura Institute of Research, we held the "Sakura Environmental Seminar" to get our corporate clients involved in the fight to preserve the environment. During the seminar, clients who expressed interest in ISO-level certification were introduced to consultants in the field.

Philanthropic Activities

In another step toward being a good corporate citizen, we host a wide range of philanthropic activities. Through these activities, we are able to keep in close touch with the community. In Japan, these encompass a wide list of projects, including the establishment of ATMs that accommodate the blind and physically challenged, educational scholarships and funding for the arts. The Bank's employees and their families, for example, produced Braille books that were contributed to the Japan Braille Library. As of April 2000, we had donated a total of 644 Braille books and 3,089 tapes to the library.

In March 2000, the Sakura Fund made a donation to an organization in China to help reconstruct an elementary school.

During fiscal 1999, the Sakura Fund made donations to five organizations in four countries. The monies will be used to rebuild an elementary school in Thailand and purchase school supplies; reconstruct an elementary school demolished by flood in China; purchase computers for a public middle school in Malaysia; and aid operations at an orphanage in Indonesia. Bank employees raised the money with the Bank contributing an equal amount. The fund was first established in January 1998 with the aim of aiding children in Asia.

The Philanthropy News, a newsletter published by the Bank, informs employees of the wide range of volunteer activities available. For employees willing to donate their time and efforts, we provide a holiday program for volunteer work. We intend to promote the implementation of more volunteer activities and provide full-fledged support in a variety of areas.