REPORT ON STATUS OF PERFORMANCE OF THE “PLAN TOWARD SOUNDNESS OF MANAGEMENT”

(PURSUENT TO ARTICLE 5, FINANCIAL REVITALIZATION LAW)

JUNE, 1999

THE SAKURA BANK, LIMITED

CONTENTS

Summary of Management

1. Summary of Business Results of Term Ended March 31, 1999

(1) Assets and Liabilities

The bank’s total assets amounted to ¥47,208.7 billion, down ¥4,441.6 billion from the previous fiscal end. Loans & Bills Discounted decreased ¥2,792.5 billion due to the increase in collection of nonperforming loans, the change in accounting methods as well as the reduction of overseas assets, yen’s appreciation, etc. despite the increase in housing loans, etc. Loans to medium and small-sized companies increased ¥191.9 billion, based on net balance excluding special factors such as written-off of nonperforming loans, liquidation of loan claims, etc., approximately achieving the increase of ¥200.0 billion mentioned in the Plan toward Soundness of Management.
The balance of securities decreased ¥231.8 billion from the previous fiscal year end due to written-off of stocks, sell-offs of stocks held, etc. for about ¥100.0 billion.

Total liabilities amounted to ¥44,985.1 billion at the end of the year, down ¥5,367.1 billion from the previous fiscal year end due to the decease in assets. Deposits and negotiable certificates of deposit decreased ¥3,415.1 billion, major factors of which were the influence of yen’s appreciation and the decrease in overseas fund-raising due to the reduction in overseas assets. Domestic core deposits (*) increased ¥530.4 billion from the previous year end.
(Note) Domestic core deposits mean domestic yen deposits excluding a large amount of time deposits of ¥1.0 billion or over.

<Balance Sheet> (Billions of Yen)

	March31,1999 a	March31,1998 b	a-b
Total Asset	47,208.7	51,650.3	(4,441.6)
Loans & bills Discounted	32,291.2	35,083.7	(2,792.5)
Securities	6,217.5	6,449.3	(231.8)
Total Liabilities	44,985.1	50,352.2	(5,367.1)
Deposits	30,110.7	32,825.7	(2,715.0)
(Core Deposits)	24,078.9	23,548.5	530.4
Negociable CDs	2,854.9	3,555.0	(700.1)
Total Stockholders' Equity	2,223.5	1,298.1	925.4
Capital	1,042.7	599.4	443.3
Legal Reserve	1,017.6	568.1	449.5
Earned Surplus	114.2	130.5	(16.3)

<2nd-half FY1998> (excluding special factors)

<Billions of Yen>

	Result	the Plan	Comparison
Total Domestic Loans	(147.0)	100.0	(247.0)
(Medeum/Small- sized Companies)	191.9	200.0	(8.1)

(2) Status of Profits (Losses)

Gross Operating Profit

Gross Operating Profit amounted to ¥699.1 billion, decreased ¥31.2 billion from the previous fiscal year. This was mainly caused by the decrease for ¥43 billion due to overseas asset reductions, etc. in international business despite the increase for ¥11.8 billion due to improved deposit/loan spreads, the increase in bonds-related profits, etc. in domestic business. Also, Gross Operating Profit increased ¥9.2 billion compared with the Plan toward Soundness of Management due to the decrease in losses on sales of overseas assets, etc. mentioned in the Plan. As for the improvement of profit margins which is one of major policy measures to increase Gross Operating Profit in the Plan, the bank improved 10 bps in FY 1998, and thereby we achieved 33% of the Plan to improve 30 bps by the end of FY 2002.

Expenses

As for Expenses, although Personnel Expenses amounted to ¥178.1 billion, down ¥17.6 billion from the previous fiscal year due to the reduction in employees and the review of bonus levels, Nonpersonnel Expenses amounted to ¥223.0 billion, increased by ¥18.6 billion from the previous fiscal year due to the increase in systems-related investments and the increase in rents accompanied by sales of real estate. Taxes decreased ¥11.0 billion from the previous fiscal year due to the decrease in Securities Transaction Taxes, etc. and thereby total expenses amounted to ¥425.0 billion, down ¥9.9 billion from the previous fiscal year.

Compared with the Plan toward Soundness of Management, total expenses decreased ¥6.6 billion from the Plan for both Personnel and Nonpersonnel Expenses due primarily to yen's appreciation.

Net Operating Profit

As a result, Net Operating Profit before the provision of a general reserve for possible loan losses for the fiscal year 1998 amounted to ¥274.1 billion, down ¥21.3 billion from the previous fiscal year. For your reference, since the bank provided a general reserve for possible loan losses for ¥101.1 billion, increased by ¥99.4 billion from the previous fiscal year, Net Operating Profit after the general reserve amounted to ¥172.9 billion, down ¥120.8 billion from the previous fiscal year. Compared with the Plan toward Soundness of Management, Net Operating Profit increased by ¥15.8 billion before a general reserve and by ¥13.5 billion after the general reserve, for both of which the bank dramatically achieved the Plan.

Disposal of Nonperforming Loans/Stock-related Profit/Loss

For the purpose of enhancing soundness of assets, the bank disposed nonperforming assets in the total amount of ¥1,023.5 billion including reserve, etc. which enable us to respond to the impacts by the economic slowdown.

The disposal was composed of written-off/reserve, etc. based on self assessment for ¥647.1 billion, supporting losses for the purpose of strengthening the financial power of related companies for ¥331.9 billion and losses on sales of claims, etc. for ¥44.4 billion. The disposed amount for ¥1,023.5 billion increased by ¥29.3 billion compared with the Plan, which was primarily caused by the addition of supporting losses to strengthen the financial power of related non-banks. Stock-related profit amounted to ¥12.5 billion, decreased by ¥520.5 billion from the previous fiscal year, which was roughly the same level as the Plan. Stock-related profit/loss were composed of written-off for ¥97.4 billion, loss on sales for ¥40.9 billion and profit on sales for ¥150.9 billion. For your reference, latent loss of listed securities was ¥156.0 billion at the end of

March, 1999.

Operating Profit (Loss)/Net Income (Loss)

As a result, the bank recorded Operating Loss for ¥754.1 billion for the fiscal year 1998 and Net Loss for ¥375.3 billion for the same year after adjusting extraordinary profit on sales of real estate for ¥105.4 billion, income taxes, etc. for ¥273.3 billion.

Since the bank planned Net Loss for ¥372.6 billion for fiscal year 1998 in the Plan toward Soundness of Management, it could approximately secure its level as planned.

(Billions of yen)

	FY1998	Cnage From FY1997	Conparison with the Plan
Gross Operating Profit	699.1	(31.2)	9.2
Domestic	627.2	11.8	(0.4)
International	71.9	(43.0)	9.6
Expenses	425.0	(9.9)	(6.6)
Personnel	178.1	(17.6)	(1.8)
Non Personell	223.0	18.6	(4.0)
Taxes	23.8	(11.0)	(0.9)
Reserves for Possible Loan Losses(A)	101.1	99.4	2.2
Net Operating Profit	172.9	(120.8)	13.5
Before(A)	274.1	(21.3)	15.8
Loan Losses	1,023.5	(157.5)	29.3
Specific Reserves and Direct Written off etc.	647.1	33.3	(21.0)
Losses on Financial Assistance to Suppoeted Companies	331.9	26.2	43.9
Losses Sales of Loans to CCPC	44.4	(217.0)	6.3
Gains on Stocks and other Securities	12.5	(520.5)	(0.6)
Written-off for stocks	97.4	87.2	21.4
Operating Profit/(Loss)	(754.1)	(336.9)	(22.3)
Extraordinary profit/(loss)	105.4	(196.6)	5.4
Taxes	(273.3)	(378.6)	(14.1)
Net Income/(Loss)	(375.3)	(154.8)	(2.7)

(3) Capital Adequacy Ratio

Capital Adequacy Ratio at the end of March, 1999 was 12.33%, increased by 3.21% from the previous fiscal year end. It increased 0.19% compared with the Plan.

For your reference, actual Capital Adequacy Ratio after deducting stock-related latent losses from Tier 1 was 11.87% well over 11.0%.

<Capital Adequacy Ratio> (Billions of Yen, %)

	March31,1999	Change From March31,1998	Conparison with the Plan	Actual Capital Adequacy Ratio
Tier1	2,395.8	684.5	31.3	2,239.8
(Tier1 Ratio)	(7.17)	(2.61)	(0.22)	(6.70)
Tier2	1,724.7	(61.1)	(40.9)	1,724.7
Total Capital	4,120.6	697.9	(9.5)	3,964.5
Risk-Adjusted Assets	33,399.2	(4,101.5)	(600.8)	33,399.2
Capital Ratio	12.33	3.21	0.19	11.87

(Note) Actual Capital Ratio was calculated by deducting securities-related latent losses for ¥156.0 billion at the end of March, 1999 from Tier 1.

2. Summary of Status of Performance of the Plan toward Soundness of Management

(1) Status of Developments of Business Restructuring, etc.

A. Business Areas with Overriding Priority

(a) The status of developments of business items with overriding priority mentioned at the time of making an application is as follows:

-As for “private banking business”, we are currently considering new concrete measures, including tie-ups with leading specific enterprises (other industries) which have a broad range of customer base, for the purpose of enclosing wealthy customers.

-As for “asset management business”, we are currently considering the development of new products/construction of the system to respond to needs for fixed rate money management related to retirement allowance.

-As for “individual loan business”, we are currently developing a new product which will combine an ordinary deposit with a small-sized unsecured loan, aiming at introducing it in the first-half of FY 2000.

-As for “mass corporate business”, we are currently developing structured business loans based on new concepts.

-As for “core large corporation business”, we are currently considering to establish a new system for the purpose of setting up satisfactory and full-scaled management consulting functions to solve complex management issues.

(b) Developments of Consumer Banking Business

In the personal business market, we are currently promoting “settlement business” centering on settlement service for “general mass individuals”. Taking a chance for these several years, when the network society for the 21st century will be established, we aim at constructing a new network system and developing new products as its contents, thereby resolving the current deficit structure with network costs and fostering “consumer business” as one of profit pillars.

As for future network system, we consider to set up a combination of a large-scaled real network and various kinds of cyber-channels. A large-scaled real network will be composed of 1000-2000 own branches and ATM network and secure convenience related to physical delivery and face-to-face consulting business. Various kinds of cyber-channels will be infrastructure to promptly offer a broad range of services available “any time, any place and low-cost”. For this purpose, we will construct a large-scaled network linkage combining Sakura Bank with many consumers, utilizing cyber-network such as PCs, cellular phones which will become social infrastructure in 21st century and will directly be combined with consumers.

As for the construction of real channel/ network, we are currently constructing CVS-branch network (our own branches) through a tie-up with am/pm Japan Co Ltd., a large convenience store chain and installing ATMs within the convenience stores. We plan to gradually install new-type ATMs starting from September, increase them to 500 branches centering in Metropolitan area during FY 1999 and expand them to 1000 branches in both Metropolitan and Kansai areas during FY 2000. Therefore, we expect to have a large scale network with about 2000 branches together with branch/ATM network after channel reforms, for which we are promoting reconstruction of the existing branch network.

As for the construction of cyber-channel network, first of all, it is an important subject for us to increase the number of “direct links with customers on the net” (currently about 12,000, top class in city banks) by making browser banking contracts, which are highly correlated with becoming a main bank of individual customers. In order to increase the number of “i mode” contracts on the financial service which NTT DoCoMo offers through multi-functioned cellular phones, we are currently promoting a campaign to present cash rebate to contracted customers, by tying up with NTT DoCoMo and providing Sakura Bank forms of “i mode contract” in 1000 DoCoMo shops, etc.

B. Measures to Strengthen Business Base

As for “organizational system” and “channel reforms and strategies for computerization”, we have developed them as scheduled. As for “strengthening business expanding ability through tie-ups, etc., we currently continue to examine tie-ups with domestic/overseas leading financial institutions in the areas of “investment banking business” and “investment trust/asset management business”.

As for “Measures to Strengthen Business Base”, newly determined items are as follows;

-As for “Reforms into Advanced Personnel System based on Global Standard”, we have determined to introduce a new personnel system based on performance in July and we are currently considering its concrete operating details.

-As for the “director system”, after” the General Ordinary Meeting of Shareholders, we reduced the number of directors from current 45 to 13, thereby further strengthening real discussions and management overseeing functions in the future Directors Meetings as well as to introduce the executive officer system from the viewpoint of preparing business executing functions, thereby enhancing speed/mobility of business execution. Total number of directors and executive officers will be 39.

On the other hand, as for the “directors remuneration system”, we plan to introduce a director remuneration system based on performance, including stock options, in July, thereby aiming at strengthening business competitiveness in term of remuneration.

(2) Status of Developments for Rationalization of Management

In order to promote rationalization/efficiency of management, it is indispensable to place the emphasis on priority areas through “Selectivity and Concentration” and to firmly build a strong management base. The developments were mentioned in

(1) Status of Developments of Business Restructuring, and, in order to strengthen profitability, it is required to perform a large scale of restructuring as well as to increase Gross Operating Profit to be mentioned later. Therefore, we are currently performing them according to the Plan toward Soundness of Management.

Results for FY1998 of restructuring plan showed that the reduction of directors/ employees, the reduction of the number of domestic/overseas offices, etc. were satisfactorily advanced almost as scheduled. Expenses decreased ¥6.6 billion from the level of the Plan (Personnel:¥1.8 billion, Nonpersonnel: ¥4.0

billion), which showed that measures for reductions have steadily taken effect.

(a) Number of Directors/Employees

The number of employees is planned to reduce by 4,200 to 13,200 for 5 years by the end of FY 2002 through promotion of domestic channel reform/office integration and restructuring in overseas. The number of employees at the end of FY 1998 was 16,330, decreased by 1,090 from FY 1997, which was 370 more increase than that in the Plan. Also, we have already expanded the New Career Selection Support System (a support system for changing jobs) so as to accelerate the reduction of employees.

The number of directors/auditors at the end of FY 1998 was reduced as per the Plan. For reviewing the director system (executive officer system, etc.), we have mentioned earlier.

(b) Number of Domestic Offices/Overseas Offices

As for domestic offices, we are promoting rationalization/integration of inefficient offices and, at the same time, promoting shifts to the next generation-typed channels, such as concentrations of marketing power and operations applicable to plural offices, by thoroughly reviewing the past managing system for offices. The number of domestic manned offices including subbranches, etc. at the end of FY 1998 was 469, decreased by 24 from the end of FY 1997.

Also, we plan that overseas offices are specialized in transactions for Japanese-related companies and that the number of overseas offices will be de facto14 offices at the end of FY 2002, composing of 5 core offices and other satellite offices with special functions. At the end of FY 1998, the number of overseas offices decreased by 8 from the end of FY 1997.

Accordingly, the number of both domestic and overseas offices decreased as planned.

(c) Reduction of Personnel Expenses

Personnel Expenses for FY 1998 amounted to ¥178.1 billion, decreased by ¥17.6 billion from the end of FY 1997 owing to the reduction of employees through channel reforms, overseas restructuring, etc. and the review of bonus levels (about 30% reduction in and after the second-half of FY 1998). Also, in order to raise the efficiency of personnel expenses through enhancing competitiveness and vitality of human resources, we will introduce a new personnel system with emphasis on performance in July, 1999.

(3) Status of Developments of the Disposal of Nonperforming Loans

(a) The Disposal of Nonperforming Loans

In accordance with “voluntary and positive written-off/reserve policy based on undertaking of stocks, etc. by public funds” in the Plan toward Soundness of Management, we disposed nonperforming loans in the total amount of ¥1,023.5 billion. The total amount is composed of written-off/reserve, etc. based on self assessment for ¥647.1 billion, losses on financial assistance to supported companies for ¥331.9 billion and losses on sales of loans, etc. For ¥44.4 billion. The disposed amount of nonperforming loans for ¥1,023.5 billion increased by ¥29.3 billion compared with the Plan. This was caused primarily by the increase in supporting losses to further strengthen financial powers of related non-banks. Also, on the basis of adding partial direct written-off which was allowed for liquidation, direct written-off and forgiving of claims from FY 1998 to the above, we disposed a total principal amount of about ¥1,330.0 billion.

<Disposed Amount of Nonperforming Loans>

(Billions of Yen)

	March31,1999	The Plan	Comparison
Loan Losses	1,023.5	994.2	29.3
Special Reserves and Direct Written Off	647.1	668.1	(21.0)
Losses on Financial Assistance to Supported Companies	331.9	288.0	43.9
Losses on Sales of Loans to CCPC	44.4	38.1	6.3

(b) Soundness of Financial Base

Disclosed amounts based on Article 3, Section 2 of the “Financial Revitalization Law , are as follows; Bankruptcy etc.: ¥390.2 billion, In Danger of Bankruptcy: ¥809.2 billion, Special Attention: ¥600.6 billion and total amount is ¥1,800.0 billion. Since the coverage ratio, which is calculated by dividing Reserve for Possible Loan Losses and collateral, etc. by nonperforming loans, was 73%, our soundness of financial base was considerably secured. The disclosed total amount decreased ¥230 billion due primarily to the increase in direct written-off of Classification IV, the increase in recovery and the decrease in loans to related non-banks accompanying with the increase in forgiving of claims.

<Standard under Financial Rivitarization Law Article 3, Section 2>

(Billions of Yen)

		March 31,1999	The Plan	Conparison
Bankruptcy etc.		390.2	390.0	0.2
In danger of Bankruptcy		809.2	910.0	(100.8)
Special Attention		600.6	730.0	(129.4)
	Affiliated Non Banks	318.0	430.0	(112.0)
Total		1,800.0	2,030.0	(230.0)
Secured Ratio		73%	72%	1%

(4) Status of Developments for Loans t Domestic Customers

In the Plan toward Soundness of Management, we planned to increase actual Gross Operating Profit excluding government bond-related profit/loss, etc. by ¥100.8 billion in FY 2002. Major policies for this plan are the improvement of profit/ loss for domestic loans primarily through securing loan margins fit for credit costs, the increase in profits through boosting loans to medium/small-sized companies and individuals. The status of developments of domestic loans in FY 1998 is as follows;

(a) Improvement of Profit/Loss for Domestic Loans/Expansion of Loans to Medium/ Small-sized Companies

We planned to improve average loan margin to domestic companies by 30 bps by FY 2002 compared with that of FY 1997 and we have achieved the improvement by 10 bps in FY 1998. We judge that the results of interest rate management based on our loan rate guideline by internal credit rating have successfully been realized.

Also, we planned to increase our net loan balance to medium/small sized companies, excluding special factors such as written-off of nonperforming loans, by ¥200 billion in the second-half of FY 1998 so as to smoothly supply credit. We have approximately achieved the plan by increasing such loans by ¥191.9 billion through dramatically increasing loans guaranteed by guarantee companies, positively utilizing the guarantee limit expanded in October, 1998.

<Loans to Medium/ Small-Sized Companies at the end of March, 1999 (Excluding Special Factors)>

(Billions of Yen)

	Result	Comparison with the Plan	Change from March31,1998
Loans including Impact Loans	15,016.2	(8.1)	191.9
Loans excluding Impact Loans	14,521.5	(8.4)	271.6

<Loans guaranteed by Guarantee Companies>

(Billions of Yen)

	Result	Comparison with the Plan	Change from March31,1998
Loans guaranteed by Guarantee Companies	2,000.5	165.2	525.2

(b) Boosting Individuals Loans

Average individual loan balance for FY 1998 increased by about ¥400 billion from that for FY 1997, for which we have approximately achieved our target in the Plan. On the other hand, although net loan balance to individuals excluding special factors at the end of March, 1999 increased by ¥338.9 billion from the previous year, it decreased by ¥224.7 billion from the Plan due primarily to the decrease in replacing loans caused by interest rate rises from the beginning of this year and the decrease in loan margins caused by expanded loan limit by the Housing Loan Corporation, etc. However, our bank’s share in the housing loan market at the end of March, 1999 is supposed to be about 10%, up about 0.2% from the end of March, 1998. Therefore, we have successfully started our plan, where we aim at increasing the above-mentioned share by 1.0%.

As for individual loans, one of pillars for boosting our profits, we plan to further promote preparing infrastructure such as “Sakura LA” , specialized consulting windows for loan advisory business, expansion of housing loan centers, where we also cooperate with real estate companies. Also, we plan to promote prompt examination of loan applications through expanding our automatic examination system, etc. thereby positively responding to borrowing needs of individuals and do our utmost to steadily expand our share in the market.

<Bank’s Share in Housing Loan Market> (Billions of Yen)

	March 31,1998	March31, 1999	Changes(Growth Rate)
Total Domestic Bank’s Balance	58,091.9	61,752.0	3,660.1(6.3%)
Sakura Bank’ Balance	5,679.9	6,173.1	496.2(8.7%)
Sakura Bank’ Share	9.77%	10.00%	+0.23%

(Note) Based on the Monthly Economic Statistics issued by the BOJ’s Research & Statistics Dept. Domestic banks’ figures at the end of March, 1999 are estimated by adding net increase amount in the same term of the previous year to the balance at the end of December, 1998.

(5) Status of Development for Other Items Included in the Plan toward Soundness of Management

A. Streamlining of Subsidiaries and Affiliates

As for Nonbank Affiliates, we planned to reorganize them in order to positively make the most of their functions as part of our retail banking strategy, financially supporting their reconstruction in fiscal 1998. As a result, Sakura Mortgage Co., Ltd. has specialized in sales and operations of mortgage securities, withdrawing from loan business. Also, Mitsui Finance Service Co., Ltd. and Sakura Finance Service Co., Ltd. have specialized in collecting agent and factoring, withdrawing from loan business. Create Finance Co., Ltd. has specialized in leasing, withdrawing from loan business and will merge with KCS Leasing Co., Ltd. on July 1, 1999 to reorganize and integrate leasing business related to the Bank. At the same time, leasing business of Yoyu Inc. will be transferred to the new company.

In order to promote the collection of non-performing loans by concentrating and strengthening the function to collect the Bank’s and Nonbank Affiliates’ non-performing loans, we established Sakura Servicing Co., Ltd. on March 11, 1999.
It will start its operation in July as initially planned.

In order to boost the streamlining and efficiency of concentrated operation field, we integrated three operation-related companies, Sakura Operation Service Co., Ltd., Sakura Area Service Co., Ltd. and Sakura Center Service Co., Ltd. into one company, Sakura Center Service Co., Ltd. on April 11, 1999.

As for personnel matters of our subsidiaries and affiliates, we have already reduced directors’ remuneration and employees’ bonuses as one of their common restructuring measures in the same manner as the Bank's personnel systems. In addition, we have newly established the New Career Selection Support System, a supporting system for a change of job intended for their employees above a certain age. We are also promoting the revision of personnel systems, such as a reduction in the longest employment period, etc. as the entire Sakura Bank group.

B. Capital Policy

In December, 1998, we issued common stocks and our overseas wholly-owned subsidiary's preferred stocks totaling to ¥350.0 billion, which were subscribed by our major shareholders, Mitsui Group companies, etc. In March, 1999, we issued our overseas wholly-owned subsidiary's preferred stocks totaling to ¥25.0 billion, which were subscribed by some companies, since their decisions were not in time for the previous issuance.

As for the Term-end Dividend in fiscal 1998, 3.00 yen per share (reduced from ¥4.25 per share in fiscal 1997) was approved at the Ordinary General Meeting of Shareholders. An annual dividend for fiscal 1999 is planned to be 6.00 yen per share.

C. Risk Management

As for Credit Risk Management, we have established the basic credit policy which have systematized the basic idea and way of thinking about credit, credit management systems, etc. We will raise the level by making the staff deeply understand Credit Risk Management.

As for Market Risk and Liquidity Risk, we have effectively reduced sub-committees and members of the ALM Committee under the recognition that it has been more important to discuss and judge them focusing on market situations in order not to be behind the speed of the change in market environments.

As for Compliance, the Board of the Directors approved the Compliance Program through discussions at the Executive Committee as well as the Compliance Committee. We distributed Compliance Manuals to all the branches in order to have all the employees be well informed. We will appoint a person in charge of compliance in both divisions in Headquarters and domestic branches in July to improve the compliance system.

As for Operational Risk and System Risk, we have also taken appropriate measures.
In addition, we will establish a security policy toward the maintenance and management of such risk, recognizing information as one of important management resources.