REPORT ON THE STATUS OF PERFORMANCE OF THE "PLAN TOWARD SOUNDNESS OF MANAGEMENT"

(PURSUANT TO ARTICLE 5, THE LAW RELATED TO EMERGENCY MEASURES FOR EARLY SOUNDNESS OF FINANCIAL INSTITUTIONS)

JANUARY, 2000

THE SAKURA BANK, LIMITED

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Outline of Management

1. Outline of Business Results of First-half Term Ended in September, 1999

For business results of the first-half term ended in September, 1999, the Bank's measures for increasing Gross Operating Profit included in the "Plan toward Soundness of Management" (hereinafter, referred to as "the Plan") have resulted in a dramatic increase in its Core Net Operating Profit (Note) by ¥40.4 billion from the same period of the previous year, with Ordinary Profit and Net Income exceeding the levels of the original forecast. On the other hand, since the advancement ratios of profits against the Plan for FY1999 was about 50% for Net Operating Profit, Ordinary Profit and Net Income, the Bank considers that it has secured their respective levels to satisfactorily achieve the Plan for FY 1999.

(Note) Core Net Operating Profit = Net Operating Profit before General reserve for Possible Loan Losses excluding Gains/Losses on Bonds.

(1) Status of Profits and Losses

①Gross Operating Profit

Gross Operating Profit decreased ¥4.9 billion to ¥362.8 billion from the same period of the previous year due primarily to the decrease in bonds-related profit by ¥30.7 billion. However, Core Gross Operating Profit, excluding bond-related profits/losses, increased by ¥25.7 billion. This increase was caused primarily by the increase in domestic gross operating profit by ¥41.9 billion owing to improvements of loan spreads, despite the decrease in international gross operating profit by ¥16.2 due to the increase in foreign currency-based assets.

As for the improvements in loan spreads and the increase in individual loans, which are major policy measures to reinforce its profitability in the Plan, domestic loan spreads improved by 23 bps in the first-half term from FY 1997, which already advanced 77% against the plan to improve 30 bps by the end of FY 2002. Its housing loan balance increased ¥259.4 billion to ¥6,432.5 billion, which demonstrated the lead it enjoys in this segment among Japanese banks for the balance and amount of increase.

② Expenses

As for Expenses, personnel expenses decreased ¥ 11.3 billion to ¥83.0 billion from the same period of the previous year due primarily to the reduction in the number of employees and the reduction in bonuses, and non-personnel expenses decreased 2.1 billion to ¥110.0 billion, and taxes decreased ¥1.1 billion to ¥ 10.6 billion.

Total expenses decreased ¥ 14.7 billion to ¥203.7 billion from the same period of the previous year.

③Net Operating Profit

Net Operating Profit before provision for possible loan loss reserve for the half-year term ended in September, 1999 was ¥159.0 billion, increased by ¥ 9.7 billion from the same period of the previous year. Since ¥5.0 billion was transferred from General Reserve for Possible Loan Loss, ¥ 11.0 billion decrease from the same period of the previous year, Net Operating Profit after general reserve increased ¥20.7 billion to ¥ 164.0 billion. Also, Core Net Operating Profit, before deducting general reserve and bonds-related profits/(losses), increased ¥40.4 billion.

The Bank plans to make Net Operating Profit for ¥ 309.5 billion in FY 1999, and as it already secured 53% against the plan, the Bank consider that it will be able to successfully achieve the Plan in this fiscal year.

④Disposal of Non-performing Loans and Profits/Losses related to Stocks, etc.

The Bank disposed of a total of ¥72.2 billion in non-performing loans in accordance with its self-imposed and aggressive plans, outlined in the “Plan toward Soundness of Management”, to write-off non-performing loans and build-up reserves to cover loans which may go bad in the future. The total figure consisted of ¥56.4 billion in write-offs and reserve build-up based on self-assessment and ¥15.7 billion for such items as the sale of liabilities. Initial plans called for the disposal of ¥100 billion in non-performing loans. The reason that the actual figure fell below projections was because of additional sale of non-performing debt in order to avoid future risk of future devaluation of collateral and increased write-off and reserve build-up due to deteriorating business performance on the part of Sakura’s individual clients.

Profits related to stocks, etc. decreased ¥43.9 billion to ¥1.8 billion from the same period of the previous year. Its breakdown was write-off for ¥15.1billion, sales profit for ¥21.2 billion and sales loss for ¥4.2 billion. Profits/losses related to stocks have dramatically improved thanks to the improved stock prices against ▲¥50.0 billion for FY 1999 in the Plan. Unrealized profit/loss on securities at the end of September 1999 improved by ¥439.5 billion from the end of March 1999 and the Bank has secured unrealized profit for ¥319.4 billion.

⑤Ordinary Profit/Net Income

Ordinary Profit in the first-half year ended in September 1999 was ¥57.4 billion, and, after adjusting extraordinary loss for ▲ ¥3.1 billion and income taxes, etc. for ¥21.1 billion, Net Income in the mid-term was ¥33.0 billion.

The Bank's estimated Net Income for FY 1999 in the Plan were ¥75.7 billion and it can be said that it ensured the level nearly as much as planned.

(2) Capital Ratio

The Bank's capital ratio at the end of September 1999 was 12.43%, which exceeded 12.25% that it planned for the end of March 2000 in the Plan.

Compared with those at the end of March 1999, although Tier 1 increased owing to positive net income, Tier 2 decreased due to the impact of the yen's appreciation on foreign currency-based subordinated debts. Despite the above-mentioned decrease in capital by ¥10.5 billion from the end of the previous term, its capital ratio increased 0.1% owing to the decrease in risk assets for ¥349.7 billion caused by the yen's appreciation, etc.

(3) Consolidated Financial Results

The Bank adopted the scope of consolidated companies based on the concept of control and influence, also taking into account factors other than superficial stock-holdings from the term ended March 1999.

Consolidated subsidiaries decreased by 3 from the end of the previous term to 50, and subsidiaries and affiliates accounted for equity method decreased by 1 to 38 at the end of September 1999. All of such decreases were caused by consolidations for the purpose of rationalization.

Consolidated Operating Income was ¥911.8 billion and Consolidated Operating Expenses were ¥837.7 billion at the end of September 1999, and as a result, Consolidated Ordinary Profit was ¥74.0 billion. Consolidated Net Income was ¥40.8 billion after adjusting extraordinary profit/loss, corporate taxes, etc. and minority interests- related profit. Ordinary profits by region are as follows:

Japan: ¥52.6 billion, Americas: ¥8.1 billion, Europe: ¥3.9 billion,
Asia-Oceania: ¥9.6 billion

As for Consolidated Cash Flows, those from operating activities, such as funds Placement / raising and loans/deposits, etc., were ¥444.4 billion, those from investing activities, such as acquisitions/sales of securities and real estate, etc., were ▲¥379.4 billion and those from financing activities, such as subordinated debts, etc. were ¥31.2 billion. Cash and cash equivalents (deposits with the BOJ, etc.) at the end of September 1999 were ¥1,003.9 billion.

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

(1) Integration/ Strategic Alliance with the Sumitomo Bank

On October 14, the Bank announced that it has reached a basic agreement with the Sumitomo Bank to form a strategic alliance premised on a full integration in the future by April 2002.
As the globalization of economies and financial markets accelerate, and the progress of Japan's Big Bang reform continues, the competitive environment for Japanese banks has intensified. Additionally, the advances in information technology have had a significant impact on the banking industry. In order to take full advantage of the advances in technology and to answer the changing needs of our customers, it is essential that we continue to exploit the fruits of information technology.
The alliance calls for the combination of both banks' large customer base and their strong financial-services capabilities. By enhancing the composite expertise and areas of strength of both banks, the combination will heighten competitiveness and reinforce the ability to provide high value added services and products to our clients. This in return will maximize value for our shareholders.
Furthermore, we will join forces with our close corporate customers who have expertise in the areas of information technology, networks, and contents to become a leading financial services complex with the cutting edge capabilities to serve our customers in the coming information society.

Action Plan for the initial phase of the strategic alliance was announced on December 8, 1999 as follows:

① Moving towards full integration

- Policies for Integration of transaction processing system, Channel systems and management information system etc.
- The first Interchange of personnel from December 1999 through February 2000
- Mutual access to in-hour e-mail networks between two banks around the end of February 2000.

② Development of various business tie-ups

- Elimination of counterparty handling charges for ATM withdrawals as of January 17, 2000.
- Sumitomo's equity participation in the Internet/Online Specialized Bank and the Consumer Loan Company
- Sakura's equity participation in DLJ*direct* SFG Securities Inc.

In addition, two banks will engage in cross-holding of issued shares during FY 1999.

Also, both banks will achieve the following targets of management at respective responsibility.

① Acceleration of Restructuring Efforts

Aim at completing restructuring plan as stated in the Plan by March 2002, one year ahead of schedule.

②Resolution of Problem Assets

Both banks are committed to the final resolution of asset quality problems by March 2002, taking into account the potential increase in credit costs due to declining property values and further corporate restructuring. The annual credit costs target after the merger will be within JPY200 billion.

③Sales of Cross-Holding Shares

Both banks will decrease the balance of cross-holding shares with customers as much as possible, basically with customers' approval.

④Soundness of Financial Condition

Both banks will aim to generate strong retained earnings and improve credit ratings before full integration. Also, as for the gross operating profits, both banks will make every effort to meet their respective goals for their domestic retail and wholesale businesses well ahead of schedule by virtue of the strategic alliance.

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After the integration, the Bank will execute additional restructuring by scrapping & building branches, and streamlining head office function. We will reduce head count by approximately 3,000 in addition to the original restructuring plan

The New Bank's name, place of the head office, merger ratio etc. will be determined in the future, based on the principles of the basic agreement.

"Integration Strategy Committee," co-headed by the presidents of both banks, was established to implement the overall business alliances and ultimate integration. 14 Sub-committees focusing on various specific subjects, including information systems, operation process, retail business and wholesale business were also established under the "Integration Strategy Committee."

(2) Status of Advancement of Business Restructuring

A. Priority Business Area

a. *The status of advancement of priority business areas prepared at the time of the Bank's application for the public funds:*

-As for "private Banking Business", the Bank is currently studying new concrete measures for the purpose of enclosing wealthy clientele, including tie-ups with leading specific companies (in the different industry), which have a broad range of customer base. In organizational reforms on October 1, 1999, the Bank upgraded

Branch Banking Div. in Branch Banking Planning Div. into an independent division which primarily handles push (proposal) type business for wealthy individuals, owners of small/medium-size companies, etc. within the Branch Banking Group in Commercial Banking DC.
The Bank constructed a system with a large stock FAs (financial advisors) and private bankers, who belong to Private Banking Div., which handles wealthy clientele, based on the network of 1,000 FPs (financial planners) in all branches.

-As for “Asset Management Business”, the Bank ranked No. 2 among city banks for the sales of investment trusts with the balance of ￥222.2 billion at the end of September 1999. The Bank has established a system which enables it to develop / promote investment products to meet the features of the markets of not only wealthy clientele, a major target, but also mass retail clientele. The Bank has established Investment Products Business Div. in Commercial Banking DC for the purpose of developing/ promoting the above-mentioned products. It is also trying to construct a marketing system to respond to needs of fixed-rate type asset management for retirement allowances.

-As for “Mass Corporate Business”, the Bank started a new type unsecured business loan, “Sakura Business Loan” in October where the Bank can perform a prompt credit examination based on the concept of credit ratings. It is also considering establishing a system, which enables it to further strengthen products and to make marketing, and thereby providing a broad range of customers with low cost/advanced services. It is also examining to establish concrete plans for utilizing networks, etc., including tie-ups with different industries.

-As for ‘”Core Large Corporate Banking Business”, the Bank established International & Corporate Banking DC in October 1999, which is responsible for both big businesses and overseas business in the same division-company, so that it may primarily respond to solution-type business to solve customer’s compound management subjects.
The division-company is currently strengthening compound proposal activities from settlement services to treasury issues, business promotion, etc. It’s also promoting Partnership Banking to further enhance Relationship Banking in the past and to construct relations to jointly implement business in areas, where synergy effects can be expected between customers’ original business and banking business. The bank will positively promote alliances with different industries.

b. *Developments of Consumer Business*

The Bank aims at firmly establishing Consumer Business for mass consumers as its another core business together with Commercial Banking business, which has been its core business base from the past. It aims at constructing new networks in both real and virtual areas, enabling a broader range of customers to enjoy Sakura Bank's services with dramatically low costs, i.e. , "Any time, any where and best price", taking a chance of the start of the network society toward the 21st century. The Bank aims at linking those real and virtual networks directly with mass consumers.

As for Real Network channels, the Bank plans to expand cash delivery points, which can be recognized as "Sakura Bank" to the scale of 1,000 offices, in addition to currently existing about 1,000 offices composed of branches, subbranches and non-staffed offices. As for Virtual Network channels, the Bank considers enclosing cellular phones, loading icons on the first screen of PCs, and establishing Internet /Online specialized Bank and Consumer Loan Company.

(a) Real Channels

As for ATM network, the Bank plans to install ATMs with 500 am/pm stores based on the tie-up with am/pm Japan primarily in Tokyo during this fiscal year. As of the end of October 1999, 79 of such offices have been opened and the Bank plans to implement concentrated opening in and after January, 2000. It also plans to increase them up to 1,000 offices during the next fiscal year.

(b) Virtual Channels

① Device Strategy

As for cellular phones, the Bank has secured a starting position on the first screen for its mobile banking through i mode based on the tie-up with NTT DoCoMo. Taking a chance, it also has implemented Cash Gift Campaign to customers who have concluded the contracts of the Bank's Browser Banking Service and acquired about 50,000 contracts as of the end of October 1999.

The Bank has tried, with low costs, to acquire browser banking (Internet banking) users, who have a high potential to become its main customers, as one of marketing measures, because they are statistically supposed to become closer customers to the Bank than usual main customers.

Also, the Bank has secured a simple and convenient access method and acquired customers' recognition, by loading an icon linked with Sakura Bank on the first screen of PCs, and, at the same time, implemented strategy for direct marketing to PC users, by enclosing its Ordinary Deposit Agreement, Browser Banking Agreement, etc. in PC packages. The Bank has tied up with NEC, Fujitsu, IBM, Toshiba, etc. and planned to load such icon on 3 million PCs, about 70% in 4 million of total annual PC shipments to individuals.

The Bank has started such shipments from last October (about 1,350,000 of such shipments have already been decided for this fiscal year).

The Bank is currently implementing Cash Gift Campaign to its browser banking contractors, which is a very low cost marketing approach directly to highly potential main customers.

② Contents Strategy

In addition to the above-mentioned strategy to maximize its direct linking with customers in terms of devices, the Bank is promoting its core consumer business strategy in terms of contents where the Bank unbundles its banking functions necessary for customers and “provide customers with only functions necessary for them in the form required by customers”.

More concretely, the Bank is currently preparing/promoting its contents in the forms, such as “am/pm ATM Network” for its depositing, withdrawing, transferring functions, etc. , “Internet/online specialized bank” for its advantageous asset management function and “New type personal loan company” for its convenient, prompt and advantageous borrowing function.

-As for the “Internet/online specialized bank” which the Bank announced on July 24, it has started preparing for the establishment, tying up with Fujitsu Ltd. In order to acquire a broader customer base, the Bank plans to expand tie-ups by inviting Nippon Life Insurance, Tokyo Electric Power, Mitsui & Co. and Sumitomo Bank for their capital participation. For the Internet/online specialized bank, it plans to apply for the license using the name of “Japan Net Bank (provisional)”. The Bank also plans to manage it with capital of about ¥20.0 billion, a head office only (no branches) and low cost management with minimum staff, thereby improving convenience, providing favorable interest rate level, etc. to customers. The Bank aims at starting business early in FY 2000 subject to the acquisition of the license.

-As for the “New type personal loan company” which the Bank announced on September 28, 1999 tying up with am/pm Japan, Nippon Life Insurance and Sanyo Shinpan, the Bank plans to establish highly functional consulting terminals within am/pm offices, issue relevant cards promptly and conveniently through scientific credit methods based on statistics and prepare a system to enable customers to borrow funds using Sakura Bank’s networks. Its capital will be about ¥10.0 billion. It plans to perform a low cost management with a small number of employees and provide customers with loan products at reasonable interest rate levels. The Bank aims at starting business early in FY 2000 subject to the approval of the establishment.

B. Measures for Strengthening Business Base

“Organizational System”, “Channel Reforms and IT Strategy”, “Shift to Innovative Personnel Systems Based on Global Standards” and “Director/Officer System and Directors’ Remuneration System” were advanced as scheduled.

a. Organizational System

As for organization, the Bank promoted its internal company and group system further and started 3 division-company and 2 group system, i. e., Commercial Banking DC, International & Corporate Banking DC, Investment Banking DC, Project Group and Treasury Group, from last October,1999.

As for headquarters functions, it started 5 group system, i. e., Strategic Planning Group, Credit Policy & Risk Management Group, Compliance Group and Human Resources & General Affairs Group. As for division-companies, the Bank has decided to promote integrated management of both risks and returns on the integrated ROE basis subject to the notional allocation of its capital, and also decided to assign personnel affairs to those DCs, together with budget and expenses to a certain extent.

This enables the Bank to make prompt judgments of management, to accurately grasp risks and returns and to allocate adequate management resources.

It also enables the Bank to treat officers/employees according to their performance and provide them with the rewarding work environment.

b. Channel Reforms and IT Strategy

As for channel reforms, the Bank is steadily promoting shifts to channels composed of core business promotion offices (business departments) and surrounding settlement channels (branches) based on the concept of “Hub and Spoke”. As of the end of September, it has reorganized 34 branches into 8 business departments. It has also concentrated 29 branches in 14 regions in main offices, thereby shifting business promotion functions to the next generation-type channels by concentrating them in main offices. Its CVS tie-up, which is currently under way, the Bank will complete its condensed network composed of settlement channels as Hub and ATMs in CVSs as Spoke in FY 2000. Also, it started to operate Kansai Call Center as scheduled in July 1999, which has completed 1,000 seats in total, the largest scale call center system among Japanese banks.

As for IT strategy, the Bank has introduced Sakura CRM in all branches by the end of December 1999. As for its electronic credit application system, it has fully started operation in 50 branches at the end of September 1999 and is trying to gradually increase it, targeting to introduce it in all branches in June 2000.

c. Strengthen Business Developing Power through Tie-ups, etc.

-Acquire Yamatane Securities’ Stocks

The Bank announced on September 24, 1999 that it will further strengthen relationship with Yamatane Securities Co., its important partner in retail securities business. It purchased Yamatane’s stocks from the existing stockholders around the end of October and undertook its capital increase to the third parties in the amount of 9,984 million on November 17, thereby becoming its largest stockholder (the Bank’s share: 43.36%).

The company will merge with Shinyei-Ishino Securities Co. around April 1, 2000, with the new name of the “Sakura Friendly Securities Co.” , which will further strengthen the business developing capability of the Sakura Bank group in the retail securities business area.

-Investment Banking Business

The Bank announced on September 30 that Sakura Securities and Deusche Securities, Tokyo Branch will tie up in the area of underwriting business of bonds/stocks from the viewpoint of strengthening responding power to core large Enterprises.

-Asset Management Business

The Bank announced on September 30 that Sakura Investment Management Co. will tie up with Alliance Capital Management Co., State Street Bank and Deusche Asset Management Co. in the area of asset management business, aiming at firmly establishing more advanced know-how for asset management products.

d. Shifts to Innovative Personnel System based on Global Standards

-The Bank introduced the new personnel system in July 1999 as scheduled. It changed the standard for evaluation/treatment from “Ability” to “Job” by placing priority to Job Size and Competition Model and thereby shifted to the “Performance-oriented Personnel System” (evaluation/treatment system based on Job and Result).

e. Director/Officer System and Directors’ Remuneration System

-As for a director/officer system, the Bank introduced the Executive Officer system after the approval of the Shareholders Meeting in June and reduced the number of directors from 45 to 13. The total number of Directors and Executive Officers has thus become 39.

-As for a directors’ remuneration, the Bank also introduced a performance-oriented remuneration system and, at the same time, introduced a stock option system after the approval of the Shareholders Meeting, thereby having introduced a directors’ remuneration system to give them incentives from the short-term and medium/long-term viewpoint.

(3) Status of Advancement for Rationalization of Management

In the Plan of the Bank, one of the major issues outlined is the implementation of a large-scale restructuring program which ultimately aims at strengthening its earnings potential. As of the end of September 1999, favorable progress had been made, and we are either on, or ahead of schedule in key areas such as reducing the number of employees and closing overseas /domestic offices. Fiscal 2002 is the final year of Sakura’s Plan, but in regards to the curtailment employees and the closure of domestic and overseas offices, reduction goals will be attained by fiscal 2001, one year earlier.

① Number of Employees

As we are accelerating the completion of the “workforce reduction” portion of the Plan

by one year. The bank will have reduced its total employee count by 4,200 workers, from the end of March 1998 to end of March 2002.
From the end of March 1998 through the end of September 1999, Sakura's workforce has already been reduced by 1,535 people through reforms to domestic channels and integration of offices, restructuring at overseas offices, and through programs which helped employees to find new careers.
As of the end of March 1999, the total number of directors and auditors dropped from 51 to 19 (of which 13 are directors), after reducing the number of board seats and introducing an executive officer system. This was a reduction of 32 more than originally planned.

② Number of Domestic and Overseas Offices
The portion of the Plan that calls for the reduction of offices has been accelerated by one year. In comparison with the end of March 1998, by the end of March 2002, Sakura will have reduced its domestic branches by 111 and its foreign branches by 10. As of the end of September 1999, the number of domestic offices had already been cut by 36 locations (51 manned business offices including subbranches) and 5 overseas offices, in comparison with the end of March 1998.

③ Expense
Sakura will continue to review its payroll (trimmed around 30% in the second half of fiscal 1999) and curtail it's workforce. The Bank will reduce its overhead beyond planned projections, through additional review and belt-tightening in a drastic effort to lower purchasing expense. The Bank will likely succeed in trimming expense for fiscal 1999, further than initially scheduled. From July 1999, Sakura has implemented a performance-based payroll in order to boost competitiveness among its employees and heighten performance, while at the same time making more effective use of its personnel expense.

(4) Status of Advancement for Disposal of Non-performing Loans

① Non-performing loans
The Bank disposed of a total of ¥72.2 billion in non-performing loans in accordance with its self-imposed and aggressive plans, outlined in the Plan to write-off non-performing loans and build-up reserves to cover loans which may go bad in the future. The total figure consisted of ¥56.4 billion in write-offs and reserve build-up based on self-assessment and ¥15.7 billion for such items as the sale of liabilities. Initial plans called for the disposal of ¥100 billion in non-performing loans.
The reason that the actual figure fell below projections was because of additional sale of non-performing debt in order to avoid future risk of devaluation of collateral and increased write-off and reserve build-up due to deteriorating business performance on the part of Sakura's individual clients.

The total amount of ¥150 billion including securitization, direct write-off, forgiveness of loans, and partial direct write-offs recognized from fiscal 1998, has been disposed of. Initially, ¥100 billion in non-performing loan was projected to be disposed of in fiscal 1999. However, at the end of the interim, ending September 1999, Sakura upped its goal to ¥200 billion as it was determined necessary to further nurse the financial health of the Bank. The main reason was because of the Bank's conservative viewpoint regarding the future value of its assets and collateral. On top of this, the Bank has increased the sale of its non-performing loans, such as those to the Cooperative Credit Purchasing Co., Ltd.

② Financial Soundness

The disclosed figure based on Article 3 Section 2 of the Financial Function Early Strengthening Law reported an increase of ¥9.3 billion from the end of March 1999, to ¥1,809.3 billion. This is mainly because the amount of liabilities which require monitoring, increased by ¥63.8 billion in comparison with the end of March 1999, mainly related to loans to its affiliated non-banks. When excluding this figure, the amount shows a decrease of ¥54.5 billion in comparison with the end of March 1999. One of the reasons that the amount of outstanding loans to Sakura's non-banks rose was due to the merger of the group's leasing firms. The integration of Create Finance and KCS Lease on July 1, 1999 to form Sakura Leasing Co. Ltd. and the simultaneous acquisition of goodwill from another group company resulted in the disclosure of loans originally made to the companies, as they were shifted over to the new company, Sakura Leasing. This is the principal factor behind the rise in the disclosure figure.

The coverage ratio for provisions including reserves, collateral and guarantees for problem loans was 69%. This is 4 points lower than it was at the end of March 1999. This was due to the loans to affiliate non-banks which were not secured. When excluding the non-banks, the figure rises to 79%, nearly the same as it was at the end of March 1999.

(5) Status of Advancement for Loans to Domestic Customers

Under the Plan, in fiscal 2002, Sakura plans to increase its gross operating profit by ¥100.8 billion, excluding bond related profit/loss. The key policies underpinning this goal are the improvement of domestic loans by securing a spread which sufficiently compensates for cost, and an increase in loans to medium/small-sized companies, and individuals. The status of domestic loans as of the end of the fiscal 1999 interim, ending September 1999, was as follows.

① Improvement of Profit on Domestic Loans - Increasing Loans to Medium/Small-sized Companies

Current plans call for a 30 bps improvement in the spread on domestic loans by fiscal 2002, in comparison with fiscal 1998. As of the end of September 1999, the spread has improved 23 bps. This is thought to be the results of appropriate loan pricing for

Bank’s portfolio based on its credit rating system.
As a policy to ensure the smoother provision of credit, Sakura plans to increase its loans to medium/small-sized companies by ¥208.4 billion (¥208.1 billion including impact loans) during fiscal 1999, this excludes special factors such as the write-offs of non-performing loans. Loans to medium/small-sized companies as of the end of September 1999 showed an increase of ¥46.4 billion (¥3.6 billion including impact loans). This was due to the decline in fund demand because of the slump in the economy, the fact that more subsidiaries are looking to their parent companies for funds, and an increase in the collection of non-performing loans. The Bank believes that it can meet its loan increase goals for the year by implementing additional policies during the second half.

② Boosting Individual Loans

Housing loans, a core element in promoting individual loans, rose ¥259.4 billion to ¥6,432.5 billion as of the end of September 1999, in comparison to the amount outstanding at the end of March 1999. This is the highest among all Japanese banks in terms of growth during the period and the actual outstanding amount. Sakura’s share of the total housing loan market, comprising of all banks nationwide, is projected to be around 10.04%. This is a 0.27% share increase in comparison to figures for the end of March 1998. The Bank is showing stable progress in its plans to up its market share by 1% over a 5-year period.

Note: Total based on the Monthly Financial Statistics Report put out by the Survey and Statistics Bureau of the Bank of Japan. The domestic bank account total at the end of September 1999, is a projected figure which includes the net increase as of the end of March 1999, in comparison with the same period previous year.

Increasing profit in the area of individual loans will continue to be a priority.
During the second half, the Bank will increase the number of loan centers and staff. It will also review its loan products, adapting them for customer needs and at the same time, review credit examination standards based on quantitative analysis of credit risk. In addition, we will promote a home mortgage refinancing plan for large-scale corporate customers. Moreover the Bank is steadily progressing with plans to strengthen its relationships with real estate sales client companies.

(6) Status of Advancement for Other Items Included in the “Plan toward Soundness of Management”

A. Streamlining Affiliates

As a part of its retail banking strategy, Sakura is implementing a restructuring program of its non-bank affiliates in order to make full use of them. Sakura merged Create Finance and KCS Lease into Sakura Leasing on July 1, 1999 in order to strengthen its sales power and efficiency in the leasing sector during the first half of fiscal 1999. In its next step,

Sakura acquired the goodwill from another affiliate, and also integrated it into Sakura Leasing.
Furthermore, in order to strengthen the efficiency and financial structure of the Bank's mortgage-backed securities operations, Sakura consolidated its four property leasing / management- affiliates with Sakura Mortgage Co., Ltd.
In order to boost efficiency in its property leasing / management operations, handled by its affiliates, it has reduced the number of companies dealing in this sector from 6 to 2.
On June 14, 1999, the Ministry of Justice extended a business license to the Sakura Servicing Co. Ltd. The Bank established the company as a means of progressing with the collection of non-performing debt at a higher pace for both Sakura itself and its non-bank affiliates.
The Bank plans to continue trimming back remuneration for directors and executives, and employee payrolls as a part of overall restructuring measures for its affiliates. In February 1999, the company laid out policy shorting the maximum employment period for executives, set up a program to help employees find new careers, and introduced a work- sharing program, all of which were put into effect from the first half of 1999.

B. Capital, Dividend, Director and Executive Remuneration, Others

① Bank Capital

No particular changes to items listed in the original plan.

② Dividends and Director and Executive Remuneration

The forecast annual dividend per share for our ordinary shares for the fiscal 1999 term is ¥6, with a scheduled interim dividend of ¥3. The allotted annual dividend for 2nd and 3rd preferred stocks will be paid out, with the interim dividend being half that of the set annual amount.
Remuneration for directors and executives is performance-based, including consideration of factors such as business performance over the long-term. A stock option program was introduced as well.

C. Risk Management

① Credit Risk

In July 1999, we established a basic systematic credit policy, the range of which extends from individual credit, all the way to managing our loan portfolio. In addition Sakura has developed a credit monitoring system that handles credit ratings, self-assessment, and the establishment of credit policies on a regular basis for the purpose of daily supervision of risk factors related to each individual loan and immediate measures that can be taken to remedy any problems.

② Interest-related Risk

Sakura has set a risk limits for fund procurement, including foreign currency and set warning lines of 30% in addition to 50%, 70% for limits for risks .

③ Market Risk

Market liquidity risk management regulations were newly added to the market risk management regulations for the second half of fiscal 1999 in order to strengthen the Bank's market risk management functions. This has helped to improve not only the system itself, but also the support system for trading operations. It also establishes a method of managing its position.

④ Operational Risk

In order to strengthen its management system, operational risk management policies were established and a risk management group was set up within the Operations Management Department, in conjunction with the Bank's reorganization in October 1999.

⑤ EDP Risk

In tandem with the establishment of system risk management policies and promoting improved response, regulations on information security, including general security policies, were drawn up as a component of the Bank's information security system. These were put into effect throughout the entire Bank from November, 1999.

⑥ Legal Risk

As a means of strengthening and establishing a full-scale compliance system, Sakura has drawn up a compliance manual and program. In addition it has assigned compliance officers to each domestic branch and office.

⑦ Y2K Compliance

The Bank has formed a Year 2000 Committee consisting of the directors of the Board responsible to the Planning Division and the Systems and Operations Planning Division. This was done in recognition of the fact that this was a priority issue in the area of risk management.

In May 1999, a comprehensive test was implemented involving the core system in order to confirm the effectiveness of modifications made in order to minimize risk. In the following month of June, all systems had been modified to comply with Y2K measures and furthermore a contingency plan was drawn up. In addition, in September, A trial run of the crisis management plan was begun.

In terms of credit risk, the Bank has performed regular follow-ups of the status of Y2K compliance in regards to those customers with outstanding credit or uncovered credit which exceeds the set standard.

For liquidity risk, the Bank has set up a system which will provide more mobility in handling problems. Sakura is working on implementing various measures for managing

its balance sheet in addition to strengthening its monitoring capabilities in order to secure methods for planned procurement and acquisition of funds in emergency situations.
Sakura is also implementing trial runs of measures to reduce risk, based on risk scenarios, and formulation of contingency plans in order to alleviate operational risk.
Likewise, from a legal standpoint, Sakura is inspecting its various contracts and operational guarantees regarding the readiness of its computer systems. It is also actively disclosing information through various disclosure documents in order to minimize risk to its reputation.