

RECOVERY PLAN PROGRESS

In March 1999, Sumitomo Bank applied to the Financial Reconstruction Commission for approval to issue convertible preferred shares underwritten with public funds by the Resolution and Collection Bank, Ltd. In connection with this application, we submitted our “Plan for the Strengthening of the Financial Base of the Bank,” a detailed recovery plan, to the government. Under the funding terms, the government requires us to provide, among others, annual earnings, restructuring and lending projections. We made significant progress toward our recovery objectives in the first half of fiscal 2000, as described below.

For fiscal 2000, we aim to generate core banking profit (excluding transfers to the general reserve) of ¥330 billion, and net income of ¥100 billion. In the first half of fiscal 2000, core banking profit (excluding transfers to the general reserve) was ¥203.6 billion, and net income amounted to ¥48.4 billion. Income taxes deferred owing to the Osaka Prefectural Government’s introduction of a special enterprise tax for banks operating in Osaka Prefecture totaled ¥26.6 billion. Without this tax, net income would have reached ¥75.0 billion.

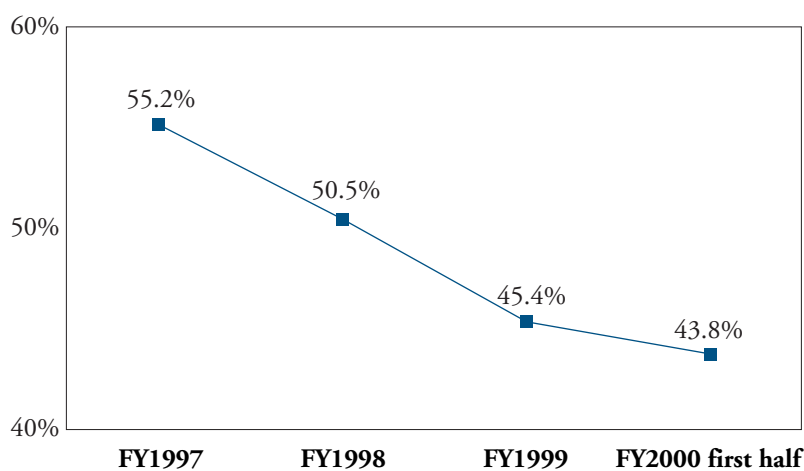
We pledged to reduce the number of branches to 270 domestic and 15 overseas branches and lower the number of employees to 13,600 by the end of fiscal 2000. At the end of the first half of the fiscal year, we had 262 domestic branches, 17 overseas branches and 14,184 employees. These numbers represent progress toward our downsizing commitment.

In fiscal 1999, we met our total expenses goal of ¥340 billion that we set for the end of fiscal 2002. Nonetheless, we have since continued to pursue cost reductions through branch and personnel downsizing and by rationalizing branch clerical procedures and lowering recurring expenditure. As a result of these factors, expenses (excluding other operating loss) declined 3.2%, or ¥5.3 billion, in the first half of the fiscal year, compared with the first half of fiscal 1999. Our overhead ratio also improved compared with the same period in the previous year.

We intend to increase lending to small and medium-sized companies by ¥100 billion in fiscal 2000 (excluding euro-yen impact loans, after adjustments for the effects of reductions in problem assets, and other factors). As of the end of the first half of the fiscal year, such loans were up ¥231.5 billion. We will keep responding decisively to the funding needs of financially sound small and medium-sized companies. We will also continue to fulfill our role as financial intermediaries.

■ Overhead Ratios and Expenses

Overhead Ratios



| Expenses | FY1997 | FY1998 | FY1999 | FY2000 first half |
|----------|----------------|----------------|----------------|-------------------|
| | ¥373.7 billion | ¥353.8 billion | ¥329.8 billion | ¥159.6 billion |

Decreased 3.2% compared with the first half of FY1999

Note: Overhead ratio = Expenses (excluding other operating loss) / (Gross banking profit – Gains on sale of bonds)