



Q Could you please summarize Sakura Bank's strengths and business strategies.

A Our primary strength clearly lies in the solid customer base we have built up over many years with a wide-ranging network and strong relationships built on trust and reliability. Our strategies revolve around the question of how we can utilize our strengths to achieve greater profitability. To provide answers, we have been scientifically analyzing the market and our current situation with the latest information technology (IT). This data has been the basis of our strategic business plan, under which the entire Bank tries to do its utmost and as a result, produced concrete results in the past period. We significantly augmented overall interest spread and made steady progress in housing loans, achieving top ranking among domestic major banks in both segments for the period ended March 2000. The interest-spread improvement is largely the outcome of our basic lending policy to try to secure sufficient corporate loan spread to cover the expected credit cost calculated statistically by thorough risk analyses. The gains we are making in the housing loans segment are attributable to the strategic use of database marketing to the mass consumer market.

In other market segments, we were one of the first movers among Japanese banks to really concentrate on the sale of investment trusts. Recognizing a trend in individual demand for greater diversity in asset management products, we decided to develop a new profit source by satisfying demands from our broad retail customer base for medium-to-long-term solutions. To determine specific strategies, we analyzed customer demand, implemented the required measures at the branch and head office to deliver products, and upgraded the overall skills of frontline staff to deliver full-fledged consulting. This enabled us to take the top rank among Japanese banks last fiscal period for the balance of investment trusts under management.

Our call centers have had a great impact on housing loans, investment trusts sales and other products targeted at individuals. To maximize the potential of our customer base, we are employing data mining techniques that involve a variety of marketing approaches, such as sending sales material for other products whenever customers open a new account or have a deposit instrument mature. The call centers are playing an active role in each of these marketing strategies.

Q What exactly is the new business model to which you referred? What is the background to its launch?

A I believe the rapid global advance of IT is nothing short of a revolution, making it possible to

To take advantage of further synergies with our core strategies, we will continue to explore potential profit sources.



communicate without time or distance constraints. It's also my belief that the IT revolution will make the 21st century known as the era of the consumer. Consumers will drive the marketplace more than at any time in history.

At Sakura, we are looking to apply the latest IT to the greatest possible extent to heighten our commercial banking profits. The IT revolution has a flip side, of course. There is a very real potential for financial institutions to be rendered obsolete if they don't fundamentally adapt their business methodologies, since financial information can generally and easily be managed in digital formats. On the other hand, if one can change perspectives and look a step or two ahead of current trends, it is possible to launch strategies in high-growth business areas based on completely new concepts that secure big advantages for early movers in short periods of time.

Based on this, we are concentrating resources on rapidly rolling out a business model unique to this bank. It involves linking up with leading partners in each new field to create a solid platform for further growth in the 21st century. Of course, there is no absolutely correct strategy in Internet-related fields. Although it is impossible to precisely predict our next movement in the rapidly changing world, we do know the first-mover advantage can't be obtained without forging ahead in the directions one reasonably believes are correct. As President, I am continually aware of the importance of "Moving ahead with foresight" and "Becoming resilient to changes."

At present, our core strategies for further growth in the 21st century are the Japan Net Bank, Sakura Loan Partner and @BANK initiatives. We intend to develop these three strategies in an integrated fashion to differentiate the Bank from competitors—both banks and other companies. At the same time, we will continue to explore other potential profit sources, primarily in Internet-related areas, to take advantage of further synergies with the above core strategies.

Q How is the merger with Sumitomo proceeding?

A We recently announced the joint decision with Sumitomo Bank to advance the merger by one year to April 1, 2001. Until the announcement, the plan had been for both banks to largely complete harmonization measures within fiscal 2000, to operate as "twin" banks from April 2001 and to finally merge in April 2002. There are two primary reasons for advancing the merger date. First, both banks appear to be well ahead of their problem loans and restructuring plans. Second, the merger preparations themselves are proceeding apace. Under these circumstances, we felt our chances of securing the top seeded position among Japanese banks would best be served by advancing the merger ahead one year. Moreover, we felt that moving the date forward would properly reflect the swift management style for which we are aiming.



We will also continue to implement strategies and business development to maximize corporate value.

The new bank has three core concepts as its missions. They are “to continuously create shareholder value through the achievement of sustainable business growth,” “to provide even greater value-added services and to achieve growth together with our customers,” and “to provide a challenging and professionally rewarding work environment for diligent and highly motivated employees.” Of course, the strategies and business development I mentioned earlier to maximize corporate value will continue to be implemented under the new bank structure without any change to the basic concepts.

Q Could you tell us your thoughts regarding the Bank's financial position?

A As a result of the entire Bank staff pulling together to improve profitability and implement our restructuring plan, we are pleased to report that fiscal 1999 core net operating profit leapt 40%, to a record high for the Bank. This enabled us to exceed the targets for our restructuring plan. On the revenue side, the main factor was the success of such basic strategies to increase our gross operating profit as improvement of corporate loan spreads, the promotion of housing loans, and steady progress in sales of new products including investment trusts. On the

expenditure side, we managed to surpass our targets for cost reductions. We plan to keep a firm grip on the reins to ensure this trend is further strengthened to form a solid foundation for business growth.

Under the agreement with Sumitomo Bank, we have agreed both banks are respectively responsible for dealing conclusively with the problem loans issue before the merger. Accordingly, in fiscal 1999, we flushed out risk factors, including both the immediately apparent ones and the latent ones, to significantly reduce our risk exposure in future years. This preventative measure has put us on a very sound footing.

Q What major management issues are facing Sakura Bank?

A On April 1 next year, Sakura Bank will become part of Sumitomo Mitsui Banking Corporation. Toward this objective, we must further heighten profitability, resolve the problem assets and accelerate our plans for financial soundness by implementing our staff reduction and branch restructuring plans. Moreover, the changing environment for financial institutions means it is more important than ever to develop and grow new businesses actively. I understand that it is vital for us to build shareholder value and corporate value by getting a good handle on trends and responding swiftly to increasingly diverse customer needs. Further, with enough accountability, we are definitely going to establish the new bank as strongly and firmly as expected by our shareholders and clients.

1999

April

We entered into a contract with am/pm Japan to promote joint convenience store banking operations. (See page 15.)

July

We reached a mutual agreement with Fujitsu to plan and establish operation of Japan's first Internet bank. (See page 13.) Afterwards, Nippon Life Insurance, Sumitomo Bank, Tokyo Electric Power, Mitsui & Co., NTT DoCoMo and NTT East decided on capital participation.

Sept.

We agreed on working jointly with Nippon Life Insurance to invest in promising businesses, including Internet businesses. (See page 17.)

We agreed on a plan to establish a consumer loan joint venture, based on a model distinct from existing banks, with am/pm Japan, SANYO SHINPAN FINANCE, and Nippon Life Insurance. (See page 14.) Afterwards, Sumitomo Bank decided on capital participation.

Our subsidiary, Sakura Securities, spearheaded a tie-up with Deutsche Securities Tokyo Branch in a bonds and equity underwriting business. (See page 24.)

Sakura Investment Management formed alliances with Alliance Capital Management L.P., State Street Bank and Trust, and Deutsche Asset Management to enhance its fund management services. (See page 24.)



Oct.

We reached a contract with Yamatane Real Estate, Yamatomi International and Asahi Trust, which allowed them to transfer their shares of YAMATANE SECURITIES to us in October.

We jointly announced the "Strategic Alliance and Integration of Sakura Bank and Sumitomo Bank," bringing the future merger within sight. (See pages 8 to 11.)

2000

April

YAMATANE SECURITIES and Shinyei Ishino Securities merged to form Sakura Friend Securities (See pages 24 and 26.)

We jointly announced a decision with Sumitomo Bank, bringing the date of our merger forward by one year, to April 1, 2001. (See pages 8 to 11.)

May

We contracted the Merger with Sumitomo Bank. The merger proposal was approved by shareholders at the respective shareholders' meetings in June 2000. (See pages 8 to 11.)

June

We established Sakura Loan Partner, to offer completely new consumer loan services. (See page 14.)



We announced our take over bid (TOB) of Minato Bank, to place Minato under the Sakura Group. (See page 21.)

We participated in a financial portal site, "Money park," which provides comprehensive solutions to personal financial needs. (See page 17.)

The Merger with Sumitomo Bank

On April 21, 2000, The Sakura Bank, Limited (“Sakura”) and The Sumitomo Bank, Limited (“Sumitomo”) reached an agreement to merge on April 1, 2001, one full year ahead of the original plan in the “Strategic Alliance and Integration of Sakura Bank and Sumitomo Bank” agreement announced on October 14, 1999. As the merger proposal was approved by shareholders at respective shareholders’ meetings in June 2000, both banks are ready to start operating as a new entity—Sumitomo Mitsui Banking Corporation—subject to the approval of regulatory authorities.

Fundamental Points of the Merger

- Merger Date:** The official merger date will be April 1, 2001.
- Corporate Name:** The new corporate name will be *Sumitomo Mitsui Banking Corporation*. The abbreviation to be used will be *SMBC*.
- Top Management:** The Chairman of the Board of the new bank will be Akishige Okada (the current President of Sakura Bank), and the President & CEO will be Yoshifumi Nishikawa (the current President and CEO of Sumitomo Bank).
- Merger Ratios:** One share of Sakura common stock will be exchanged for 0.6 shares of Sumitomo common stock.
- Head Office:** Registered Head Office:
1-2, Yurakucho 1-chome,
Chiyoda-ku, Tokyo

Our Mission and Guiding Principles

Our Mission and Guiding Principles of the new bank, for the most part, will be decided as follows:

Our Mission will be a universal set of values underlying the management of the new bank and expressing the relationship of the bank to its most important stakeholders—its customers, shareholders and employees.

Our Mission

1. To provide even greater value added services to our customers, and to achieve growth together with our customers.
2. To continuously create shareholder’s value through the achievement of sustainable business growth.
3. To provide a challenging and professionally rewarding work environment for diligent and highly motivated employees.

Based on Our Mission, the Guiding Principles will outline the standards for the conduct and behavior of all management and employees of the new bank.

Guiding Principles

1. Create value for shareholders while maintaining a sound working relationship with customers, employees, and other stakeholders. Value trust, observe all laws and regulations, hold high morals, and act with fairness and good faith.
2. Acquire and manage knowledge and skills on an ongoing basis. Based on this knowledge, strive to improve productivity and provide superior financial services at competitive prices.
3. Understand the specific needs of each individual customer. Meet these needs with value added services and develop a global brand trusted for quality and value.
4. Strategically differentiate through “selection and focus.” Become the top player in each of the strategically selected markets by focusing management resources.
5. Value creativity and innovation. Boldly take the initiative to always be in the leading position with first mover advantage.
6. Form a strong organization that emphasizes market principles and is open to diverse values. Delegate authority to facilitate quick decision making and execution, while maintaining strict risk management guidelines and control systems.

7. Aim for the mutual growth and development of both employees and business enterprise. Incorporate post linked and merit based human resource policies, utilizing objective measures of performance and capability.

Business Targets

In view of the next five years (up until fiscal 2004), the major business targets for the new bank are as follows:

Major Business Targets

1. Improving profitability in consumer banking through refined customer segmentation, increased sales of profitable products and services via an extensive network, and enhanced operational efficiency.
2. In the area of corporate finance, establishing business models with asset efficiency as a key driver.
3. Reinforcing international banking business based on selective regional focus and targeted strategies.
4. Aggressive investing in strategic IT areas such as database marketing and network platforms for medium and small corporate customers.
5. Displaying leadership in Internet-related financial businesses.

Key Points of the Operating Strategies

(1) Improving Profitability in Consumer Banking

- Strengthening the marketing power of investment products such as investment trusts
- Strengthening of home mortgage origination and promoting securitization
- Rationalizing of traditional branch network
- Achieving low-cost operations through higher efficiency of teller operations by utilizing IT
- Developing low-cost and extensive delivery channels through alliances with such partners as convenience stores
- Strengthening profitability of group companies (credit card, loan, consumer credit, Internet banking, etc.)

(2) Achieving Higher Asset Efficiency in Corporate Finance

- Increasing highly profitable assets by providing high quality financial solutions that meet the specific needs of clients
- Strengthening new market-driven financial intermediation businesses such as loan syndication, loan securitization, non-recourse loans, structured finance, project finance, etc.
- Increasing fee income and securing liquid deposits by providing clearance services and cash management services
- Developing such investment banking services as M&A, MBO finance, private equity and securitization, by leveraging the close relationships with clients

(3) Reinforcing International Banking Business

- Boosting the business in Asia by leveraging both geographic advantages and the combined customer base and branch network of both banks
- Providing progressive and advanced financial services that are not limited to traditional banking
- Developing new financial products that can seriously contend with foreign competitors
- Forming alliances with foreign partners
- Reallocating management resources freed up as a result of eliminating duplicating branches

(4) Strategic Investments in IT

- Enhancing the database marketing system for consumer banking
- Investing in network platforms for middle and small corporate customers
- Investing in financial content and infrastructure relating to e-business
- Investing in the enhancement of management information systems and risk management systems
- Strengthening the in-house information and communication network to improve productivity

(5) Leadership in Internet-Related Financial Businesses

- As a new financial services complex, the new bank will pursue alliances with various partners with expertise in the areas of IT, contents, networks, and client base, and will strive to be the leader in Internet businesses, such as Internet bank, Internet securities, and financial portal.

Financial Targets

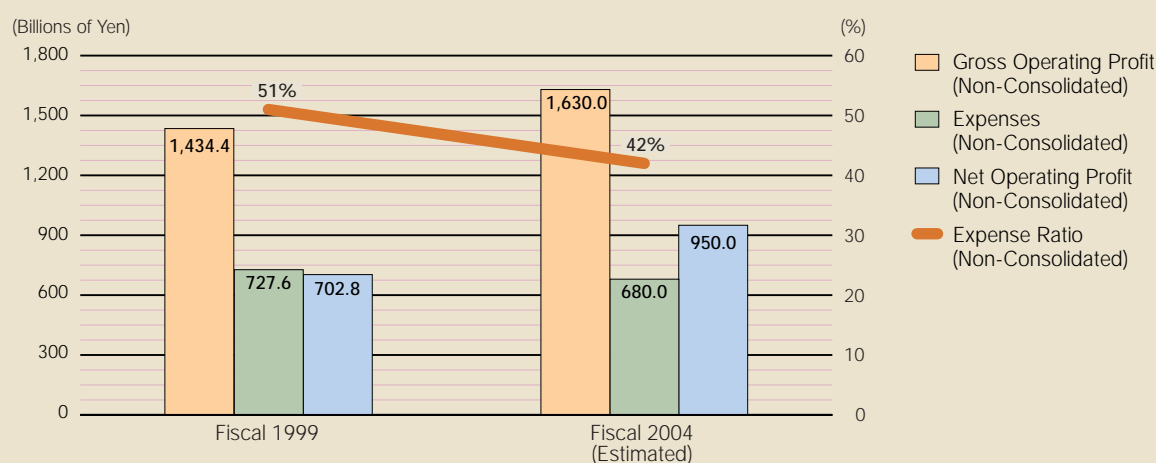
Profitability will be strengthened in order to repay public funds as soon as possible and to achieve sustainable growth going forward.

Net operating profit (non-consolidated) of ¥950 billion is projected for fiscal 2004. The projected expense ratio (expense/gross profit) for fiscal 2004 is 42%. Consolidated net operating profit of more than ¥1,000 billion is projected for fiscal 2004. The consolidated ROE (fully diluted) target, to be achieved by fiscal 2004, is set at a level greater than

10%. The Tier I ratio of the new bank is projected to be above 7% (BIS capital ratio above 11%).

Both banks will fulfill each of their commitments to resolve their respective asset problem loans before the actual merger. With the resolution efforts of both banks in fiscal 1999, the annual credit cost projection for after the merger is to be within ¥200 billion. Existing assets will be sold or securitized and the amount of cross-shareholdings will be decreased. The new bank will strive to improve the quality of its capital structure by repaying the public funds. The aggregate amount of public funds currently injected into both banks is ¥1,501 billion (including subordinated debt). The new bank aims to accelerate the repayment of public funds and reduce this amount by half by fiscal 2004. By strengthening its financial base, the new bank aims to regain an internationally acknowledged credit rating of "AA" or above by the end of fiscal 2004.

Fiscal 2004 Targets (Fiscal 1999 Figures Combine the Banks' Separate Results)



The financial targets are predicated on the following economic assumptions:

- Growth Rate:** 1.8% average annual real GDP growth (Fiscal 2000–2004)
Interest Rates: Three-Month TIBOR 0.15% (March 2000) 1.30% (March 2005)
Foreign Exchange: ¥110/US\$1 (Fiscal 2000 to 2004)
Stock Prices: Nikkei 225 ¥20,337 (March 2000) ¥22,000 (March 2005)
Land Prices: Ranging from flat to a slight increase (Fiscal 2000–2004)

Management Structure

In order to achieve the management objectives of the new bank, the following has been decided:

Corporate Governance

From the viewpoint of shareholder interest, the new bank will seek to separate the executive function from the strengthened supervisory function.

Management Supervisory Structure

- The Board of Directors will be structured so that it can more effectively supervise management execution.
- Several outside directors will be selected.
- The Chairman of the Board will not concurrently serve as a corporate executive officer, and will serve mainly as controller and supervisor of management execution.
- Human resources (HR), compensation and risk management committees will be established on the Board.

Business Execution Structure

Management committees will serve as the decision-making institution for business execution. The management committee will be led by the President and will consist of executive officers appointed by the President.

- Merit based and performance oriented HR and compensation system will be applied to executive officers.
- The stock option program will be expanded to better align the incentives of executive officers with shareholder value creation.

Organizational Structure and Management

The new bank will include: New Business Development Division, Corporate Staff/Service-Related Division, Audit and Compliance Check-Related Division, as well as six business divisions (Consumer Division, Middle-Market Division,

Corporate Finance Division, International Finance Division, Treasury Division, and Investment Banking Division). In designing the organizational structure, emphasis will be placed on making the organization as flat as possible in order to facilitate speedy decision making. The New Business Development Division will be set up to facilitate investment in the promising new fields, and professionals from outside the new bank will be recruited.

Management Control System

A management control system utilizing net-income adjusted for cost-of-risk-capital as the measure of performance will be incorporated to secure the continuous creation of shareholder value. Net-income adjusted for cost-of-risk-capital will be utilized to evaluate the performance of each business division and to appropriate resources among business divisions. The aim in using this measure of performance is to achieve growth with a balance between risk and profit.

Risk Management System

In order to proactively manage risk, the new banking Group's various risks (credit, market, liquidity, operational, etc.) will be managed in an integrated fashion.

Human Resource Management System

The human resource management system will be merit based and performance oriented. The compensation system will also be post linked. An open application system will be introduced so employees can freely apply for the post they desire. Substantial investments in training and education will be made to raise the capability of each employee. Stock options will be granted not only to directors and executive officers but also to employees of a certain post or above. This will better align employee incentives with the increasing of shareholder value.

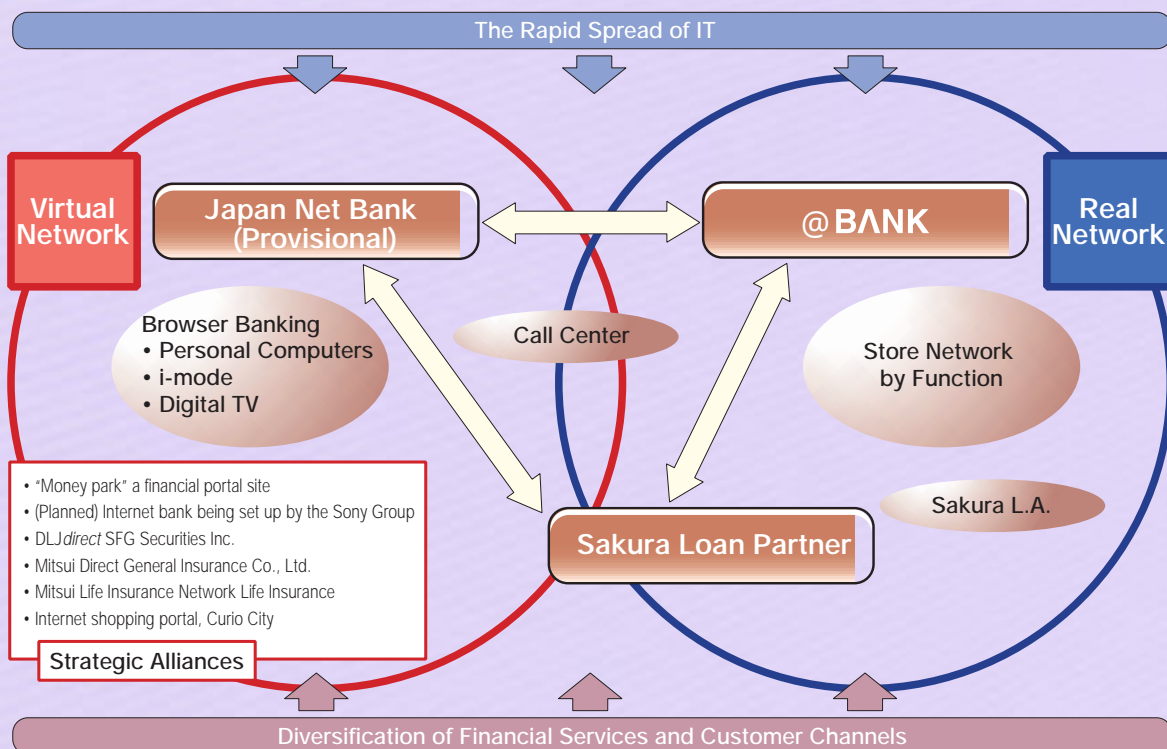
Building a New Business Model for the 21st Century

As the winds of the IT revolution sweep across the world, revealing the broad outlines of the emerging networked society, Japan's financial industry continues to experience profound changes in virtually every facet of its existence. The very rules of the game are changing. At Sakura Bank, we have achieved considerable success applying IT to strengthen our retail- and middle-market businesses. But to achieve significant growth in the dawning century, we know we must build an entirely new base separate from our existing commercial banking base. Accordingly, we have launched a bold strategy founded on a fresh business model for the 21st century.

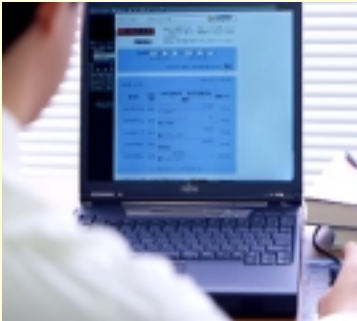
We are launching the new business model based on three related strategies, which are currently represented by the following three ventures. The first strategy is to build Japan's first bank operating exclusively in cyberspace. Japan Net Bank (provisional) will be launched within the first half of fiscal 2000. The second strategy is to create a completely new consumer loan service that delivers, above all, convenience and fast access to consumer finance. The Sakura Loan Partner, Limited, established in June 2000, started business on July 27, 2000. The third strategy is to provide essentially full banking services around the clock via a low-cost network. By summer 2000, we will have established 1,000 @BANK convenience store banking centers.

We intend to develop the three ventures in tandem so they can generate added value among them. Their operations will be linked and the emphasis will be placed on speed to assist in securing their profitability and growth potential. Since the difference between success and failure lies in effectively compensating for weaknesses while building on strengths, we have formed alliances for the respective strategies drawing on the key players in each field. Together, these strategies and the linchpin ventures constitute a fresh business model that will position Sakura Bank for maximum growth in the 21st century.

New Business Model at Sakura Bank



Japan Net Bank



With the IT revolution, the Internet is rapidly gaining acceptance in Japan as a vital part of a social infrastructure that can foster creativity as well as

allow firms to economize. To capitalize fully on both creativity and economizing, we plan to establish and start operating Japan's first Internet bank in the first half of fiscal 2000. Japan Net Bank (JNB, provisional) will operate as an independent entity with a small staff to realize fast decision making and a low-cost structure. JNB will work in conjunction with our alliance partners to develop and market new products and services, thereby reaping first-mover advantages in the online banking field.

Specifically, JNB will target (1) convenient, low-cost net-based settlement services for transactions such as virtual mall shopping, (2) deposit products with attractive interest rates that reflect low operating costs, and (3) unsecured consumer loans to facilitate various purposes including Internet shopping (a tie-up with Sakura Loan Partner is planned). In addition to Internet access, these services will be offered over the Sakura Bank ATM network, including the

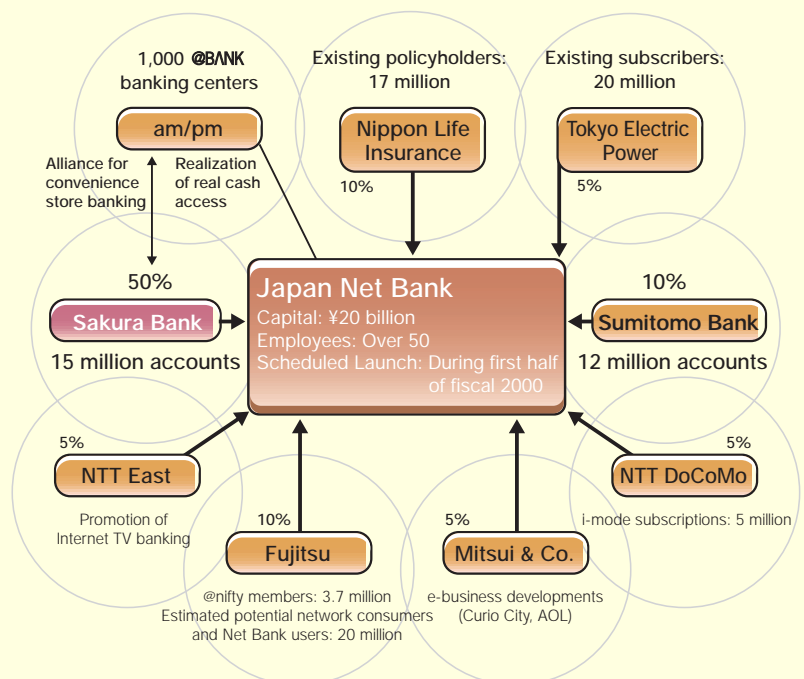


@BANK network, to combine the convenience of the Internet with the cash facilities of real economic activities.

By following this strategy, we aim to

establish JNB as the first Internet brand in Japan and the de facto standard in a market expected to reach several million people over the next three to four years, based on subscription growth for existing online banking services. Within the first three years, we expect JNB to attract one million accounts, manage deposits totaling ¥1 trillion and be operating in the black.

Japan Net Bank (Percentage of (Planned) Holdings)



Sakura Loan Partner



Banks are currently expected to provide money at reasonable interest rates to satisfy borrowers'

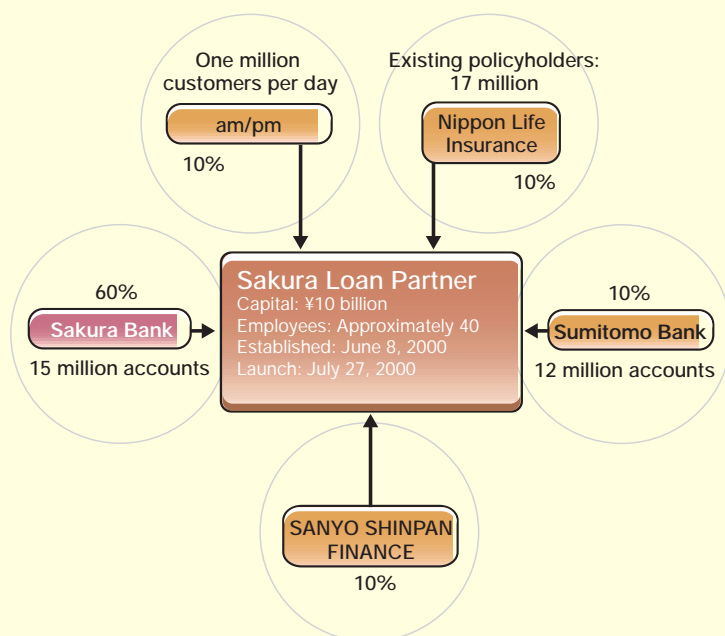
changing lifestyles in a manner suited to convenience and fast pace. To tap this growing demand, we established The Sakura Loan Partner, Limited, on June 8, 2000, as a consumer loan joint venture based on a model distinct from existing banks.

Sakura Loan Partner offers small-sum and unsecured loans to individuals. With the support of our strategic alliance partners listed below, we plan to run Sakura Loan Partner as an extremely low-cost operation. The venture can achieve unprecedented efficiency by using the am/pm convenience store network to maximum effect, IT-based reception and screening systems, highly efficient administrative

systems and, as a rule, no manned branches. Loan applications will be accepted over a network of highly functional loan consultation terminals, branded @Loan Box, located in am/pm convenience stores. They will also be accepted over the Internet, by telephone or facsimile, or through the mail. The loan cards used to borrow money are issued by the @Loan Box terminal in the am/pm convenience store and can be used immediately to withdraw or repay a loan at the @BANK terminal located on the same premises or at any Sakura Bank ATM.

At the present time, we expect Sakura Loan Partner to deploy approximately 1,000 @Loan Box terminals. By fiscal 2004, we expect the company to attract close to 1.8 million customers, have a loan balance of approximately ¥600 billion, and record operating profits of approximately ¥40 billion.

Sakura Loan Partner





We have teamed up with am/pm Japan to develop an award-winning* nationwide network of convenience store banking centers

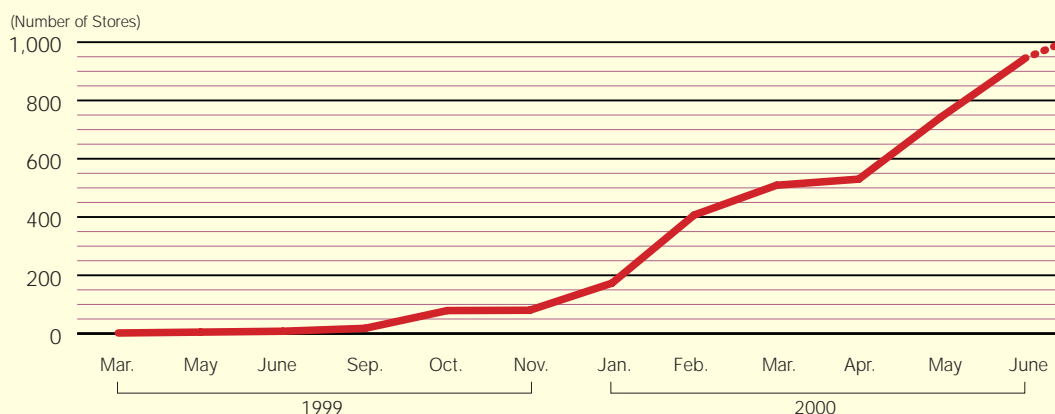
under the @BANK brand. Each am/pm store in the network is equipped with a slim new-style ATM that helps us reach a broad clientele with services essentially comparable to full banking services. @BANK is the first venture in Japan to attempt to operate almost fully functional ATMs as the proprietary channel for a single financial institution on a 24-hour basis in a convenience store chain. By the summer of 2000, the network will boast of 1,000 branches distributed among Japan's major urban centers, especially in Metropolitan Tokyo and the Kanto region. Since April 2000, the ATMs have been switched to 24-hour operation and can be used to make deposits, transfers and withdrawals at any

time of the day or night, providing a high level of convenience to customers. The number of transactions in the @BANK network is steadily rising. Initial startup costs for the @BANK network were one-quarter or one-fifth of the costs of a conventional ATM network, while running costs are approximately one-third.

Although @BANK has been promoted as the proprietary channel for Sakura Bank to date, it will serve an additional key role in the new business model, functioning as an access point for Sakura Loan Partner customers to withdraw loans or make repayments, and as an access point for JNB customers to perform cash transactions at a brick and mortar branch. Under the new business model, it is more than a means for Sakura Bank to vastly increase the convenience of its ATM network and reduce costs. It is the strategic infrastructure for future consumer banking services that will provide additional synergies and profit potential.

* @BANK received a Nikkei Financial Daily "Award for Excellence" in 1999.

Increase in @BANK am/pm Banking Centers



Browser Banking



In July 1998 we launched our Browser Banking service, which lets customers do their banking from personal computers (PCs). In

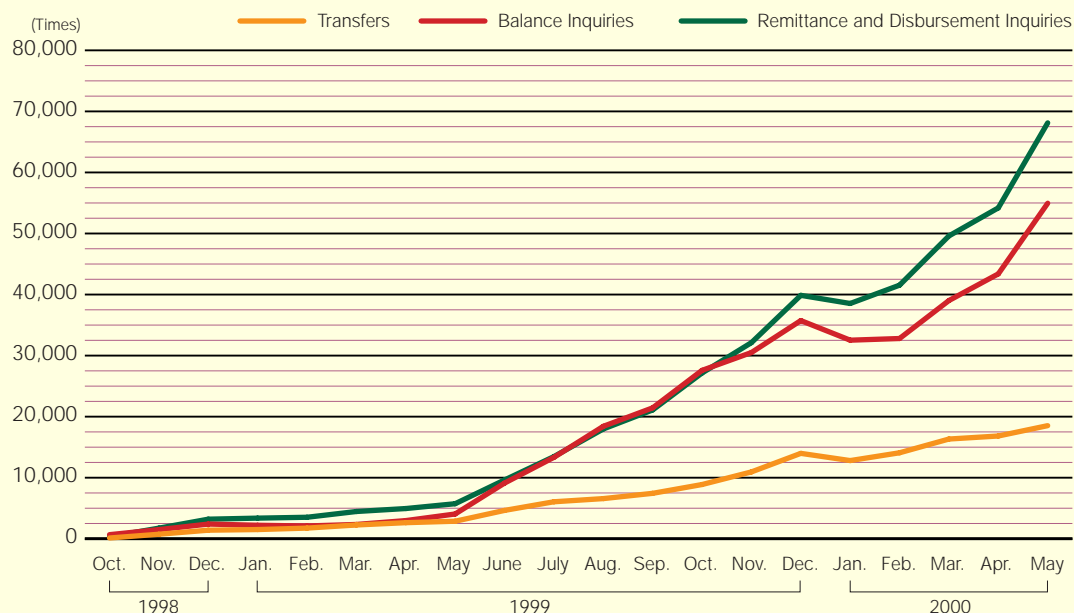
October 1999 we also began cash management services, allowing customers to open savings accounts and deposit money via PCs.

Since February 1999, when it became possible to access our service via "i-mode" mobile telephones offered by NTT DoCoMo, Inc., Browser Banking subscriptions have surpassed the 125,000 mark and the number of queries and transactions have exceeded 140,000 per month (as of the end of May 2000). The i-mode phone literally becomes a

handheld ATM, allowing customers to do their banking without effort from anywhere and at anytime. From November 1999, it also became possible to receive information about @BANK branch locations and other data on the i-mode phones, a service available to all i-mode clientele.

The spread of home digital electronic appliances and digital game machines is an indication that networking will be a daily part of life for Japan's consumers in the future. Furthermore, with broadcast satellite (BS) digital television scheduled to begin in December 2000, we are predicting the advent of an age when customers will have secure, safe and easy access to banks through television. To be ready for this, we are making full use of our accumulated know-how to be the first in the market and build the strongest virtual networks.

Browser Banking Usage



Strategic

Financial Portal Site “Money park”



- Establishment of a Patent Department

In order to ensure our freedom to conduct business activities in top-shelf fields and avoid such unexpected occurrences as infringement on patent rights, we established a patent department in the Legal Division on April 3, 2000.

By the end of June, we had registered or applied for a total of 28 patents, most of which were related to business models. Currently we have a number of new financial business models under development, and we aim to apply for their patents as rapidly as possible.