Progress Report on the Plan for Strengthening the Financial Base of the Bank

SMBC is working to raise its competitiveness and profitability through restructuring and rationalization based on the Plan for Strengthening the Financial Base of the Bank. The Plan was drawn up in March 1999, when the founding banks accepted an infusion of public funds through subscriptions to preferred stocks, and revised in December 2000 at the time of filing the merger application. The Plan defines annual targets for earnings, management rationalization and lending to small and medium-sized businesses. The following summarizes the Bank's progress in the first half of fiscal 2001 toward the targets set out in the Plan.

In the earnings category, gross banking profit for the first half of the fiscal year was ¥849.3 billion and expenses were ¥333.5 billion on a parent basis. As a result, banking profit, excluding transfer to general reserve for possible loan losses, was ¥515.8 billion and net income was ¥79.8 billion. The targets for the full fiscal year are as follows: gross banking profit of ¥1,428.0 billion, expenses of ¥728.0 billion, banking profit of ¥700.0 billion and net income of ¥210.0 billion.

SMBC made measurable progress in its rationalization plan. Expenses in the first half of the fiscal year amounted to ¥333.5 billion, against the full fiscal-year target of ¥728.0 billion. Several factors held down first-half expenses: a reduction in the number of employees and branches, and a review of ATM locations and other service channels; the consolidation of overlapping overseas bases; and other measures to cut a broad array of expenses, including purchasing outlays and computer system maintenance and management. Although much progress has been made in cutting costs in order to quickly generate concrete merger benefits, the deteriorating operating environment is prompting SMBC to enact still more sweeping restructuring initiatives. We will achieve a further reduction of ¥41.0 billion beyond the initial target outlined in the Plan, bringing expenses down to ¥687.0 billion in the current fiscal year.

The rationalization plan calls for reducing the domestic network to 573 branches, overseas network to 23 branches and the number of employees to 26,200 by the end of March 2002. We are ahead of schedule on all three fronts. As of the end of September 2001, the number of domestic branches was down to 577 and overseas branches to 21, while the number of employees stood at 26,802. With the closure of 13 domestic branches already completed in the second half, we have already exceeded the target for streamlining our branch network.

The outstanding balance of loans to small and medium-sized businesses at the end of the first half of the fiscal year posted a year-on-year decline of ¥1,589.0 billion. The balance thus fell far short of the target calling for increasing lending to the small and medium-sized business segment by ¥50 billion, excluding impact loans, in fiscal 2001. This was attributable to market conditions that made it extremely difficult to increase lending. One cause was a further decline in loan demand as the economy continued to weaken. Another was pressure exerted by large companies on their subsidiaries to reduce interest-bearing debt as part of their financial restructuring programs. Also limiting loan growth are measures to collect loans from troubled borrowers as part of efforts to deal quickly with problem loans.

Despite the challenging situation, we remain committed to attaining the full-year target. In the second half, we will take the following steps aimed at increasing loans to financially sound small and medium-sized businesses while preserving the quality of our assets.

(1) Utilize a broad range of channels to extend solution-based services to small and medium-sized companies
- Promote *Value Door*, a package of Internet-based services including loan applications, settlements and other items to meet a broad range of needs

(2) Improve infrastructure to support services for these companies
- Open more Business Support Offices
- Efficiently develop new sources of loan demand, such as financing tailored to the needs of franchised store operators
- Assign personnel to Corporate Business Offices exclusively for obtaining new borrowers
- Use the Tokyo Corporate Business Office and the Osaka Corporate Business Office to increase loans to new borrowers and growth companies
- Use the New Business Promotion Dept. within the Business Promotion Dept. to provide effective support to these initiatives

(3) Offer a richer array of products and services
- Expand loan product offerings, such as loans guaranteed by the Credit Guarantee Corporations and unsecured loans based on automated credit scoring models