

### Progress Report on Strengthening the Financial Base of the Bank

The founding banks have worked to raise their competitiveness and profitability through restructuring and rationalization based on their respective Plan toward Soundness of Management (former Sakura) and Plan for Strengthening the Financial Base of the Bank (former Sumitomo). Both plans were formulated when the two banks accepted infusions of public funds through subscriptions to preferred shares and perpetual subordinated notes in March 1999. The following summarizes each bank's progress in fiscal 2000 toward the targets set out in the respective plans.

#### Sakura Bank

● In the earnings category, gross banking profit reached ¥730.4 billion, ¥16.7 billion short of the ¥747.1 billion target. Although steady progress was made toward increasing earnings from the core banking business by improving loan spreads and expanding housing loans, the shortfall occurred, primarily due to market-related earnings impacted negatively by higher-than-expected dollar and euro interest rates. Expenses were reduced to ¥375.0 billion, a cut of ¥12.6 billion more than the targeted ¥387.6 billion, owing to progress in trimming personnel expenses through staff reductions, decreased purchasing and scaled back investing. As a result, banking profit excluding transfer to general reserve for possible loan losses jumped ¥41.9 billion, to a record high of ¥355.4 billion. Net income for the period topped out at ¥82.2 billion, ¥28.7 billion less than the targeted ¥110.9 billion, largely because of increased write-offs and reserves for non-performing loans and a ¥5.6 billion impact from the introduction of enterprise taxes for banks by the Osaka Prefectural Government.

● The Bank made significant strides in its rationalization plans. It is more than a year ahead in its personnel reduction schedule. At March 31, 2001, the number of employees stood at 13,632, well below the 13,800 target for March 2002. By accelerating the elimination and integration of the domestic branch network, at March 31, 2001, the number of manned branches had fallen to 316, achieving the target of 319 two full years ahead of schedule.

● The Bank also outperformed its key lending target. The balance of new loans to small and medium-sized businesses, where we are stressing the facilitation of the smooth supply of credit, grew by ¥137.2 billion (excluding impact loans), exceeding the ¥100.0 billion target by ¥37.2 billion.

#### Sumitomo Bank

● The Bank surpassed its earnings target for the year. Gross banking profit climbed to ¥772.8 billion, ¥99.8 billion above the ¥673.0 billion target. This is chiefly attributable to revenue from new fee businesses, such as electronic banking, money transfer and loan syndication, and from dividends from overseas subsidiaries. Expenses were also reduced beyond the targeted level. In addition to savings on personnel costs and branch costs through reductions, system maintenance and management costs were decreased. Despite some cost increases due to the merger, expenses fell to ¥325.1 billion, ¥17.9 billion lower than the ¥343.0 billion target. As a result, banking profit excluding transfer to general reserve for possible loan losses was ¥447.7 billion, ¥117.7 billion higher than the ¥330.0 billion target. Net income was ¥55.7 billion, ¥44.3 billion lower than the targeted ¥100.0 billion, largely owing to an increase in write-offs and reserves for non-performing loans and a ¥26.4 billion impact from the introduction of enterprise taxes for banks by the Osaka Prefectural Government.

● The rationalization targets were exceeded. The number of employees at March 31, 2001, had dropped to 13,526, which compared favorably with the target of 13,600. Similarly, the targeted reduction of the branch network to 265 by March 31, 2003, was already surpassed two years ahead of schedule by March 31, 2001, when it stood at 262 branches.

● New lending to the key small and medium-sized business segment, excluding impact loans, was more than double the target. These loans grew by ¥238.6 billion, or ¥138.6 billion higher than the target of ¥100.0 billion.