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

The preferred stock in Sumitomo Mitsui Banking Corporation (SMBC) held by the Japanese government was exchanged for preferred stock in Sumitomo Mitsui Financial Group (SMFG), Inc. at the rate of one SMFG share for 1,000 SMBC shares upon the establishment of SMFG via a stock transfer as the holding company for SMBC. No substantive amendments were made to the terms and conditions of issuance of the shares.

SMBC has been raising its competitiveness and profitability through restructuring and rationalization based on the Plan for Strengthening the Financial Base of the Bank. The Plan was originally drafted in March 1999, when SMBC's two founding banks accepted infusions of public funds through subscriptions to preferred stock.

## Coping with Net Loss Posted for Fiscal 2001

As a result of aggressive steps taken in fiscal 2001, the year ended March 31, 2002, to dispose of nonperforming assets on a nonconsolidated basis, the total credit cost (including transfer to the general reserve for possible loan losses) amounted to ¥1,543.1 billion, far exceeding the initial projection. Consequently, a substantial net loss of ¥322.8 billion was posted for the term, as compared with the initial net income target of ¥210.0 billion.

To confront this issue, we intend to increase retained earnings so as to secure a level of surplus funds sufficient to allow the repayment of public funds (redemption of preferred stock). We will achieve this by placing greater restrictions on payouts and through cost reductions such as further workforce streamlining and accelerated branch consolidation.

## Business Performance

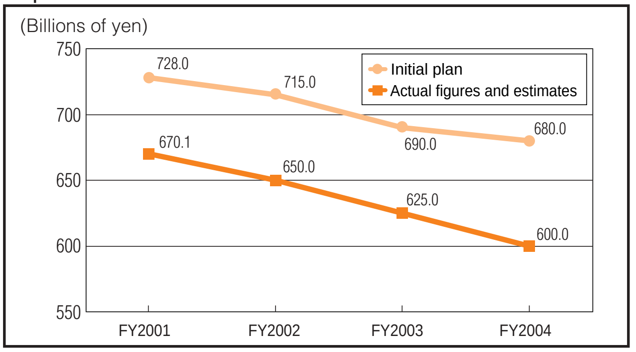
Business performance for the first half of fiscal 2002, the six months ended September 30, 2002, was as follows.

Gross banking profit on a nonconsolidated basis came to ¥897.9 billion, an increase of ¥48.6 billion year-on-year. The two main factors were an increase in net fees and commissions—principally from investment banking services such as loan syndication and corporate bond trustee services through private placements—and an increase in net other operating income from investment in Japanese government bonds and U.S. Treasuries. The latter increase was due to our accurate forecasting of fluctuations in market prices and interest rates. Combined, these increases counterbalanced a decline in net interest income owing to a decrease in dividends received from subsidiaries.

We successfully reduced expenses further through the continued downsizing of our workforce, the integration of overlapping branches, and the streamlining of back-office functions. As a result of these measures, total expenses came to ¥321.2 billion, while banking profit (excluding transfer to the general reserve for possible loan losses) amounted to ¥576.7 billion and net income to ¥44.9 billion.

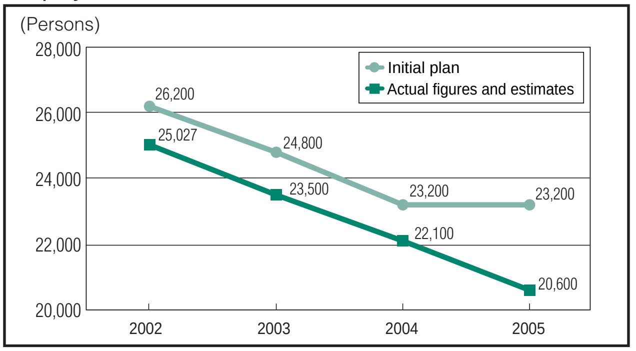
### Reduction in expenses, workforce, and number of domestic branches

Expenses



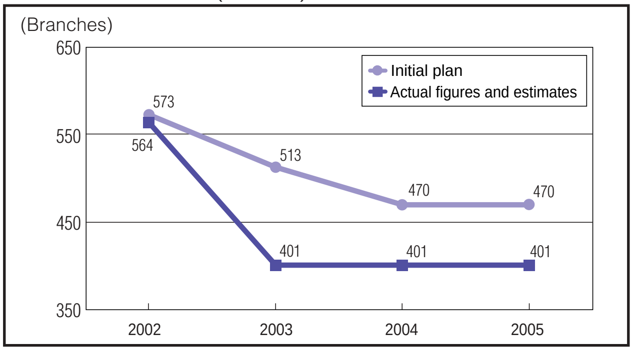

Note: Figures for the FY2002-2004 represent projected results.

Employees (March 31)




Note: Figures for the years 2003-2005 represent projected results.

Domestic branches (March 31)




Note: Figures for the years 2003-2005 represent projected results.