Initiatives to Strengthen the Bank's Earnings Base

Reinforcing Earnings Power through Business Reforms

In December 2001, SMBC established the Business Reform Committee to fundamentally reform business practices. The primary goal of the committee, headed by the president, is to pursue bankwide reforms based on two principal initiatives: (1) reform lending practices in corporate banking to enhance profitability as well as the soundness of its loan business, and (2) firmly establish competitive advantages and improve profitability in consumer banking.

Corporate Banking Business

SMBC is aggressively implementing reforms in corporate banking. These include (1) reexamining domestic lending practices to improve its risk-return profile, (2) enhancing the capacity to take greater risks, and (3) strengthening the ability to provide financial solutions.

First, with respect to the reexamination of lending practices, SMBC is developing new relationships with customers, based on sharing a mutual recognition of the credit risk. With this common yardstick, SMBC is changing the terms and conditions and lending style, applying risk-based pricing so that both parties will mutually consent to the new terms. Here, the goal is not simply to share risk acknowledgement, but to emphasize the provision of financial solutions that will improve the customers' financial condition and enhance their corporate value. On the premise of a common recognition of credit risk, SMBC will review its lending approach to make it more suitable for the use of proceeds and source of repayment of the loan, clarify the terms and conditions of the loan agreement preparing for future changes in the customers' financial condition, and apply a loan spread reflecting the credit risk, the due date, and the source of repayment.

Second, to bolster our ability in taking greater risks, it is necessary to actively increase loan assets with better risk-return profiles. To that end, SMBC has been introducing a new type of loan product using original scoring models for small and medium-sized companies, and actively extending loans based on the cash flows generated by borrowers' business operations and assets.

Third, to strengthen the ability to provide financial solutions, SMBC will respond to clients' needs for restructuring and for fund raising by providing comprehensive financial services through debt capital market financing such as syndication and debt securitization. We will also reinforce our services related to business revitalization and M&A in order to enhance customer net worth. Furthermore, to tap new business opportunities arising from customers' needs to improve efficiency in cash management and accounting operations, SMBC will provide outsourcing services for settlement.

Consumer Banking Business

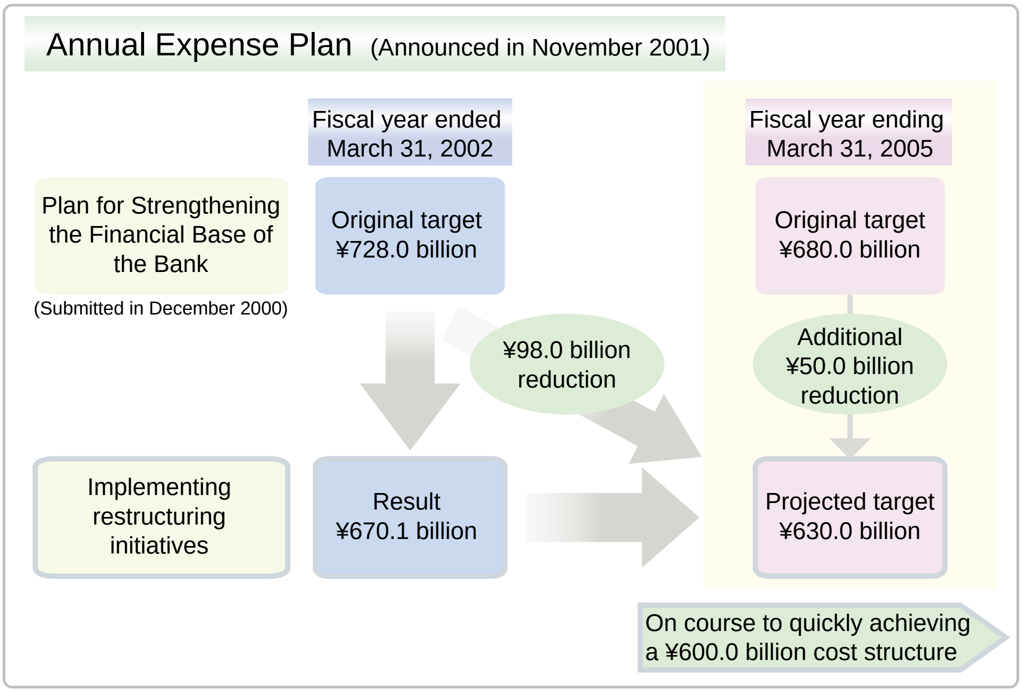
The reform initiatives in consumer banking include (1) the development of a new transaction model to support customers' changing consumption patterns, and (2) the simultaneous improvement of customer convenience and cost-performance to make the "mass-retail" business an ever-larger profit center.

SMBC is developing standardized and specialized transaction models based on the principle that customers can select the financial services they need at each stage of life and the Bank will be compensated according to the type of service provided. In addition, SMBC will continue to build a settlement infrastructure jointly with its Group firms in response to the market's need for sophisticated and complex financial services.

SMBC will also actively promote consumer-financing services to support their diversifying consumption patterns of our retail customer base. Enhancing cost-performance continues to be the central issue in consumer banking. SMBC is actively implementing several initiatives toward this goal. In addition to streamlining the internal systems, including productivity gains achieved through restructuring of human resource capabilities, SMBC is simplifying administrative procedures leading to enhanced customer convenience.

Cutting Expenses by Raising Operational Efficiency

Expense Reduction Plan



Major Restructuring Initiatives (Annual Expense Plan, announced in November 2001)

(1) Cutting distribution channel expenses by streamlining manned branch network

- To reduce by March 31, 2003 the number of domestic branches from 578 at the time of the merger (March 31, 2001) to 401 (reduction of 177 branches, or a reduction of 69 more branches than targeted in the Plan for Strengthening the Financial Base of the Bank)
- Within the reduction of 177 branches, integration of 34 branches was advanced from fiscal 2002 to fiscal 2001, the year ended March 31, 2002 (Domestic branches as of March 31, 2002: 544)

(2) Cuts in facility-related expenses

- To reduce facility-related expenses by terminating the lease of the Kudan Head Office, integrating the system and back-office centers, and selling company housing

(3) Cuts in processing system-related expenses

- To exploit merger-related opportunities to streamline our systems infrastructure and use Business Process Reengineering to rationalize processing operations

(4) Workforce streamlining

- To reduce by March 31, 2004 the headcount from 27,142 at the time of the merger (March 31, 2001) to 22,600 (a reduction of 4,542)
- Staff reductions of 2,115 were already achieved in fiscal 2001 (employees as of March 31, 2002: 25,027).

(5) Compensation

- To review remuneration of directors (SMBC plans to make further cuts in the number of directors and their compensation)
- To reduce the provision of reserve for employee bonuses

(6) Other actions

- To reduce expenses related to outsourcing services within the Group through the enhancement of management efficiency of SMBC Group companies