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

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 drawn up in March 1999, when the two former banks accepted infusions of public funds through subscriptions to preferred stock, and was revised in December 2000 when the merger application was filed. The following is summary of the Bank's progress in fiscal 2001, the year ended March 31, 2002, toward achieving the targets laid out in the Plan.

Earnings Plan

On a nonconsolidated basis, gross banking profit amounted to ¥1,853.5 billion, ¥425.5 billion higher than the target of ¥1,428.0 billion. Major factors contributing to this increase were strong profits from foreign-currency treasuries due to robust asset liability management (ALM) operations on declining U.S. interest rates, and higher dividends received from overseas subsidiaries, etc.

Expenses were ¥670.1 billion, ¥57.9 billion lower than the target of ¥728.0 billion. Despite the rise in IT systems integration-related expenses from the merger, SMBC achieved this reduction in expenses by various measures, including a reduction in headcount, the consolidation of both domestic and overseas branches, and a reduction of operating expenses by the revision of procurement practices through the merger. As a result, banking profit, excluding transfer to general reserve for possible loan losses, was ¥1,183.4 billion, ¥483.4 billion higher than the target of ¥700.0 billion. Return on equity (ROE; banking profit basis) was 33.95%, well above the original target of 15.60%.

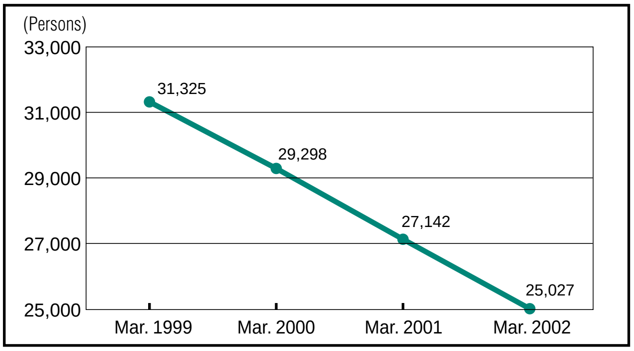
The Bank recorded a net loss of ¥322.8 billion, which fell short of the original income target of ¥210.0 billion. The primary cause was the large increase in total credit cost, including transfer to general reserve for possible loan losses. Such cost totaled ¥1,543.1 billion, or ¥1,343.1 billion higher than targeted, a result of the positive measures taken to resolve the asset quality problem.

Going forward, SMBC will increase retained earnings by expense reductions through additional restructuring, restrictions of payouts, and other measures. By these means, SMBC intends to maintain its resources for redemption of the preferred stock held by the government.

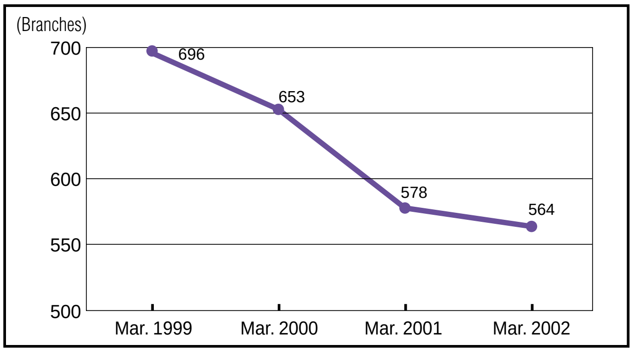
Rationalization Plan

As of March 31, 2002, SMBC employees numbered 25,027, well below the target of 26,200. Meanwhile, the number of domestic branches was reduced by 14 during fiscal 2001 to 564, exceeding our target of 573 by nine branches. To accelerate the rationalization of the domestic branch network, in an area with overlapping branches, we relocated the excess branches to a core branch, and now have joint-branches at 20 locations. Including these consolidations, the domestic branch network was reduced by a total of 34 branches during the fiscal year. Overseas, the consolidation of 12 overlapping branches was completed, thereby reducing the overseas branch network to 21 branches, exceeding the target of 23 by two branches.

Number of Employees



Number of Domestic Branches



Number of Overseas Branches