

October 14, 1999

Strategic Alliance Between Sakura Bank and Sumitomo Bank

TOKYO, October 14, 1999: The Sakura Bank, Limited (“Sakura”) and The Sumitomo Bank, Limited (“Sumitomo”) today reached an agreement to form a strategic alliance premised on a full integration in the future. Details of the agreement are as follows.

1. Objective of the Basic Alliance Agreement:

As the globalization of economies and financial markets accelerate, and the progress of Japan’s Big Bang reform continues, the competitive environment for Japanese banks has intensified. The planned reapplication of the so-called “pay-off” system will induce customers to be more selective than ever before in their choice of banking service providers. Additionally, the advances in information technology have had a significant impact on the banking industry. In order to take full advantage of the advances in technology and to answer the changing needs of our customers, it is essential that we continue to exploit the fruits of information technology.

It is also essential for both Sakura and Sumitomo to be able to provide a challenging and professionally rewarding working environment for employees in order to promote the internal development of professionals who can respond to this rapidly changing environment.

In the face of this challenging environment, Sakura and Sumitomo have agreed to join forces, premised on a full integration in the future. The alliance calls for the combination of both banks’ large customer base and their strong financial-services capabilities. By enhancing the composite expertise and areas of strength of both banks, the combination will heighten competitiveness and reinforce the ability to provide high value added services and products to our clients. This in return will maximize value for our shareholders.

While staying ahead of the rapid changes in our business environment, both banks will take full advantage of this alliance by accomplishing the following main points:

- Capital alliance
- Interchange of personnel
- Consolidation of business units
- Consolidation of subsidiaries and affiliates
- Back office and system integration
- Unification and aligning of HR policy, risk management policy, and other infrastructure

Additionally, both banks will set new goals and targets to be achieved before the actual full integration.

Furthermore, we will join forces with our close corporate customers who have expertise in the areas of information technology, networks, and contents to become a leading financial services complex with the cutting edge capabilities to serve our customers in the coming information society.

2. Strategic Alliance:

Details of the alliance are as follows. In addition to the cooperation in the following areas, we will also pursue the joint development of new businesses and strategies, reciprocal exchange of board members, consolidation of subsidiaries and affiliates, and all other action that we position our new organization for success. In order to achieve early integration of our operations, we will expand the scope of our alliance as much as possible.

(1) Capital alliance:

Within this fiscal year, both banks will engage in cross-holding of issued shares. Details will be disclosed at a later date.

(2) Improve capabilities in providing products and services:

In order to provide the “highest quality” and “tailored” products and services to our customers in a timely manner, our business units will cooperate. Following are some examples.

1) Retail Banking

- Joint efforts to diversify and enhance delivery channels (i.e. convenient store banking, Internet banking)
- Full integration of ATM networks
- Joint development and cross selling of products and services targeting retail

customers (i.e. investment trusts, consumer loans)

- Joint development of e-commerce opportunities such as Internet shopping malls.

2) Corporate Banking

- Joint development and cross selling of solution business and comprehensive financial services for our corporate clients.
- Mutual sharing of credit scoring data.
- Joint development of corporate client database system.
- Joint development and promotion of CMS and settlement systems.
- Joint support of clients expanding their businesses overseas.

3) International Banking

- Joint development and promotion of global CMS and cross-border settlement systems (with the possibility of additional partnerships with other international banks).
- Consolidation of international banking operations.
- Joint strategic development of opportunities in the Asian market.
- Joint pursuit of lead manager positions in structured finance and project finance deals.
- Joint promotion of trade finance and government backed finance deal placements.

4) Cooperation and consolidation of investment banking operations.

(3) Integration and rationalization of infrastructure:

In order to improve cost competitiveness and enhance the effectiveness of our strategic IT investments, we will integrate and rationalize our management and operational infrastructure, including IT systems. Some of the areas under consideration are listed below.

- Joint efforts to enhance and upgrade management systems.
- Consolidation of our credit risk databases and the joint research to upgrade risk management systems.
- Unification of self-assessment standards and reserve policies.
- Joint development of operation and information systems.

- Preliminary measures to ensure the full integration of all systems are operational on full integration of the banks.
- Unification of operational procedures and back office operations.
- Unification of HR policies.
- Interchange of personnel in all business units.
- Joint development of branch network strategy.
- Joint procurement.

3. Full Integration in the Future

(1) Schedule and enhancing financial strength

Full integration is expected to be completed by April 2002, basically as a merger. Both banks will achieve the following targets before the actual merger takes place.

1) Accelerate Restructuring Efforts

Both banks will complete their respective restructuring plans as stated in “The Plan for the Strengthening of the Financial Base of the Bank” (which was submitted to the FRC) by March 2002, one year ahead of schedule.

- Personnel will be reduced by approximately 6,300 employees in total (compared with the number as of March 1998).
- Domestic branches will be reduced by 151 and overseas branches by 32 (change in the number of traditional full branches as of March 1998. The number of consumer specialty branches and mini-branches will be increased).

2) Resolution of Problem Assets

Both banks are committed to the final resolution of asset quality problems by March 2002, taking into account the potential increase in credit costs due to declining property values and further corporate restructuring. The annual credit costs target after the merger will be within JPY200 billion.

3) Sales of Cross-Holding Shares

Both banks will decrease the balance of cross-holding shares with customers as much as possible, basically with customers' approval.

4) Soundness of Financial Condition

Both banks will aim to generate strong retained earnings and improve credit ratings before full integration. Also, as for the gross operating profits, both banks will make every effort to meet their respective goals for their domestic retail and wholesale businesses well ahead of schedule by virtue of the strategic alliance.

(2) Basic principle behind the integration and the New Bank

The basic principle behind the integration is “cooperation in establishing a strong financial business which provides high value-added products and services to our customers.” During the integration process, we will pursue and establish “best-practice” criteria for each business units by utilizing the competitive strengths of each bank. The integration process will be accomplished through this basic principle and the strong mutual trust between Sakura and Sumitomo. The New Bank will also aggressively reallocate resources to businesses where we will have the competitive advantage.

The New Bank formed on the above principles:

- We will provide high value-added “best quality” and “tailored” products and services to our customers in a timely manner by utilizing the competitive strength of each bank.
- We will establish a “No.1 Trusted Global Brand,” supported by a strong financial base and excellence in management.
- Consumer and middle market banking will be our core business. We will be the top bank in Japan with a geographically well balanced branch network and customer base, both in East and West Japan.
- In addition to our strong capabilities, our close business relationship with large corporations and municipalities will position us to take leadership in the wholesale and international banking arena. We will rank among the top banks in the world.
- Both banks have a long tradition of valuing the pioneering spirit, rationalism, and speed. This will provide a challenging and rewarding working environment for our employees.

(3) Additional restructuring

After the integration, we will execute additional restructuring by scrapping &

building branches, and streamlining head office function. We will reduce head count by approximately 3,000 in addition to the original restructuring plan in “The Plan for the Strengthening of the Financial Base of the Bank,” which we submitted to the FRC in March. We will begin this restructuring process ahead of the actual integration, and hope to realize the restructuring benefits within 2 years of the integration. As a result, the number of employees (as of April 1998) will be reduced by 9,300 in total by March 2004.

(4) Detail of the full integration

The integration will basically be a merger, and will be subject to associated legislation and tax reform. The final decision will be decided by deliberation of the two banks. The New Bank’s name, place of the head office, and the Members of the Board will be determined in the future, based on the principles of the basic agreement.

We will further discuss on merger ratio, which is to be based primarily on stock price, taking commonly accepted adjustment methods into consideration, and are planning to determine it at the time the form of integration is decided.

4. Preparatory Committee for Integration

“Integration Strategy Committee,” co-headed by the presidents of both banks, will be established to implement the overall business alliances and ultimate integration. Sub-committees focusing on various specific subjects, including information systems, operation process, retail business and wholesale business will also be established under the “Integration Strategy Committee.”