MESSAGE TO SHAREHOLDERS

yoshifumi nishikawa
President and CEO

On behalf of Sumitomo Bank, our affiliates and, most of all, our employees around the world, we would like to express our gratitude for the support and trust that you, our shareholders, have shown to us during the past year. This support has been indispensable during the harsh economic climate of the past decade. It has inspired us as we have forced the pace of restructuring during the past two years. It will matter even more now that Sumitomo has agreed on a date for its historic merger with The Sakura Bank, Limited.

Plans for this great commercial marriage are now moving ahead rapidly in preparation for the advent of the Sumitomo Mitsui Banking Corporation (SMBC), in April 2001. We are convinced that our shareholders will benefit from the shareholder value creation that this banking alliance embodies, building, as it does, on the solid foundations we have laid during the past two years.

Three Initiatives

Three initiatives stand at the heart of our efforts to strengthen our performance: the radical overhaul of our business operations, our merger with Sakura Bank, and our long crusade to improve the quality of our assets. These three targets dominated the agenda of Sumitomo Bank during the past year, just as they will in the new fiscal year.

Our Performance in Fiscal 1999

I am very gratified to inform you that fiscal 1999 was a rewarding year for Sumitomo Bank. During the past 12 months, we have pursued these three strategic initiatives. Our new organizational structure is firmly in place and beginning to show impressive results. Fiscal 1999 was designated as the year we wanted to put the keystone of our future growth strategy in place. I believe that we have succeeded in the goals we set ourselves.

In the overhaul of our business structure, the key concept has been market segmentation. Domestic consumer banking, domestic middle market banking, and our capital markets business define the strategic cores of our business reforms. Consistent with this new strategic focus, we have reallocated our management and operational resources among these three broad market areas.

This kind of strategic thinking has informed the major initiatives that we have undertaken since fiscal 1998. Breaking with conventional banking practice, we split and segmented our consumer and middle market banking operations. We then concentrated our energies on specialist services, upgrading our armory of financial products and advisory capabilities.

The results of this overhaul are already apparent. By shrinking our cost base we were able to offset substantially the impact of low margins in our Consumer Banking Group due to near zero deposit spreads and remain poised to benefit from any return to a more normal interest environment. Meanwhile, we have established ourselves at the forefront of new, high value-added innovations in consumer banking including on-line banking and tele-banking, and retail marketing of investment trusts. In the meantime, because of the strength of our new, more focused services for corporate customers, commission revenues from remittances, electronic banking and other transactions have expanded, thus enhancing our profit margins.

In addition, it should be noted that we do not intend to rely wholly on internally generated growth. We are also open to forming relationships by collaborating with or acquiring companies whose strengths complement our own. The most important example of this strategy to date, after the merger with Sakura Bank, although by no means the only one, is the alliance that we have formed with the Daiwa Securities Group Inc.

Our joint venture with Daiwa Securities Group Inc. has met with great success. Indeed, the excellent business results already being achieved by Daiwa Securities SB Capital Markets Co., Ltd. (Daiwa SBCM) offer further proof of the efficacy of our program of strategically reallocating our business resources.

In a parallel move, we also initiated a major cost-cutting drive, and this, too, is proceeding well. The overall result is that the income of our four marketing groups - the Consumer Banking, Middle Market Banking, Corporate Banking, and International Banking groups - has dramatically improved.

As the above examples illustrate, the Bank has made great strides over the last several years and can afford to contemplate the future more positively than in any year in recent memory. Structurally, we are now very much where we want to be. The clear separation of responsibility between our marketing groups allows us to benefit from a combination of focus and managerial efficiency at the operating level, an approach that is already producing tangible results.

Our relationship with the Daiwa Securities Group Inc. is driving our capital markets business forward, allowing us to gain exposure to one of the most exciting branches of contemporary investment banking while leapfrogging our competition among other Japanese commercial banks.

Additionally, while the bad loan overhang from the bubble years will, I am afraid, be a continuing burden for the Japanese economy, we at Sumitomo Bank, by taking aggressive pre-emptive action, have succeeded in making the problem far more manageable than seemed possible only a few short years ago.

The Rationale for the Merger

I would like now to comment on the merger with Sakura Bank.

This merger is a natural one for Sumitomo Bank. It complements our radical restructuring effort by giving us the opportunity to pursue efficiencies on a grander scale with a partner possessing a highly compatible franchise both in terms of customer base and product line-up. As the current wave of banking mergers, both here in Japan and abroad, has indicated, there is an impeccable logic to the consolidation in the industry. This logic is grounded in the ability to fund necessary investment in information technology (IT) and other areas, and the role of size in promoting operational efficiency.

Of course, our relationship with Sakura Bank was not created overnight; the logic of an alliance had been clear for some time. Once the foundations for substantive internal reform had been laid, our longer-term needs dictated that we act sooner rather than later. As a general rule, increasing scale has now become a pre-requisite for achieving greater operating and capital efficiency. In addition, by fortifying our position in our home market, we are also simultaneously strengthening our reach in the global marketplace.

Seen in this light, the benefits of the merger between Sumitomo Bank and Sakura Bank are compelling. First and foremost, the customer bases of the two banks are highly complementary, in both the retail and corporate sectors. In addition, Sakura Bank is possessed of a formidable customer network and an impressive command of the new technologies that are indispensable to the financial services that will characterize the high-tech banking of the future. Moreover, SMBC will also be able to achieve significant economies through the rationalization of its balance sheet and its branch network, as well as through systems integration.

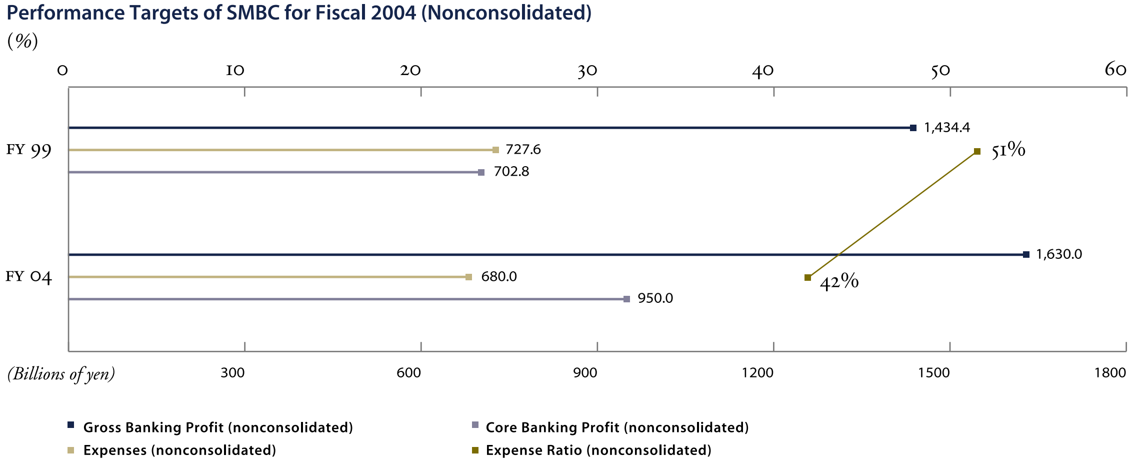
To achieve this vision, it was necessary, above all, that the merger be an uncomplicated, indeed simple, affair. We felt the holding company option to be an unwieldy compromise with limited promise of gain in operational efficiency. In order to unlock the full potential of the alliance, it was clear that only a full merger would do. Of course, we are fully aware that the history of big bank mergers, in Japan as well as overseas, is not a universally happy one. In our own case, we have been careful to set specific milestones for the merged company and a business plan, which has been jointly agreed to and is being jointly executed. Concrete planning, not vague aspiration, defines our merger and so, for all of the reasons given above, we are confident that we will achieve the following benefits:

1- Improved profitability in consumer banking.
2- Higher asset efficiency in corporate banking.
3- Strengthening our position in international banking.
4- Enhancement of our ability to finance a massive investment program in IT.
5- Strategic market positioning to allow us to assert leadership in Internet and high-tech banking in this country.

Although SMBC will rank as one of the world's largest banking groups in terms of assets, I wish to make it clear that we do not regard the size of the asset base as a particularly important indicator of banking strength. Indeed, shrinking the new bank's balance sheet while improving its quality will be our primary goal.

In 1999, we predicted that SMBC would achieve a consolidated Return on Equity (ROE) of 10% or more by fiscal 2004. Today, we are even more confident that we will reach this ambitious target. From next April, when our merger takes effect, the successful exploitation of the resulting merits of scale will be vital to our emergence as one of the world's strongest banking concerns.

Performance Targets of SMBC for Fiscal 2004 (Nonconsolidated)



Getting Things Done

As one illustration of the pro-active steps being taken, I would like to note that both banks are determined that SMBC should begin life unshackled by the legacy of bad debt from the bubble era. To ensure, therefore, that the new bank realizes the full potential of the merger, both banks pledged themselves, in a major pre-commitment agreement, to tackle their respective debt burdens before the April 2001 launch.

In the case of Sumitomo Bank, we decided to address our problem during fiscal 1999 by bringing forward a massive program of write-offs to ensure that we met our pre-commitment schedule well before the date of the merger. We have achieved this goal. Sakura Bank has done the same. Emboldened by this success, both banks confidently agreed to accelerate the time schedule for their merger by bringing the date for the new bank's opening forward 12 months to April 2001.

Thus, the good news is clear. Our overhaul strategy is resulting in increased core banking profit from our marketing groups, and we have taken decisive action to secure a sound future with our planned merger, while our asset problem is finally in the process of being resolved.

In spite of all these gains, I would like to stress that we are at the beginning of a long journey, not at its end. For example, although we have slashed our expenses by well over 10% over the past two years, there remains, I believe, ample scope for still greater operational efficiency particularly in our consumer banking operations. Building a corporate culture devoid of complacency and committed to relentless improvement matters as much as the achievement of any given level of profitability.

Sharing the Fruits of Our Success

The tasks facing Sumitomo Bank now are the same ones facing our successor: addressing the opportunities and challenges of the new age of globalized banking and the fiercely competitive financial world that it is spawning.

Our merger will bring us the benefits of size and scale, and our vigorous program of organizational reform will make us more competitive. Both should combine to give us the ability to maximize business opportunities. Our commitment to achieving a ROE of at least 10% remains solid. We look forward to sharing the fruits of our success with our shareholders.

Y. Nishikawa