

DIVISIONAL REVIEW

During fiscal 1999, the Bank achieved total gross banking profits of 722.5 billion yen, a decline of 27.8 billion yen from the previous fiscal year. Core banking profit for the fiscal year stood at 389.4 billion yen, down 7.1 billion yen. During this period, the domestic and overseas marketing group, consisting of the Consumer Banking Group, Middle Market Banking Group, Corporate Banking Group, and International Banking Group, collectively recorded another year of substantial profits. In contrast, the Treasury Group experienced a major profit decline.

During the period, the BOJ kept to its zero rate policy, while government fiscal policy remained highly expansionary. The low interest rate regime continued to affect the Bank's ability to realize appropriate deposit margins, while oversupply also affected the Bank's ability to reprice its loan portfolio. Nevertheless, some progress was made on this latter front, in spite of the adverse environment, as the Bank built on the superior service provided by the new corporate structure.

The year saw corporations start to address acute needs to rationalize their balance sheets and raise capital efficiency to acceptable levels. Widespread selling of cross-shareholdings, securitization of assets with application to a wider range of asset classes and active merger and acquisition activity were in evidence. Indications are that these trends will continue for an extended period. Sumitomo Bank has positioned itself to enjoy maximum benefit from these trends both in its traditional commercial banking activities and in its capital market activities. Working closely with Daiwa SBCM, the Bank has established itself as a front-runner in asset securitization and has also established strong positions in M&A and underwriting. In its commercial banking businesses, the Bank actively promoted such fee-based services as syndicated loans and the provision of commitment facilities to complement its more traditional loan activities.

Consumer demand for investment products grew during the year, while the deregulation of brokerage commissions in October 1999 allowed companies engaged in the securities markets to price services freely and in line with the level of service provided. This in turn sparked growth in on-line share transactions as the convenience and low-cost offered by Internet-based service providers was warmly received by investors. Since December 1998, commercial banks have been allowed to distribute investment trusts through their branch networks. Sumitomo Bank has already staked a major claim to market leadership among commercial banks in this respect, ranking second in the industry to Sakura Bank as of March 2000.

Strategies and Structures for a New Era

In order to take maximum advantage of the changing landscape, Sumitomo Bank has, over the last two years, completely restructured as described in previous sections of this report. The key components of its present strategy are threefold. Firstly, the Bank has focused and segmented its resources breaking cleanly with the "one size fits all" philosophy of past years. Secondly, it has prioritized the use of its business assets. Thirdly, it has actively sought partners with complementary franchises through an active M&A program.

To these ends, the Bank's branch banking operations in Japan have been split into two separate groups, dedicated to consumer and middle market banking, respectively. In a corresponding move, new capital markets franchises acquired as the result of the Bank's wide-ranging alliance with the Daiwa Securities Group Inc. have been applied across all groups seeking to provide the Bank's customers with high value-added, integrated services that include elements of both commercial and investment banking. In addition, the Bank is paying greater attention to raising the efficiency of its assets by promoting syndicated lending, providing commitment facilities and other measures.

In pursuit of these goals, Sumitomo Bank is now organized as follows:

- 1- Consumer Banking Group serves individual domestic customers and small local businesses.
- 2- Middle Market Banking Group serves small and medium-sized domestic companies.
- 3- Corporate Banking Group serves large domestic companies and their affiliates.
- 4- International Banking Group continues to provide international banking services to both Japanese and foreign customers.
- 5- Treasury Group is responsible for Asset Liability Management (ALM), both at home and abroad, equity portfolio management and trading activities.
- 6- Capital Markets Group is responsible for all capital market business, including securities, derivative instruments, syndication, structured finance and M&A advisory services, across all group lines.

A review of each group follows.