

CONSUMER BANKING GROUP

The Consumer Banking Group is responsible for servicing individuals and small businesses nationwide. This Group operates through Sumitomo's domestic network, which consisted of 277 branches as of March 31, 2000.

Results in Fiscal 1999

Once again, the Bank was affected by the pressure on deposit margins caused by near-zero short-term interest rates. During the period under review, interest paid on saving deposits, although only 5 bp was, in fact, above the average yield obtainable in the overnight Interbank market of 2 or 3 bp. This caused a fall of over 20 billion yen in earnings from deposits, a figure which was partially offset by increased fee income on healthy sales of investment trusts, which served to boost commission income. This Group is also the focus of the Bank's efforts to streamline operations and reduce costs. Rationalization during fiscal 1999 yielded 7.3 billion yen in cost savings, mainly stemming from reductions in personnel and branch closures. Reflecting the above trends, profit after expenses fell by 10.0 billion yen.

The Group's Business Strategy

The Bank's strategy for this Group encompasses the following elements:

Internal segmentation of the customer base to allow more precise targeting of services. This will be complemented by a re-allocation of human resources to higher value-added activities, particularly advisory and fee-based services.

Provision of a comprehensive range of distribution channels, allowing customers maximum flexibility in dealing with the Bank and promoting greater customer acquisition and retention.

Significant and continuing rationalization of the cost base, stemming from increased automation of routine tasks, more efficient internal workflow, and streamlining of the branch network. This process will also be applied to SMBC.

Over the medium term, a return to a more normal interest rate environment will have a major impact on this Group's profitability. Of course, the scale and timing of this recovery is not under the Bank's control. However, Sumitomo Bank is taking a pro-active stance to business development with a view to boosting the profitability of its operations independently of prevailing macroeconomic factors.

The Bank intends to apply the human resources made available by rationalization measures to the promotion of higher value-added businesses. A key element in this approach is the segmentation of the customer base into homogeneous target markets and the placement of staff with expertise in each segment. Thus, the Group has reorganized along five separate business lines. These are the Family Banking Division, providing services geared to the building of assets; the Investment Services Division, offering services catering to the asset management needs of customers; the Private Banking Division, focusing on the personal needs of owners of promising companies; the Remote Banking Division, specializing in payment and settlement services; and the Business Owner Division, providing financial services to business owners. Through the concentration of resources in these areas, the Bank intends to increase the value-added of its services with an eye to establishing a stable stream of fee income to complement its traditional business. As noted above, this policy has already had a measurable effect on the Group's revenue stream and profits.

An area of particular interest to the Group is the provision of investment advice and products to its customer base. A special emphasis has been placed on investment trusts. As of the end of March 2000, the Bank had outstanding investment trust balances of 450 billion yen. Sumitomo was the first bank in Japan to actively promote sales of investment trusts throughout the branch network, and now employs over 200 qualified financial consultants within the Consumer Banking Group. The secular trend is to greater individual participation in securities markets, a trend in which investment trusts are slated to play a leading role. Sakura Bank and Sumitomo Bank rank numbers one and two, respectively, among city banks in sales of investment trusts to the public. Investment advisory services and products will remain a core priority for SMBC building on its domestic reach, strategic focus and positive brand image.

Cost reduction is a cornerstone of this Group's strategy. During fiscal 1999, branch closures and personnel reductions yielded a significant cost saving as noted above. Looking forward, increased operational efficiency stemming from major investment in automation as well as continuing rationalization of the branch network will provide even greater cost benefits. One particular innovation introduced recently, which holds out the possibility of a very significant improvement in the Group's operational efficiency, is the WIT (Work-flow Innovation Terminal) automated teller terminal, which automates many functions currently requiring manual input. This innovation alone could eliminate many hundreds of positions.

Other examples of measures taken to date in support of the Group's business strategy include the following:

To establish strong relationships with heads of households in the Family Banking Division, the Group had established MC Desks (Money-life Consulting Desks) at 55 branches, as of March 31, 2000. These desks are dedicated to providing a variety of services geared to the financial needs of households. In addition, the Bank has also extended its hours of operation in certain cases to accommodate the needs of financial decision-makers.

While many other financial institutions offer private banking services targeting the needs of high net-worth individuals in general, the Private Banking Division focuses on owners of high-growth companies and offers long-term asset management advice and financial solutions. This includes IPO-related advice for their companies, as well as personal advice related to inheritance and other matters. In a little over one year, this business has grown to the point where assets held with the Division total over 100 billion yen.

In addition to the service innovations mentioned above, the Bank is committed to exploiting the potential of non-traditional delivery channels including telephone banking, mobile banking using cellular telephones, and the Internet. This is reflected in the aggregate number of remote banking contracts held, which totaled over 1.6 million as of the end of March 2000, placing Sumitomo first among all city banks. Experience indicates that offering a mix of distribution channels is effective in promoting customer retention and that the demographic profile of customers using the newer channels is attractive in terms of potential demand for higher value-added services. The Bank believes that thorough preparation and synergies with the existing branch network, especially sharing the MCIF (Marketing Customer Information File) database, will yield a competitive advantage.

Finally, the Bank addresses certain market opportunities through affiliated companies. The Sumitomo Credit Service Company Limited, the second largest credit card issuer in Japan, has moved to revamp its credit card services in light of recent technological innovations and shifts in consumer spending patterns, while QUOQ Inc. will bring a unified nationwide approach to the Bank's consumer loan operations.