

# TOWARD THE LAUNCH OF SUMITOMO MITSUI BANKING CORPORATION

On April 1, 2001, Sumitomo Bank and Sakura Bank will merge, starting anew as Sumitomo Mitsui Banking Corporation (SMBC). Previously, in December 2000, we received official approval for the merger from the Commissioner of the Financial Services Agency. We have decided upon a symbol and preparations for the inauguration of the new entity are proceeding smoothly.

## Symbol

The ascending curve of the symbol, named “Rising Mark”, signifies the new bank’s growth through the application of the diverse skills of SMBC staff to provide progressive value-added financial services and, through these services, to contribute to the welfare of customers, shareholders and the community at large. We have selected “fresh green” and “trad green” as the two corporate colors. Fresh green will be used in the Rising Mark to express our youthful, knowledgeable and friendly approach, while trad green will be used as the symbol’s background and text color to represent our tradition, reliability and stability. The symbol, color scheme and the SMBC acronym, collectively referred to as our mark unit, will be used consistently to promote our corporate identity.



Mark Unit

## SMBC Corporate Strategies

Through the merger, the new bank will figure prominently in terms of size and quality among Japanese financial services groups while striking a good east–west regional balance in its clientele and branch networks. In particular, SMBC will have a critical share in the market’s fast-growing segments—retail customers and small and medium-sized companies. Moreover, the large-corporation clienteles of both originating banks are complementary, with little overlap, providing opportunities to effectively market both founders’ products and services to customers with whom relationships are well established. The merger will also significantly improve our ability to capture new customers, such as those attracted by new service channels and e-finance.

We will fully exploit these synergies and the strong brands of the founding banks to develop SMBC as a provider of comprehensive, high-value-added financial services for the 21st century, integrating and enhancing the financial solutions provision, product line-up and networks of the two banks.

## Consumer Banking

Based on the two banks’ current results, SMBC will have the largest number of customer accounts among the domestic banks, and rank at the top of the Japanese banking industry in terms of sales of investment trusts and residential mortgages. Leveraging this advantageous starting position, we will draw upon the experience gained thus far in developing winning products, services and channels and combine it with the abilities of our highly skilled work forces to offer outstanding retail services.

Organizationally, we will maintain the existing separation in both banks between the consumer and corporate banking divisions to provide a smooth, seamless transition. Within these groupings we will organize around the various target segments.

### **(1) Asset-Building Segment (Standard Households)**

We will focus our main efforts on this segment, following a two-pronged approach to expand our dominant market share. Customers in this segment are primarily looking to build up retirement assets. We will combine the financial advice provided from manned branches (direct channel) with the marketing and services provided via our remote channels, such as call centers, telephone banking and Internet banking, which will enable us to become the preferred bank of our customers.

### **(2) Asset Management and Private Banking Segments (Business Owners and High Net Worth Individuals)**

Business owners and high net worth individuals seek sophisticated, impartial investment consultation. We will furnish them with tailor-made products and services as part of comprehensive asset and liability management packages.

### **(3) Mass Retail Segment (General Consumers)**

Customers in this segment can be expected to be future users of the services offered to the first two segments above. To attract these customers—providing them with optimal convenience at low cost—we will fortify our remote channels and continue to develop our convenience store ATM network (@B NK terminals in am/pm stores).

We will also be ramping up our credit card business with the reorganization and consolidation in July 2001 of The Sumitomo Credit Service Company, Limited, and Sakura Card Co., Ltd., into Sumitomo Mitsui Card Company, Limited. In addition, we will expand our consumer finance and settlement services through tie-ups with The Sakura Loan Partner, Limited, and The Japan Net Bank, Ltd.

## **Middle Market Banking**

We will respond proactively to increasingly diverse corporate banking requirements and the rapidly evolving market for financial instruments by making full use of the capabilities of the Middle Market Banking Unit to deliver advanced financial services and the product development capabilities of the SMBC head office. We will be looking to boost our cost-competitiveness in this division through operational rationalization.

### **(1) Financial Solutions Business (Middle Market)**

In this segment, we will focus on providing timely, proactive financial solutions to small and medium-sized businesses. This will involve initial public offerings (IPOs), securitization, trade-related finance and settlements, and derivatives and other hedging instruments.

### **(2) Small Business (Small Businesses and Entrepreneurs)**

SMBC will serve this segment with a new service entitled Value Door that will make use of its IT networks. With services ranging from Internet-based credit applications to management consulting, information services and settlement services, we will provide comprehensive support to small businesses. Unsecured loans utilizing credit scoring models and specialized business branches that will furnish a detailed response to small business needs will be part of our efforts to expand our market share in this segment.

## **Corporate and International Banking**

### **(1) Corporate Banking**

The two founding banks have secured a large clientele of first-tier corporate customers, including the member companies of the wider Sumitomo and Mitsui groups. We will build a tightly knit organization comprising the Corporate Banking, International Banking and Investment Banking units as well as specialized SMBC Group companies to serve this clientele with high-quality solutions for direct market financing, mergers and alliances, efficient application of IT, and trade settlements. In addition to traditional financial services, we will place priority on debt capital market services, such as loan syndication and securitization services. Our settlement and cash management services will meet the growing demand to make more efficient use of working capital.

While sustaining a strong customer service focus, we will be undertaking swift measures to increase profitability—maintaining the scale of assets at appropriate levels and seeking to attract more fee-based business—and heighten our asset turnover and capital turnover ratios.

### **(2) International Banking**

SMBC will organize its international banking operations into three regional divisions—Asia Pacific, Americas and Europe—to provide responsive international banking services. We will determine strategies on a region-by-region basis and rationalize the existing branch network as soon as possible. At the same time, we will be looking to expand our clientele and network in Asia, where we enjoy a regional advantage over European and North American competitors.

## **Investment Banking**

### **(1) Wholesale Securities Business**

In this market, we will establish Daiwa Securities SMBC Co., Ltd., as the flagship vehicle. This company will be formed by merging industry powerhouse Daiwa Securities SB Capital Markets Co., Ltd. (itself a joint venture

between the Daiwa Securities Group and Sumitomo Bank), with Sakura Securities Co., Ltd., in April 2001. Boasting the largest customer base among the domestic banks, we will enjoy competitive advantages over other financial groups in this market. We will fully leverage this position and refine our organization to strengthen our wholesale business.

## **(2) Asset Management Business**

We will continue to build up our asset management business by seeking new opportunities to offer first-class investment products and by drawing on the expertise of Sakura Investment Management Co., Ltd., and Daiwa SB Investments Ltd., a joint venture between Sumitomo Bank and the Daiwa Securities Group. We also intend to establish a lead in the market for defined contribution pension plans through Japan Pension Navigator Co., Ltd., a joint venture between SMBC and six other financial institutions.

## **e-Business and Strategic Alliances**

### **(1) e-Business**

We aim to position the new bank as an e-finance leader, establishing it as part of a far-reaching group based on strategic alliances with a variety of partners that offer strong IT capabilities, content, networks and large, broad-based clienteles. We will venture into Internet banking, online brokerage services, financial portal sites and other opportunities as they arise.

In the field of Internet banking, we intend to position Japan Net Bank, the nation's first Internet-specialized bank, as the de facto standard for Japanese Internet banks. To lead our online brokerage operations, DLJ*direct* SFG Securities Inc. is opening its doors as a joint venture between a major U.S. online discount brokerage company CSFB*direct* Inc., and several other of our Japanese partners.

We are also addressing the business-to-consumer (B2C) and business-to-business (B2B) markets with financial portal sites and settlement services that are in the planning or implementation stages. SMBC will also concentrate on adopting digital broadcast banking services and smart card payment systems.

### **(2) Strategic Alliances**

SMBC's strategic alliances will not be limited to e-business. We will consider tie-ups with other domestic and foreign financial institutions and companies in other industries in the interest of providing comprehensive financial services of the highest caliber.

## **Subsidiaries and Affiliates**

The various subsidiaries and affiliates of the new bank will be rationalized so that redundant companies are integrated, leaving in principle only one in any particular field. After April 2001, we will prioritize the integration of those companies that will play particularly important roles in major strategic areas and that will benefit the most from the synergy effect. In addition to the aforementioned credit card and wholesale securities companies, merger preparations are already underway to join Sakura Capital Co., Ltd., and SB Investment Co., Ltd., participants in the venture capital field, and Sakura Institute of Research Inc. and The JRI Business Consulting, Limited, both of which operate various membership and consulting businesses.

## **SMBC Financial Targets**

Under the strategies outlined above, the new bank will reorganize its constituent parts and follow a restructuring plan, described below, to raise profitability. The target for core banking profit in fiscal 2004 is ¥950.0 billion, a ¥247.2 billion increase over fiscal 1999, and the goal for the consolidated return on equity (ROE) is 10% or higher.

### **(1) Gross Banking Profit**

As a result of individually tailored strategies implemented by each banking unit (Consumer, Middle Market, Corporate and International), we anticipate a ¥337.0 billion increase in their earnings over the five-year period from fiscal 1999 to 2004. Over the same period, we expect earnings of the Treasury Unit to fall ¥102.0 billion as a result of changes in the interest rate regime. Consequently, we are targeting gross banking profit of ¥1,630.0 billion in fiscal 2004, a ¥199.6 billion increase over fiscal 1999.

## (2) Expenses

By implementing the restructuring plan and achieving the merger synergies at the earliest possible moment, we expect to reduce expenses by ¥47.6 billion from fiscal 1999, to ¥680.0 billion by fiscal 2004. We are aiming for a ratio of expenses to gross profit in the order of 42%. We will target our IT spending strategically to improve competitiveness.

## (3) Asset Quality

Both founding banks will make sufficient provisions for non-performing loans in fiscal 2000, in advance of the merger, to lower the projected annual credit costs for SMBC to within ¥200 billion from fiscal 2001 onward.

## Restructuring Plan for SMBC

To reap merger synergies as early as possible, the new bank will implement a restructuring plan that supplements and goes beyond the separate plans submitted by the two founding banks in March 1999.

### (1) Personnel

Under the original restructuring plans, the combined personnel cuts for the two banks were to be 6,300 positions over the five-year period to 2003. The new restructuring plan, however, advances this schedule by one year and removes an additional 3,000 positions through the elimination of redundant administrative staff and branch rationalizations in Japan and abroad. As a result, the work force should number 23,200 by March 2004.

### (2) Branch Network

Under the original restructuring plans, the two banks' combined domestic branch network was to be reduced to 584 branches by March 2003. The new restructuring plan advances this schedule two years to March 2001. SMBC will further reduce the domestic network to 470 branches by March 2004, a 265-store reduction over March 1998 figures, by eliminating geographic duplication and increasing market penetration via the expansion and diversification of remote channels. We will also lose no time in eliminating duplication in the new bank's overseas branches.

	Billions of Yen		
	Fiscal 1999 (Actual, both banks)	Fiscal 2004 (Plan)	
Gross Banking Profit/Gross Operating Profit	¥1,430.4	¥1,630.0	
Consumer Banking	313.0	449.0	
Middle Market Banking	560.0	717.0	
Corporate Banking	142.0	167.0	
International Banking	79.0	98.0	
Treasury	302.0	200.0	
Other	34.4	(1.0)	
Expenses	727.6	680.0	
Core Banking Profit/Net Operating Profit (excluding net additions to the General Reserve for Possible Loan Losses)	702.8	950.0	
Credit Cost	1,130.6	150.0	
Net Income	105.9	420.0	
BIS Capital Adequacy Ratio	12.03%	11.33%	
Tier I Capital Ratio	6.61%	8.38%	
	March 31, 1998 (Actual, both banks)	March 31, 2000 (Actual, both banks)	March 31, 2004 (Plan)
Number of Employees	32,531	29,324	23,200
Domestic Branches	735	653	470
Overseas Branches	60	36	22