2. Principles of Management

1. Basic Principles of Management

The Bank's basic principle is to continue to realize the following three points through synergistic management of consolidated group companies.

(1) To create the value for customers by providing financial service with high quality based on advanced financial skill and right personnel allocation and by enhancing customers' satisfaction based on valuable service for proper return.

(2) To enhance the value of company with strong financial base and high ROE (Return On Equity) by strengthening profitability and capital.

(3) To increase the value for shareholders such as dividend and capital gain by maximizing profit after taxes and earnings per share.

2. Dividend Policy

With respect to the interest of shareholders, the Bank subscribes to a fundamental policy of conducting appropriate dividends, with certain outlook for enriching capital, through steady execution of business strategy under the above basic principles of management.

3. Management Strategy

(1) The Bank is developing its business in accordance with the following three policies.

(a) Customer-oriented organization of business

On the basic recognition that the needs of customers and market is the starting point for business, the Bank separates its business organization for each market segment and is developing its business to meet specific needs. As part of that policy, the Bank has divided its distribution channel into "branch" for consumer banking and "middle market banking department" for middle market banking to respond quickly and appropriately to customer needs.

(b) Definite strategic domain and priority allocation of resources

The Bank focuses on three areas of strategic importance: domestic consumer banking, banking for the middle markets and capital markets/investment banking. This focus is promoted by concentrating human and managerial resources and enhancing efficiency of assets and capital.

(c) Acquirement of external resources and franchises by strategic alliance and M&A

In order to keep up with the rapid change of financial industry and to enhance the Bank's capacity to provide services, the Bank broke with conventional practice of self-reliance and has become positive for necessary strategic alliance with both domestic and foreign companies.

(2) Strategy of the new bank, "SMBC"

May 22, 2000, the Bank and the Sakura Bank signed a contract to merge on April 1, 2001 and to start its business as a new bank named "Sumitomo Mitsui Banking Corporation (SMBC)".

The basic principles of the new bank's management strategy consists of the following five points.

(a) Improving profitability in consumer banking

The new bank will improve profitability in consumer banking through refined customer segmentation, increased sales of profitable products and services via an extensive network, and enhanced operational efficiency.

(b) Achieving higher asset efficiency in corporate finance

The new bank will make effort to achieve higher asset efficiency by increasing fee income for quality financial solutions that meet the specific needs of clients and strengthening “market-driven financial intermediation” such as loan syndication, etc.

(c) Re-reinforcing international banking business

As for international banking business, management resources will be aggressively allocated based on selective regional focus and targeted strategies.

In specific terms, the new bank will strengthen the business in Asia by leveraging both geographic advantage and the combined customer base with rationalized branch network of both banks.

(d) Strategic investment in IT

In order to heighten its competitiveness, the new bank will invest in strategic IT area aggressively.

For examples, the new bank will further increase an investment in improvement of database marketing for customers.

(e) Displaying leadership in Internet-related financial business.

As a new financial services complex, the new bank will pursue alliances with various partners and strive to be the leader in Internet-related financial businesses.

4. Issues to be Addressed

The Bank addresses the following issues to prepare for smooth transfer to the new bank.

(1) Early establishment of strong financial base through enhancement of profitability

In order to restore financial base that was aggravated in recent disposal of problem assets, the Bank will aim to enhance its profitability.

For that purpose, the business strategy mentioned above will be kept promoted strongly.

(2) Resolution of problem assets

Both banks pledged themselves, in a major pre-commitment agreement, to tackle their respective problem assets before the April 2001 launch.

The bank will continue to strengthen credit management, credit security and portfolio management as the measures to prevent aggravation of assets, and commit to final disposal of problem assets.

(3) Preparing for smooth transfer to the new bank

Beside the problem of problem assets, both banks made two pre-commitment: accelerating the schedule for personnel and branch restructuring and reducing the volume of investment in corporate stocks. The Bank will make effort to accelerate the achievement.

Although it will take certain time to finish the integration of systems after the merger, the Bank will, with its best effort, promote the preparation for merger so as to keep customers’ convenience through enriching the variety of products that become available from the beginning of the new bank etc.

5. Financial Targets

The Bank sets the consolidated ROE (Return On Equity) as the most important performance target. The new bank aims to achieve a consolidated ROE (fully diluted basis including convertible preferred stocks and mandatory exchangeable subordinated notes) of 10% or more by fiscal 2004.

6. Pursuit of Enlightened Corporate Governance

The Bank has two principal institutions for corporate governance; the Board of Directors and Executive Officers. This division aims to clearly define the responsibility between “providing strategic direction and oversight for its operations” and “policy implementation”.
The role of the Board of Directors to supervise the Bank’s operation from the viewpoint of the interest of shareholders has come to be more emphasized than before, and the day-to-day running of the Bank is in Executive Officers’ charge. In order to strengthen the workability of the Board, the size of the Board has been reduced and the number of independent directors from outside the Bank has been increased. In addition, Risk Management Committee, Compensation Committee and Personnel Committee have been constituted from within the Board. These committees have been established in order to deliberate matters such as risk management, compliance, compensation and personnel affairs of members of the Board of Directors and Executive Officers, from a broad and objective perspective. Meanwhile, Executive Officers, who are assigned by the Board of Directors, are responsible for day-to-day operations of the Bank under the instructions by the Board of Directors.