

## CAPITAL MARKETS GROUP

The Capital Markets Group is the focus of Sumitomo Bank's activities in the capital markets, providing customers with products and services through each of the Bank's operating groups. The three main components of the Bank's capital markets operations comprise investment banking, asset management and retail securities.

This Group was extensively restructured during 1999. The wholesale securities operations were merged with those of the Daiwa Securities Group Inc. to form Daiwa SBCM, a 40%-owned affiliate of the Bank. The Group also includes Daiwa SB Investments Ltd., an asset management company formed as a joint venture with the Daiwa Securities Group, the US fund manager T. Rowe Price Associates, Inc., and The Sumitomo Trust & Banking Co., Ltd. Meiko National Securities Co., Ltd. is a retail-oriented brokerage, owned 19.86% by the Bank and 23.51% by Matsushita Electric Industrial Co., Ltd., while DLJ*direct* SFG Securities Inc., in which Sumitomo Bank has an 11.25% interest and Sakura Bank a 10% interest, is a leading provider of on-line discount brokerage services.

In addition to the products offered through its affiliates, the Bank itself offers such services as syndicated loans, asset securitization and derivatives sales, commitment facilities and other capital markets-related products.

### The Group's Business Strategy

The Bank's strategy in this Group encompasses the following:

*To provide world-class investment banking services* to the Bank's customers and others, drawing on the Bank's own resources as well as those of Daiwa SBCM.

*To establish a leading-edge presence in the asset management business* by addressing new business opportunities, including the advent of defined contribution pensions.

*To provide retail brokerage services* with an emphasis on information provision and the use of advanced IT.

### Investment Banking

Investment banking forms the core of the Bank's capital markets business. This Group provides products and services to the marketing groups. By taking advantage of the opportunity to link with one of Japan's foremost securities companies, Sumitomo has been able to obtain immediate access to a large pool of high-level capital market skills. Compared with the capital markets operations of other commercial banks, which mainly consist of home-grown securities subsidiaries set up originally to address opportunities in the bond markets, the capabilities provided by Daiwa SBCM are far superior both in breadth and in depth. Access to the investment banking capabilities of this Group, therefore, represents a key competitive advantage for the Bank in providing higher value-added services to its customers.

Daiwa SBCM had an extremely successful first year, recording 73 billion yen in recurring profit. Following the final deregulation of equity brokerage commissions in October 1999, the company quickly established itself as the leader in OTC market transactions with institutional investors.

The inherent synergies of its parentage were additionally reflected in the fact that Daiwa SBCM won an 18.3% share in the market for the underwriting of domestic straight bonds during the year. This stands very well against the 3.3% market share that Sumitomo's home-grown securities subsidiary, which has been integrated with Daiwa SBCM,

had managed in its best year. In addition, the success of the Structured Finance Division was confirmed when Daiwa SBCM was voted “1999 Asset-Backed Securities House of the Year” by Thomson DealWatch.

The third leg of the new business divisions of that company, the Strategic Advisory Department, which offers M&A advisory services, also saw revenues rise sharply reflecting the natural synergies with the Bank’s customer base. The strength of this Department has been further reinforced by the strategic alliance in Japan that Daiwa SBCM has formed with Lazard, a worldwide private investment bank with offices in the United States, Europe, Asia and Australia.

Separately, during fiscal 1999, Sumitomo Bank continued to develop its internal capability for highly-specialized securitization services embracing a wide variety of asset classes. The Bank arranged the first real estate securitization program to be launched under Japan’s new SPC (Special Purpose Company) Law and established a track record in this area, by collaborating with Daiwa SBCM.

#### Asset Management

Daiwa SB Investments Ltd. also got off to a good start. The company is well-positioned to handle diversified long-term investment portfolios. By drawing both on its own strengths in the domestic market and those of T. Rowe Price in overseas markets, the company is in reach of achieving its goal of becoming a leading asset management company for both retail and institutional investors in Japan. One area of particular interest for this company is the introduction of defined contribution - 401(K) - pensions into the Japanese market.

In another move aimed at preparing the company for the advent of the defined contribution pension business, Sumitomo Bank, in concert with a number of financial services firms, participated in the formation of Nippon Record Keeping System Co., Ltd. to develop systems for managing defined contribution pension customer accounts. The Bank also participated in a second consortium, Nippon Record Keeping Network Co., Ltd. to develop customer account management services.

#### Retail Securities

Currently, Japanese households maintain only around 15% of total financial assets in securities compared with figures of 56% or so in the U.S. for example. However, over the next several years, retail-level participation in the securities markets is expected to increase, making this sector attractive to the Bank and complementing its traditional consumer banking activities. In addition to exploiting the power of the branch network in the Consumer Banking Group, the Bank maintains exposure to this promising market through Meiko National Securities and DLJ*direct* SFG Securities to address opportunities in traditional and on-line securities brokerage.