A MESSAGE TO SHAREHOLDERS

The first half of fiscal 2000, ended September 30, 2000, was another period of challenge and opportunity for Sumitomo Bank. Our operating environment remained generally adverse. Under the stagnant Japanese economy, demand for corporate loans remained soft. Property and stock prices declined. The Bank of Japan dropped its zero-interest rate policy and raised overnight interest rates, while short-term U.S. interest rates rose significantly.

Despite such an environment, I am able to report that, on a consolidated basis, net income soared 41.9% from the first half of fiscal 1999, ended September 30, 1999, to ¥75.8 billion. Just as importantly, we raised our fully diluted return on equity 4.7 percentage points, to 8.0%, although this is partly attributed to gains from sales of investment securities.

In addition to the numbers above, I am grateful to report steady progress in the qualitative aspect of our earnings structure. On the revenue side, we made progress in becoming less dependent on the volume of commercial loans. We responded to challenges by enhancing loan spreads further through our own repricing efforts, and by boosting net fees and commissions 25% from a year earlier. On the expense side, we lowered our overhead ratio further, to 43.8%. In addition, we improved our asset quality by adequately addressing corporate restructuring of a major borrower in the vulnerable construction industry. Together with increased efforts to reduce risks in our equity portfolio by unwinding cross-shareholdings, we ended the term with a stronger financial position.

Our progress in earnings structure, specifically in expenses, asset quality and equity holdings, was in line with the commitments we and Sakura Bank made ahead of our April 2001 merger to form Sumitomo Mitsui Banking Corporation (SMBC). On the expense front, it is worth noting that we reached the cost levels we pledged to the government when receiving a public funds injection—two years ahead of schedule.

Preparations to launch SMBC are proceeding as planned. The management teams of both banks are fitting in very well with each other, reflecting careful planning that ensures we all share specific common goals. We are convinced that SMBC will be a tremendous success. Of course, we cannot determine that success—only our customers can. We must prove that the new bank is as trustworthy as the two institutions creating it. One of the key competitive advantages of SMBC is both partners have complementary strengths. We will be able to deliver dynamic and enhanced products and services, while eliminating overlaps, to create ample room for strategic investment and further improvement in cost competitiveness. We are accordingly making concerted efforts to marshal our networking, human and capital resources to those ends.

Such a promise of success should ultimately reflect shareholders' best interests. We have done much in the past year alone to improve our performance and fundamentals. That said, I recognize we still have much to do. As the mission statement of SMBC goes, SMBC is committed to continuously building shareholder value. As one of the criteria for that goal, SMBC has set a target for fiscal 2004 to achieve fully diluted return on equity of 10% or higher.

I look forward to working on your behalf, as president and CEO, within the SMBC management team. We will do our best to earn and retain your support.

January 2001

Y. Nishikawa

Yoshifumi Nishikawa
President and CEO