

# Compliance

Compliance measures are a top priority at Sumitomo Bank. All good corporate citizens must observe the law and community standards, but for highly regulated institutions such as banks, this aspect of operations assumes importance above and beyond standard requirements because of their quasi-public nature and social responsibility as stewards and intermediaries of the financial system. While regulations are disappearing at an increasingly rapid pace with the Big Bang and liberalization measures, there are also growing expectations for bank managements to regulate themselves and improve the transparency of their management practices. This trend dictates the strengthening of compliance systems throughout Sumitomo Bank, especially if we are to earn and maintain the trust of customers in Japan and abroad and to thrive in the global market. We recognize the need to instill an ever higher standard of ethics and self-discipline throughout the organization.

## **The Background to Compliance Issues**

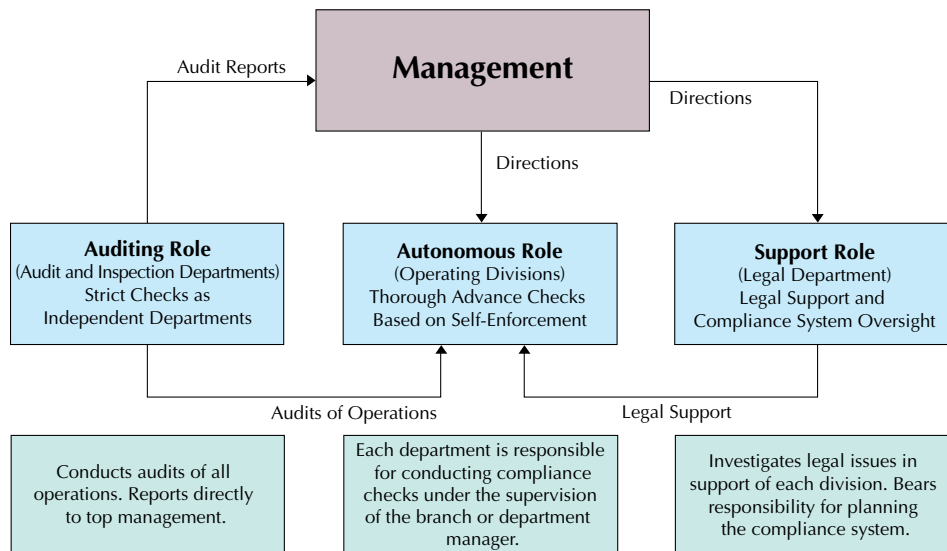
In contemplating measures to reinforce compliance and prevent the recurrence of past problems, we determined that a full-scale revamping of the compliance system was in order. On July 1, 1998, we began by upgrading the Legal Section of the General Affairs Department into a full department and charging it with the oversight of compliance issues.

In compliance with an ordinance with respect to the inappropriate entertainment of Ministry of Finance personnel issued by the Financial Supervisory Agency on July 31, the Bank has strengthened its internal control system. We submitted a report to the Financial Supervisory Agency that outlined our plans for strengthening compliance and the measures taken to date. We also took this opportunity to set up a business practice audit board—comprised of lawyers and an accountant drawn from outside the Bank—to serve as an advisory council to the president. We are incorporating the advice of this body into measures to strengthen internal compliance.

We believe that improvements to the compliance system are an essential step forward in the process of creating the infrastructure necessary to operate as an effective, market-driven organization. These improvements are also an essential part of spreading the doctrine of personal responsibility throughout the Bank. At the same time, we view these steps as only the first phase of our efforts, as it is the Bank's goal to establish Sumitomo Bank as “the most trusted bank” in Japan.

## **Compliance System**

The first step toward effective compliance throughout the organization is clarification of the current regulatory framework, which is “a dual structure” comprising the operating divisions, which self-enforce compliance, and the independent auditing division, which audits compliance after the fact.



## Compliance Manual

To implement this compliance system, we produced a compliance manual and distributed copies to our employees. This manual goes beyond the mere stipulation of compliance to laws and regulations. It was drawn up according to a February 1999 resolution of the Board of Directors and lays out the required procedures and codes of conduct by employees to ensure that the Bank's business is conducted in compliance with the legislative environment.

At a meeting in March 1999, the Board of Directors decided upon a compliance program for controlling the Bank's operations that is based primarily on the compliance manual. We are now making the necessary changes in our training and auditing systems to ensure full implementation of this program.