Strategic Actions

Strengthening the Financial Base

Sumitomo Bank has assigned top priority to reinforcing its capital base in order to establish a solid foundation from which to develop its business. The Bank instituted a number of measures designed specifically to achieve this end during fiscal year 1998 and the most notable are profiled below.

Issue of Preferred Securities

To offset the decrease in the Bank's capital resulting from the full-term loss recorded for fiscal year 1998 stemming from precautionary charges for problem loans, Sumitomo Bank issued a total of ¥340 billion in preferred securities in two private placements in February and March 1999 through SB Equity Securities (Cayman), Limited, a subsidiary established in February 1999. These placements enabled the Bank to maintain a capital ratio above the risk-adjusted 8% minimum stipulated in the Bank for International Settlements ("BIS") guidelines for internationally active banks.

The securities are dividend-bearing, noncumulative perpetual preferred instruments that are not convertible into common shares of the Bank. These securities are treated as minority interests in a consolidated subsidiary on the Bank's consolidated balance sheets; as such, they count as Tier I capital by international standards.

Public Funds

Even though the Bank's capital adequacy ratio was above the risk-adjusted 8% minimum required by international standards as a result of the aforementioned private placements of perpetual preferred securities, Sumitomo Bank applied to the Financial Reconstruction Commission and received approval to issue ¥501 billion in convertible preferred shares on March 30, 1999, for underwriting by the Resolution and Collection Bank, Ltd. This is the second flotation by the Bank that has been underwritten by public funds, and follows an issue of ¥100 billion in perpetual subordinated bonds in March 1998.

Of the ¥501 billion issuance, shares totaling ¥201 billion may be converted into common stock commencing May 1, 2002, and shares totaling ¥300 billion may be converted commencing August 1, 2005. These two series of shares were selected to provide flexibility to our capital management policy while minimizing the cost of capital and the effects of share dilution.

As noted above, prior private placements had already raised the Bank's capital adequacy ratio above the risk-adjusted 8% minimum required by international standards. The Bank, however, decided to take recourse to public funds and inject capital at this time because a risk-adjusted capital adequacy ratio above 10% will allow us to maintain a competitive edge globally and ensure that we can serve customers with a full range of advanced financial services.

The ¥501 billion in public funds will be used primarily to expand loans to soundly managed small and medium-sized businesses and to individuals, thereby contributing to the easing of Japan's tight credit situation.