

Business Strategy

The Bank's strategy is based upon two key themes: "Select" and "Focus." By selecting strategic areas and focusing on our core competencies, we have been and are continuing to overcome the challenges presented by the recessionary climate in Asia, which was ignited by the Asian currency crisis, and by downgradings of the credit ratings of Japanese banks. The Bank's commitment to being "the most trusted bank" remains unchanged. The International Banking Group is contributing towards this by providing value-added, cutting-edge products and services to customers operating on a global scale, while at the same time proactively introducing the latest overseas financial engineering techniques and know-how to domestic customers.

As part of our "Select" and "Focus" strategy, programs have been put in place to reinforce our presence in the global financial markets and to strengthen the Group's capabilities and efficiency. These include the channeling of significant management resources to wholesale banking operations, and the consolidation and streamlining of overseas offices to achieve major improvements in efficiency and competitiveness.

Key Priorities

- Finance arrangements utilizing cutting-edge financial engineering techniques and know-how
- Responsiveness to increasingly diverse and sophisticated customer needs
- Consolidation and streamlining of overseas offices and the creation of a new organizational structure

Cutting-edge Financial Engineering Techniques and Know-how

In fiscal year 1998, the Bank continued to be a top player in the global financial market, forging creative financial solutions for our customers.

Innovative Financing Scheme for Malaysia and The Export-Import Bank of Korea (KEXIM)

In December 1998, the Bank structured and executed a ¥74 billion securitized loan package insured under the overseas untied loan insurance program of Japan's Ministry of International Trade and Industry (MITI). This financing arrangement, the first Japanese scheme of its kind, received a triple-A rating from Moody's Investors Service. In addition to allowing the Malaysian government to access funds at lower-than-market interest rates, the scheme enabled the Bank to provide the loan without assuming either risk assets or country risk.

Also, in April this year, the Bank arranged and executed the first loan by private sector banks to Korea following the outbreak of the Asian currency crisis. The loan to KEXIM featured an innovative structure, providing coverage for 95% of the country risk amount through the utilization of MITI's overseas untied loan insurance program.

These arrangements enhanced the Bank's profile in the market as an inventive and resourceful solver of financial problems.

Project Finance

The Bank has been a prominent player in the project finance business since the 1970's and has a strong track record in power generation, natural resource development, petrochemical, transport and telecommunications infrastructure projects. Involvement in such projects has enabled the Bank to contribute to the economic development of countries throughout the world and the quality of life of their populations. Three of the projects for which the Bank acted as arranger—a gas development project in Thailand, a biomass power generation project in Mauritius and the Detroit Tigers Stadium project in the United States—were selected as "Deal of the Year" by *Project Finance* magazine. The role of project



finance has grown in recent years, with this business providing custom-tailored tools for jumbo-sized funding needs. The Bank is committed to remaining at the forefront of this business and to continuing to provide our customers with nothing less than excellence.

Response to Increasingly Diverse and Sophisticated Needs

The Bank consistently strives to provide top-quality services to satisfy all of the diverse and increasingly sophisticated business needs of our customers, from traditional banking to capital market and investment services.

Custody Business

Building on over 30 years of experience in providing securities asset management, processing dividend payments and interest income, and other custody services to overseas investors, the Bank expanded its service capabilities to domestic customers as well in September 1997. Underlying our commitment to excellence, Sumitomo Bank became the first and only Japanese bank to be awarded ISO 9002 creditation in the custody area last December. The Bank will continue to do its utmost to provide the best possible services to its customers.

Global Cash Management

To promote the efficient management of daily settlements and other transactions, the Bank provides customers a global cash management service (GCMS). Recognizing the risks associated with electronic business, the Bank has created an easy-to-use and secured network system for electronic banking—"Sumitomo Easy Banking." The market response to our system has been very strong and, as a result, the Bank has recently attracted over 1,000 corporate customer accounts in Asia alone.

As a strategic area, the Bank is allocating substantial management resources to the enhancement of electronic banking capabilities in addition to GCMS. One of these is "Perfect," a proprietary product that is pending patent approval, created by the Bank to simplify account reconciliation. Innovations in this area demonstrate the Bank's commitment to providing the highest quality services and products.

Streamlining of Overseas Offices and Creation of a New Organizational Structure

During the past fiscal year, accompanying refocusing of management resources on the wholesale business, an extensive rationalization of our overseas network was implemented. In addition to divesting itself of the Sumitomo Bank of California, a U.S. retail bank, and Banca del Gottardo, a Swiss private bank, in which Sumitomo had possessed an 85% shareholding and a 53.5% equity interest, respectively, the Bank closed 16 branches, 1 sub-branch, 5 representative offices 2 overseas subsidiaries, including our Madrid office in Spain and our Chon-Buri and Ayutthaya offices in Thailand.

Concurrent with the closure and consolidation of the aforementioned offices, the Bank's overseas organizational structure was reviewed. As a result, the Bank's American and European organizations were realigned in October 1998 and April 1999, respectively. The new structure has been created along market segment lines in order to allow us to react with optimum responsiveness to market changes and to satisfy the individual needs of our customers. Specifically, the Corporate Banking Department-I, Americas Division and Europe Division, is responsible for business with Japanese corporations, while the Corporate Banking Department-II, Americas Division and Europe Division, oversees business with non-Japanese corporations, and the Specialized Finance Department, Americas Division, and the International Finance Department, Europe Division, are engaged in syndication and other structured finance business, respectively.

To further reinforce this structure, the Global Client Management Department was established in Tokyo in January 1999 to provide specialized financial services to the Japanese subsidiaries and affiliates of global non-Japanese companies. Through these measures, the Bank has realigned its global network and structure with the aim of maximizing efficiency and fully utilizing the specialized market expertise and skills that we have developed over a century in the banking business.