

A Message to Shareholders

Fiscal year 1998 was a period of historic dimensions. Japan and the rest of the global economy, with the noted exception of the United States, have faced formidable challenges. The Asian economic malaise, the hedge fund debacle and political instability in various parts of the globe posed severe problems for national and regional economies as well as the global economy as a whole. More specifically in Japan, the term saw the second nationalization of a former leading Japanese bank, record high unemployment rates and little improvement in the economic situation. A bleak picture indeed.

Such times test the true caliber of people and institutions.

We do not deny that both macro and micro problems remain. However, real progress has been made by Sumitomo Bank. We undertook resolute and decisive, albeit unpleasant, measures to shake off the flab acquired during the economic bubble period to restructure and reposition for strength, growth and future prosperity in fiscal year 1998.

The effect of our internal measures, which we will later elaborate upon, was supported by government action and policies. The Law Concerning Emergency Measures for the Revitalization of the Functions of the Financial System (Revitalization Law), the Law Concerning the Early Strengthening of the Functions of the Financial System, and most specifically the ¥7 trillion infusion of public funds into 15 banks had a material effect on the Japanese financial system, and bolstered internal and external confidence in it.

Key Issues

The first steps have been taken, and we believe they have been successful.

Nonetheless, we acknowledge that the external environment will remain difficult for some time and, that at the same time, internal agendas remain to be completed. The two key issues facing us are the resolution of problem loans and the re-establishment of a solid financial base from which to improve profitability.

Resolution of Problem Loans

For fiscal year 1998, the Bank recorded a credit cost of ¥1,072 billion, which was a principal factor in the marking of our first-ever second consecutive loss. In our view, this credit cost decision was a forward-looking, positive and determined action directed at ensuring that problem loans do not impose a substantial burden on the Bank from fiscal year 1999. The self-assessment standards that we applied to assets were far more stringent than in past years, reflecting not only changes in the guidelines of the Financial Supervisory Agency and the Financial Reconstruction Commission, but also an even more conservative approach on the Bank's part.

Due to the stringent self-assessment criteria we have applied, we are confident of our ability to absorb any future deterioration in our assets, notwithstanding our more than ¥2 trillion problem loan balance resulting from the application of the new disclosure standards of the Revitalization Law. We have placed top priority on achieving this goal and will ensure that all that is necessary is done to prevent credit costs from pressuring profits and that such costs are kept at a reasonable level.

Complementing this, we are proceeding with measures to ensure a final resolution of the problem loan issue through the recovery, collection and

disposal of such credits. The implementation of such action will enable us to improve our balance sheet. At the same time, we are committed to ensuring the quality of our capital base through the employment of stringent asset assessment procedures, thorough asset preservation measures and dynamic portfolio management.

Strengthening Our Financial Base

Recognizing the importance of taking decisive steps to deal with existing and potential problem loans, as well as the effect of such action on our financial position, we raised ¥340 billion from the private sector through the issue of preferred securities to strengthen our financial base. As a result of the preferred securities issue, our capital ratio, based on the Bank for International Settlements (BIS) standards, rose to over 8%. Our subsequent two-series issue of preferred stock in the amount of ¥501 billion, which was fully subscribed to by the Resolution and Collection Bank, Ltd., boosted our capital ratio to almost 11%.

With the restoration of a strong financial base and the credentials to participate in the international arena, our focus is now directed at achieving a top performance. To accomplish this goal, we are improving profitability by offering sophisticated products and services that satisfy customer needs.

Emphasis on Customer-based Business

A strong performance by the Treasury Group during a period of historically low interest rates has contributed to the relatively high level of our operating profit over the past two years. While not underestimating the expertise and skill of the Treasury Group, we have placed a greater emphasis



Toshio Morikawa **Yoshifumi Nishikawa**
Chairman of the Board *President and Chief Executive Officer*

on non-trading business as a means of stabilizing our revenue sources. By focusing on our customers and their specific needs, we are confident of our ability to improve the bottom line.

As part of this program, we have restructured our branch organization to promote business with consumers and small and medium-sized companies. Effective April 1999, the Japanese branch structure was realigned into branches serving consumers and the Corporate Banking Group, which is responsible for small and medium-sized companies. We believe that this structure will enable us to identify market needs and movements in a more accurate and timely manner, thus facilitating the provision of value-added products and services that meet the needs of our customers.

At the same time, we will service the needs of large corporate customers with cutting-edge expertise and skills through Daiwa Securities SB Capital Markets Co. Ltd., a joint venture recently established as part of our strategic alliance with the Daiwa Securities Group.

Honing Our Competitive Edge

In addition to the aforementioned organizational restructuring, we will

continue to trim our operating cost structure. This will strengthen our ability to offer our customers products and services at competitive prices as well as boost our operating profits. Complementing such cost-efficiency measures, we have diversified and will continue to diversify delivery channels through the more effective utilization of information technology (IT) and other marketing vehicles as a means of increasing profitability and improving our competitive edge to the benefit of both the Bank and our customers. At the same time, we allocated significant management resources to ensuring our Year 2000 compliance.

In Conclusion

The new millennium is now less than two years ahead of us. Japan's financial system and financial community will certainly continue to change as the effects of Big Bang deregulation alter the landscape of the domestic

market and as movements in national and regional economies as well as the global economy interact to effect larger and deeper change. Sumitomo Bank has been positioned for success. We might even draw the analogy of a marathon runner in training. Having shed the excess of the off-season, the sacrifices and commitment demanded by physical and mental training have begun. The objective is no less than victory.

As stated previously, we are confident that we have addressed the problems facing us. We have moved beyond such remedial measures to introduce proactive programs and actions to boost profitability. We have the caliber to overcome all challenges and we have the expertise, ability and commitment to create value for our customers and to reward our shareholders.

Thank you for your support. We look forward to continuing to serve you.

Toshio Morikawa
Chairman of the Board

Yoshifumi Nishikawa
President and Chief Executive Officer