

SMFG, led by SMBC's Asset Restructuring Unit, will continue to actively promote corporate revitalization.

Major Accomplishments

Since its establishment in December 2002, SMBC's Asset Restructuring Unit has worked to accelerate the final disposal of the bank's problem assets and promote customers' corporate revitalization.

Problem Assets Reduced by ¥2,500 billion

In fiscal 2003, SMBC achieved a reduction of approximately ¥2,500 billion in the balance of problem assets disclosed on the basis of the Financial Reconstruction Law. Of this, approximately 80%, or roughly ¥2,000 billion, was reduced through the activities of the Asset Restructuring Unit.

Specifically, we actively carried out direct write-offs (off-balancing) to reduce the balance of non-performing loans (NPLs) to potentially bankrupt borrowers, while for borrowers with particularly large debt burdens, we accelerated the disposal of problem assets and corporate revitalization, utilizing the Industrial Revitalization Corporation of Japan and the process set out in the *Guideline for Multi-Creditor Out-of-Court Workouts* established by the Japanese Bankers Association.

Measures for Accelerating Corporate Revitalization

In fiscal 2003, we set up two corporate revitalization funds—the Daystar Fund and the Japan Endeavor Fund. Using these funds, we are applying a wide range of financial techniques, including those of investment banking, to revive companies deemed capable of revitalization. The operation of these funds also serves as a new source of earnings.

As part of our collaborative agreement with the Goldman Sachs Group, Inc., in November 2003 we jointly established SMFG Corporate Recovery Servicer Co., Ltd. with Goldman Sachs (Japan) Ltd., Daiwa Securities SMBC Principal Investments Co., Ltd., and the Development Bank of Japan, to undertake the revitalization of specific target companies for the Japan Endeavor Fund. SMFG Corporate Recovery Servicer will continue to make optimal use of the skilled staff, extensive expertise, and funding resources possessed by its founding companies to help target companies recover as quickly as possible.

Key Goals

Since fiscal 2002, we have been vigorously promoting the revitalization of our corporate customers. We are determined to further accelerate this process, with the aim of achieving a final solution to SMBC's NPL problem within fiscal 2004.

A Final Solution to Our NPL Problem

We aim to reach the target under the Japanese government's Program for Financial Revival of halving the NPL ratio, and completely resolve the NPL problem within fiscal 2004.

In addition to off-balancing problem assets, we plan to further strengthen our measures to put our customers back on the road to business viability, with the aim of bringing our problem assets below the allowable limit and thereby meeting the new criteria for capital adequacy to be established by the BIS.

Additionally, in concert with the full-scale start-up of SMFG Corporate Recovery Servicer, we will make full use of the Japan Endeavor Fund to revitalize those clients in need.

SMFG will also continue to fully utilize the services of the Industrial Revitalization Corporation of Japan.

Bolstering Our Corporate Revitalization Business

To enable appropriate decisions to be made in the process of reviving a company, it is necessary not only to have a precise grasp of the state of matters at the target enterprise, but also to possess a sufficient knowledge of the whole industrial sector in which it operates, and to be aware of structural reorganization trends taking place in that industry.

Moreover, to provide support for restructuring the business operations and improving the financial positions of companies overburdened with debt, methods employed by investment banks, such as mergers and acquisitions, are often effective. The staff who handle corporate revitalization programs will be required to be knowledgeable, highly qualified specialists who also possess a strong understanding of how businesses function. Such qualities are important for bank staff not only in business restructuring and support for corporate revitalization, but also for conventional banking relationships with sound companies. In the future, such staff will also be invaluable in the pursuit of new markets for funding, as well as in providing support for business restructuring.

SMBC's Asset Restructuring Unit was initially established to speed up the disposal of problem assets. Now that the end to the bank's NPL problem is in sight, however, the know-how that the staff of the Asset Restructuring Unit have acquired will surely prove invaluable in helping the bank as a whole develop new business opportunities. With this in mind, we will continue to actively address the revitalization needs of our corporate customers.



SMFG Corporate Recovery Servicer Co., Ltd.