

II. Principles and Management

1. Basic Principles of Management

The Bank's basic management principles are as follows:

- To provide higher value-added services to our customers and together with them achieve growth.
- To create sustainable shareholder value through business growth.
- To provide a challenging and professionally rewarding work environment for our dedicated employees.

Under these principles, the Bank will endeavor to meet customer and market expectations and its economic and social responsibilities in order to acquire solid customer credibility and market credibility.

2. Management Strategy

In FY2002, SMBC reinforced its balance sheet by drastically reducing the financial risks associated with stockholdings and non-performing loans. SMBC sold outright over 1 trillion yen in stockholdings, used the surplus from the merger between the former Sumitomo Mitsui Banking Corporation and THE WAKASHIO BANK, LTD. to write off unrealized losses on stocks, and, in step with the government's "Program for Financial Revival". SMBC established Asset Restructuring Unit to accelerate the work-out of NPLs, including the revitalization of problem corporate borrowers, and boosted the provisions for potential credit cost. Moreover, SMBC issued shares twice to secure sufficient capital buffer for any worse-case scenario and further fortify the balance sheet.

Underpinned by the stronger financial base, SMBC will continue to enhance its earnings power and cost management capability, and accelerate the fortification of its balance sheet this fiscal year.

3. Issues to be Addressed

Amid a very harsh business environment, SMBC has been undertaking the following action plans to build strong operating and financial base capable of withstanding even worse business conditions.

First, SMBC will further accelerate the reinforcement of the balance sheet. In FY2002, SMBC disposed a substantial amount of non-performing loans, and bolstered the provisions for potential credit cost associated with "Borrowers Requiring Caution" including "Substandard Borrowers". From this fiscal year, SMBC will steadily reduce the problem asset ratio, to half within two years, by substantially up-pacing the work-out of NPLs, including the revitalization of problem corporate borrowers, mainly through the newly established Asset Restructuring Unit. In FY2002, SMBC also reduced the book value of its stockholdings substantially through drastic write-offs of unrealized losses and impairment, and outright sales, and will further reduce stock price fluctuation risk this fiscal year onward.

Second, SMBC, the bank with the highest earnings among Japanese banks, will accelerate the implementation of steps it has been taking to improve its cost-income structure. Steps for expanding income include optimizing risk-return profile of its loan portfolio by increasing loan spreads; expanding credit-risk-taking in middle market banking, and loan syndications in corporate banking; and developing business models for consulting services in consumer banking. On the cost side, SMBC will achieve an early realization of targeted cost reduction by further streamlining the workforce, consolidating branches, and integrating computer systems.

By quickly realizing significant results from these actions, SMBC should be able to recover the trust of shareholders and improve the markets' overall evaluation.

4. Financial Targets

SMBC aims to swiftly establish the earnings structure which will ensure banking profit (excluding the transfer to general reserve) of 1 trillion yen by restructuring business and strengthening profitability.

5. Corporate Governance Policy

SMBC employs the auditor system.

As for the Board of Directors, it has two functions: setting policy for important management issues and overseeing the execution of business activities. SMBC places particular emphasis on the latter function. SMBC employs an executive officer system that separates decision-making at the operations level from the Board's oversight functions, and the Chairman of the Board does not assume direct responsibility for operational duties and is primarily charged with their oversight.

The Management Committee is the highest decision-making body at the operations level. The President chairs the committee and selects its members from the executive officers. The committee members debate important management issues, and the President has the authority to make final decisions after considering the committee's recommendations.

SMBC has an Internal Audit Unit that has the responsibility to conduct objectively internal audits for SMBC in a process separate from the oversight exercised by the Board of Directors on the shareholders' behalf. The Internal Audit Unit acts independently of SMBC's business units, the Corporate Staff Unit, and the Corporate Services Unit to ensure that the internal audit function is executed in an unbiased, objective fashion.

Also, as a consultative body to the Chairman of the Board and President, SMBC has an Advisory Board consisting of members such as top executives of blue-chip companies and leading business consultants to provide wide-ranging and impartial management advice.

6. Basic Policy on Relationship with the Parent Company

SMBC is a wholly owned subsidiary of Mitsui Sumitomo Financial Group, Inc. Besides SMBC, SMFG has three other strategic subsidiaries---Sumitomo Mitsui Card Company, Limited, SMBC Leasing Company, Limited and The Japan Research Institute, Limited--and two direct-invested companies--Daiwa Securities SMBC Co. Ltd. and Daiwa SB Investments Ltd.

In order to realize 'Optimal Group Structure' and 'Substantial Reinforcement of Strategic Business Lines', SMFG oversees strategic planning and management, resource allocation, new business development, strategic planning of information systems, financial management, investor relations, risk management, human resource management of executives, and business auditing of the group as a whole.

SMBC has been taking steps to realize synergy in accordance with SMFG's strategy in order to provide more value-added services to its customers.