The SMBC Plan for Strengthening the Financial Base of the Bank

Continuing in the wake of its predecessors, SMBC is striving to strengthen its financial base by raising profitability and rationalizing operations through the merger with the objective of raising its ability to redeem the public funds it received. The Bank will draw upon the respective strengths of its two founding banks to enhance corporate and shareholder value by offering more high-value added products and services to customers. Our goal is to achieve a superior standing in profitability and soundness, becoming an internationally competitive financial institution fully capable of contributing to the stability of the financial system and to economic development.

Operating Targets up to Fiscal 2004

To enable the Bank to redeem its public funding and continue on a growth path, we have set the fiscal 2004 target for banking profit to ¥950 billion and net income to ¥420 billion, which will be reached by rebuilding and restructuring operations.

On the expense side, we will continue to invest in strategic IT systems while bringing the beneficial effects of the merger into play early on. By fiscal 2004, we expect to achieve savings of ¥100 billion over the fiscal 1998 cost structure of the two founding banks, bringing expenses down to ¥680 billion. We will take the expense ratio, expressed as expenses divided by banking profit, from 54% in fiscal 1998 to the 42% level by fiscal 2004. The one-time expenses related to the merger will be approximately ¥23.3 billion in fiscal 2001. Over the period from fiscal 2001 to fiscal 2003, we expect to incur charges of approximately ¥51.5 billion for systems and branch dispositions, and over the period from fiscal 2001 to fiscal 2004, approximately ¥128.4 billion for system integration.

By fiscal 2004, when these one-time costs will be eliminated, we aim to secure net income of ¥420 billion and a return on equity of 10% or more (on a consolidated basis).

The efficiencies gained through the merger and heightened profitability will enable us to accumulate additional internal capital, which we will combine with more sophisticated risk management systems to keep potential risk under control and maintain adequate capital. While we will rely partly on retained earnings to improve our financial condition, it will be necessary for us to continue to liquidate and securitize existing assets, eliminate non-accrual and low-margin assets and reduce holdings of shares held for strategic purposes to maintain risk assets at appropriate levels. Specifically, we plan to reduce the two founding banks' combined ¥71,816.6 billion balance of risk-adjusted assets at March 31, 2001, to approximately ¥68,000 billion by March 31, 2005. This will enable us to maintain our BIS-defined capital adequacy ratio above the 10% level expected of internationally active banks. By fiscal 2004, we expect to take our Tier I ratio to 7% or higher and the BIS ratio to 11% or higher.

Fiscal 2004

Banking Profit	¥950 billion
Net Income	¥420 billion
Consolidated ROE	10% or higher
BIS Capital Adequacy Ratio	11% or higher

Restructuring Plan

The business climate has changed remarkably for banks in recent years with the implementation of the financial “Big Bang” and other liberalization measures, and the globalization of the financial sector and other parts of the economy. Our response to these changes is to take a proactive and flexible stance. To provide the high standard of service demanded by customers, we will concentrate on the following courses of action until fiscal 2004: (1) expand consumer banking profits through focused customer segmentation, increased promotion of higher margin products and services, and a lower cost structure; (2) promote transactions with domestic and overseas corporations based on business models that feature high asset efficiency; (3) rebuild and expand overseas operations with reformulated strategies in each geographic area; (4) invest strategically in IT to strengthen marketing and provide network platforms to serve small and medium-sized corporate customers; and (5) establish a leading position in e-business.

In the domestic market, we have divided operations into the consumer and corporate sections and are introducing separate marketing organizations for each customer segment. Within the consumer sector, we are clearly identifying customer segments, creating specific business models for each segment and offering the most appropriate high-margin products and services based on low-cost delivery structures. In the corporate sector, we enjoy a commanding market share in the small and medium-sized business segment. The merger provides us with a balanced geographical base in both the Kanto and Kansai regions to build on this and create a solid profit base by offering complete business solutions.

Rationalization Plan

In addition to the original restructuring plan, under the merger plan we are planning additional rationalization measures that will eliminate the duplication of functions in both the head office and branch network. We will reduce the number of employees by 3,000, close 100 branches in Japan and 12 overseas, and increase the effectiveness of IT spending by integrating the two systems. The result will be annual cost savings of approximately ¥60 billion.

By March 31, 2004, we plan to reduce our staff by a total of 9,300 employees, close 265 domestic branches and shut down 38 overseas offices as compared to the March 31, 1998 levels.

We shall continue to invest in IT to strengthen our competitive abilities. Specifically, we are investing in systems to carry out advanced database marketing for consumers, to provide a network platform to serve small and medium-sized businesses, to create the financial content and supporting infrastructure for e-business, to upgrade the sophistication of risk management and management information systems, and to upgrade the internal information system to enhance general productivity. By integrating the two founding banks’ systems, we will eliminate the duplicate investment and maintenance expenses previously required. The funds freed by the merger can then be directed toward strategic IT investment.