Launch of the New Bank

I am pleased to report that SMBC began operation on April 2, 2001. This auspicious start at the dawn of the new millennium has created great expectations from our shareholders, investors and customers, as well as the general public, for the responsibilities we bear as a cornerstone of the economic infrastructure. We welcome this interest and will work hard to earn the trust of shareholders and stakeholders.

The merger has provided us with the key infrastructure—such as various delivery channels, skilled personnel and other management resources, and the competitive might of the Group in each field—to sustain SMBC in the top echelon of the Japanese banks. The crucial task now is to use this infrastructure to produce concrete results under the SMBC brand, which marries the strengths of the Mitsui and Sumitomo brands that have been built up so carefully over the years to mean reliable and innovative service.

The Economic Realities

In the domestic economy, it is abundantly clear the corporate sector faces a period of adjustment that will continue to slacken demand for financial services. As these conditions begin to be felt in corporate performances and their financial positions, the competitive environment for banks will get even tougher. Nonetheless, the companies that have restructured themselves on the basis of new business models suited to the times are growing in number and we are beginning to see the results of their strengthened capabilities. We view the industrial structuring now underway as a business opportunity and one of the ways in which we can move forward with new growth.

Critical Issues

We consider strengthening our profit base and balance sheet management to be the top two priorities at this time. We have a number of initiatives to deal directly with these issues. While achieving these targets will not be easy, we are applying bold ideas and resolute measures that will chart a steady course toward the desired outcome, executing paradigm shifts as needed.

To bolster our profit base, our primary strategy is to draw fully upon the expanded operating base created as a legacy of the merger and to approach each customer segment from the customer's perspective. In the retail market, we are taking a customer-by-customer approach to provide the most appropriate services with the goal of maximizing convenience. In the corporate segments, we are addressing operating and financing needs with a variety of services that form complete solutions. We are placing particular emphasis on expanding financial services that do not use our balance sheets, such as fee businesses. At the same time, we will be looking to further pare down expenses. We anticipate that expenses will temporarily increase as a result of computer systems integration and similar start-up costs associated with the merger, but expect to achieve the benefits of the merger synergies early in the process. By fundamentally revising our business processes, we plan to radically reform cost structures and increase the size of the merger effect. We are also planning to operate more cohesively as a consolidated entity to boost overall Group profitability. The investment banking and credit card businesses have significant strategic value. Since the respective companies participating in these markets from both founding groups would gain significant merger synergies and strength, they integrated their operations at the same time the parents merged. We expect the newly merged companies to use their expanded operating bases and expertise to contribute to the growth of consolidated earnings.

Yoshifumi Nishikawa, President

Balance sheet management is the other focus of activities. Our first priority is to deal conclusively with non-performing loans. We are stepping up disposal and giving this issue our full attention. We are monitoring the non-performing loan measures proposed in the government's emergency economic package, while moving forward with our own initiatives to resolve each non-performing loan individually. Our initiatives include detailed dialogs with each borrower to detect potential problems early on and put preventative measures in place to avoid new outbreaks of non-performing loans. Our second priority is to reduce the potential for stock price volatility risk to impact our balance sheets, as the accounting method for the stock portfolio changes to the mark-to-market method.

In Closing

I am firmly committed to strengthening the Bank to make it a first-class player in the international financial markets at the earliest opportunity. Immediately following the merger, the entire Bank, from the directors and management to the staff, has set to work under a single system—without redundancies—toward a clearly defined set of goals. We will strive to maximize the synergies of the merger and secure a leading spot among the competition by promoting staff on a merit basis under a unified personnel system, putting the right people in the right places, instilling in them a sense of urgency and empowering them to turn plans into reality. We shall carry on fulfilling the responsibilities entrusted to us and work to make SMBC the most trusted brand in the market.