

President's Message



Yoshifumi Nishikawa
President and Chief Executive Officer
 Sumitomo Mitsui Financial Group, Inc.

Establishment of the Sumitomo Mitsui Financial Group

As a continuation of the thrust generated from April 2001, when the two former banks were merged to form Sumitomo Mitsui Banking Corporation (SMBC), early into the first half of fiscal 2002, the six months ended September 30, 2002, we achieved all our goals in terms of IT systems integration and business consolidation, marking what we term the “first stage” of post-merger management, such that we were then ready to move on to the “second stage” focusing on Group-wide structural reform, where enhanced earnings and a more robust financial foundation would be our primary aims. So in December 2002, as a strong statement of our swift and solid progress in reaping the merger benefits thereto, we attained a significant milestone by establishing the holding company, Sumitomo Mitsui Financial Group (SMFG), Inc., through the transfer of shares from SMBC, which then became a wholly owned subsidiary under its umbrella.

We deemed a holding company structure to be the best configuration for achieving optimal Group management: to formulate and execute strategies more exactly, implement more rigorous Group-wide corporate governance, and realize a highly flexible and expandable structure that would broaden our range of strategic options.

As part of the ongoing Group-wide reorganization, in February 2003 we reached another landmark as Sumitomo Mitsui Card Company, Limited, SMBC Leasing Company, Limited, and The Japan Research Institute, Limited each

became wholly owned subsidiaries alongside SMBC. At the same time, Daiwa Securities SMBC Co. Ltd. and Daiwa SB Investments Ltd. became the directly invested companies of the holding company.

Looking ahead, in March this year SMBC is scheduled to merge with THE WAKASHIO BANK, LTD., formerly SMBC's wholly owned subsidiary, under the SMFG umbrella, so the Group is set to emerge as a new financial services complex with great promise to be shown in the years ahead.

Key Issues Being Addressed

In the first half of fiscal 2002, we continued to be afflicted by adverse macroeconomic conditions both in the US and Japan, but we remained steadfast in our objective of resolving the lingering issue of problem loans and boosting our financial soundness through the sale of shareholdings. Furthermore, we never lost our focus on greater speed in enhancing profit by raising efficiency through a rigorous reform of business practices and Group-wide management policy, having set the improvement in asset quality and further enhancement of earnings as two top priorities.

Improvement in Asset Quality

Our actions are focused on dealing resolutely with nonperforming assets and reducing the risks from

excessive stock price volatility. In fiscal 2001, we were proactive in revitalizing financial soundness by accelerating the resolution of problem loans. Thus, we were able to contain total credit cost in the first half of fiscal 2002 to ¥266.3 billion, almost as forecast at the fiscal-start. However, due to the occurrence of new problem loans, the amount outstanding as of September 30, 2002 declined by a modest ¥196.9 billion, compared with March 31, 2002 (Financial Reconstruction Law basis).

We will continue to focus on minimizing the occurrence of new problem loans, while accelerating the execution of work-outs on existing ones through off-balancing. To that end, we established in December 2002 a department specifically assigned to execute these tasks, the Asset Restructuring Unit. This unit has a team designated to implement credit reviews across the spectrum of various sized corporate borrowers, provide investment banking services for devising optimal corporate restructuring proposals (rehabilitation, corporate splits, M&As), and execute work-outs together with a body of accounting and legal experts.

By optimally utilizing the merger profit to be gained through the scheduled merger between SMBC and WAKASHIO BANK, we will be able to offset the unrealized losses on held securities. We will proceed with a vigorous program of reducing our shareholdings, so we can significantly reduce our risks from equity exposures: this will allow us to more than meet the equity investment restriction on banks due to become effective in September 2004.

Further Enhancement of Earnings

As part of our total commitment to building an earnings structure that can consistently generate long-term growth, we have set the following goals.

1. Continuously Reform Business Practices

We are continuously reforming our business practices in major fields and our actions are being manifested in our strong performance. A case in point is the reexamination of domestic lending operations in our corporate banking business. Based on the philosophy that risk-taking is the main role of a lending institution, and a bank and a customer should together share a common recognition of credit risk, we at SMBC are adopting a multilateral approach by offering financial solutions meeting the clients' fund-raising, corporate restructuring and

streamlining needs in a more consultative way to enhance corporate customers' net worth, thereby allowing us to gain rewards more commensurate with the corresponding risks. Through such initiatives, we are revamping our business model from the rather outdated, risk-averse "buy and hold" stance to the innovative, more dynamic and flexible "originate and distribute" approach, and in turn enhancing our bottom line, while developing a novel relationship with our customers. Furthermore, reflecting our enhanced risk-taking capabilities, for our small and medium-sized corporate clients we are offering the *Business Select Loan* based on a definitive credit scoring formula and actively promoting nonrecourse loans.

2. Consistently Achieve Greater Operational Efficiency

While SMBC has benefited from the momentum of aggressive cost cutting in the recent past, with SMBC now commanding one of the most efficient cost structures within the Japanese banking industry, we still aim much higher. For example, in July 2002 we accomplished the integration of our domestic accounting systems, and are scheduled to complete branch consolidation in the current fiscal year. To ensure consumer banking in particular becomes a more significant profit center, we will pursue ever-higher targets in reducing operational costs, leading to much greater cost savings ahead.

In Closing

Despite the challenging circumstances, all of us under SMFG stand united in our full commitment to and dedication in offering unprecedented solutions through our swift actions. Through such initiatives, I firmly believe we stand to gain the solid trust of our customers and the strong confidence of the markets, thereby contributing positively to our financial soundness and raising the net worth for our esteemed shareholders. We do respectfully continue to seek your valued support and encouragement as SMFG takes a firm leap toward a new era of greater prosperity.

Yoshifumi Nishikawa
President and Chief Executive Officer
 Sumitomo Mitsui Financial Group, Inc.