

| President's Message |

SMBC's First Year in Review

Fiscal 2001 marked the first year for SMBC during which we laid down a solid foundation and quickly reaped the benefits of the merger. Amid the continued adverse macroeconomic conditions in Japan, we resolved to quickly build a formidable institution with a sound financial base and fortitude required to meet the challenges ahead.

On this backdrop, I am pleased to report a number of achievements.

1. The former corporate cultures were unified under SMBC, and we now boast a new corporate organization of integrated Group companies and systems.
2. We reaped synergies from our substantially broadened base of customers, products, and services: a case in point was the banking profit of over ¥1 trillion contributed by our profit centers, like Treasury Unit. To maintain momentum, we set up the Business Reform Committee to revamp our former business practices across the board.
3. We posted significant cost cuts by focusing on: customer convenience, through the expansion of remote channels and the consolidation of branches; and streamlining infrastructure, especially in administrative processing and facilities.
4. We acted to revitalize our financial condition so we would post strong earnings from fiscal 2002. Our focus was on problem loans, where we instigated the reorganization of borrowers with large exposures for which reserves were raised, and also proactively reexamined the category of borrowers and elevated the reserve ratio. Therefore, our credit costs amounted to ¥1,543.1 billion, marking a significant step toward a solid resolution to loan nonperformance and protection against potential risks.

Key Issues for Fiscal 2002

I firmly believe the real magnitude of the benefits of merger will surface in fiscal 2002. Capitalizing on the former banks' speedy strategy execution, strong business base and comprehensive range of services, we will reap significant competitive advantages and realize maximum profits. Our strengths will not stop there, as we will continue to take decisive actions to further improve asset quality and enhance earnings, which I have set out as two top priorities for this year.

Improvement in Asset Quality

Here, our actions center on dealing resolutely with problem assets and reducing the risks from excessive stock price volatility. In fiscal 2001, SMBC was proactive in revitalizing financial soundness by accelerating the resolution of problem loans.

In fiscal 2002, we continue to focus on minimizing the occurrence of new problem loans, while quickly executing work-outs on existing ones. To that end, we have in place a department specifically assigned to undertake these tasks. Concurrently, in our quest for ever-greater speed, we will continue to effect and indeed accelerate the reduction in our risks from equity exposures so as to more than meet the equity investment restriction on banks due to become effective in September 2004.

Further Enhancement of Earnings

We are totally committed to building an earnings structure that can generate consistent long-term growth. To achieve this, we have set the following goals.

(1) Consistently Achieve Greater Operational Efficiency

While SMBC has benefited from the momentum of aggressive cost cutting by the two former banks, with SMBC now commanding one of the most efficient cost structures within the Japanese banking industry, we still aim much higher. For example, as we accomplished the integration of our domestic accounting system in July 2002, we will advance the schedule for consolidating branches. Therefore, we stand to reap much greater cost savings ahead.

(2) Continuously Reform Business Practices

As an ongoing process to achieve stronger earnings, we continuously reform our business practices in major fields and our actions are being reflected in our positive performance. A case in point is our corporate banking business.

Intense competition led to ingrained lending practices within the industry that tended to veer away from a profit focus and risk rationality based on total loan portfolio management, whereby margins eroded. Therefore, such legacies from the past are overdue for reform. 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 adopt a multilateral approach by offering financial solutions meeting the clients' fund-raising, corporate restructuring and streamlining needs in a more consultative way to enhance the corporate customers' net worth, thereby allowing us to gain rewards more commensurate with the corresponding risks. Through such initiatives, we will enhance our bottom line while developing new relationships with our customers.



In Closing

I believe one of the issues facing not only SMBC but also the whole Japanese banking industry is to quickly reform outdated business practices, and we at SMBC are taking the strong lead by challenging the status quo and offering unprecedented solutions through our innovative and dynamic approaches. Taking the wide view, it is my firm conviction that SMBC's current initiatives are conducive to consistently raising the net worth for our shareholders and contributing positively to the long-term prosperity of the Japanese economy.

All of us at SMBC stand united in our full commitment to and dedication in achieving all our goals. We respectfully continue to seek your valued support and guidance as SMBC marches forward with the changing times.

Yoshifumi Nishikawa
President and Chief Executive Officer

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