

# President's Message

## SMFG's First Year in Review

### 1. Organizational Restructuring

As a positive statement of our swift and solid progress in reaping the synergies from business consolidation at Sumitomo Mitsui Banking Corporation (SMBC) through IT systems integration and an enhanced earnings and cost structure, in December 2002 we attained a significant milestone by establishing the holding company, Sumitomo Mitsui Financial Group, Inc., after which SMBC became a wholly owned subsidiary under its umbrella. As part of the ongoing Groupwide reorganization, in February 2003 we reached another landmark as Sumitomo Mitsui Card Company, Limited, SMBC Leasing Company, Limited, and The Japan Research Institute, Limited became wholly owned subsidiaries alongside SMBC. Continuing into March, SMBC merged with THE WAKASHIO BANK, LTD., formerly a wholly owned subsidiary of SMBC, to strengthen services to small and medium-sized companies and individuals, and to fortify the core capital base and earnings capability of the whole Group.

### 2. Ongoing Achievements

The global operating environment was challenging with the stagnant US economy and the uncertainties surrounding the inevitable war with Iraq from autumn 2002 onward; and domestically we witnessed further hardship with sluggish domestic demand, slower exports and reduced public spending. Last October, the Japanese government instigated the so-called "Comprehensive Measures to Accelerate Reform," and a "Program for Financial Revival." Under such a background, we at SMFG bolstered our financial position through a significant reduction in cross-shareholdings and problem assets, and raised our core capital.

In our constant quest for improvement, we reduced our cross-shareholdings by over ¥1 trillion and optimally utilized the merger between SMBC and Wakashio Bank to offset significant unrealized losses on securities held. To deal with the ongoing issue of problem loans, we established last December the Asset Restructuring Unit to execute revitalization and work-outs on existing problem borrowers, in line with the basic concept of the Program for Financial Revival. Moreover, we raised our core capital by approximately ¥500 billion through a private placement and a public offering in order to cushion ourselves adequately even under potentially stressed scenarios, and to bolster our future earnings. Regarding the accounting of deferred tax assets, we took the strong lead and adopted a more conservative assessment of future taxable income referring to the public comments from the Chairman of the Japanese Institute of Certified Public Accountants and recognized a conservative amount of deferred tax assets which can be absorbed as scheduled based on our profitability.

We regret the short-term decline in SMFG's share price at the end of fiscal 2002, which was by a more-than-expected margin than the impact of the dilution effect from the capital raising. But, against the market tide, we shored up our financial base through the above proactive measures, and anticipate a recovery of market confidence in our stock valuation in the near future, as a result of an enhancement in profitability and our ongoing achievements.

## Key Issues for Fiscal 2003

In fiscal 2003, the banking industry will continue to face enormous challenges. However, we at SMFG boast a steady earnings increase and a much stronger financial foundation, thereby allowing us to continue to post even greater profits, while continuing to contain our operating costs.

### 1. Improvement in Asset Quality

Our decisive actions center on: reducing the risks from stock price fluctuations, and dealing resolutely with non-performing assets.

In the last fiscal year, we reduced our shareholdings by approximately ¥2 trillion, and even in fiscal 2003 we will effect further sales, including ¥700 billion worth of stock with client consent. For our nonperforming loans, we bolstered the provisions for potential risks by increasing the reserve ratios through the application of the discounted cash flow method and others, and in preparation for increases in credit cost from the progress of restructuring in large-scale borrowers' businesses in fiscal 2002; in fiscal 2003 we will enforce our initiatives for revitalization and work-outs. Since last December, the Asset Restructuring Unit has been put to work in earnest, and in collaboration with external specialists, we will fully utilize quasi government organizations such as the Industrial Revitalization Corporation of Japan, and the Resolution and Collection Corporation to put our assets in order. In the Middle Market Banking Unit and the Corporate Banking Unit, we will prevent a further deterioration in asset quality by formulating and executing action plans for designated borrowers, and creating incentive programs for our marketing force through the higher weighting of work-outs in performance evaluations. Therefore, by the end of fiscal 2003, we anticipate a significant reduction in problem assets and a corresponding fall in credit costs.

### 2. Further Enhancement of Earnings

Last fiscal year, fee-based income in our corporate banking business was solid, while increased earnings from foreign currency ALM contributed by our Treasury Unit resulted in our showing a banking profit of over ¥1 trillion for the second consecutive year. In fiscal 2003, as our commitment, we will achieve our banking profit of ¥1 trillion: while we expect a moderate decline in contribution from the Treasury Unit, we aim to bolster the earnings from all our marketing units

through high earnings business models and streamlined operations. In addition to banking profit, we aim to secure and expand the level of net income in fiscal 2003.

In corporate banking business, we will improve the risk-return profile of our loan portfolio through continuous efforts for reexamining our domestic lending practices, and through extension and expansion of risk-taking loan products for medium and small corporations. While we originated new loans worth over ¥1.2 trillion in risk-taking products including the *Business Select Loan*, in fiscal 2003 we are targeting ¥2.3 trillion in new originations by further expanding the *Business Select Loan* and by focusing more on medium-sized companies, whose demand for loans is relatively large scale. To that end, this year we will continue to reform our credit approval system by revamping our screening processes and establishing a more efficient and effective risk-taking structure. Also, we shall expand fee-based business, primarily through loan syndication.

In consumer business, the Group commands significant competitive advantages in marketing investment trusts and pension-type insurance, and home mortgages. In these fields, we will strengthen our initiatives further, and establish new business models through value added consulting services. Also, as attractive areas, we shall promote payment and settlement services, including remote banking, and consumer loans on a Groupwide basis.

As a result of accomplishing as fully-integrated domestic accounting system, we now boast a streamlined network of branches, and have achieved far greater cost efficiency. In addition to the effect from the momentum generated last year, in fiscal 2003 we will reorganize IT systems within the Group, further enhance the efficiency of branches and administrative functions all the more, and rationalize further through ongoing measures, such as reassessing procurement practices for supplies. Our original goal of having an annual cost structure of ¥600 billion at SMBC will be achieved within fiscal 2003, a full year ahead of schedule.

We shall continue the collaboration of Group companies including SMBC, and reap significant synergies. We shall combine mutual services and products, such as SMBC's "One's plus" with Sumitomo Mitsui Card, and the "Select Lease," the collaborative product provided at the Business Support Offices of SMBC with SMBC Leasing. Also, we have integrated the systems development function for SMBC at Japan Research Institute, and shall further reinforce and streamline systems capabilities of the whole Group. Through such steadfast initiatives, we shall raise the earnings potential Groupwide by capitalizing on the intrinsic strengths of each Group company.



### In Closing

With the objective of maximizing SMFG's net worth within the coming two years, we will devote ourselves to expanding our business further. Looking ahead, for SMFG I have set our top priorities, to: "solidify our financial foundation," "establish business models with high earnings potential" and "secure and expand net income."

All of us at the Group stand united in our total commitment to and dedication in realizing significant results, thereby raising the net worth for our shareholders and gaining positive valuations from the markets. We respectfully continue to seek your valued support and guidance as SMFG takes a firm leap toward an era of great prosperity.

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

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