

# Organizational Reforms at SMFG and SMBC

SMFG and SMBC both implemented organizational reforms during the term under review. The major reforms are as follows (for more details, refer to pages 167, 170, and 171):

## Organizational Reforms at SMFG

### (1) Consolidating Management of the Group

SMFG has established a new department—the Consumer Business Planning Department—to manage the Group’s credit card and consumer finance businesses, one of its key strategic domains, with the aim of more swiftly consolidating Group management.

The new department will supervise consumer finance operations at SMBC and the five group companies engaged in this field, i.e. Sumitomo Mitsui Card Company, Limited (SMCC), Promise Co., Ltd., At-Loan Co., Ltd., Sakura Card Co., Ltd., and QUOO Inc., and establish consistent, Groupwide strategies in the consumer finance business.

### (2) Placing Greater Priority on Corporate Social Responsibility (CSR)

SMFG has established the Group CSR Committee, chaired by the director responsible for the Corporate Planning Department, to ensure a stronger emphasis on corporate social responsibility within the Group. The Group Environmental Committee was dissolved, with its functions taken over by the new Group CSR Committee. The committee’s members are drawn from SMFG, SMBC, SMCC, SMBC Leasing Company, and The Japan Research Institute, and they will proactively take a wide range of measures to fulfill the Group’s social responsibilities. (Please refer to page 53 for details.)

### (3) Ensuring Fuller Disclosure

SMFG has established a Disclosure Committee, chaired by the director responsible for the Financial Accounting Department, to oversee the public disclosure of information about the Group and ensure that the appropriate information is disclosed in a timely manner. The committee discusses the appropriateness of the contents of proposed disclosures, the effectiveness of the Group’s internal information control systems, and devises improvements where deemed necessary.

## Organizational Reforms at SMBC

### 1. Restructuring Our Business Base

#### (1) Transition to new structure for managing branches

SMBC will reorganize its domestic branches under the “New Structure for Managing Branches” (NSMB) framework in order to further improve customer services and accelerate business development.

Under the NSMB framework, each domestic branch will be divided into a “branch” and a “service office.” Branches specialize in business promotion targeting individuals, while service offices focus on raising the efficiency of back-office operations in order to improve customer satisfaction, establish advanced compliance and operations management systems.

The Shinjuku Branch Service Office and the Nagoya Branch Service Office were newly created within the Shinjuku Branch and Nagoya Branch, and other domestic branches will successively switch to the NSMB framework. The transition of all domestic branches will be completed by the end of fiscal 2006.

The service offices will belong to the Corporate Services Unit. SMBC has also established “Business Service Offices” in Branches, “Main Service Offices” in Corporate Business Offices, and “Public Institutions Operations Offices” in the Corporate Services Unit will be responsible for handling public money.

In addition to the above, the following revisions were implemented:

- The Operations & Administration Dept. and the Branch Operations Dept. were dissolved, while an Operations Support Dept. was newly established within the Operations Planning Dept. Operations planning and support functions were reorganized and centralized into the Operations Planning Dept. and the Operations Support Dept.
- As a marketing channel of the International Banking Unit, a Treasury Dept. was established within the Europe Division to centralize the currently decentralized treasury functions in the Europe Division.
- The Legal Dept. and Customer Relations Dept., within the General Affairs Dept. of the Corporate Staff Unit, were transferred to the Corporate Services Unit.

#### (2) Dissolution of Asset Restructuring Unit

Since its establishment in December 2002, the Asset Restructuring Unit (ARU) has concentrated on corporate revitalization and business restructuring of SMBC borrowers. As a result, SMBC achieved the target of halving the non-performing loan ratio at the end of the first half of fiscal 2004 and strengthened its financial base, thereby becoming better prepared for future risks. Having resolved its non-performing loan problem, SMBC dissolved the ARU (effective March 31, 2005).

The expertise of the ARU has been passed on to other units, enhancing the bank’s ability to establish new business lines related to corporate revitalization and business restructuring,

among other areas. The ARU's fund investment function is being undertaken by the Investment Development Department, a new department established within the Investment Banking Unit to expand SMBC's investment activities in corporate revival funds and private equity funds.

Along with the dissolution of the ARU, the Tokyo Corporate Business Office, the Osaka Corporate Business Office, and the Credit Dept. III have been newly established within the Middle Market Banking Unit. Within the Corporate Banking Unit, the Tokyo Corporate Banking Dept. VIII and the Credit Dept. II were newly established. The ARU's Credit Administration Dept., responsible mainly for disposal of problem assets such as loans to potentially bankrupt borrowers, was transferred to the Corporate Services Unit.

### **(3) Dissolution of Community Banking Unit**

SMBC established the Community Banking Unit (CBU) in March 2003, when it merged with the former Wakashio Bank. The CBU took over Wakashio Bank's branches and related business promotion and management functions. Since then, the CBU has been working to strengthen business with small and medium-sized enterprises and individuals by combining Wakashio Bank's community-focused approach (which emphasizes the cultivation of ties with the local community and the extension of services with the personal touch) with SMBC's high capability to provide sophisticated financial products.

As considerable progress has been made in integrating these business models, the CBU was dissolved in order to further accelerate the integration and enable SMBC to improve customer services.

Various functions of the CBU will be integrated into other business units, mainly into the Consumer Banking Unit and the Middle Market Banking Unit.

The Administrative Services Dept. for Community Banking, the Internal Audit Dept. for Community Banking, and the Credit Review Dept. for Community Banking were also dissolved.

## **2. Accelerating expansion into new lines of business**

### **(1) Reinforcing the investment banking business**

- a. The scale of business in the Securitization & Syndication Dept. has been growing. To make the organization more efficient and to clarify its missions, the functions of this department were transferred to two new departments—the Syndication Dept. (in charge of syndication) and the Asset Finance Dept. (in charge of securitization)—and the Securitization & Syndication Dept. was dissolved.
- b. In view of the expansion of the real estate finance business, which formerly was managed by the Structured Finance Dept., a new department was established (the Real Estate Finance Dept.) to intensively promote the real estate finance business.

- c. An R&D Dept. was newly established in the Planning Dept. of the Investment Banking Unit to strengthen development of new services and products.

### **(2) Bolstering settlements-related business**

The settlements clearing business, which formerly had been managed by the Operations Planning Dept., was integrated into the Global Investors Services Dept., which is in charge of securities processing services such as custody services, in order to centralize the currently decentralized functions of securities processing and settlements-related business.

The Mass Marketing Dept. was renamed the Mass Retail Dept., and the Consumer Finance Dept., the Card Loan Dept.

## **3. Preparing for implementation of New Basel Capital Accord (Basel II)**

### **(1) Enhancement of operational risk management**

An Operational Risk Management Dept. was newly established within the General Affairs Dept. to improve the effectiveness of operational risk management in advance of the implementation of the New Basel Capital Accord (Basel II).

### **(2) Achieving a more effective credit portfolio**

A Credit Risk Management Dept. was newly established within the Credit Planning Dept.\* in advance of the implementation of the Basel II, to achieve an optimal credit portfolio (plan and develop active portfolio management), and to establish the framework for managing assets with various risk profiles.

\* The former Credit Risk Management Dept. was renamed the Credit Planning Dept.

## **4. Reinforcing the Corporate Governance System**

### **(1) Enhancing compliance capabilities in securities business**

In line with the expansion of securities-related activities, such as the commencement of the securities intermediary business, a Securities Compliance Dept. was newly established within the General Affairs Dept. to centralize currently dispersed functions related to securities compliance, thereby strengthening SMBC's compliance capabilities in securities business.

### **(2) Emphasizing CSR**

SMBC newly established a CSR Dept. within the Corporate Planning Dept. and a CSR Committee operated by the CSR Dept. to strengthen the promotion of CSR. (As a result, the existing Environmental Committee was taken over by the CSR Committee.)

### **(3) Strengthening Credit Risk Management**

A Credit Risk Committee was established to ensure the dynamic and proper management of credit risk and the soundness of the bank's corporate governance regime on lending operations.