

September 9, 2004

APEC High Level Conference on Structural Reform

Fair and Transparent Legal Environment for Business

~ Debt Collection Regime ~

Masayuki Oku
Deputy President



SMBC

SUMITOMO MITSUI
BANKING CORPORATION

SMBC Global Network

Branches 20
Sub-branches 3
Representative offices 14
Principal Subsidiaries 26

Americas

- New York Branch
- Los Angeles Branch
- San Francisco Branch
- Cayman Branch
- Manufacturers Bank
- Sumitomo Mitsui Banking Corporation of Canada
- Banco Sumitomo Mitsui Brasileiro

Europe/Middle East

- Sumitomo Mitsui Banking Corporation Europe Limited
- Dusseldorf Branch
- Brussels Branch
- Paris Branch
- Madrid Rep Office
- Sumitomo Mitsui Finance Dublin Ltd.
- Bahrain Rep Office
- Teheran Rep Office
- Cairo Rep Office
- Johannesburg Rep Office

Asia/Oceania

- Hong Kong Branch
- Shanghai Branch
- Tianjin Branch
- Guangzhou Branch
- Suzhou Branch
- General Rep Office in China
- Dalian Rep Office
- Chongqing Rep Office
- Shenyang Rep Office

Taipei Branch

- Seoul Branch
- Singapore Branch
- Labuan Branch
- Labuan Branch Kuala Lumpur Marketing Office
- Kuala Lumpur Rep Office
- PT Bank Sumitomo Mitsui Indonesia
- Jakarta Rep Office
- Ho Chi Minh Rep Office
- Yangon Rep Office

- Bangkok Branch
- Ayudhya Branch
- Chonburi Branch
- Manila Rep Office
- Mumbai Branch
- New Delhi Branch
- Sumitomo Mitsui Finance Australia Ltd.

(Figures as of March 31, 2004)

Our Strategy in the Asian Market

Enhancing customer support capabilities through an operational structure tailored to the unique demands of each region.

- Building a business platform in China
 - ⇒ Established local sales network, including corporate research unit, treasury unit and functions of CMS product planning.
- Supporting customers business operations in Asian market
 - ⇒ Established Debt Capital Markets Dept. in Singapore and Hong Kong to provide asset securitization schemes and other financial solutions.
- Cooperation with local banks
 - ⇒ BESETO agreement with Bank of China and Korea Exchange Bank

Headings

- Legal Environment – A Crucial Building Block for Facilitating Foreign Capital Investment(P4)
- Review of Insolvency Legislation and Debt Collection Regime In Japan(P5～P10)
- Legal Environment and Debt Collection Issues in the APEC Region (P11～P12)
- Conclusion – Leveraging the Legal Environment to Accelerate Economic Growth of the APEC Region

Effective Legal Environment and Corporate Reorganization and Liquidation

➤ **Facilitate Foreign and Domestic Investment**

- Financial institutions and corporations can deal with defaults with high predictability when there is an effective legal framework with reliable and swift proceedings for liquidation or reorganization
- Reduces risks and encourages active investment

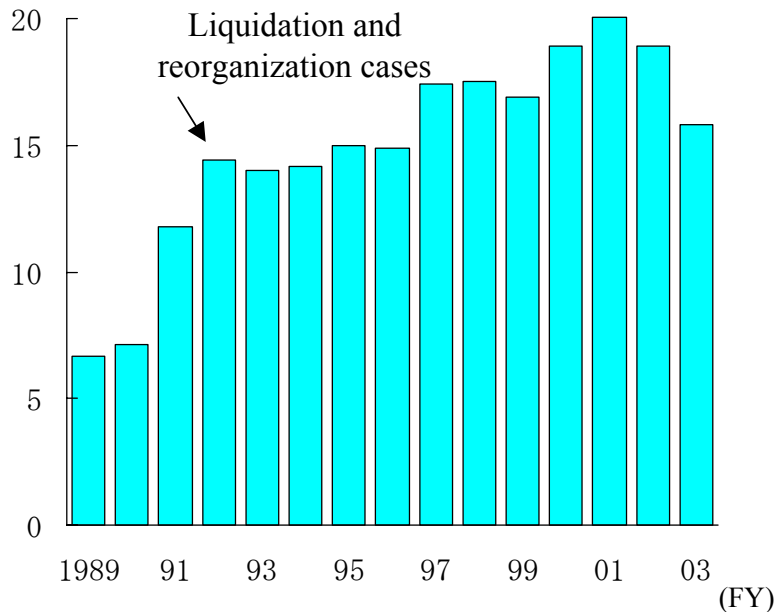
➤ **Efficient allocation of resources**

- Swift reorganization/liquidation facilitates efficient allocation of distressed corporation's capital and labor and this is desirable from a national economic perspective

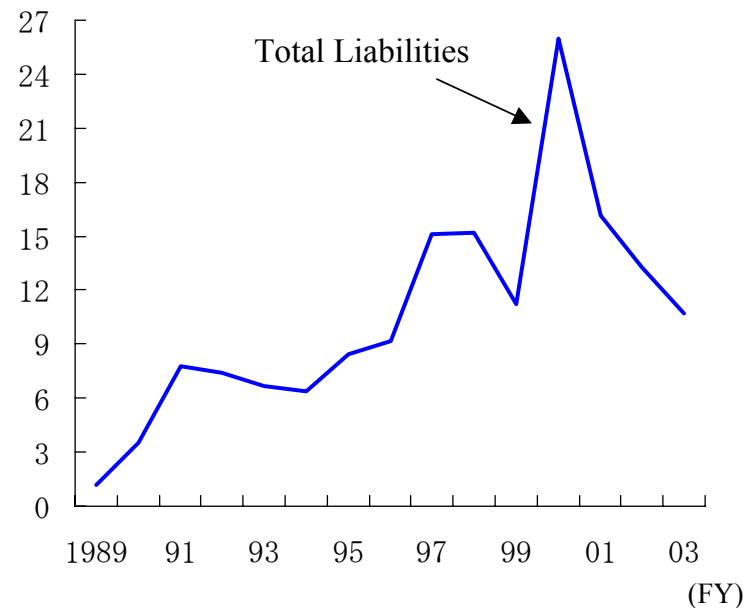
Liquidation and Reorganization Filings in Japan

After the burst of the bubble economy in the early 90s, the Japanese economy entered a prolonged period of recession, resulting in an extremely high level of business failures in the latter half of the 90s.

(No. of cases in thousands)



(Yen in trillions)



(Source) "Bankruptcy Report" of Teikoku Data Bank

Reinforcement of Reorganization-type Insolvency Laws

- Composition Law Replaced by Civil Rehabilitation Law in 2000
 - Relaxing of conditions enables early commencement of corporate reorganization procedures
 - Parties have leeway in when to formulate reorganization plan
 - Allows a court to restrict execution of security claims, select an administrator and supervise the implementation of the reorganization plan
- Corporate Reorganization Law procedures also streamlined in 2003

Guidelines for Out-of-Court Workouts

Established in 2001 and based upon “Statement of Principles for Global Approach to Multi-Creditor Workouts” of INSOL

- Achieve a common understanding between the debtor and creditors on out-of-court workouts
 - Mainly for when there are many creditors (financial institutions) and not just few banks lead by the main bank
 - Select only candidates with true potential for reconstruction based on their circumstances and reorganization plans
 - Out-of-court workout adjustment process outlined - such as “standstill” of debt collection and reinforcement of security interest to allow creditors to workout issues, and examination of the reorganization plan by professionals

Public Purchase of Bank Loans

- 1993: Cooperative Credit Purchasing Company (CCPC) established by 164 private financial institutions
 - ⇒ Purchase nonperforming loans secured with real estate
- 1998: Resolution & Collection Corporation (RCC) commences operation
 - ⇒ Purchase nonperforming loans to borrowers classified as “Potentially Bankrupt Borrowers”
- 2003: Industrial Revitalization Corporation of Japan (IRCJ) established
 - ⇒ Purchase loans to viable corporations classified as “Borrowers Requiring Caution”

Amendment of Security Interest Laws and Bankruptcy Law

➤ 2004: Security Interest Laws

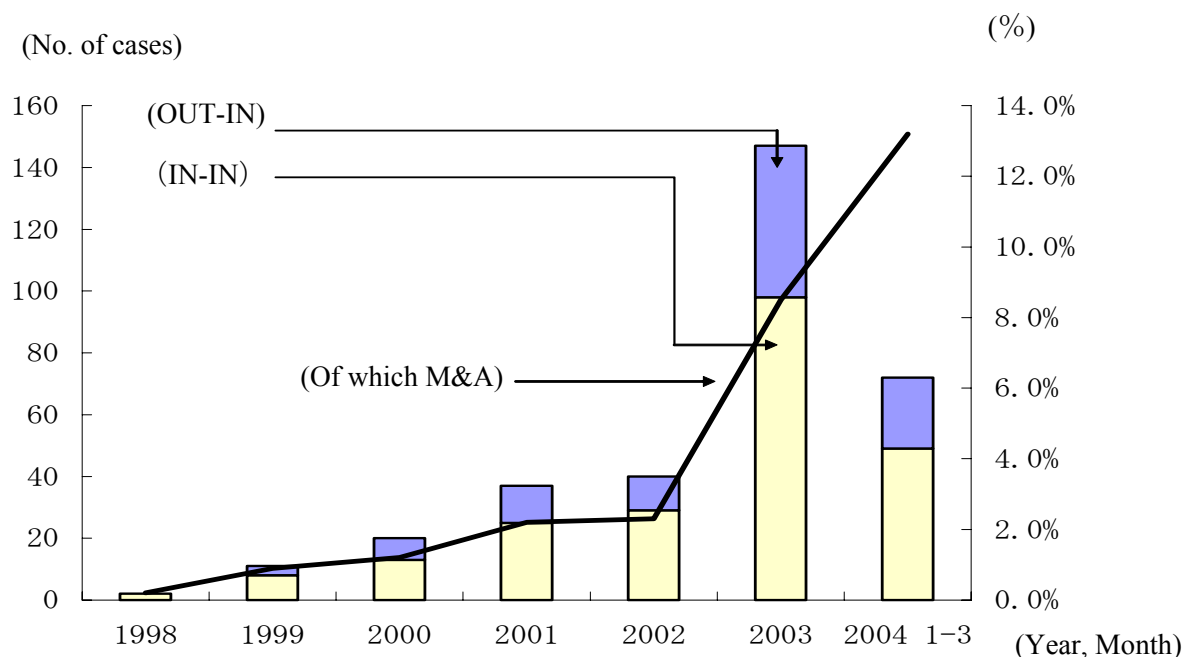
- Abolishment of priority of short-term lease over mortgage, which had encouraged squatters to occupy mortgaged properties
- Relaxing of conditions for commencement of civil procedures to remove squatters

➤ 2005: Bankruptcy Law

- Bankruptcy proceedings streamlined
(the number of competent courts increased, convening of meeting of creditors made voluntary, etc.)
- Provisions on claims priority, avoidance, setoff and others revised
(Other insolvency laws being reexamined from the same perspective)

Business Reorganization by Investment Funds

A considerable amount of foreign capital has flowed into, and continues to flow into, Japan through business reorganization funds and this has sparked establishment of many such private domestic funds.



(Source) RECOF

(Note) Includes distressed corporations other than "Potentially Bankrupt Borrowers". 10

Progress in Creating an Effective Legal Environment by the APEC Economies

The APEC economies, particularly after the Asian financial crisis, have been making significant progress in establishing a legal framework for debt collection

- Modernizing and clarifying insolvency and security interest laws
- Introducing new reorganization-type insolvency legislation
- Implementing initiatives to encourage out-of-court workouts before filing for commencement of formal insolvency law proceedings
- Making progress in reforming judicial system

Legal Environment Issues of the APEC Region

APEC economies differ historically, culturally and socially and are at different levels of development in establishing an effective legal environment and there are still a number of issues that must be further addressed.

In particular

- Remain committed to ongoing legal reform
- Establishing specific procedures and assuring the effectiveness of the execution and enforcement regime
- Ensuring all parties, both domestic and foreign, are treated in a fair and transparent manner