



President's Message

As the president of the Sumitomo Mitsui Financial Group (SMFG), I would firstly like to take this opportunity to express my gratitude for your continued interest in and support for SMFG. In this report, we summarize the business results for fiscal 2005 of the Group, and present an explanation of the policies we intend to pursue in fiscal 2006.

Fiscal 2005 Highlights

Steady progress made in the first year of our current medium-term management plan

We completed our period of "intensive improvement in asset quality" in fiscal 2004, and our goal for fiscal 2005 (the first year of our current four-year medium-term management plan) was to secure a solid profit level. As a means to this end, we followed a policy of focusing our business resources on priority areas to expand earnings, while at the same time taking steps to normalize credit cost.

We successfully strengthened the earning power not only of SMBC, but also of other Group companies such as Sumitomo Mitsui Card, SMBC Leasing, and the Japan Research Institute (JRI), and, as a result, SMBC reported net income of ¥519.5 billion on a nonconsolidated basis, and SMFG reported net income of ¥686.8 billion on a consolidated basis. Both these figures were well in excess of our initial forecasts.

Not only did we achieve a dramatic reduction in credit cost, SMBC's balance of problem assets (non-performing

loans as defined under the Financial Reconstruction Law) was brought below the ¥1 trillion mark, in turn sharply lowering the problem asset ratio below 2%. Thus, SMFG achieved a significant enhancement in the quality of its assets during the reporting period.

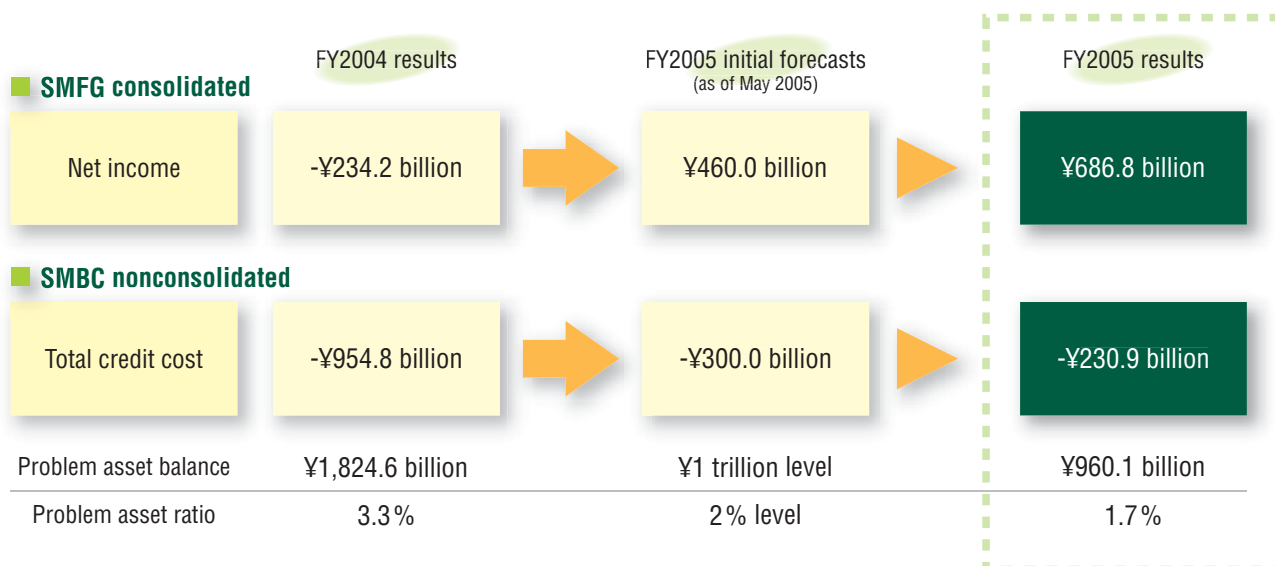
We also greatly reinforced our financial base through the public offering of new shares and secondary offering of treasury stock in the combined amount of ¥588.6 billion from late January through early February, in addition to the high level of net income that we posted.

Thus, the Group made substantial progress during the reporting period in raising earnings, enhancing asset quality, and strengthening its financial base.

Establishing new strategic businesses and strengthening existing ones; taking steps to ensure sustainable growth

We pressed ahead steadily with the establishment of new strategic businesses and the strengthening of existing ones, as an essential prerequisite for a sustainable increase in our corporate value. Specifically, we further stepped up our collaboration with the Daiwa Securities Group, and our business alliance with Promise in the unsecured consumer loan business got off to a smooth start in its first year. We also made great strides in forming business alliances with leading providers of social infrastructure services, including the mobile communications carrier NTT DoCoMo, in the field of settlement finance.

Not all developments during the reporting period were



favorable, however. In December 2005, SMBC received a cease and desist order from the Fair Trade Commission of Japan, and in April 2006, an administrative order from the Financial Services Agency, with respect to the manner in which it marketed interest rate swaps to a number of corporate borrowers in the past. I would like to take this opportunity to apologize sincerely to all customers and shareholders of the Group, as well as all other stakeholders, for the worry and inconvenience that this chain of events undoubtedly caused. At SMFG, we are taking all possible steps to ensure that such conduct does not reoccur. In addition, as described below we are exerting our full efforts, via a variety of measures, to regain the trust of our stakeholders and the general public.

Fiscal 2006 Business Policy

Our primary goal for fiscal 2006 is to regain the trust of all our stakeholders and lay the groundwork for sustainable future growth. To this end we are renewing our commitment to realizing our core mission, which is, as stated in our management philosophy, "to provide optimum added value to our customers and together with them achieve growth," and will always view business matters from the customer's perspective. In addition, we are taking steps to ensure rigorous compliance with laws and regulations.

Against the backdrop of these objectives, during the current business term our efforts will be focused on two initiatives: leveraging the power and expertise of the entire Group to provide high-quality financial products and services to assist our customers' value creation; and building a solid business base.



Teisuke Kitayama
President

Providing high-quality financial products and services to assist customers' value creation

With respect to the first initiative mentioned above, by putting ourselves in our customers' place, we are able to offer financial products and services that assist their value-creation efforts. Such an approach will enable the Group to expand its customer base, create a high-quality earnings structure, and open the way for SMFG to achieve long-term sustainable growth in its role as a financial services group.

● Consumer Banking ●

Further upgrade consulting services

- Provide new products & services adapted to the changing business environment
- Increase marketing channels and consultants

Expand services through business alliances

- Credit payment service using mobile phones (with NTT DoCoMo)
- Consumer finance services (with Promise)
- Internet banking (with Yahoo! Inc.)

● Corporate Banking ●

Improve capability to provide solutions to customers' management issues

- Solutions to management issues such as business expansion, corporate reorganization, and entry into overseas markets
- Establishment of Corporate Advisory Division

Meet customers' diversifying financing needs

- Unsecured loans for SMEs
- Loan syndication
- Loan securitization

Expansion of customer base

Establishment of a sustainable earnings structure



Specifically, we will continue to develop and offer new and more sophisticated products and services to our retail customers, responding to changes in the business environment, such as deregulation, and catering to the increasingly diverse needs of customers. We are also expanding our network of offices at which consulting services are offered, to provide our customers with a wider range of more sophisticated consulting services.

We are also enhancing the quality of our services through SMBC's collaboration with leading players in other industries, such as Promise in consumer financing and NTT DoCoMo in mobile communications. In addition, we are strengthening collaboration between SMBC and other members of the Group.

For our corporate customers, while working to raise our solution-providing capabilities, we are also responding to the diversifying fund procurement needs of our clients by offering unsecured loans such as the *Business Select Loan* to SMEs, and via investment banking services for larger companies. In addition, by leveraging the specialist expertise of SMBC Leasing in a wide range of leasing operations, of JRI in IT consulting, and of Daiwa Securities SMBC in the investment banking business, we are able to provide our customers with comprehensive solutions harnessing the full power of the Group.

Building a Solid Business Base

Turning to our second initiative, we are pursuing our goal of establishing a solid business base, the prerequisite for sustainable growth, through the following initiatives.

Reinforcement of Internal Control System

We are working to reinforce our internal control framework encompassing compliance, quality management, customer satisfaction, and internal audits.

Further reinforce internal controls

Thorough compliance

Strengthen framework for product quality enhancement and customer satisfaction promotion

Upgrade risk management

Strengthen internal audits

Review performance-linked compensation, and employ more sophisticated human resources management

Firstly, at SMBC a Compliance Unit was established in April 2006 to oversee redoubled efforts by the bank's management and staff to comply with all relevant laws, and a Quality Management Department was established to oversee product and service quality as well as customer satisfaction by actively soliciting customers' views and requests and ensuring that they are appropriately incorporated in the bank's management policies. Finally, SMBC has organized a Business Monitoring Committee composed mainly of outside experts, including the bank's own outside directors, to oversee the whole range of compliance, quality management, and customer satisfaction activities. In addition to these initiatives by SMBC, SMFG itself has also established a Group Business Management Department to inject extra efficiency and rigor into its oversight and verification duties as a holding company, as well as to strengthen its auditing capabilities with regard to all Group companies. This enables SMFG to exercise tighter internal control over business operations across the whole Group.

We are also reviewing our employee performance evaluation system, and employing more sophisticated human resources management system.

Strengthening the Group's Financial Base

To further strengthen our financial base, we will continue to enhance our capital in terms of both quality and quantity. In May 2006, SMFG repaid ¥204.0 billion (on a book-value basis) in public funds, and, predicated on obtaining regulatory approval, we hope to repay the remaining

balance (ahead of the original schedule) by the end of fiscal 2006. When the public funds are fully repaid, we plan to begin vigorously injecting more of our business resources into growth areas in order to improve our corporate value over the medium-to-long term. We will also actively examine establishing a more flexible and effective policy on shareholder return.

In Closing

The major driving force behind SMFG's strong competitiveness is our ability to quickly pinpoint growth areas, and leverage our proprietary business models, business alliances and high efficiency to realize business opportunities. As competition becomes fiercer within the financial sector, it is essential that we continue to leverage these strengths to provide our customers with even more valuable and well-timed products and services. In this way, we will build up a large following of loyal customers and continue to grow as their financial services group of choice. By achieving steady success in this area, we will prove worthy of the trust shown in us by our shareholders and the general public. As we engage in these endeavors, I hope that you will all continue to favor us with your support and encouragement.

Strengthening our financial base

