

Compliance at SMFG

Basic Compliance Policies

At SMFG, compliance is a critical component of our Business Ethics (p. 57), the basic principles of corporate social responsibility (CSR) that we follow. The enhancement of our compliance activities is one of the Group's top management priorities.

As mentioned previously, 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.

The management of SMFG would like to take this opportunity to once again apologize sincerely to all the customers and shareholders of the Group, as well as to financial market investors in general and all other persons with a relationship to the Group, for the worry and inconvenience that this chain of events undoubtedly caused.

At SMFG, we take this matter extremely seriously, and to carry out our mission as part of the public infrastructure and enable the Group to fulfill its social responsibilities as a financial services group, we are intensifying our efforts to ensure that the principles of compliance are strictly observed. By so doing, we are confident that SMFG will become an outstanding global corporate group.

Group Management of the Compliance System

As a financial holding company, SMFG works to sustain a system which monitors and also provides appropriate direction and guidance for each Group company's compliance system to ensure the sound and proper conduct of business activities throughout the

entire Group.

For fiscal 2006, the current business term, we have positioned the following three measures as a priority policy, reinforcing the management of compliance undertaken by our Group companies:

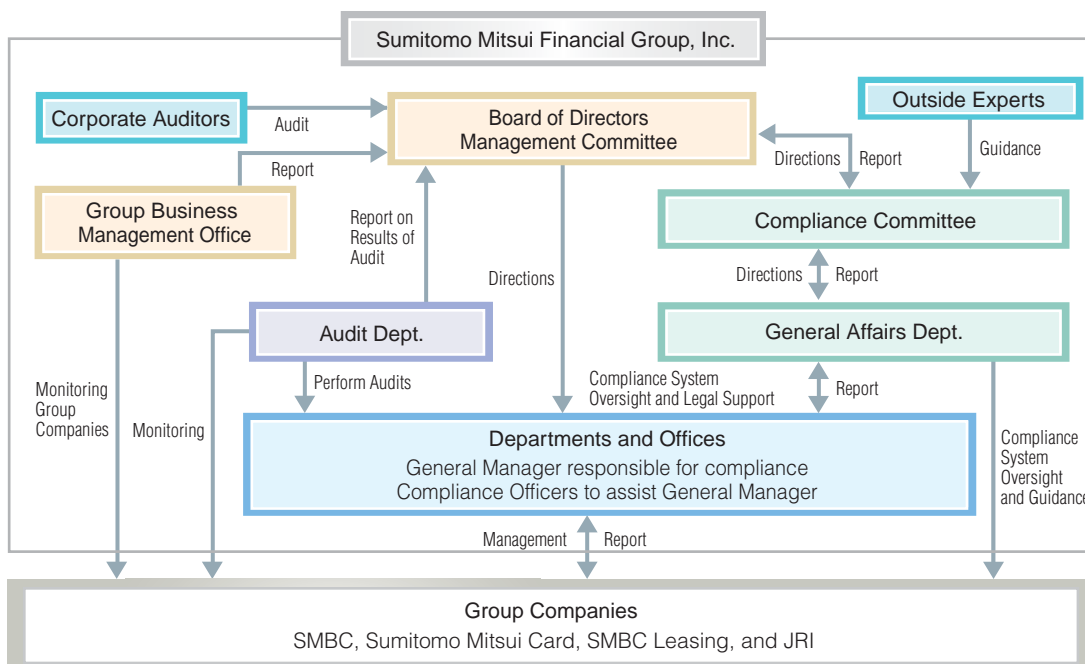
1. The creation of a compliance system that is appropriate for meeting new needs and providing services as a financial services group.
2. The enforcement of measures to ensure strict observance of the Antimonopoly Law.
3. Ensuring a swift and appropriate response to new corporate governance issues presented by revised legislation.

Bearing these three priority issues in mind, SMFG is strengthening its control of the business operations of Group companies with regard to compliance.

Management of Legal Risk

Legal risk, which refers to the possibility of loss (including reputational loss) arising from violations of laws or contractual obligations, principally as a result of failure to sufficiently examine the legal implications before taking action, has become a matter requiring even greater attention in recent years, owing to the wide-spread deregulation of the financial sector.

Consequently, SMFG has established procedures for managing legal risk, collecting information on business laws and ordinances and examining the legal implications of new products, services and contracts under consideration. In these ways, SMFG is enhancing legal risk management.



Compliance at SMBC

Strengthening the Compliance System: A Top Management Priority

Compliance with laws, regulations, and other social standards is a matter of course for corporations. Ensuring compliance is a particularly important issue for banks because of their central role in the financial system and socioeconomic infrastructure.

In accordance with the basic concept of compliance instituted throughout the Group, SMBC expects and demands that all directors, officers, and other employees assign the utmost value to maintaining people's trust, abide by all relevant laws and regulations, maintain high ethical standards, and act fairly and sincerely. In view of the administrative order enforced against SMBC by the FSA, as described previously, we are making even further efforts to strengthen our compliance system and ensure that all directors, officers, and other employees are fully acquainted with the specific details that come under the heading of compliance, and with their own specific duties within this context.

SMBC's Compliance System and Management

SMBC has traditionally employed a dual structure whereby, firstly, each department and office is individually responsible for ensuring that its conduct complies with laws and regulations, and secondly, the independent Internal Audit Unit conducts impartial audits of department and branch compliance. However, we have undertaken a broad-ranging review of our compliance system, and have made changes that went into effect from fiscal 2006.

Specifically, to make internal monitoring of compliance by individual branches and departments more effective, we have newly established a Compliance Unit, composed of the General Affairs Department and the Legal Department. We believe this reinforced and active supervision of compliance will ensure that individual branches and departments are aware of, and observe both general and specific laws and regulations that apply to their business activities.

Additionally, we have also established a Quality Management Department with the aim of incorporating our customers' views and suggestions into the process of improving both day-to-day operational methods and management policies.

The new compliance system which resulted from the changes described above is shown in the diagram below.

SMBC has also implemented the following measures to enable this compliance system to function effectively.

Compliance Manual

Set out in accordance with the resolution of the Board of Directors, the *Compliance Manual* lays out specific Rules of Conduct. These Rules of Conduct comprise 60 items describing relevant laws and regulations, as well as providing procedural guidelines and specific examples of conduct that must be followed by all directors, officers and employees of SMBC.

Compliance Program

The program's primary objective is to effectively implement the compliance system at SMBC and its consolidated subsidiaries. The Board of Directors annually updates the compliance program. The Board of Directors decides concrete annual plans regarding compliance, which include a review of rules and regulations, as well as the content and schedule of training programs, to further strengthen the compliance system. Particularly notable is the introduction from fiscal 2006 of an Antimonopoly Law observance program, under which we are taking a number of steps to strengthen our training courses, compliance monitoring, and auditing.

Appointment of Compliance Officers

To reinforce our compliance system, in addition to the compliance officers appointed from among the staff of each department and branch, we have appointed Area Compliance Officers, who are dispatched to the regional head offices of the Middle Market Banking Division. These officers are completely independent of any front-line department, and are responsible for directing and overseeing compliance regarding transactions carried out by staff of our Corporate Business Offices.

Compliance Committee and Business Monitoring Committee

The Compliance Committee is a cross-sectional organization, ensuring that compliance issues are reviewed and discussed widely. It is chaired by the director responsible for compliance issues and includes the heads of relevant departments. To enhance objectivity, the Committee includes an outside legal expert who serves as an advisor.

Additionally, in July 2006 we established a Business Monitoring Committee, whose members consist principally of outside directors and other external experts, to enhance the bank's monitoring of compliance and customer satisfaction and ensure objective assessments of performance in these matters.

