



As president of the Sumitomo Mitsui Financial Group (SMFG), I would first like to take this opportunity, on behalf of all our management and staff, to express our gratitude for your continued interest in and support for SMFG.

At SMFG, we have nurtured a wide variety of strategic businesses, utilizing our strengths of speedy execution, a thirst for innovation, and a high level of efficiency. By these means, we have built a high-earnings business model on a Groupwide basis. Over the same period, we have achieved steady progress in solving issues relating to our financial position by improving the quality of the Group's asset portfolio and completing the repayment of public funds. In this way, we have succeeded in significantly strengthening our financial base, enabling us to expand our business portfolio. Moving forward, our core mission is to achieve the sustainable growth of our corporate value—both qualitatively and quantitatively—by leveraging the synergies of SMFG as a leading financial services group.

We have positioned fiscal 2006 as the year for laying the groundwork for sustainable future growth, and to attain this goal we are focusing on two objectives: providing high-quality financial products and services to assist our customers' value creation, and building a solid business base. Hereunder, we outline the Group's business performance for the first half of fiscal 2006, and explain the measures we are taking during the second half of the current fiscal year.

Fiscal 2006 First-Half Highlights

Looking back on the business environment in the first half of fiscal 2006, the ongoing recovery trend in the Japanese economy was supported by strong demand, both in the domestic market and from abroad. In overseas economies, meanwhile, the U.S. economy continued to grow, albeit at a slower pace. The European economies, too, maintained their gradual recovery, while in Asia, high-paced growth continued in various

countries, most notably China. In the financial and capital markets, the most significant development during the period was the Bank of Japan's ending of its de facto zero interest rate policy in July, and its moves to lead the unsecured overnight call rate to the target level of around 0.25%. In long-term interest rates, the going yield for benchmark 10-year Japanese government bonds reached 2% at one point, but the rate subsequently fell back after it became clear that further interest rate increases were not imminent, ending the six-month period in the 1.60 - 1.70% range.

Amid this environment, in line with our aim of providing high-quality financial products and services to assist customers' value creation, we put still further effort into enhancing our consulting services for individuals and our solutions services for corporate customers. At the same time, to further reinforce our solid business base, we enforced increasingly tighter internal controls to ensure even fuller compliance, and also worked hard to thoroughly implement our policy of putting the customer first, while simultaneously enhancing the quality of our financial products and services. In parallel with these efforts, we also worked to further strengthen the Group's financial base.

Regarding the business performance of SMFG for the reporting first-half period, credit costs borne by SMBC in relation to the disposal of non-performing loans were lower than initially forecast, but as a result of a reduction in the bank's bond portfolio in anticipation of higher interest rates, SMBC recognized losses on bond holdings, principally Japanese government bonds, of ¥61.6 billion. As a result of this, in addition to other factors, ordinary profit for the six-month period, on a consolidated basis, declined by ¥106.6 billion year on year, to ¥357.1 billion, while net income was down by ¥148.7 billion year on year, at ¥243.6 billion.

Fiscal 2006 Second-Half Business Policy

We will continue to implement the following Groupwide initiatives during the second half of fiscal 2006.

Providing Even Higher-Quality Financial Products and Services

In our consumer banking business, the staff of SMBC will continue working to further enhance the sophistication of consulting services for individuals. Specifically, we will introduce new types of personal asset management products and services, including fund wrap accounts that will be jointly offered with SMBC Friend Securities. We will also conduct marketing campaigns promoting new financial products designed to match customers' current needs, such as a housing loan with a clause exempting the borrower from repayment in the event of such medical conditions as cancer, a stroke, or a heart attack. We also plan to open more business premises offering specialist services, such as our SMBC Consulting Plazas, which are open for business in the evening on weekdays, and on weekends and national holidays. The number of highly qualified specialist consultants at these outlets will also be increased to further improve the convenience of our services and enable us to meet customer needs more effectively.

SMFG will continue to expand the scope of its services through collaborative efforts with a large number of leading companies in various business fields. Concrete examples to date include the consumer loan business pursued jointly by SMBC and Promise, as well as the sophisticated credit card business under the brand name of *Mitsui Sumitomo Card iD*[®] offered by Sumitomo Mitsui Card in collaboration with NTT DoCoMo.

Regarding corporate customers, Group companies will also develop more advanced solution-providing capabilities. For large corporations and second-tier companies, optimal solutions are designed for such management issues as business expansion and reorganization via mergers and acquisitions. These solutions draw on the combined expertise of the Corporate Advisory Division, set up within SMBC in April 2006, and Group company Daiwa Securities SMBC. For SMEs, we offer assistance in meeting their fund-raising and settlement needs via such products and services as our *Business Select Loans* and other unsecured loan products, as well as online banking services. Another area in which we take a proactive approach to solving our corporate customers' management issues is business succession, where we are able to provide specialist advice.

In addition to the foregoing, the Group as a whole will further improve and expand its solution-providing capabilities, with SMBC Leasing offering an extensive range of leasing services and the Japan Research Institute (JRI) undertaking contracts for the upgrading or replacement of core computer systems as well as various IT consulting services. In October 2006, SMFG signed a basic agreement with the Sumitomo Corporation Group on the startup of strategic joint ventures in the fields of general leasing and automobile leasing. SMBC Leasing is scheduled to merge with Sumisho Lease Co., Ltd. in October 2007, and SMBC Auto Leasing Company, Limited will merge with Sumisho Auto Leasing Corporation. These mergers will allow the provision of very high-quality value-added services, leveraging the combined expertise of leasing specialists from the banking and trading company sectors.

A Solid Platform to Support Growth

To support the initiatives described above and realize sustained growth, we are working to build a solid platform, as detailed below.

In April of 2006 SMBC was issued with administrative orders in respect to the manner in which it marketed interest rate swaps at its Corporate Business Offices, by the Financial Services Agency of Japan. We deeply regret this situation, and initiatives to further improve our internal control systems will be continuously implemented to prevent reoccurrence and regain the trust of all concerned.

Firstly, with regard to compliance, in April 2006 SMBC's newly established Compliance Unit commenced a program aimed at ensuring even stricter observance by bank staff of laws and regulations. To raise customer satisfaction through the provision of even higher quality products and services, the staff of the Quality Management Department—another

newly established department—will work to make sure that customers' opinions are more fully conveyed to Group management and more effectively reflected in the services offered by the bank. As for risk management, we will continue to adopt even more cutting-edge methods to keep pace with the diversification of our risk management requirements in tandem with the expansion in the scope of the Group's business operations. Staff across the entire Group are putting the finishing touches to a program of strengthening our risk management system to meet the stricter requirements of BIS's new capital adequacy accord (Basel II), due to come into effect in Japan at the fiscal 2006 year-end. Finally, we are planning to strengthen SMFG's internal auditing system so as to carefully verify the effectiveness of the above-listed measures. Moreover, while employing a balanced performance evaluation system for each branch that takes our customers' views into account and is based on a medium-to-long-term perspective, we will also be adopting an advanced, modern approach to human resources management that will make it easier for our staff to fulfill their potential.

With respect to SMFG's plans to further reinforce its financial base, the Group completed the repayment of public funds in October 2006. We are duly grateful for the infusion of public funds beginning in March 1998, which has proven to be an invaluable support for the Group. From here onward, we will continue to reinforce our financial and capital base in terms of both quality and quantity, while taking an even more active stance on the investment of resources in strategic business fields with the aim of realizing an improvement in corporate value on a group basis over the medium-to-long term. Additionally, to enhance shareholder returns, the management of SMFG have revised upward the projected annual dividend for fiscal 2006 (ending March 2007) to ¥7,000 per share, an increase of ¥3,000 from the start-of-term forecast and up ¥4,000 over the annual dividend for the previous term. The management will continue to follow a policy of paying appropriate dividends in accordance with business results.

In Closing

The operating environment in the financial sector is becoming more fiercely competitive with each passing year. However, as explained above, SMFG is taking measures that are sure to yield substantial results. In these ways, we aim to satisfy the expectations of our customers, shareholders, and the market, as well as of society as a whole. I would like to conclude by asking for your continued support and encouragement of our endeavors.

Teisuke Kitayama
President