



Message from the Management

We would like to express our thanks to you for your continued support and patronage of the Sumitomo Mitsui Financial Group (SMFG). In this interim report, we review developments in the economic and financial environment, our initiatives during the six months ended September 30, 2008, and our management policies for the remainder of fiscal 2008, ending March 31, 2009.

Business Environment during the First Half, Fiscal 2008

Key developments in the economic environment during the first half of fiscal 2008 included a peaking out in mid-July and the beginning of a decline in oil prices following their steep ascent in previous months. The U.S. economy continued to be weakened by adjustments in the housing market, the credit crunch, and other factors, while the European economies also began to show signs of slowing. The economies of Asia, for the most part, continued to expand, but, along with rising inflation, growth slowed to some extent. Signs of economic weakness began to appear in Japan also as private capital investment declined and exports to Europe and the United States started to lose momentum.

In financial and capital markets, stock market price indices in Europe and the United States peaked in May and began to trend downward, while spreads in lending and short-term financial markets widened substantially near the end of the first half, as the effects of the subprime loan crisis spread and concerns grew about a worldwide economic slowdown. In Japan, secondary market yields on 10-year Japanese government bonds and the Nikkei Stock Average increased until mid-June, but fell thereafter on rising

recession concerns and the turmoil in European and U.S. financial markets. After weakening to ¥110 to the U.S. dollar in August, the yen began to appreciate.

Against this backdrop of significantly changed economic and market conditions during the first half of the fiscal year, the business environment became more uncertain.

Strategic Initiatives during the First Half, Fiscal 2008

SMFG has positioned fiscal 2008 as a year for “taking a step forward, while coping with uncertainty in the business environment” and is continuing to focus on implementing its two strategic initiatives: “strengthening targeted growth business areas” and “fortifying the platform for supporting sustainable growth.”

During the first half of the fiscal year, Sumitomo Mitsui Banking Corporation (SMBC) increased its gross banking profit ¥16.5 billion year on year. This was primarily the result of an increase in net interest income and net fees and commissions of the International Banking Unit, led mainly by increases in overseas lending. However, impacted by the global economic slowdown and financial market turmoil, SMBC experienced a larger increase in total credit costs than initially expected. As a consequence, SMFG’s consolidated ordinary profit declined ¥162.2 billion year on year to ¥190.9 billion, and SMFG’s consolidated net income also declined, by ¥87.3 billion to ¥83.2 billion. Meanwhile, our initiatives during the first half to make way for growth in the medium and long term included the establishment of an intermediate holding company to oversee our credit card business, further investments in and alliances with overseas commercial banks, and additional measures to strengthen our risk management systems. Through these initiatives, we are laying the foundation for future growth.

Management Policies for the Second Half, Fiscal 2008

Since the beginning of the second half of fiscal 2008, the financial crisis, triggered by the subprime loan problem, has intensified and its impact on the real economy is quickly becoming apparent in the United States, Europe, and Asia, including Japan. Stock prices around the world have declined substantially and the yen has strengthened against all major currencies towards the end of last year. In Japan, the target level for the overnight, uncollateralized call rate, Japan’s principal policy interest rate, was reduced to 0.1%. Governments around the world have created frameworks to



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stabilize their financial systems, and the movement toward adopting economic stimulus policies is increasing. However, these measures have not dissipated uncertainty regarding future developments.

When we embarked on our current three-year, medium-term management plan in fiscal 2007, our assumption regarding economic and financial conditions was for “interest rate hikes under steady expansion of economy.” This assumption, however, has diverged substantially from reality particularly since the beginning of fiscal 2008. The business environment is challenging, but SMFG is dealing effectively with the risks it faces, and is continuing to focus on its two strategic initiatives: “strengthening targeted growth business areas” and “fortifying the platform for supporting sustainable growth.”

(1) Strengthening Targeted Growth Business Areas

The first growth business area we have been strengthening is “solution providing for corporations.” For our corporate customers, 2009 began without the dissipation of uncertainty regarding the future course of the global economy, and establishing and implementing appropriate policies and strategies are thus extremely important. In this adverse business environment, we remain steadfast in our policy to meet a wide range of customer needs for financing and preparing appropriate solutions to the management issues confronting our customers. First, regarding initiatives to meet customer financing needs, we regard providing customers with a sufficient supply of funds as one of our missions in society as a financial institution. We are, therefore, working to fulfill our role as a financial intermediary more optimally and actively. In particular, to meet the financing needs of small and medium-sized corporate customers, we took the initiative at an early date to develop our *Business Select Loan*, which we offer without collateral or third-party guarantees. So far, more than 50,000 companies have used this loan product. We have been also diversifying the funding options by tapping the value of a wide range of customer assets. We have developed loan products such as *Wide Support Loan* and *Asset Value* with customer assets—real estate holdings and moveable assets, respectively—as collateral. To offer services that help our customers address the management issues they face, we have enhanced our responsiveness as an organization that offers seamless services to meet the diverse needs of our corporate customers. We are continuing to take initiatives to further improve our responsiveness and offer high-quality, optimal solutions meeting the needs of our customers. More specifically, SMBC offers a wide range of financing options, including syndicated loans, structured finance, and business expansion and restructuring solutions through M&A and other means via business offices such as Corporate Business Offices which collaborate with the Corporate Advisory Division and Daiwa Securities SMBC Co., Ltd. In business areas where services for individual customers and corporate customers overlap, including business succession and private banking, business offices and the Private Advisory Department

work together to strengthen their support capabilities. Moreover, our Global Advisory Department, which was formed in April 2007, promotes cooperation among business offices in Japan and overseas to significantly enhance our solution offerings for customers entering overseas markets and expanding their international operations. We are also continuing to promote our initiatives in the growing businesses of nurturing growth companies, transactions with public corporations and regional financial institutions, and environment-related business. To offer solutions that draw on the capabilities of the group as a whole, in October 2007, based on the strategic alliance between SMFG and Sumitomo Corporation, we merged SMBC Leasing Company, Limited, and Sumisho Lease Co., Ltd., to form Sumitomo Mitsui Finance and Leasing Co., Ltd. (SMFL). SMFL offers a variety of leasing services, including aircraft operating lease services and solutions that support both users and suppliers of leased assets in their financial and marketing activities. Similarly, group company JSOL Co., Ltd. (formerly, JRI Solutions)—which offers system design and operating services, IT security related consulting, and other services—formed a capital and business alliance in September 2007 with the NTT Data Group. JSOL is working aggressively to further develop its activities by drawing on the diverse development resources, methods, and personnel training know-how of the NTT Data Group.

Another of our targeted growth businesses is “financial consulting services for individuals.” SMBC has been increasing the sophistication of its “total consulting services” by offering customers one-stop services for our full range of financial products. Initiatives have included substantially expanding the lineup of services and

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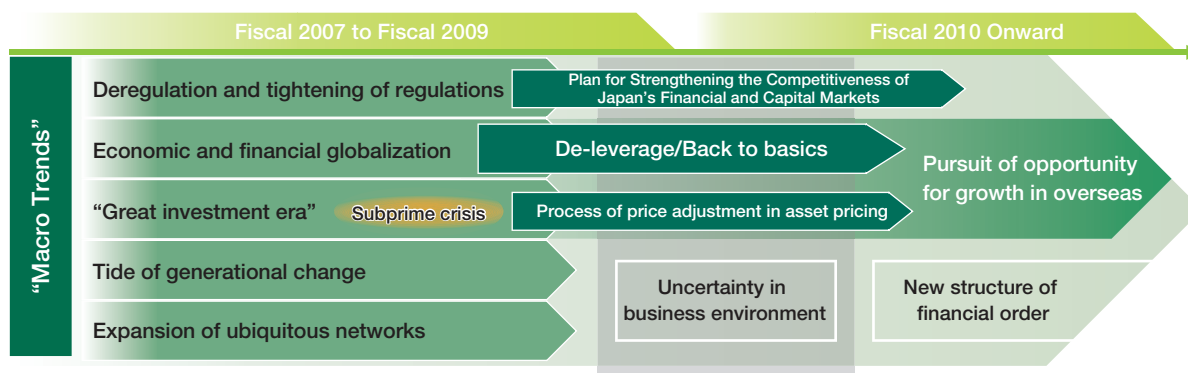
products to include investment trusts, pension-type insurance to individuals, and discretionary asset management services offered by SMBC Friend Securities Co., Ltd. SMBC is also working to expand the number of qualified financial consultants and to enhance their advisory skills, while also developing a broader range of service delivery venues through the opening of SMBC Consulting Plazas. Also, since December 2007, when the full-range sale of insurance products by banks was deregulated, SMBC has been expanding its offering of insurance products to include medical insurance and level-premium life insurance. However, with global financial markets in turmoil, consumers have become much more selective in choosing financial products and services. At SMBC, we recognize the utmost importance of offering customers in-depth services, including follow-ups, and responding directly to their needs in realizing our objective of offering “total consulting services.” We will continue to propose products that optimally meet customer needs, offer extensive follow-ups that build long-term relationships of trust, strive to improve our consulting services, and offer financial products that are best suited to the full-life plans of our customers.

In the credit card business, we established an intermediate holding company, SMFG Card & Credit, Inc., in October 2008 to oversee the business, and have concluded an agreement to merge

Central Finance Co., Ltd., OMC Card Inc., and QOUQ Inc. The next step for us will be to work toward becoming “the number one credit card business entity in Japan” by having the merged company and Sumitomo Mitsui Card Co., Ltd., work to realize economies of scale for the group as a whole and to maximize top-line synergies by drawing on the strengths of our alliance partners. Moreover, we will continue to promote our business collaboration with Promise Co., Ltd., including the installation of more automatic contract machines at SMBC branches, which will enable us to offer consumer loans to meet customers’ various lifestyle-related needs, while taking their repayment capabilities into careful consideration.

In overseas markets, we are moving forward with initiatives to bolster our financial products with competitive edge in a global market, including project finance. In addition, in Asia, which is expected to remain a high-growth region, we are making preparations to establish a subsidiary bank in China and to expand our office network. At the same time, we have been taking steps to significantly strengthen our business in Asia by investing in and concluding alliances with leading financial institutions in the region since 2007. For example, we have been developing businesses under alliance agreements entered into with Vietnam Eximbank (a capital and business alliance) and Kookmin Bank of South Korea (a business

○ Becoming a “Globally Competitive Financial Services Group with the Highest Trust”



○ Economic and Financial Assumptions of the Medium-Term Management Plan and Actual Performance

Fiscal 2008	Plan Assumptions	Sept. 30, 2008
Nominal GDP growth (annual average)	2.9%	(0.6)%*
3-month TIBOR	1.12%	0.88%
10-year, yen swap rate	2.10%	1.63%
Yen/dollar exchange rate	¥115	¥104

* Estimate for fiscal 2008 by Japan Research Institute (as of Nov. 2008)

	Mar. 30, 2007	Oct. 27, 2008
Nikkei Stock Average	¥17,287.65	¥7,162.90

○ Overhead Ratio (SMBC Non-consolidated) and Trends of Tier I Ratio

	Overhead Ratio	Tier I Ratio
Fiscal 2006	44.9%	6.44%
Fiscal 2007	44.8%	6.94%
Fiscal 2008 (First half)	48.5%	7.08%

alliance). We also reached agreement in October 2008 to invest in Kookmin Bank's holding company, KB Financial Group, and entered into business alliances with Taiwan-based First Commercial Bank and the Hong Kong-based Bank of East Asia Limited. In addition, in July 2008, SMBC invested £500 million in the leading U.K. bank Barclays plc, and is currently moving ahead with discussions on the specifics of the business alliance.

(2) Fortifying the Platform for Supporting Sustainable Growth

SMFG has been strengthening its corporate base to support sustainable growth.

We operate in compliance with all relevant laws and regulations in Japan and overseas. Moreover, in customer satisfaction and the improvement of product and service quality, we are continuing to strengthen our systems for reflecting the opinions and requests from customers in our services and other activities.

In risk management, we have been making steady progress in complying with Basel II, new BIS capital standards, which were introduced in 2008 and to enhance the sophistication of our ability to manage risks. Amid heightened concerns regarding the worldwide economic slowdown, we will continue to improve our credit risk management system and substantially strengthen our risk management on a global basis.

Moreover, as part of our drive to strengthen our corporate base in order to respond effectively to our globalization, we will continue to consider listing our shares on the New York Stock Exchange.

Regarding SMFG's performance for the full fiscal year 2008, we forecast an increase in credit costs, accompanying the domestic economic slowdown, and an increase in impairment losses on stockholdings as a result of the decline in stock market prices. Therefore, we have revised our earnings forecast, which had been issued in November 2008 (revising the original forecast issued in May 2008), to consolidated ordinary profit of ¥480 billion and consolidated net income of ¥180 billion.

In view of the consolidated income decline outlook for the full fiscal year 2008, we have revised our full-year cash dividend forecast to ¥12,000 per common share, the same as last fiscal year, from the original forecast of an increase of ¥2,000 for the year. Accompanying this revision, the dividend outlook for the second half of the fiscal year will be changed from the original forecast of ¥7,000 per share to ¥5,000 per share.*

* These figures are prior to the January 2009 stock split of 100 common shares for each common share outstanding. Taking account of the stock split, the dividend for the second half of the fiscal year will be ¥50 per share.

Enhancing Corporate Value in the Medium-to-Long Term

SMFG has been implementing a wide range of strategies based on its medium-term management plan, and, during fiscal 2007, was

able to make steady progress toward realizing the objectives of the plan. However, since the beginning of fiscal 2008, actual events have diverged widely from the assumption regarding the financial and economic environment under the plan that called for "interest rate hikes under steady expansion of economy." Accordingly, we now believe it will be difficult to attain the level of net income set for fiscal 2009 under the plan.

Notwithstanding this, the macro trends foreseen when the medium-term plan was prepared remain unchanged: namely, "a tide of generational change," "economic and financial globalization," and "deregulation." In addition, not all the changes in fundamentals occurring currently are negative for banking business. The slowing of economic growth may lead to a decline in demand for funds; however, if we consider the worldwide credit crunch and the malfunctioning of capital markets, we find that what is occurring in reality is that demand for funds is concentrating on sound commercial banking institutions.

In view of these trends, during the second half of the current fiscal year, SMFG will prioritize the allocation of expenses after making a careful review of their size, timing, effectiveness, and other factors, and allocate resources to growth business areas. At the same time, by increasing the efficiency of operations, SMBC will maintain its overhead ratio on a non-consolidated basis to less than 50%. Moreover, by steadily increasing its Tier I ratio, SMFG will continue to move toward the goal of its medium-term plan—"realizing solid financial base as a global player." Even though uncertainty regarding the business environment is increasing in Japan and overseas, SMFG will sustain its competitive strengths and proactively deploy management strategies and capital policies that will enhance its corporate value in the medium-to-long term with the aim of becoming a "globally competitive financial services group with the highest trust" and prepare the way for future growth. Through implementing the various initiatives we have described, we would like to meet the expectations of our stakeholders. As we continue to move toward our objectives, we look forward to your continued support and understanding.

February 2009



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