

II. Principles and Management

1. Management Policy

SMFG's groupwide management philosophy is as follows:

- To provide optimum added value to our customers and together with them achieve growth
- To create sustainable shareholder value through business growth
- To provide a challenging and professionally rewarding work environment for our dedicated employees

In line with this philosophy, SMFG and the group companies will put their collective energy into becoming "a globally competitive top bank with the highest trust of our customers, our shareholders, market and society".

2. Dividend Policy

SMFG subscribes to a fundamental policy of distributing appropriate dividends while enhancing its Group's capital to maintain sound financial position.

3. Policy concerning Lowering of Minimum Stock Investment Amount

After taking into account various factors such as stock price, number of shareholders, liquidity of shares and cost-effectiveness, we do not believe there is a need to lower the minimum amount for purchasing SMFG's common stock at this time.

4. Management Index to be Achieved

SMFG has established a medium-term plan spanning the four years from fiscal 2005 and has set the following four management indices as the target to be achieved in fiscal 2008, the final year of the plan.

- | | |
|-------------------------------|---------------------------|
| - Consolidated ROE | More than 15% |
| - Consolidated net income | More than 650 billion yen |
| - Consolidated capital ratio* | Approximately 11% |
| - Consolidated Tier I ratio* | Approximately 7% |

*At March 31, 2009

With regard to the remaining 1.1 trillion yen in public funds, we are aiming for an early repayment by the end of fiscal 2007, subject to the approval by the regulatory authorities.

5. Mid- to Long-term Management Strategy

To realize high profitability and growth, and thereby raising corporate value sustainably, it is essential for us to earn "the highest trust of our customers, our shareholders, market and society". In other words, we must

- (i) respond accurately to the ever-changing needs of customers and provide superior products and services;
- (ii) steadily grow profits and establish solid financial base by being highly business-minded; and
- (iii) fulfill our social responsibility by contributing widely to the Japanese economy and society through our business activities.

Grounded on these recognitions, we have set the five core strategies as follows and will implement initiatives to achieve our goals.

- First, to grow top-line profit and achieve sufficient growth by challenging new types of risks, new regions and new business areas.
- Second, to strengthen strategic business areas by aggressively allocating resources, while continuing to improve efficiency of existing businesses further.
- Third, to improve capital efficiency and thereby maximizing profitability and growth, by improving risk-return profile of each business and by reallocating capital and risk-weighted assets.
- Fourth, to actively forge alliances lead to raise our corporate value.
- Fifth, to improve corporate governance in order to raise corporate value and fulfill our social responsibility (CSR).

6. Issues to be Addressed

We have designated fiscal year 2005, the first year of the medium-term plan, as an essential year for “securing a solid profit level”. To achieve this target, continuously in the second half, we will reinforce the below strategic businesses on a group basis.

Consumer Business

In consumer business, we will aggressively allocate resources in financial consulting covering investment products, such as investment trusts and pension-type insurance, and mortgage loans in order to further boost our competitive advantage in this field. Specifically, at the same time as increasing the number of SMBC Consulting Plazas, the specialized channels which are open also on weekday nights and weekends, and consultants, we will expand our product lineup. Also, we will grow the volume of consumer loans provided from this April under the strategic alliance with Promise, launched to create a new business line, by increasing the number of automatic contract machines and strengthening promotion activities. In credit card business mainly operated by Sumitomo Mitsui Card, we will quickly launch and enhance new businesses such as “Mobile Phone Credit Service” under the alliance with NTT DoCoMo announced this April, and an issuance of “VIEW Suica” card with credit, e-money and ATM card function under the alliance with JR East announced this October. In addition, we will continue to focus on improving customer convenience, such as locating ATMs at Tokyo Metro stations, and upgrading security, such as expanding IC cash card functions, etc.

Corporate Business

In corporate business, we will further enhance our highly profitable new-type unsecured loans for small and medium-sized enterprises such as Business Select Loan, a popular product which has been showing excellent results, and SMBC Crecer Loan launched this April. We will also boost our solution providing capability to a higher level not just in our forte businesses such as loan syndication and securitization, but also in businesses expected to make a high growth led by expanding customer needs – such as corporate revitalization and reorganization business, and real estate finance. In addition, to grow profits of the group even more, we will further promote SMBC’s business collaboration with other group companies: Daiwa Securities SMBC in investment banking business and asset management consulting, SMBC Leasing in leasing business, and The Japan Research Institute in systems consulting.

International Business

In international business, we aim to become a “global commercial bank with Asia as our mother market”. To achieve this target, at the same time as growing business volume in Asia centered on China, we will expand our business in the emerging markets of Russia, Eastern Europe and other expanded members of EU, and countries in Central and South Americas by opening new offices and leveraging businesses in which we have competitive edge, such as project finance. We will also improve our capital efficiency in the U.S. and European markets by building up highly liquid and profitable assets.

Treasury Market Business

In treasury market business, we will continuously endeavor to maintain and strengthen profitability under a proper risk management with the three core initiatives of reinforcing ALM framework, diversifying investment style and instruments, and increasing customers’ order flow.

To support these business activities, we will continue to improve our human resources management and compliance system responding to diversified business operations. Also, we will continuously take measures to prevent deterioration of our credit portfolio in order to reduce credit costs. Through these initiatives, we will grow our bottom-line profit and thereby further reinforce our financial base – in other words, grow capital both in quality and in quantity. With regard to the remaining 1.1 trillion yen in public funds, we are aiming for an early repayment by end of fiscal 2007, subject to the approval by the regulatory authorities.

We aim to improve overall evaluation of SMFG from “our customers, our shareholders, market and society” by showing results in these initiatives steadily this fiscal year.

7. Corporate Governance Policy and Structure

(1) Corporate Governance Structure

Maintaining effective corporate governance is one of the most important issues of SMFG and the group companies. Therefore, SMFG is committed to maintaining sound management, creating sustainable shareholder value and contributing to healthy development of society by observing the below “Management Philosophy” and “Business Ethics”.

<<Management Philosophy>>

- To provide optimum added value to our customers and together with them achieve growth
- To create sustainable shareholder value through business growth
- To provide a challenging and professionally rewarding work environment for our dedicated employees

<<Business Ethics>>

- Satisfactory Customer Services

We intend to be a financial services complex that has the trust and support of our customers.

For this purpose, we will always provide services that meet the true needs of our customers in order to obtain their satisfaction and confidence in the Group.

- Sound Management

We intend to be a financial services complex which maintains fair, transparent, and sound management based on the principle of self-responsibility.

For this purpose, along with obtaining the firm confidence of our shareholders, our customers, and the general public, we take a long-term view of our business and operate it efficiently, and actively disclose accurate business information about the Group. Through these procedures, we will maintain continuous growth on a sound financial basis.

- Contribution to Social Development

We intend to be a financial services complex which contributes to the healthy development of society.

For this purpose, we recognize the importance of our mission to serve as a crucial part of the public infrastructure and also our social responsibilities. With such recognition, we undertake business operations that contribute to the steady development of Japan and the rest of the world, and endeavor, as a good corporate citizen, to make a positive contribution to society.

- Free and Active Business Environment

We intend to be a financial services complex for which all officers and other employees work proudly and with great spirit.

For this purpose, we respect people, and train and produce employees with professional knowledge and ability, thereby creating a free and active business environment.

- Compliance

We intend to be a financial services complex that always keeps in mind the importance of compliance.

For this purpose, we constantly reflect our awareness of these Business Ethics in our business activities. In addition, we respond promptly to directives from auditors and inspectors. Through these actions, we observe all laws and regulations, and uphold moral standards in our business practices.

(2) Corporate Committees and Internal Control System

<<Directors>>

SMFG employs the corporate auditor system consisting of eight directors and five auditors, and two of the directors and three of the auditors are from outside SMFG and its Group companies as of September 30, 2005. To ensure that our business is conducted according to law, the outside directors are a certified public accountant and a lawyer.

<<Board of Directors>>

The Board of Directors basically meets once a month. The Chairman of the Board, not the President who oversee the overall operation of SMFG, chairs the Board meeting to achieve separation of duties. Moreover, there are four committees to supplement the Board’s oversight functions: the Auditing Committee, Risk Management Committee, Compensation Committee, and the Nominating Committee. The outside directors are members of all the committees (one is the Chairman of the Auditing Committee and another is the Chairman of the Compensation Committee). This system allows supervision of our operations to be conducted from a suitably objective perspective.

- Auditing Committee (established on June 29, 2005, meets quarterly in principle)
Deliberates on groupwide internal auditing issues
- Risk Management Committee (meets whenever necessary)

Deliberates on groupwide risk management and compliance issues

- Compensation Committee (meets whenever necessary)

Deliberates on remuneration of Board members and executive officers of SMFG and SMBC

1. Issues related to remuneration, salaries, and incentive program
2. Other remuneration issues

- Nominating Committee (meets whenever necessary)

Deliberates on appointment of directors of SMFG and SMBC

1. Issues related to the selection of candidates for Board directorships
2. Issues related to the appointment of managing directors having specified management responsibilities, and issues related to the appointment of representative directors
3. Other major personnel issues related to directors

<< Business Execution>>

SMFG has a Management Committee to act as the top decision-making body on business administration and management supervision of the entire group. The committee, composed of directors designated by the president of SMFG who acts as the committee chairman, considers important matters relating to the execution of business in accordance with the basic policies set by the Board and based on discussions held by the committee members. Furthermore, SMFG established an Internal Auditing Committee on June 29, 2005, to deliberate on internal auditing issues. The committee is headed by a Management Committee member.

In addition, SMFG also has a Group Strategy Committee to serve as a forum for the management staff of all group companies to exchange opinions and information on their respective business plans. Moreover, the directors in charge of group companies, Sumitomo Mitsui Card, SMBC Leasing and The Japan Research Institute, are appointed as part-time directors of their respective companies to supervise the proper conduct of business.

<< Management Monitoring Regime>>

SMFG has an Audit Department which is independent from the front-line departments. The Audit Department contributes to the optimal management of the group by conducting internal audits of each SMFG department to assess the appropriateness of group business operations and soundness of assets, as well as verifying that the Group's internal control system, including compliance and risk management, is appropriate and effective. The Audit Department is also responsible for supervising internal audits at each group company. It reviews the internal audit system of each company by monitoring the company's internal audits on a regular basis, and audits the company, if necessary. The results of the audits are periodically reported to an Internal Auditing Committee and the Auditing Committee, and the issues deliberated by the Audit Committee are reported to the Board of Directors.

The Audit Department conducts risk-based audits based on the auditing methods which are in line with the auditing standards of The Institute of Internal Auditors (IIA)*, a global organization for internal auditors, and supervises group companies to conduct audits in the same manner. As of September 30, 2005, the department had a staff of twenty-three, including seven employees of SMBC and one employee of The Japan Research Institute working concurrently.

The auditors ensure the proper business conduct of SMFG and the subsidiaries by attending the Board of Directors' meetings and other important meetings at which the directors and others present business reports, and by obtaining reports from the internal audit departments, subsidiaries and outside auditors. Moreover, the Audit Department, auditors and CPAs exchange information whenever necessary and strengthen cooperation in order to conduct audits properly.

* IIA was established in 1941 in the U.S.A. to improve expertise of internal auditors and to establish the internal auditor profession. Besides researching and developing internal audit theories and practices, IIA conducts examinations and certifies Certified Internal Auditors.

<<Accounting Auditor>>

SMFG has an audit contract with KPMG AZSA and Co. Names of the certified public accountants in charge of conducting accounting audits of SMFG and the number of their assistants are as follows:

- Name of certified public accountants in charge of accounting audits

Designated partners, engagement partners: Masanori Sato, Hiroshi Numano and Hiroyuki Takanami *

* They have each been auditing SMFG's financial statements for less than seven years.

- Assistants

Twelve certified public accountants and twelve junior accountants

<<Compliance>>

Compliance is an important groupwide management objective, and SMFG have implemented the following compliance system to ensure sound and appropriate business management by SMFG and our group companies.

- The Board of Directors and Management Committee
The Board of Directors and Management Committee make important decisions concerning compliance policy, review the progress of those measures taken in connection with ensuring compliance, and give instructions concerning these matters as appropriate.
- The Compliance Committee
SMFG set up the Compliance Committee to reinforce the groupwide compliance system. The committee comprises the designated Board member responsible for compliance issues, the heads of departments involved with compliance matters, and advisors from outside the group.

<<Corporate Social Responsibility Initiatives>>

“Group CSR Committee” was established on April 1, 2005 to strengthen our CSR initiatives. Chaired by the director in charge of the Corporate Planning Department, the committee deliberates on matters of groupwide CSR activities, including social contribution and environmental preservation initiatives.

<<Disclosure>>

“Disclosure Committee” was established on May 2, 2005 to support our timely and proper disclosure. Chaired by the director in charge of the Financial Accounting Department, the committee deliberates on the accuracy of disclosure and the effectiveness of and measures for improving internal control.

(3) Human, Financial, Commercial and Other Relationships between SMFG and Outside Directors and Auditors

The outside directors, Mr. Yoshiaki Yamauchi, a CPA, and Mr. Yoichiro Yamakawa, a lawyer, have no material interests with SMFG.

The outside auditor Mr. Katsuya Onishi, a lawyer, has no material interests with SMFG.

The outside auditors, Mr. Hiroshi Araki, the Advisor of Tokyo Electric Power Company, and Mr. Ikuo Uno, the Chairman of Nippon Life Insurance Company, have no material interests with SMFG.

SMFG and group companies have ordinary commercial relationships between Tokyo Electric Power Company and Nippon Life Insurance Company.

(4) Initiatives Taken during the Term (the first half of fiscal 2005) for Improving Corporate Governance

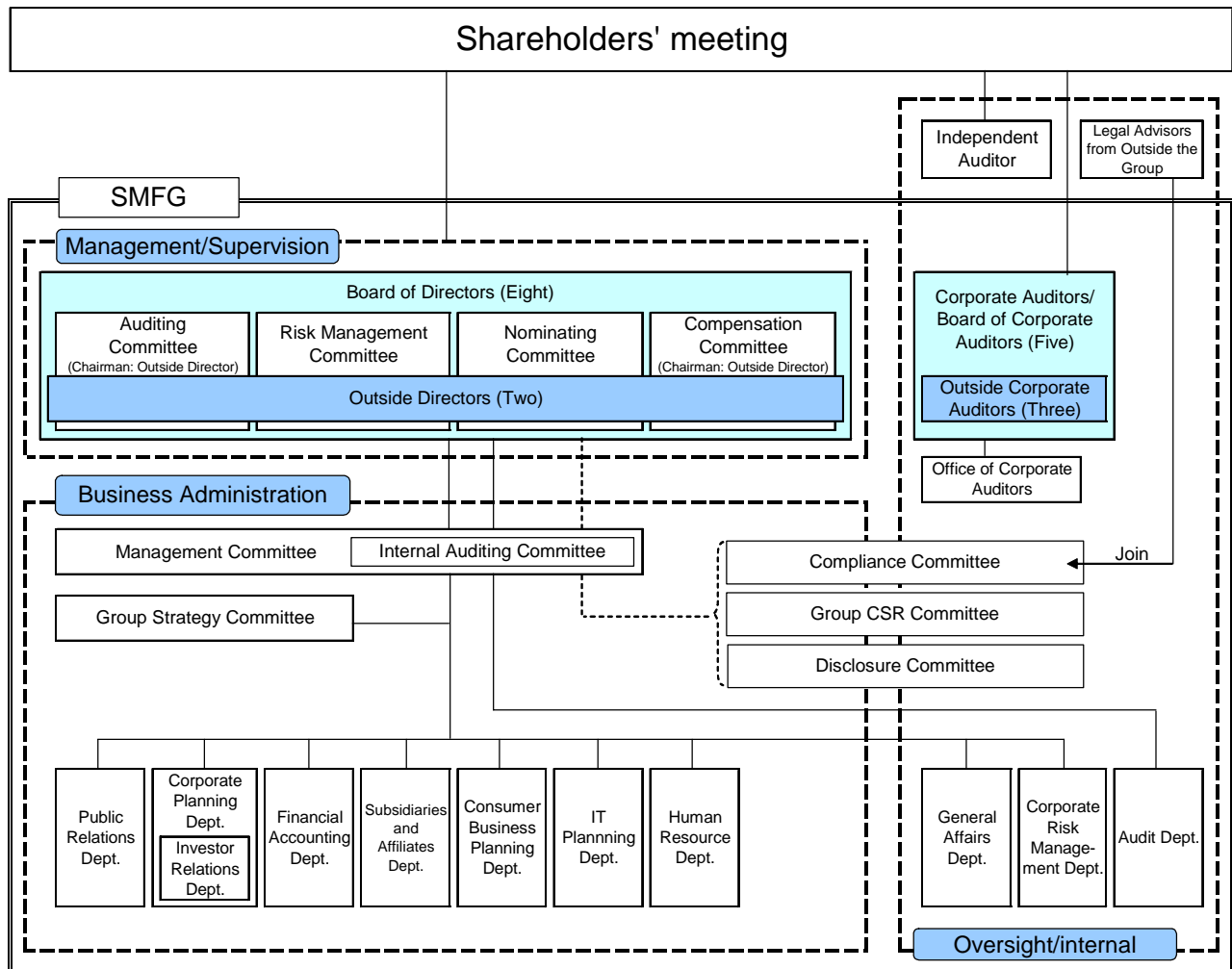
In the first half of fiscal 2005, the Board of Directors convened nine times and deliberated on important issues regarding business administration of SMFG and its subsidiaries. Meanwhile, the Auditing Committee, Compensation Committee, and Nominating Committee – subcommittees of the Board of Directors – convened once, twice and twice, respectively, and deliberated on issues entrusted to them and reported the results to the Board of Directors.

The Management Committee convened 17 times and deliberated on business execution and administration issues, and the Group Strategy Committee convened once to exchange opinions, deliberate and report on business execution of SMFG and group companies.

The Auditing Committee convened and deliberated on auditing policies and plans. In accordance with the auditing policies and plans, the auditors audited the directors on execution of their duties through attending the Board of Directors meetings and other important meetings, and inspecting businesses and properties

Moreover, the Internal Auditing Committee, a part of the Management Committee, convened once to receive reports on internal audit results from the Audit Department.

Also, the Group CSR Committee convened once and deliberated on CSR activity issues. The Disclosure Committee convened eight times and deliberated on disclosure issues during the term.



8. Parent company

SMFG has no parent company.