

## **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.

Though the Corporation Law became effective on May 1, 2006, SMFG is not expected to propose an amendment of the Articles of Incorporation so that the Board of Directors can determine whether to make distributions of surplus pursuant to Article 459 of the Corporation Law at the ordinary general meeting of shareholders to be held on June 29, 2006.

### **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 public funds, we aim to fully repay them by the end of fiscal 2006, subject to the approval of the regulatory authorities, taking into consideration such factors as our financial condition, stock market and macro-economy.

### **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 in the medium-term plan spanning the four years from fiscal 2005 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

Last December, Sumitomo Mitsui Banking Corporation (“SMBC”), a banking subsidiary, received a recommendation issued by the Fair Trade Commission of Japan for several violations of the Antimonopoly Act, particularly, “abuse of dominant bargaining position of unfair trade practices”, with respect to the manner in which it marketed interest rate swaps to its corporate clients in the past. Also, on April 27, 2006, SMBC was issued administrative orders (Business Suspension Order and Business Improvement Order) in respect to the manner in which it marketed interest rate swaps at its Corporate Business Offices, by the Financial Services Agency of Japan, pursuant to Article 26 (1) of the Banking Law. All of us, the directors, officers and employees deeply regret this situation, and strict measures will be implemented to prevent reoccurrence and regain the trust of all concerned.

In fiscal 2006, we will further provide value-added products and services to our customers and establish a solid platform for supporting business growth, thereby establishing a framework for realizing sustainable growth.

### Further provide value-added products and services to our customers

First, to realize sustainable growth as a “leading financial services group”, we will provide more customer-focused and value-added products and services.

In consumer business, financial consulting will be upgraded further. At the same time we will develop and provide new products responding to the diversifying needs of our customers and changing business environment, such as deregulation, we will provide services incorporating customer opinions even more. Also, we will increase the number of specialized marketing channels such as SMBC Consulting Plazas, which are open also on weekday nights and weekends, and highly qualified consultants with expert knowledge, in order to better respond to customer needs and to improve customer convenience. Furthermore, we will expand services through collaboration with leading companies and group companies. Specifically, while promoting consumer loans provided through the collaboration of SMBC and Promise, and “Mobile Phone Credit Service” provided through the collaboration of Sumitomo Mitsui Card and NTT DoCoMo, we will quickly launch new businesses such as an Internet financial service to be provided through the collaboration of Japan Net Bank and Yahoo Japan, and asset management service to be provided through the collaboration of SMBC and SMBC Friend Securities that were announced this March.

In corporate business, this April, SMBC established a Corporate Advisory Division to which information and know-how of SMBC will be concentrated. The division will be the driver of improvement in our capability to provide solutions to various management issues of customers, such as business expansion and M&A, and thereby contribute to raise customers’ corporate value. Also, we will accurately respond to our customers’ ever-diversifying financing needs by continuously promoting Business Select Loan, a popular unsecured loan product for small-sized enterprises, loan syndication and securitization. In addition, we will further promote group-wide solution providing: SMBC Leasing in services such as product leasing and real-estate leasing; Japan Research Institute in core systems development and IT consulting; and Daiwa Securities SMBC in investment banking. Moreover, at outside Japan, we will respond to customers’ global financial needs by establishing channels in regions with sharp economic growth; further strengthening businesses with competitive edge such as project finance; and further strengthen cooperation between domestic and overseas networks. In treasury market business, while continuously endeavor to improve customer convenience by utilizing Internet business models, we will enhance ALM and diversify investment instruments under appropriate risk management.

### Establish solid platform to support business growth

Second, we will establish a more solid platform for supporting our sustainable growth.

We will improve our internal control systems, such as compliance, risk management and internal audit. In response to the recommendation by the Fair Trade Commission of Japan in December last year, SMBC established a Compliance Unit this April to strengthen compliance with laws, regulations and other rules. And through a newly established Quality Management Department, we will actively incorporate customer opinions and requests in our management policies and business operations even more. Also, SMBC will further strengthen prevention of financial crimes which have been increasing recently. On risk management, we will further reinforce it on a group basis in order to effectively control risk as our business activities diversify further and in response to the Basel II accord which is scheduled to be implemented at the end of fiscal 2006. Moreover, we will further strengthen internal auditing to verify more thoroughly that compliance and risk management are effective. We will also take initiatives to improve human resources management. For example, we will introduce a system to nurture talented staff, taking a longer term view, and establish an organization in which female employees can exercise their abilities even more.

Also, we will grow capital both in terms of quality and in quantity by establishing a sustainable earnings structure. With regard to public funds, we aim to fully repay them by the end of fiscal 2006, in order to increase our flexibility in allocating

resources to strategic business areas and in capital policy including profit distribution to shareholders, subject to the approval of the regulatory authorities, taking into consideration such factors as our financial condition, stock market and macro-economy.

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

## **7. Parent company**

SMFG has no parent company.