

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 increasing dividends stably and continuously through a sustainable growth of corporate value while enhancing its Group's capital to maintain sound financial position.

From viewpoint of returning profits to shareholders, SMFG has revised the forecast of cash dividends on common stock per share for the fiscal year ending March 31, 2007 to be 7,000 yen, an increase by 3,000 yen compared with the previous forecast announced in May 2006 and an year-on-year increase by 4,000 yen.

(Appendix) Dividends payout ratio on a consolidated basis (common stock)

	Result for the fiscal year ended March 31, 2006	Forecast for the fiscal year ending March 31, 2007
Dividends payout ratio (consolidated basis)	3.4%	Approximately 9.5%

(*) Dividends payout ratio (consolidated basis)

$$= \frac{\text{Aggregate amount of dividends on common stock}}{\text{Consolidated net income} - \text{Aggregate amount of dividends on preferred stock}}$$

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

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

Having designated fiscal 2006 as the year for establishing the framework for realizing sustainable growth, continuously in the second half, we will further provide value-added products and services to our customers and establish a solid platform for supporting business growth on a group basis.

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 at Sumitomo Mitsui Banking Corporation (SMBC) 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 incorporate customer opinions into our services even more. For instance, going forward, while we will start providing new investment products and services such as fund wrap service in collaboration with SMBC Friend Securities, and “Daiwa SMA” in collaboration with Daiwa Securities, we will further promote loan products matching customer needs such as the highly popular mortgage loan with insurance for repayment of outstanding loan balance in the case the borrower is diagnosed with serious diseases such as cancer and heart attack. 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 qualified consultants with expert knowledge, in order to improve customer convenience and better respond to customer needs. Furthermore, we will expand services through collaboration with leading companies in various industries. Specifically, we will further promote services such as consumer loans provided through the SMBC-Promise collaboration, “Mitsui Sumitomo Card iD” provided through the Sumitomo Mitsui Card - NTT DoCoMo collaboration, new Internet financial services business provided through the Japan Net Bank - Yahoo Japan collaboration, and walk-in insurance agency services provided through the SMBC - Mitsui Life Insurance - Sumitomo Life Insurance collaboration.

In corporate business, we will further improve our capability to provide financial solutions to our corporate customers. For large and medium-sized corporations, we will provide optimal solutions for solving their management issues such as business expansion and reorganization by M&A through the Corporate Advisory Division, which was established within SMBC this April, and the collaboration with Daiwa Securities SMBC. Also, we will respond to their ever-diversifying financing needs by providing loan syndication, structured finance and so on. For small and medium-sized corporations, at the same time as responding to their various financing and settlement needs by providing unsecured loan products such as Business Select Loan and Internet banking service, we will promote advisory services to solve their management issues such as business succession. In addition, we will further promote group-wide solution providing: SMBC Leasing in various types of leasing; and Japan Research Institute in core systems development and IT consulting. In October this year, we reached a basic agreement with the Sumitomo Corporation group to pursue strategic joint businesses in leasing and auto leasing. Through two mergers scheduled in October next year, SMBC Leasing with Sumisho Lease and SMBC Auto Leasing with Sumisho Auto Lease, we will leverage the know-how of both parties and provide customers with value-added products and services. Moreover, outside Japan, we will respond to customers’ aggressive needs for business expansion overseas and needs for global money settlement by establishing channels and further strengthening cooperation between our domestic and overseas networks. Also, we will further strengthen businesses with competitive edge such as project finance. In treasury market business, while continuing to endeavor to improve customer convenience, 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.

April this year, SMBC was issued 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. Specifically, we will further strengthen compliance with laws, regulations and other rules through the Compliance Unit which was established within SMBC this April. Also, through the newly established Quality Management Department, we will actively incorporate customer opinions and requests in our management policies and business

operations even more. Initiatives on compliance, customer satisfaction and quality management will be objectively deliberated at the newly organized Business Monitoring Committee which members are mainly outside experts and directors. 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 this fiscal year. Moreover, we will further strengthen internal auditing to verify more thoroughly that these initiatives are effective. Also, we will introduce a better balanced business performance evaluation system including customers' standpoint and medium-to long-term view. Furthermore, we will take initiatives to improve human resources management to realize an organization in which employees can exercise their abilities even more.

On the other hand, to further strengthen our financial base, we completed the repayment of all the public funds provided in October of this year. We would like to express our sincerest appreciation for the support in the form of public fund provision since March 1998. Going forward, at the same time as growing capital both in terms of quality and in quantity, we plan to begin vigorously injecting more of our business resources into growth areas in order to improve our corporate value over the medium-to long-term. Also, we will actively examine establishing a more effective policy on shareholder return.

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

7. Parent company

SMFG has no parent company.