

III. Principles and Management

1. Management Policy

SMFG's group-wide 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 financial services group with the highest trust".

2. Management Indices to be Achieved

SMFG has established a medium-term management plan, "LEAD THE VALUE" Plan, spanning the three years from fiscal 2007 and has set the following four management indices as the financial targets to be achieved in fiscal 2009, the final year of the plan.

- Consolidated net income	¥650 billion
- Consolidated Tier I ratio	Approximately 8%
- Consolidated net income RORA *	Approximately 1%
- Overhead Ratio (SMBC non-consolidated basis)	40 - 45%

* Return on Risk-adjusted Assets

In addition, in order to increase return to shareholders, SMFG is aiming for a payout ratio of over 20% on a consolidated net income basis in fiscal 2009. During the period of the plan, SMFG expects ROE to be 10 - 15% on a consolidated net income basis.

3. Medium- to Long-term Management Strategy

SMFG has launched a new medium-term management plan, "LEAD THE VALUE" Plan, for the coming three years from fiscal 2007 to 2009 given the completion of repayment of public funds last October and in response to the greatly changed business environment, including the economic situation and competitive environment.

In the plan, the basic policy of SMFG is to aim for "a globally competitive financial services group with the highest trust" by maximizing its strengths – "Spirit of Innovation," "Speed" and "Solution & Execution." Under this basic policy, SMFG has set the following three goals.

1. Aim for top quality in growth business areas
2. Realize solid financial base as a global player
3. Increase return to shareholders.

Under the plan, SMFG will implement strategic initiatives centered on "strengthening targeted growth business areas" and "fortifying platform for supporting sustainable growth."

(1) Strengthen targeted growth business areas

SMFG will focus on business areas with high growth potential and achieve top quality in such areas by creating added values that exceed customers' expectations, thereby realizing sustainable growth. SMFG will especially strengthen the following seven growth areas.

- A) Financial consulting for individuals
- B) Solution providing for corporations
- C) Focused business areas in global markets
- D) Payment & settlement services, consumer finance
- E) Investment banking and trust business
- F) Proprietary investment
- G) Credit derivative trading & distribution

(2) Fortify platform for supporting sustainable growth

SMFG will maximize its ability to provide added value by (a) implementing an internal business performance evaluation system centered on medium-term targets and strategic measures, (b) establishing a framework for developing highly qualified professionals capable of challenging and achieving top quality in growth business areas, (c) reinforcing IT and operational infrastructure to support SMFG's business in a flexible manner, (d) strengthening compliance, and (e) improving ALM and risk management system.

SMFG and the group companies will make every effort to achieve the goals of the plan in order to realize sustainable growth and higher corporate value.

4. Issues to be Addressed

Having designated fiscal 2007 as "the first step towards accomplishing the new medium-term management plan," SMFG will strengthen targeted growth business areas and fortify the platform for supporting sustainable growth on a group basis.

(1) Strengthen targeted growth business areas

First, SMFG will strengthen "seven growth areas" targeted in the plan.

- "Financial consulting for individuals," "Payment & settlement services, consumer finance"

In consumer business, financial consulting will be upgraded further. SMFG will develop and provide new products, such as "SMBC Fund Wrap," launched in January of this year, provided through the collaboration between Sumitomo Mitsui Banking Corporation (SMBC) and SMBC Friend Securities, which meet the diversifying needs of our customers and changing business environment including deregulation. Also, SMFG will expand its channel network and increase the number of financial consultants. Through these initiatives, SMFG aims to establish a business model for offering "one stop shopping" of various financial products and services including investment trusts, insurance products and securities.

Also, payment and settlement services utilizing credit cards and electronic money will be expanded. Specifically, SMFG will promote "SMBC First Pack," a set of packaged services of deposit, Internet banking and credit card, which was launched in March of this year. Another example is "Mitsui Sumitomo Card iD," a collaborative service provided by Sumitomo Mitsui Card and NTT DoCoMo. In addition, in consumer finance, the collaboration with Promise will be further promoted through measures such as increasing the number of loan contract machines. This April, SMFG, SMBC, Sumitomo Mitsui Card and QUOQ reached an agreement with Central Finance and Mitsui & Co. to establish a comprehensive capital and business alliance in consumer finance. The alliance partners aim to provide quality products and services that meet customer needs exactly. To this end, they will leverage this comprehensive partnership, utilize each other's special features, know-how and experience, brands, customer base, etc., which they have developed separately in their respective businesses of "consumer installment credit," "credit card," "banking" and "trade."

- "Solution providing for corporations," "Investment banking and trust business"

In corporate business, solution providing will be expanded further. Specifically, SMFG will strengthen coverage in business areas where needs of individual customers and corporate customers co-exist, such as business succession consulting and private banking, through a Private Advisory Department which was newly established within SMBC this April. Also, its capability to nurture growth companies will be enhanced through a newly established Merchant Banking Department. In addition, investment banking, which provides various financing techniques, such as syndicated loan and structured finance, and financial solutions for solving clients' managerial issues, such as business expansion and

reorganization through M&A, will be strengthened further through various initiatives by the Corporate Advisory Division within SMBC and the collaboration between SMBC and Daiwa Securities SMBC. Moreover, SMFG 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 of this year, SMBC Leasing and SMBC Auto Leasing are scheduled to merge with Sumisho Lease and Sumisho Auto Lease, respectively, under an agreement between SMFG and the Sumitomo Corporation group to pursue strategic joint businesses in leasing and auto leasing. By leveraging the know-how of both parties, value-added products and services will be provided to their customers.

- “Focused business areas in global markets”

In global markets, at the same time SMFG will provide various services responding to globalization of corporate customers, it will further strengthen initiatives in (a) specific growth industries in which fund raising and business consolidation needs are expected to expand globally, (b) Asia, a region which continues to demonstrate a remarkable economic growth, and (c) specific products and services with global competitive advantages, such as project finance and ship finance, by further expanding business franchises and establishing a global business promotion system.

- “Proprietary investment,” “Credit derivative trading & distribution”

In addition, SMFG will strengthen proprietary investments in mezzanine, equity, fund and so on. Also, credit derivative trading and distribution will be reinforced by improving its capability to structure risks on SMBC’s balance sheet and distributing such risks to investors.

(2) Fortify platform for supporting sustainable growth

Second, SMFG will fortify its platform for supporting sustainable growth.

Specifically, SMFG will take initiatives such as (a) business administration based on internal business performance evaluation system centered on medium-term targets, (b) establishment of a framework for securing and developing professionals in various business areas, (c) reinforcement of IT and operational infrastructure, and (d) further fortification of risk management and compliance. Especially, SMFG will further strengthen compliance to establish a more solid organization both in Japan and overseas. As a part of this, SMFG will take initiatives responding to enforcement of the Financial Instruments and Exchange Law in Japan, and complying with anti-money laundering.

With the aim of increasing return to shareholders, SMFG forecasts dividend per common share of ¥10,000 for fiscal 2007, which is a ¥3,000 increase compared with fiscal 2006. SMFG will continue to actively examine measures to strengthen shareholder return.

In fiscal 2007, through such initiatives, SMFG aims to take a solid first step towards accomplishing the medium-term management plan, and further improve the overall evaluation of SMFG by its customers, shareholders, markets and society.