

### **III. Management Policy**

#### **1. Our Mission**

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 its group companies put their collective energy into becoming “a globally competitive financial services group with the highest trust.”

#### **2. Targeted Management Indices**

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 dividend payout ratio of over 20% on a consolidated net income basis in fiscal 2009.

However, actual events have diverged widely from the assumptions made in fiscal 2007, regarding economic and financial environment underlying our current three-year, medium-term management plan. Accordingly, we now believe it will be difficult to attain the level of net income set for fiscal 2009 under the plan.

#### **3. Medium- to Long-term Management Strategy**

In the current medium-term management plan, “LEAD THE VALUE” Plan, SMFG's basic policy 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 a solid financial base as a global player.
3. Increase returns to shareholders.

Under the plan, SMFG is implementing strategic initiatives centered on strengthening targeted growth business areas and

“fortifying its platform for supporting sustainable growth.

(1) Strengthening targeted growth business areas

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

- A) Financial consulting for individuals.
- B) Solution providing for corporations.
- C) Focused business areas in global markets.
- D) Payment and settlement services, consumer finance.
- E) Investment banking and trust businesses.

(2) Fortifying its 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 its group companies will make every effort to implement these strategic measures and cope with changes in the business environment in order to realize sustainable growth and higher corporate value.

#### 4. Issues to be Addressed

Due to financial markets turmoil and a global economic slowdown since last year, our business environment has been increasingly severe. The outlook for the business environment remains uncertain, meanwhile various initiatives and efforts to structure a new regulatory framework are being implemented globally to stabilize the financial system. Amid such circumstances SMFG has designated fiscal 2009 as a year for establishing the next foundation for its future growth while continuing to strengthen its business in a manner consistent with the philosophy of “follow the basics.” SMFG is continuing to focus on strengthening its controls over expenses, credit costs and risk-adjusted assets, and on its two strategic initiatives: “realizing solid financial base as a global player” and “fortifying the platform for supporting sustainable growth.”

(1) Controls over expenses, credit costs and risk-adjusted assets

In regard to controlling expenses, we prioritize expenditures based on their amount, timing and impact in order to better allocate limited managerial resources in growth business areas. We pursue business efficiency by consistently sustaining an overhead ratio of less than 50% for SMBC on a non-consolidated basis.

In regard to controlling credit costs, we improve risk sensitivity for better control in preparation for further economic deterioration to raise our bottom line. We have been using the Advanced Measurement Approach under the Basel II framework for the measurement of operational risk since the fiscal year ended March 31, 2008, and have adopted the Advanced Internal Ratings-Based Approach for the measurement of credit risk-adjusted assets since the fiscal year ended March 31, 2009. Now we have established a more sophisticated risk-adjusted asset management system. In addition, amid heightened concerns regarding the world-wide economic slowdown, SMBC revised the functions of the Credit Management Dept. in its International Banking Unit, which was newly established in Nov. 2008, in order to enhance our credit risk management on a global basis. SMBC also established a new Risk Management Unit to manage various risks in a more integrated manner and consolidate the functions for managing major risks for financial institutions – market, liquidity, credit and operational risk – and enhance our across-the-board risk monitoring ability.

In regard to controlling of risk-adjusted assets, we aim to achieve a Tier I capital ratio of around 8%, which was set as a financial targets, and to improve our risk-return profile in order to cope with uncertainty in the business environment. Meanwhile, we regard providing customers with a sufficient supply of funds as one of our missions in society as a financial institution and work to fulfill our role as a financial intermediary optimally and more actively.

As described above, SMFG is continuing to focus on strengthening its controls over expenses, credit costs and risk-adjusted assets, and establishing the next foundation for its future growth while continuing to strengthen business in a manner consistent with the philosophy of “follow the basics.” We are improving our capabilities to reflect customer

opinions and requests, thereby further improving customer satisfaction and service quality. Through such measures, we will fortify our platform for supporting sustainable growth.

## (2) Realize a solid financial base as a global player

SMFG considers it necessary to enhance its capital base in terms of both quantity and quality in order to maintain our competitiveness, notwithstanding any future changes that might occur in the global financial sector, and to realize sustainable growth. SMFG has thus filed a shelf registration statement for common stock which will permit it to flexibly issue new shares. SMFG believes that issuing new shares will enable it to more quickly realize "a solid financial base as a global player"; secure a more solid capital base to better withstand further financial and economic stresses; more sufficiently supply funds to clients, which is one of SMFG's core missions as a financial institution; and capture various business opportunities.

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

## (3) Strengthen targeted growth business areas

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

While uncertainty regarding the future course of the global economy has not dissipated, we remain steadfast in our policy of meeting a wide range of customer needs for financing and preparing appropriate solutions to the management issues our customers confront.

First, in regard to taking initiatives to meet the financing needs of corporate customers, we believe that providing customers with a sufficient supply of funds is one of our missions in society as a financial institution. We are therefore working to fulfill our role as a financial intermediary optimally and more 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 also been providing customers with diverse 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" backed by customer assets—real estate holdings and moveable assets, respectively—as collateral.

We are continuing to take initiatives to further improve our responsiveness and offer high quality, optimal solutions meeting the various needs of our customers. More specifically, in April 2009 SMBC established a new Business Promotion & Solution Dept. by consolidating the functions of business promotion from different areas in order to realize more in-depth support for our corporate customers. SMBC also 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. We will enhance our collaboration with Daiwa Securities SMBC Co., Ltd. in order to respond to the relaxing of firewall regulations in June 2009. In business areas where services for individual customers and corporate customers overlap, including customers like business owners, the Private Advisory Department works to strengthen its support capabilities. The Global Advisory Department, formed in April 2008, enhances support for the Corporate Business Offices in order to further improve our solutions for customers' international operations. In the investment banking business, fund investment resources and know-how have been integrated into the Merchant Banking Dept. and asset management related functions have been consolidated into the R&D Dept., and renamed "Strategic Products Dept." in order to enhance our ability to develop and offer investment management products. In addition, the Trust Services Dept., formerly within the Corporate Services Unit, has become a department within the Investment Banking Unit in order to further improve the quality of our trust products and services.

In the leasing business, Sumitomo Mitsui Finance and Leasing Co., Ltd., formed as part of a strategic alliance between SMFG and Sumitomo Corporation Group, will provide more value added products and services to customers by offering 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, by blending the finance-related know-how of a bank and the products- and business distribution-related know-how of a trading firm. In September 2008, NTT DATA Corporation, SMFG and its subsidiary the Japan Research Institute, Ltd. and JRI Solutions Limited reached a basic agreement on a broad-ranging business partnership between NTT DATA and JRI Solutions in the IT services field, and on a capital arrangement underlying the alliance. JRI Solutions renamed itself JSOL Corporation in January 2009, and the company is continuing to work aggressively to further develop group-wide solution services, including system design and operating

services, IT security related consulting and other services.

- “Financial consulting for individuals” and “Payment and settlement services, consumer finance”

For consumer customers, SMBC is increasing the sophistication of its financial consulting services, aiming to realize “total consulting services” which offer customers one-stop services for various financial products. Specifically, SMBC has been substantially expanding its lineup of products and services, including insurance products (e.g. whole-life insurance, term-life insurance and medical insurance), investment trusts, pension-type insurance, and discretionary asset management services offered by SMBC Friend Securities Co., Ltd., in order to meet the diversifying needs of its customers and striving to enhance its consultants’ skills through training.

Next, in the credit card business, Cedyna Financial Corporation (Cedyna) was formed through the merger of Central Finance Co., Ltd., OMC Card Inc., and QUOQ Inc. in April 2009. As a result, SMFG’s credit card business was consolidated into two companies; Sumitomo Mitsui Card Co., Ltd. and Cedyna. The next step will be to work toward becoming “the number one credit card business entity in Japan” by striving to realize economies of scale for the group as a whole and to maximize top-line synergies by drawing on the strengths of each company. In addition, in May, 2009, SMBC reached an agreement with ORIX on the joint business development of ORIX Credit Corporation. SMFG has focused intensively on the consumer finance business by responding sound funding needs from our customers. SMFG is now attempting to expand its market share and business efficiency through a new collaboration initiative.

- “Focused business areas in global markets”

In global markets, SMFG is continuing to bolster its financial products with a competitive edge, including project finance. In Asia, which is expected to remain a high-growth region, SMBC established a wholly-owned subsidiary, Sumitomo Mitsui Banking Corporation (China) Limited, in China in April 2009 to boost the efforts to provide more comprehensive services to customers. In April 2008, SMBC established the Asia Pacific Division in order to respond flexibly and quickly to local business requirements in the region, including South Asia and Australia. At the same time, SMBC has been taking steps to further strengthen its business in Asia by leveraging business and capital alliances with leading financial institutions in the region. For example, we have been developing businesses under alliance agreements entered into with Vietnam Eximbank and Kookmin Bank of South Korea, a capital alliance with Kookmin Bank’s holding company, KB Financial Group, agreed in October 2008, business alliances with First Commercial Bank of Taiwan and Bank of East Asia of Hong Kong. In addition, SMBC has been moving ahead in discussions with a leading U.K. financial institution, Barclays plc, on the specifics of a business alliance in areas such as wealth management and businesses in South Africa.

- “Acquisition of Nikko Cordial Securities Inc. and other businesses”

SMFG has reached an agreement with Nikko Citi Holdings Inc. and other related entities that SMBC will acquire the entire operations of Nikko Cordial Securities Inc. (excluding selected assets and liabilities) and other businesses, including the domestic debt and equity underwriting businesses of Nikko Citigroup Limited, and other assets, pursuant to the approval of relevant authorities. Through this transaction, SMFG plans to create a leading financial services group and increase growth potential by combining the stability and reliability of a commercial bank with the acquired entities’ high-quality customer services.

Due to turmoil in the financial markets, a sharp decline in stock prices and a slowdown in the global economy since last year, SMFG recognized an impairment loss on stocks and an increase in credit costs for fiscal 2008. In addition, in order to quickly adapt to these changes in the business environment and promote a steady recovery of earnings from the fiscal 2009, we made additional loss provisions in preparation for further economic deterioration and calculated deferred tax assets more conservatively. As a result, SMFG’s consolidated ordinary profit was ¥45.3 billion, or ¥785.8 billion lower than fiscal 2007, and consolidated net loss was ¥373.4 billion, or ¥834.9 billion lower than fiscal 2007.

As our full-year financial results for fiscal 2008 were lower than fiscal 2007, we are regrettably decreasing the annual dividend on our common stock to ¥90 per share, or ¥30 lower than for fiscal 2007, in order to maintain sound financial management and enhance our retained earnings.

Dividends on common stock for fiscal 2009 are forecast to be ¥90, the same level as fiscal 2008. SMFG aims for a dividend payout ratio of over 20% on a consolidated net income basis, and expects to increase returns to shareholders by achieving a steady recovery going forward.

In fiscal 2009, through these initiatives, SMFG intends to achieve steady results, and further increase its value to its customers and shareholders and in the financial markets and society.