

## **II. Principles and Management**

### 1. Management Strategy

SMFG was established in December 2002 to realize a highly flexible group structure for achieving optimal group management and substantial reinforcement of strategic business lines headed by Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Card Company, Ltd., SMBC Leasing Company, Ltd., and The Japan Research Institute, Ltd.

In the banking franchise, SMFG reinforced strengthened its balance sheet in FY2002 by drastically reducing the financial risks associated with stockholdings and non-performing loans. SMFG sold outright over 1 trillion yen in stockholdings, used the surplus from the merger between Sumitomo Mitsui Banking Corporation (“SMBC”) and THE WAKASHIO BANK, LTD. to write off unrealized losses on stocks. In order to accelerate the work-out of NPLs, SMFG established Asset Restructuring Unit for the revitalization of problem corporate borrowers, and boosted the provisions for potential credit cost in step with the government’s “Program for Financial Revival”. Moreover, with the issuance of preferred stocks twice, SMFG has secured sufficient capital buffer for any worse-case scenario and further fortified the balance sheet. Underpinned by the stronger financial base, SMFG will continue to enhance its earnings power and cost management capability, and accelerate the fortification of its balance sheet this fiscal year.

SMFG will also continue to boost the effectiveness of the other strategic business lines in its effort to raise its net worth as a “new financial services complex”.

### 2. Dividend Policy

SMFG subscribes to a fundamental policy of distributing appropriate dividends while enhancing SMFG group’s capital to maintain sound financial position.

### 3. Issues to be Addressed

Amid a very harsh business environment, SMFG has been undertaking the following action plans to build strong operating and financial base capable of withstanding even worse business conditions.

First, SMFG will further accelerate the reinforcement strengthening of the balance sheet. In FY2002, SMFG disposed a substantial amount of non-performing loans, and bolstered the provisions for potential credit cost associated with “Borrowers Requiring Caution” including “Substandard Borrowers”. From this fiscal year, SMFG will steadily reduce the problem asset ratio, to half within two years, by substantially up-pacing the work-out of NPLs, including the revitalization of problem corporate borrowers, mainly through the newly established Asset Restructuring Unit. In FY2002, SMFG also reduced the book value of its stockholdings substantially through drastic write-offs of unrealized losses and impairment, and outright sales, and will further reduce stock price fluctuation risk this fiscal year onward.

Second, SMFG, the banking operation with the highest earnings among Japanese banking groups, will accelerate the implementation of steps it has been taking to improve its cost-income structure. Steps for expanding income include optimizing risk-return profile of its loan portfolio by increasing loan spreads; expanding credit-risk-taking in small and middle market banking, and loan syndications in corporate banking; and developing business models for consulting services in consumer banking. On the cost side, SMFG will achieve an earlier realization of targeted cost reduction by further streamlining the workforce, consolidating branches, integrating computer systems, and other new initiatives.

Third, SMFG will focus on substantially enhancing the profitability of the other strategic business lines headed by Sumitomo Mitsui Card, SMBC Leasing, and Japan Research Institute, taking advantage of the synergy among these companies and SMBC.

By quickly realizing significant results from these actions, SMFG should be able to recover the trust of shareholders and improve the markets’ overall evaluation.

#### 4. Corporate Governance Policy

SMFG employs an auditor system consisting of five auditors of which three are outside auditors. The Board of Directors also includes outside directors to enhance management transparency and soundness by incorporating their opinions.

The Board of Directors consists of eight directors of which two are outside directors. SMFG has reinforced the Board's oversight functions by setting up three subcommittees: the Risk Management Committee (deliberates on risk management and compliance issues for the SMFG companies in aggregate), the Compensation Committee, and the Nominating Committee. The two outside directors, one a certified public accountant and the other a lawyer, are members of all three committees (one is the Chairman of the Compensation Committee) for supervision of operations from a suitably objective perspective.

The Group Management Committee is the highest decision-making body at the operational level. The President chairs the committee and selects its members from the directors. The committee members debate important management issues, and the President has the authority to make final decisions after considering the committee's recommendations. There is also the Group Strategy Committee, a forum for group company directors to exchange opinions, consult, and report on their business plans.