

May 26, 2003

Management Policy in Fiscal Year 2003

Now, I would like to explain about SMFG's management policy in FY2003. Please look at page 1 of the material.

During FY2002, we resolutely reduced our exposure to financial risks, raised capital, and took other measures to strengthen our financial base to further enhance profitability and accelerate fortifying our balance sheet. Within the next two years, we will cut the problem asset ratio by half. To enhance shareholder value, a key issue, we will achieve the following goals:

- 1) Reinforce balance sheet
- 2) Establish highly-profitable business models
- 3) Secure and expand net income

As for the targets on problem assets, stockholdings and banking profit, please look at the charts at the lower part of the page.

First, I would like to explain our strategy for problem assets. Please look at the second page of the material.

We plan to reduce the balance of problem assets (based on the Financial Reconstruction Law) by approximately JPY 2.8 trillion within two years to JPY 2.5 trillion by the end of March 2005. We will continue "off-balancing" of problem assets classified as Doubtful Assets or lower through measures such as sales of assets. As for Substandard Loans, we will take stricter policies toward problem corporate borrowers and accelerate our initiative for revitalizations of borrowers and work-outs, including outright sales, through the Asset Restructuring Unit, established in December 2002 to play the core role in dealing with problem assets. Through these measures, we will cut the problem asset ratio by half to approximately 4% by the end of March 2005, from 8.9% by the end of March 2002.

Given the uncertain economic outlook, we expect the total credit cost to be

approximately JPY 650 billion in FY2003, based on the deflation continuing for some time to come. We expect credit cost related to “off-balancing” to be approximately JPY 250 billion, and the credit cost related to the deterioration of financial conditions of Substandard Borrowers, based on the possibility of a deeper deflation, to be approximately JPY 400 billion. With the substantial disposition of problem assets during FY2003, we expect approximately 30% reduction in credit cost in FY2004.

Next, I would like to move on to how we will enhance profitability. Please turn to page 3. We will boost gross banking profit by clarifying risks to be taken, and establishing highly profitable business models. As for expenses, we will implement low-cost operations thoroughly.

The specifics are as follows:

First, in corporate banking business, we are revising our business models, focusing on the reexamination of domestic lending business. In this fiscal year, we will increase the volume of loans together with risk-return profile improvement. Specifically, reflecting our enhanced risk control ability, we will drastically reform our credit approval systems, and, at the same time, we will develop loan product business with better risk-return profile. Furthermore, to provide financial solutions to the clients, we will strengthen our “Debt capital market business” and investment banking business.

Next, in consumer banking business, we will establish business models in areas such as “Consulting sales” and loan business, and further enhance our competitive edge in investment trusts, pension type insurance and housing loans.

Lastly, we will reduce cost through further rationalization and achieve the annual cost target of JPY 600 billion this fiscal year, a year ahead of the original plan.

Next, please look at page 4.

We expect to achieve banking profit of more than JPY 1 trillion this fiscal year for the third consecutive term. In the past two fiscal years, there were contributions such as the increase in profits generated by the Treasury Unit and dividend income from affiliates. We expect the Treasury Unit’s profits to decline to some extent in this fiscal year, however, we have steadily improved the quality and the volume of profits generated by

the Marketing Units, for example, by expanding non-interest income business and attaining an overwhelmingly low level of overhead ratio, and expect to be able to secure JPY 1 trillion level in banking profit.

Lastly, I would like to explain about rationalization. Please turn to page 5.

We have always achieved our cost reduction targets in the past. This fiscal year, through major initiatives shown in the table, we will sharply cut costs by JPY 47 billion, and achieve the annual cost target of JPY 600 billion, a year ahead of the original plan.

It goes without saying that this fiscal year will be the crucial year for SMFG and SMBC. I believe that we will be able to recover the markets' confidence in SMFG by achieving the goals through enhancing profitability further and accelerating the balance sheet reinforcement.