

II. 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's management policy is to strengthen the Group's earnings power, to fortify its financial base, and to raise its net worth.

2. Dividend Policy

SMFG subscribes to a fundamental policy of distributing appropriate dividends while enhancing its Group's capital to maintain sound financial position.

3. Management Index to be Achieved

SMFG, while maintaining its BIS capital ratio of over 10%, will buildup its retained earnings for early repayment of its public funds by enhancing its profitability.

4. Mid- to Long-term Management Strategy

SMFG has been accelerating its effort to improve SMBC's asset quality in order to achieve the goal of halving the non-performing loan ("NPL") ratio before the end of FY2004. It has been proactively slashing cross-shareholdings, and reducing NPLs by "off-balancing" and improving clients' financial performance.

Moreover, SMFG has been rationalizing its management system based on the following policy for strengthening its earnings power:

- To expand business scale by grasping clients' unmet needs, and filling such needs with high-quality services built on the group-wide capability
- To raise capital efficiency by improving the risk-return profile of businesses and allocating resources to profitable areas
- To strengthen cost efficiency through thorough implementation of low-cost operation

Anchored by this policy, SMFG will continue to strengthen its profitability and steadily build up its retained earnings.

5. Issues to be Addressed

- NPLs

Not satisfied with achieving the full-term NPL balance target of 3.9 trillion yen in the six-month period ended September 30, 2003, through "off-balancing" and revitalizing borrowers, SMBC will further reduce NPLs utilizing measures such as the joint venture for corporate recovery and the loan purchasing fund established with Goldman Sachs, Daiwa SMBC Principal Investments, and Development Bank of Japan in November 2003.

- Cross-shareholdings

FY2003 target for cross-shareholdings is 700 billion yen, but SMBC has already sold about 80% of this amount in the six-month period ended September 30, 2003. It will continue its effort to reduce risks from stock-price fluctuation.

- Profitability

In addition to the various "Business Reform" initiatives, SMBC has implemented the following to improve profitability:

(a) Corporate banking

SMBC, while further re-examining its domestic lending practices, is working to expand its lineup of loan products. Just in the six-month period ended September 30, 2003, SMBC exceeded the planned origination of 2.3 trillion yen in Business Select Loan and other new unsecured loan products. It also standardized and rationalized its credit supervision system. In the six-month period ended March 31, 2004, it will originate more new loan products, increase the volume of loans with better spreads, and continue to expand solution-providing businesses, such as loan syndication and investment banking for middle to large corporate clients, by strengthening cooperation with Daiwa Securities SMBC and through other measures.

(b) Consumer banking

SMBC will reinforce its prominent competitive advantage in sales of investment trusts, pension-type insurances and mortgage loans by establishing new business models such as financial consulting business. FY 2003 targets for investment trusts, pension-type insurances and mortgage loans are higher than the FY 2002 targets, but SMBC was able to exceed its goals for the six-month period ended September 30, 2003.

SMFG will put its effort to improve profitability of payment and settlement services, as well as remote banking.

(c) Expenses

SMBC moved up its goal of establishing a 600-billion-yen-annual-cost structure one year ahead to FY2003. In the six-month period ended September 30, 2003, it successfully cut expenses through reduction of personnel cost, etc. and will continue to take measures such as rationalization of procurement process in the six-month period ended March 31, 2004.

(d) Group-wide effort

In April 2003, SMBC transferred and integrated its systems-related function to Japan Research Institute. In November 2003, SMBC and Sumitomo Mitsui Card launched their cooperatively developed new service for individual customers in their 20s and 30s, "One's Style". Group companies will continue to collaborate to reap significant synergies, and through such steadfast initiatives, SMFG intends to raise the group-wide earnings potential by capitalizing on the intrinsic strengths of each Group company.

6. Corporate Governance Policy and Structure

SMFG employs a corporate auditor system and three of the five auditors are outside auditors. Moreover, to enhance the management's transparency and soundness, SMFG has outside directors.

The Board of Directors consists of eight directors including two outside directors, and under the Board are three subcommittees to reinforce its oversight functions: the Risk Management Committee, which considers Group-wide risk management and compliance, 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 the committees, and the accountant is the Chairman of the Compensation Committee. This system allows supervision of our operations to be conducted from a suitably objective perspective.

In addition to the above committees, SMFG has the following committees:

(a) Management Committee

Chaired by the president of SMFG, the committee acts as the top decision-making body on business administration and management supervision of the entire Group. The committee, composed of directors chosen by the president, considers important matters relating to the execution of business, and the president has the authority to make the final decision after considering the committee's recommendations.

(b) Group Strategy Committee

The committee serves as a forum for the top management staff of all Group companies to exchange opinions and information on their respective business plans.

(c) Compliance Committee

The committee reinforces the Group-wide compliance system, and comprises of the designated Board member responsible for compliance issues, the heads of departments involved with compliance matters, and legal advisors

from outside the Group.

