

II. Principles and Management

1. Management Policy

SMFG's Groupwide 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 and to fortify its financial base, 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 build up its Retained earnings for early repayment of public funds by enhancing its profitability.

4. Mid- to Long-term Management Strategy

SMFG will further reinforce the financial base by improving asset quality, and steadily increase Net profit and build up Retained earnings by strengthening earnings power.

First, to improve asset quality, SMBC designated fiscal years 2003 and 2004 as the period for intensive reduction of non-performing loans ("NPLs"). It accelerated the pace of reducing NPLs (*) in order to halve the NPL ratio by the end of fiscal year 2004, and reduced NPLs by more than JPY 2.4 trillion last fiscal year. The balance of NPLs as of March 31, 2004 turned approximately JPY 2.8 trillion, which fell below the original target, JPY 3.9 trillion, for more than JPY 1 trillion.

Second, SMBC has been steadily reducing cross-shareholdings, aiming for around 50% of Tier 1 capital, to decrease its exposure to stock price fluctuations. It sold its cross-shareholdings by approximately JPY 930 billion last fiscal year.

Moreover, SMFG outlined its initiatives for strengthening its earnings power based on the following policies:

- Expand business volume by utilizing the unified Groupwide capabilities to provide higher value-added services that match customers' needs
- Increase capital efficiency by improving the risk-return profile, and focused allocation of business resources to high-profit businesses
- Strengthen cost efficiency by reinforcing low-cost operation

Under these policies, SMBC achieved over JPY 1 trillion in Banking profit for three consecutive years since the merger in April 2001.

(*) Problem assets based on the Financial Reconstruction Law

5. Issues to be Addressed

SMFG will make effort to improve asset quality and to strengthen its earnings power continuously.

First, SMBC designated fiscal year 2004 as the final year for intensive improvement of asset quality and it will further reduce NPLs and cross-shareholdings. To ensure halving the NPL ratio by the end of this fiscal year, it will reduce NPL by

aggressive off-balancing, corporate revitalization, and preventing deterioration of borrowers' financial conditions. Though SMBC has already cut shareholdings to the level required in the restriction on bank shareholdings that will become effective on Sep. 30, 2006, it will continue to reduce them further this fiscal year.

Second, SMFG has Group companies that have intrinsic business strength such as SMBC, Sumitomo Mitsui Card, SMBC Leasing, Japan Research Institute, Daiwa Securities SMBC, Daiwa SB Investments. Business lines of SMFG's Group companies will be continuously strengthened, and collaboration among Group companies will be promoted further to boost Groupwide earnings. Specifically, SMBC will grow businesses in which it already has competitive advantage, such as unsecured loans to small and medium-sized enterprises, like Business Select Loan and N Fund in the middle market banking business, and financial consultation services, like marketing investment trusts, pension-type insurance products, and home mortgages in the consumer banking business, by expanding small and specialized distribution channels, SMBC Consulting Plaza and so on. Additionally, SMBC will enhance businesses such as loan syndication, investment banking business collaborating with Daiwa Securities SMBC, consumer finance collaborating with Group companies like Sumitomo Mitsui Card, and so on to strengthen earnings power.

SMFG seeks to gain the markets' higher evaluation by realizing significant results from these activities.

6. Corporate Governance Policy and Structure

Maintaining effective corporate governance is one of the most important issues of SMFG and the Group companies. Therefore, SMFG is committed to maintaining sound management, creating sustainable shareholder value and contributing to healthy development of society by observing the below "Management Philosophy" and "Business Ethics".

<<Management Philosophy>>

- 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

<<Business Ethics>>

- Satisfactory Customer Services

We intend to be a financial services complex that has the trust and support of our customers. For this purpose, we will always provide services that meet the true needs of our customers in order to obtain their satisfaction and confidence in the Group.

- Sound Management

We intend to be a financial services complex which maintains fair, transparent, and sound management based on the principle of self-responsibility. For this purpose, along with obtaining the firm confidence of our shareholders, our customers, and the general public, we take a long-term view of our business and operate it efficiently, and actively disclose accurate business information about the Group. Through these procedures, we will maintain continuous growth on a sound financial basis.

- Contribution to Social Development

We intend to be a financial services complex which contributes to the healthy development of society. For this purpose, we recognize the importance of our mission to serve as a crucial part of the public infrastructure and also our social responsibilities. With such recognition, we undertake business operations that contribute to the steady development of Japan and the rest of the world, and endeavor, as a good corporate citizen, to make a positive contribution to society.

- Free and Active Business Environment

We intend to be a financial services complex for which all officers and other employees work proudly and with great spirit. For this purpose, we respect people, and train and produce employees with professional knowledge and ability, thereby creating a free and active business environment.

- Compliance

We intend to be a financial services complex that always keeps in mind the importance of compliance. For this purpose, we constantly reflect our awareness of these Business Ethics in our business activities. In addition, we respond promptly to directives from auditors and inspectors. Through these actions, we observe all laws and regulations, and uphold moral standards in our business practices.

Corporate Committees and Internal Control System

<<Directors>>

SMFG employs the corporate auditor system consisting of eight directors and five auditors, and two of the directors and three of the auditors are from outside SMFG and its Group companies. To ensure that our business is conducted according to law, the outside directors are a certified public accountant and a lawyer.

<<Board of Directors>>

The Board of Directors basically meets once a month. The Chairman of the Board, not the President who oversee the overall operation of SMFG, chairs the Board meeting. Moreover, there are three committees to supplement the Board's oversight functions: the Risk Management Committee, Compensation Committee, and the Nominating Committee. The outside directors are members of all the committees (one is the Chairman of the Compensation Committee). This system allows supervision of our operations to be conducted from a suitably objective perspective.

- Risk Management Committee

Deliberates on Groupwide risk management and compliance issues

1. Issues related to the basic policies and the system of risk management
2. Other issues with a potential material impact on operations

- Compensation Committee

Deliberates on remuneration of Board members and executive officers of SMFG and SMBC

1. Issues related to remuneration, salaries, and incentive program
2. Other remuneration issues

- Nominating Committee

Deliberates on appointment of directors of SMFG and SMBC

1. Issues related to the selection of candidates for Board directorships
2. Issues related to the appointment of managing directors having specified management responsibilities, and issues related to the appointment of representative directors
3. Other major personnel issues related to directors

<<Auditors' Activities>>

The auditors ensure the proper business conduct of SMFG and the subsidiaries by attending the Board of Directors' meetings and other important meetings at which the directors and others present business reports, by examining documents on important decisions, and by obtaining reports from the internal audit departments, subsidiaries and outside auditors.

<<Business Execution>>

SMFG has a Management Committee, consisting of directors and chaired by the president of SMFG, to act as the top decision-making body on business administration and management supervision of the entire Group. The committee, in accordance with the basic policies set by the Board, 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. In addition, SMFG also has a Group Strategy Committee to serve as a forum for the management staff of all Group companies to exchange opinions and information on their respective business plans. Moreover, the directors in charge of Group companies are appointed as part-time directors of their respective group companies to supervise the proper conduct of business.

<<Internal Audit System>>

The Audit Department of SMFG is responsible for objectively conducting internal audits for the Group in a process separate from the oversight exercised by the Board of Directors on the shareholders' behalf. The Audit Department conducts internal audits to assess the soundness of business operations and assets, as well as to verify that the Group's internal control system, including compliance and risk management, is appropriate and effective. The Audit Department is also responsible for supervising internal audits at each group company. It reviews the internal audit system of each company by monitoring the company's internal audits on a regular basis. The results of the audits are periodically reported to the Board of Directors and the Management Committee. Based on these findings, the Audit Department administers

guidance and makes proposals to the audited departments and offices, as well as to the respective auditing departments of Group companies.

<<Compliance>>

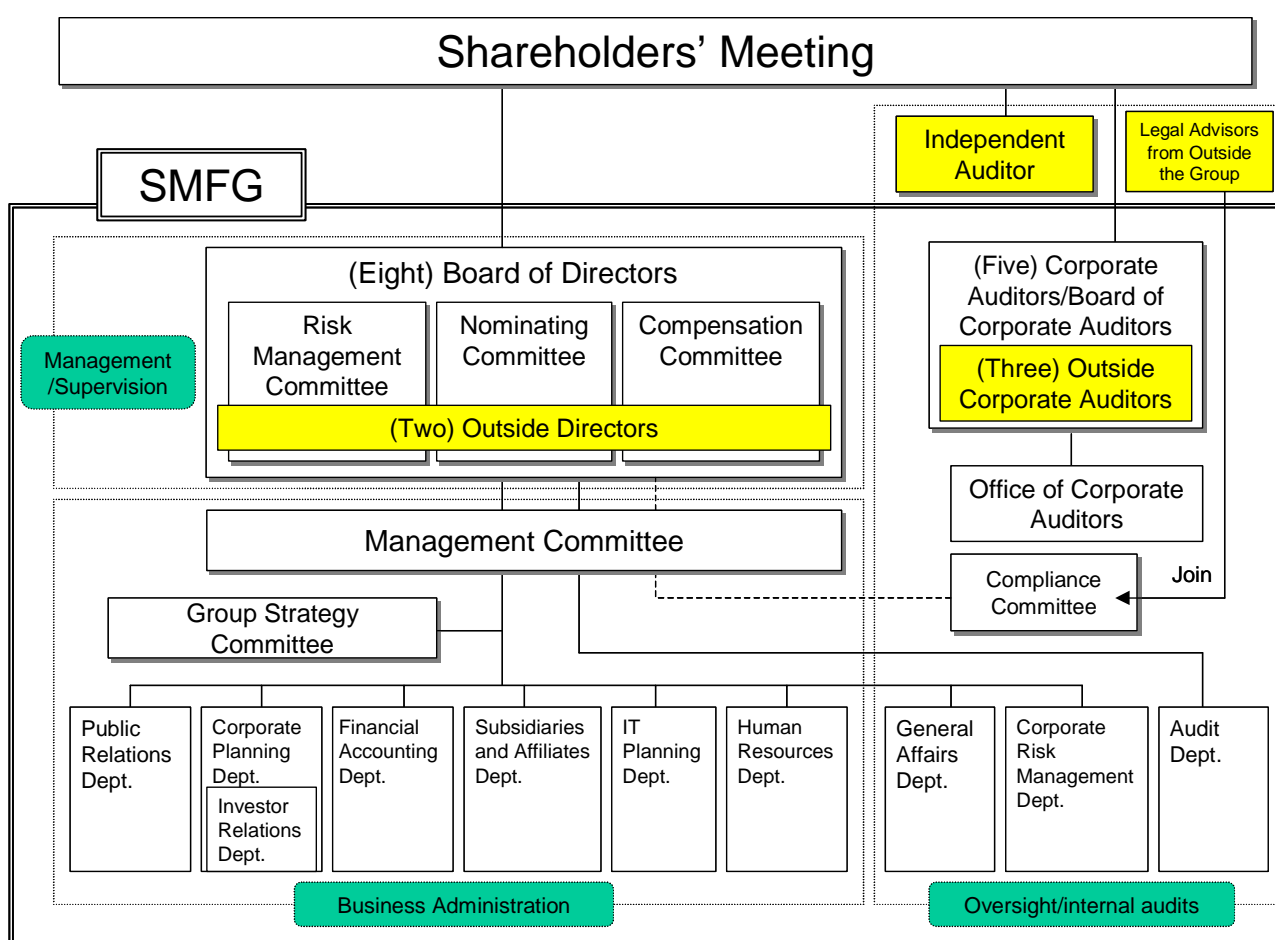
SMFG have implemented the following compliance system to ensure sound and appropriate business management by SMFG and our Group companies.

- The Board of Directors and Management Committee

The Board of Directors and Management Committee make important decisions concerning compliance policy, review the progress of those measures taken in connection with ensuring compliance, and give instructions concerning these matters as appropriate.

- The Compliance Committee

SMFG set up the Compliance Committee to reinforce the Groupwide compliance system. The committee comprises the designated Board member responsible for compliance issues, the heads of departments involved with compliance matters, and advisors from outside the Group.



<<Principle Risk Factors>>

Principal risk factors that could materially affect SMFG's operating results and financial position are as follows. SMFG takes necessary measures to prevent such events from occurring, and responds quickly and appropriately when such events do occur.

- Risk related to increase in problem loans and credit costs
- Risk related to equity portfolio
- Risk related to trading business and holding bonds
- Risk related to foreign currency exchange rate
- Risk related to decline in BIS capital ratio
- Risk related to downgrade in SMFG group's debt ratings

- Risk related to failure of SMFG's strategy
- Risk related to regulatory amendment of laws, rules and accounting rules etc.

(Note) SMFG recognizes the risk factors shown above on the day of announcement of financial results.