

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.

4. Mid- to Long-term Management Strategy

Our three basic policies to strengthen earnings power are: to expand business volume by utilizing the unified groupwide capabilities to provide higher value-added services that match customers' needs, to increase capital efficiency by improving the risk-return profile and focused allocation of business resources to high-profit businesses, and to strengthen cost efficiency by reinforcing low-cost operation. Following these policies, we aim to achieve higher sustainable corporate value by strengthening group profitability through further reinforcement of strategic businesses in which we have competitive advantage, establishment of new business models, and expansion of marketing channels and customer base on a group basis.

Specifically, along with further enhancement of new type unsecured loans to small and medium-sized enterprises (SMEs), financial consulting for individuals and investment banking business, in which we have competitive advantage, we aim to establish new business models in consumer finance and Asian business centered on China.

At the same time as we strengthen group profitability for achieving sustainable growth, in fiscal 2004, we make efforts to complete intensive improvement in asset quality. Sumitomo Mitsui Banking Corporation (SMBC) designates fiscal 2003 and 2004 as the intensive resolution period of non-performing loans (NPLs), and proactive measures are being taken to halve the NPL ratio at March end 2002 of 8.9% by the end of fiscal 2004. In addition, we continuously cut the balance of stockholdings in order to reduce price fluctuation risk further.

5. Issues to be Addressed

We have set "completion of intensive improvement in asset quality" and "enhancement of group profitability" as two issues to be addressed in fiscal 2004.

- Completion of Intensive Improvement in Asset Quality

In the first half of this fiscal year, SMBC reduced its NPLs (Problem Assets based on the Financial Reconstruction Law) by approximately ¥330 billion from March end 2004, resulting in an NPL balance of about ¥2.48 trillion and an NPL ratio of 4.4% at the end of September, thereby achieving the target of halving the NPL ratio at March end 2002 of 8.9% six months ahead of the original schedule. We plan to further reduce NPL balance to less than ¥2 trillion and NPL ratio to less than 4.0% at the end of fiscal year through further efforts for corporate recoveries, prevention of deterioration of borrowers' financial conditions and off-balancing. On stockholdings, although they have been reduced significantly and their balance is already below the level required in the restriction of banks' stockholdings, approximately ¥200 billion were sold in the first half, and will be continuously reduced onward.

- Enhancement of Group Profitability

Businesses of SMBC, Sumitomo Mitsui Card, SMBC Leasing, The Japan Research Institute, Daiwa Securities SMBC, Daiwa SB Investments, and other group companies with strong business base will be strengthened further, and collaboration among group companies and strategic alliances with leading companies will be proactively promoted to boost group profitability.

Specifically, we will increase SMBC's new type unsecured loans to SMEs, such as Business Select Loan and N-Fund Loan, by reinforcing SMBC's risk taking capability and expanding marketing channels. Financial consulting for individuals such as sales of investment trusts, pension type insurances and mortgage loans, will be reinforced by increasing the number of SMBC Consulting Plazas, the specialized channels, and adding new products to the lineups. In investment banking business, to enhance business profitability, solution providing such as loan syndication, structured finance will be strengthened, and collaboration with Daiwa Securities SMBC will be accelerated.

Furthermore, under the strategic alliance with Promise Co., Ltd. announced this June, SMBC's marketing channels, customer base and Promise's expertise, know-how are leveraged to establish new business models to dramatically strengthen consumer finance business. Preparations are being made to provide consumer loan products starting in April 2005.

We will continue to strengthen Asian business centered on China, and strategically allocate business resources in the Americas and Europe to increase business volume.

- Repayment of Public Fund

We recently repaid ¥201 billion of public fund preferred stocks owned by the government. The repayment of public fund was scheduled to start next fiscal year but was moved up thanks to the buildup of retained earnings and steady improvement in profitability as a result of our recent efforts. We are aiming for an early repayment of the remaining ¥1.1 trillion by further boosting profitability.

We hope to improve the market's overall evaluation of SMFG by steadily achieving results in both "completion of intensive improvement in asset quality" and "enhancement of group profitability" in fiscal 2004.

<<Principal 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 failure of joint venture, alliance and acquisition
- 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.

6. Corporate Governance Policy and Structure

(1) Corporate Governance Policy

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.

(2) 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 the major 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.

