

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 aims at raising its corporate value sustainably.

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. Policy concerning Lowering of Minimum Stock Investment Amount

After taking into account various factors such as stock price, number of shareholders, liquidity of shares and cost-effectiveness, we do not believe there is a need to lower the minimum amount for purchasing SMFG's common stock at this time.

4. Management Index to be Achieved

SMFG set the following four management indices as the target to be achieved in fiscal year 2008 ending March 31, 2009.

- | | |
|-----------------------------------|---------------------------|
| - Consolidated ROE | More than 15% |
| - Consolidated net income | More than 650 billion yen |
| - Consolidated BIS capital ratio* | Approximately 11% |
| - Consolidated Tier I ratio* | Approximately 7% |

*At March 31, 2009

By achieving these goals and thereby earning greater trust from the market, we expect to raise SMFG's market value to more than 10 trillion yen.

5. Mid- to Long-term Management Strategy

Designated as the year to complete "the intensive improvement in asset quality", in fiscal year 2004, we significantly decreased future risk factors by taking further financial measures with regard to non-performing loans and securities portfolio in order to ensure improvement in financial results in fiscal year 2005 onward. Henceforth, to realize high profitability and growth, and thereby raising corporate value sustainably, it is essential for us to earn "the highest trust of customers, markets and society". In other words, we must

- (i) respond accurately to the ever-changing needs of customers and provide superior products and services;
- (ii) steadily grow profits and establish solid financial base by being highly business-minded; and
- (iii) fulfill our social responsibility by contributing widely to the Japanese economy and society through our business activities.

Grounded on these recognitions, we have set the five core strategies as follows and will implement initiatives to achieve our goals.

- First, to grow gross profit and achieve sufficient growth by challenging new types of risks, new regions and new business areas.
- Second, to strengthen strategic business areas by aggressively allocating resources, while continuing to improve efficiency of existing businesses further.
- Third, to improve capital efficiency and thereby maximizing profitability and growth, by improving risk-return profile of each business and by reallocating risk capital and risk-weighted assets. Also, we are aiming for an early repayment of the remaining 1.1 trillion yen in public fund preferred stock.
- Fourth, to proactively seek alliances lead to raise our corporate value.
- Fifth, to improve corporate governance in order to increase corporate value and fulfill our social responsibility.

6. Issues to be Addressed

We have designated fiscal year 2005 as an essential year for “securing a solid profit level.” To achieve this target, in accordance with the core strategies, we will reinforce the below strategic business as focal areas on a group basis.

Firstly, on consumer finance business, from this April, three types of consumer loans developed under the strategic alliance with Promise are provided through 427 new automatic contract machines located in SMBC branches, and other channels including telephone and internet. Furthermore, business bases of group companies such as Sumitomo Mitsui Card and QUOQ will be leveraged to establish strong earnings base in the consumer finance business.

On credit card business mainly operated by Sumitomo Mitsui Card, in this April, SMFG and group companies agreed to form business and capital alliances with NTT DoCoMo to jointly promote a new credit-payment service using DoCoMo “Mobile Wallet” phones. We aim at creating new credit card market using mobile phones and establishing a de facto standard with new services provided by leveraging both groups’ know-how, brands and customer bases.

On financial consulting for individuals, such as sales of investment trust and pension-type insurance and mortgage loans, will be further reinforced through additional opening of SMBC Consulting Plazas, specialized channels which are also open on weeknights and holidays, and expanded line-up of products provided by the launch of securities intermediary business and testamentary trust business in December of last year and February of this year, respectively. We will also continue to improve customer convenience through initiatives such as installing ATMs at Tokyo Metro stations.

On financial consulting for corporations, we will further grow profit scale by initiatives such as (a) strengthening our capability to provide financial solutions that match the diversified needs of corporate customers, including loan syndication, structured finance and non-recourse loan; (b) further increasing new-type unsecured loans to small and medium-sized enterprises, such as Business Select Loan; (c) reinforcing solution providing for business reorganization needs; and (d) promoting investment banking and securities intermediary businesses in collaboration with Daiwa Securities SMBC.

On overseas business, the Asian business centered on China will be further reinforced by initiatives such as investment banking business in collaboration with Daiwa Securities SMBC. In the Americas and Europe market, with the aim to improve capital efficiency, we will further strengthen PFI, project finance and other areas in which we have competitive advantage. Also, we will develop businesses in the expanded EU, Central and South Americas and other growth markets by improving our risk-taking capability.

Lastly, in treasury market business, we will increase volume in foreign exchange transactions and other market related transactions by developing more sophisticated IT business models centered on the internet dealing system “i-Deal” and thereby improving customer convenience. Also, by enhancing ALM and diversifying investment instruments and methods, we will improve profitability and risk-management capability of treasury market portfolios.

To support these business activities, we will continue to improve our human resources management and compliance system responding to diversified business operations. Also, we will continuously take measures to prevent deterioration of our credit portfolio in order to improve capital efficiency.

This fiscal year, we aim to improve the customers’, markets’ and society’s overall evaluation of SMFG by steadily achieving results in these initiatives.

7. Corporate Governance Policy and Structure

(1) Corporate Governance 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.

(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.

* As of March 31, 2005. Mr. Itoh passed away on April 21, 2005 and there are four auditors including two outside auditors at present.

<<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 to achieve separation of duties. 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 (meets semi-annually and whenever necessary)**

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 (meets whenever necessary)**

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 (meets whenever necessary)**

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

<<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.

<< Management Monitoring Regime >>

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. The Audit Department of SMFG, which is independent from the front-line departments, 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. As of March 31, 2005, the department had a staff of twenty-one, including seven employees of SMBC and one employee of The Japan Research Institute working concurrently.

The Audit Department contributes to the optimal management of the group by conducting internal audits of each SMFG department to assess the appropriateness of group business operations and soundness of assets, as well as verifying 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, and audits the company, if necessary. The results of the audits are periodically reported to the Board of Directors and the Management Committee.

The Audit Department conducts risk-based audits based on the auditing methods which are in line with the auditing standards of The Institute of Internal Auditors (IIA)*, a global organization for internal auditors, and supervises group companies to conduct audits in the same manner. Moreover, the department, auditors and CPAs exchange information whenever necessary and fortify cooperation in order to conduct audits properly.

* IIA was established in 1941 in the U.S.A. to improve expertise of internal auditors and to establish the internal auditor profession. Besides researching and developing internal audit theories and practices, IIA conducts examinations and certifies Certified Internal Auditors.

<<Accounting Auditor>>

SMFG has an audit contract with KPMG AZSA and Co. Names of the certified public accountants in charge of conducting accounting audits of SMFG and the number of their assistants are as follows:

- Name of certified public accountants in charge of accounting audits

Designated partners, engagement partners: Masanori Sato, Hiroshi Numano and Hiroyuki Takanami *

* They have each been auditing SMFG's financial statements for less than seven years.

- Assistants

Ten certified public accountants, eleven junior accountants and one other staff member

<<Compliance>>

Compliance is an important groupwide management objective, and 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.

<<Corporate Social Responsibility Initiatives>>

"Group CSR Committee" was established on April 1, 2005 to strengthen our CSR initiatives. Chaired by the director in charge of the Corporate Planning Department, the committee deliberates on matters of groupwide CSR activities, including social contribution and environmental preservation initiatives.

<<Disclosure>>

“Disclosure Committee” was established on May 2, 2005 to support our timely and proper disclosure. Chaired by the director in charge of the Financial Accounting Department, the committee deliberates on the accuracy of disclosure and the effectiveness of and measures for improving internal control.

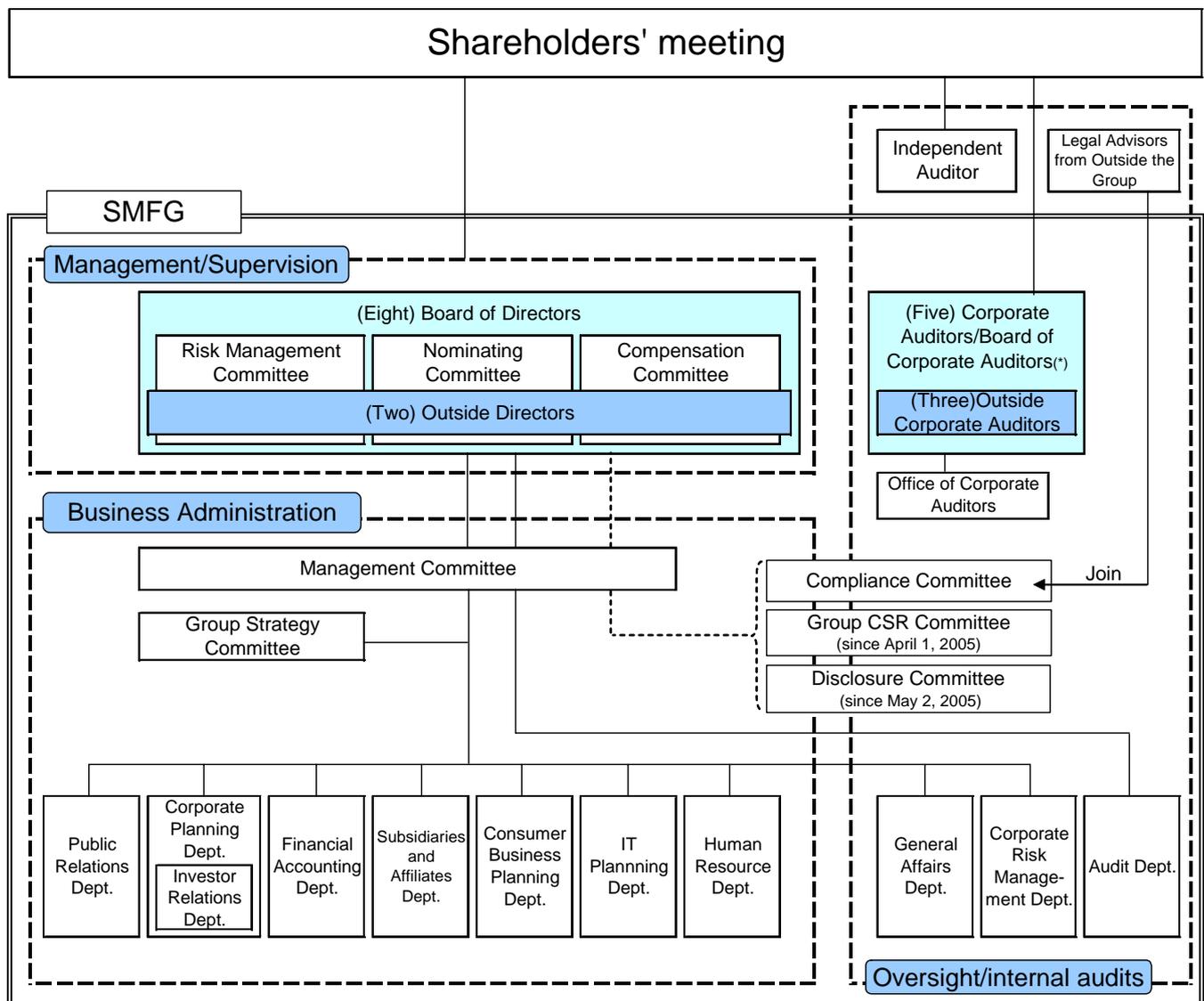
(3) Human, Financial, Commercial and Other Relationships between SMFG and Outside Directors and Auditors

The outside directors, Mr. Yoshiaki Yamauchi, a CPA, and Mr. Yoichiro Yamakawa, a lawyer, have no material interests with SMFG.

The outside auditor Mr. Katsuya Onishi, a lawyer, has no material interests with SMFG.

The outside auditors, Mr. Josei Itoh, the Chairman of Nippon Life Insurance Company, and Mr. Hiroshi Araki, the Advisor of Tokyo Electric Power Company, have no material interests with SMFG.

SMFG and group companies have ordinary commercial relationships between Nippon Life Insurance Company and Tokyo Electric Power Company.



* Number of corporate auditors: As of March 31, 2005. Mr. Itoh, an outside corporate auditor, passed away on April 21, 2005 and at present there are four corporate auditors (including two outside corporate auditors).

8. Parent company

SMFG has no parent company.