

Message from the Management

In fiscal 2006, we set the stage for future growth and reinforced our risk tolerance to adapt to future changes in financial markets. From the start of the current term — fiscal 2007 — we have been focusing on implementing the strategies of our new medium-term management plan. By maximizing the value we add to our products and services, we aim to become a globally competitive financial services group with the highest trust.



Teisuke Kitayama

President

Sumitomo Mitsui
Financial Group, Inc.

Fiscal 2006: Setting the stage for growth and reinforcing our risk tolerance to adapt to future changes

During fiscal 2006, the U.S. economy continued to grow, although the growth rate slowed because of a sharp drop in housing investments. Economic expansion also continued in Asia and Europe. In Japan, the economy maintained its moderate growth pace, as exports rose and strong corporate earnings supported an increase in capital expenditures. In the financial markets, there was an upturn in short-term interest rates in Japan. This was in response to interest rate hikes by the Bank of Japan following the abandonment of the zero interest rate policy in July 2006. Long-term interest rates, however, declined. The yield on newly issued 10-year Japanese government bonds rose to 2% in May 2006, but then declined to about 1.6% at the end of March 2007 as expectations for a way out of deflation receded. The Nikkei Average was on an upward trend from July 2006 and, despite a significant drop in February 2007, ended fiscal 2006 slightly higher than the previous fiscal year-end.

In the financial services sector, the Diet passed the Financial Instruments and Exchange Law in June 2006, establishing a broad framework for the protection of users of financial instruments and services. In December 2006, the Diet passed a new Trust Business Law that incorporates revisions to all aspects of the previous law, and amended the Money Lending Business Control and Regulation Law to lower the maximum interest rate.

Under these conditions, SMFG positioned fiscal 2006 as a year for concentrating on establishing a sound base for growth and reinforcing risk tolerance to adapt to future changes in the operating environment.

At SMBC, non-consolidated banking profit was down ¥225 billion year on year, at ¥740.6 billion. This was mainly due to losses on sales of Japanese government bonds. The bonds were sold to reduce our exposure to risks associated with our bond portfolio, primarily in response to interest rate movements in Japan and abroad. SMBC also took a conservative stance by making an additional provision for possible losses on investments in our affiliate Promise Co., Ltd., in view of the fact that the share prices had fallen well below the book value during the reporting term. As a result, SMBC's net income declined ¥203.8 billion year on year, to ¥315.7 billion on a non-consolidated basis. In October 2006, we completed the repayment of public funds, achieving this goal about one-and-a-half years ahead of our original target.

In April 2006, SMBC received an administrative order from the Financial Services Agency with respect to interest rate swap transactions at its Corporate Business Offices. We take this matter very seriously, and have further tightened the bank's system of internal controls so as to prevent any recurrence of such an incident. We have also begun the process of reinforcing the bank's entire compliance system, including measures to prevent money laundering at SMBC's overseas branches. Moreover, we took necessary steps to comply with the new regulatory environment, such as reinforcing compliance activities in advance of the enactment of Japan's Financial Instruments and Exchange Law and by fulfilling Basel II capital adequacy requirements.

In addition, SMBC steadily strengthened its operations in growth business fields such as financial consulting services for individuals and the investment banking business.

In fiscal 2006, SMFG's ordinary profit on a consolidated basis declined ¥164.9 billion year on year, to ¥798.6 billion, and net income declined ¥245.5 billion year on year, to ¥441.4 billion. The decrease in the earnings of SMFG is mainly attributable to a decline in earnings at SMBC and the recording of a substantial loss on equity-method investments in Promise. Meanwhile, SMFG made significant progress in its group strategy. In the retail securities business, SMBC Friend Securities became a wholly owned subsidiary. In the leasing and auto leasing business, we launched a strategic undertaking with the Sumitomo Corporation Group. In April of this year we entered into a strategic alliance with Central Finance Co., Ltd. in the consumer finance business.

LEAD THE VALUE — Our New Medium-Term Management Plan

Upon completion of the repayment of public funds, we started a new three-year medium-term management plan — which will end in March 2010 — to address the great changes in the business environment. We reaffirmed the fact that SMFG's core strengths are Spirit of Innovation, Speed, and Solution & Execution, which we have used to improve the profitability of our strategic businesses. By maximizing the value we add to our products and services through these strengths, we aim to be a globally competitive financial services group with the highest trust. We set the following goals for the next three years.

1. Aim for top quality in growth business areas
2. Realize a solid financial base as a global player
3. Increase returns to shareholders

To accomplish these goals, we will vigorously execute the following two strategic initiatives: 1) strengthening our presence in growth business areas, and; 2) fortifying our platform to support sustainable growth. In specific terms, we set the following financial targets for fiscal 2009.

- Consolidated net income of ¥650 billion
- Consolidated net income RORA (return on risk-adjusted assets) of about 1%

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- Tier I capital ratio of about 8%
- Overhead ratio of 40% to 45% (SMBC on a non-consolidated basis)

During the period of the new medium-term plan, we expect the ROE to be between 10% and 15% on a consolidated basis.

Fiscal 2007 Management Policies

Having made solid progress in achieving the fiscal 2006 objectives of setting the stage for future growth and reinforcing our risk tolerance to adapt to future changes in financial markets, we are taking a more aggressive stance in fiscal 2007. We position this year as the first step toward achieving the goals of the new medium-term plan, primarily by using growth-oriented investments to expand our business volume.

One task essential to strengthening our growth businesses is making up-front investments in our resources. In these fields, we will increase our workforce and expenditures to

reinforce our infrastructure, including IT systems. At the same time, we aim to expand our business volume by giving greater consideration to customer needs in the conduct of our marketing activities. Our goal is to raise gross profit from SMBC's marketing operations by approximately ¥100 billion, as a first step under the new medium-term plan. We plan to use the benefits of this first year of growth to achieve two goals: enhancing our retained earnings to support sustainable growth in the following years, and expanding returns to shareholders. In fiscal 2007, we forecast non-consolidated net income of ¥410 billion for SMBC and consolidated net income of ¥540 billion for SMFG.

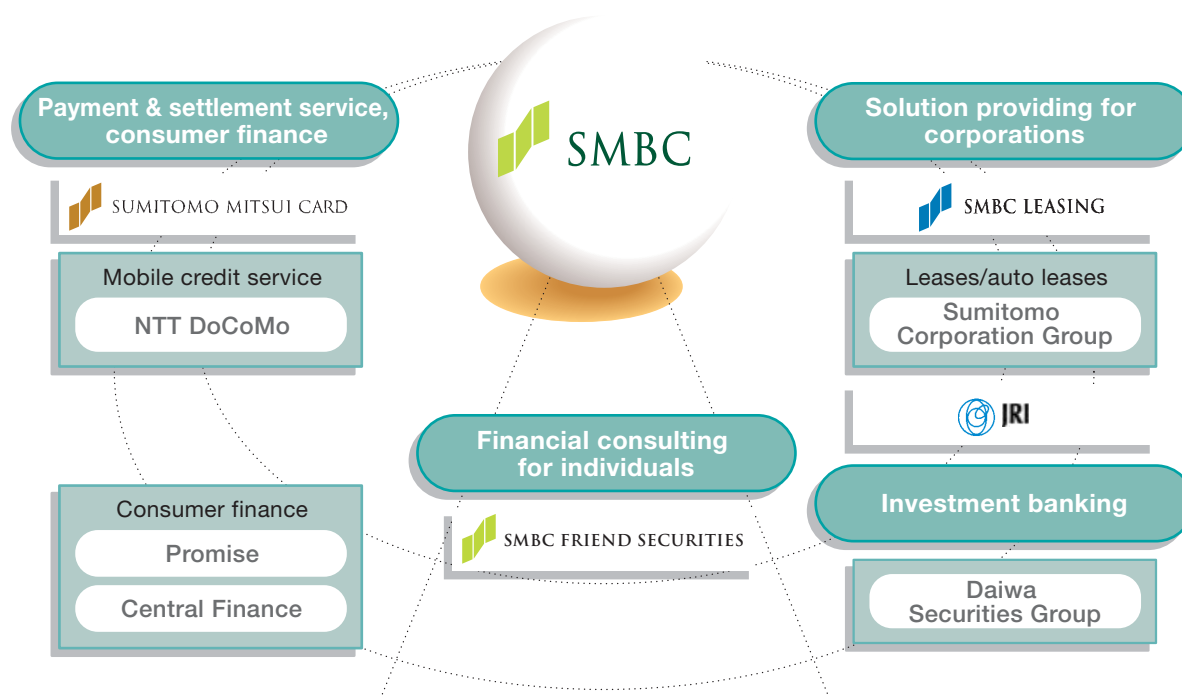
A Message to Our Customers

SMFG is committed to leveraging its aggregate Group strengths to offer financial services that have considerable added value. To provide an even larger number of individuals with financial services such as asset management and loan consultations, SMBC expanded its network of Consulting Plazas, which are open on weekday evenings,

weekends and holidays, and SMBC Consulting Offices, which specialize in asset management and housing loans. To enhance the appeal of its popular housing loan with loan repayment insurance in the event that the borrower is diagnosed with one of three major fatal diseases, SMBC added coverage for five more chronic conditions. With Sumitomo Mitsui Card, SMBC introduced *SMBC First Pack*, a new package of deposit, Internet banking and credit card services, which eliminated utilization charges and annual fees. Through actions like these, SMBC is working to make its products and services even more accessible to retail customers.

For mid-sized companies and SMEs, SMBC concentrated on meeting a broad spectrum of financing needs. The core product is the *Business Select Loan*, an unsecured loan that requires no third-party guarantee. In addition, SMBC bolstered its ability to provide extensive assistance for their business succession issues and launching of overseas business activities. For major corporate clients and other listed companies, SMBC established the Corporate Advisory Division in April 2006. This unit cen-

Group Strategy Overview



tralizes all SMBC know-how and information involving corporate banking. Furthermore, mainly through collaboration with Daiwa Securities SMBC, this division can create solutions for complex and diverse management issues at client companies.

Outside Japan, SMBC opened branches in Ho Chi Minh City, Sydney, and Dubai, and took other actions to better serve rapidly growing markets. To expand operations in China, where economic growth has been consistently robust, SMBC strengthened its service network by establishing the China Division, and by opening new representative offices in the Binhai New Area of Tianjin and the Suzhou Industrial Park.

By executing the Group strategies mentioned above, SMFG remains committed to further enlarging and upgrading its lineup of products and services across the entire Group.

In addition, in fiscal 2006, we established a Customer Satisfaction and Quality Improvement Committee. We are taking customers' opinions and requests fully into account in improving the quality of our services to provide increased satisfaction and earn greater trust from our customers. Our objective is to become one of the world's most advanced organizations in terms of customer satisfaction, not only among financial companies but also among all other categories of the service industry.

A Message for Shareholders, Market Participants and the Public

SMFG is devoted to achieving sustainable growth and financial soundness by conducting business operations that are efficient and based on a long-term perspective. We will continue to enhance our capital base in terms of both quality and quantity, and we will channel even more resources into strategic business fields to further raise our corporate value over the medium-to-long term. To increase returns to shareholders, we decided to raise the ordinary dividend for fiscal 2006 by ¥4,000 to ¥7,000 per share. For fiscal 2007, we plan to increase the annual dividend again to ¥10,000, half of which will be paid as an interim dividend.

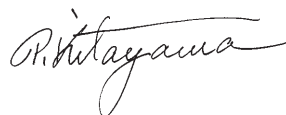
We will also continue to fulfill our corporate social responsibilities by leveraging the resources of the entire group in the implementation of environmental preservation initiatives and contributions to society.

A Message for SMFG Employees

We want SMFG to provide its staff with a challenging and professionally rewarding workplace. This is why we show respect to our employees as individuals, and provide them with the opportunity to acquire highly specialized skills. We are maintaining this stance to foster a corporate culture that encourages our employees to realize their full potential. We will continue to invigorate operations at the workplace, and to upgrade our ability in the recruitment and training of talented staff.

We are determined to meet the expectations of our stakeholders by using the initiatives outlined in this message to make steady progress toward our goals.

August 2007



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President

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