

## ■ International Banking

The international banking operations of SMFG, centering on SMBC's International Banking Unit, serve all corporate customers operating globally, including financial institutions, sovereign governments, and public entities.

### **Leveraging our extensive overseas network and comprehensive group strength to provide sophisticated financial services**

We offer our customers higher value-added services, by providing one-stop financial solutions through collaboration between SMBC and Daiwa Securities SMBC Co., Ltd., and also through the contribution of all Group companies, optimally utilizing the resultant synergies.

We are also expanding our overseas network by opening additional offices to improve customer convenience, and gain better access to emerging markets. We intend to maintain our proactive policy of expanding our office network, focusing particularly on promising markets in strategic regions. We will give priority to promoting locally hired staff to Branch Manager or other executive-level posts when suitable candidates are found, with the aim of providing services that are tailored to the particular needs of each locality.

### **Creating a Global Service System**

To strengthen still further our capabilities in marketing financial products — already one of our core competencies — we are creating a system that will enable us to offer optimal solutions in specialized fields, such as trade finance and ship finance, to meet the needs of customers around the world. This is one of the ways in which we are making progress toward our goal of offering an optimal financial service that addresses our customers' global needs.

### **Raising Our Profile in Emerging and Growth Markets**

In addition to established markets, such as Western Europe, North America, and East Asia, we are enhancing our ability to meet customers' needs in emerging markets, including the Middle East, Central and Eastern Europe, and Latin America. We are developing a lineup of products and services tailored to match the unique features of each market. We take an active role in these markets, keeping a close watch on changes in the business environment.

### **Continuously Optimizing Our Asset Portfolio**

With the requirements of the new Basel Accord (Basel II) in mind, we will make further efforts to improve our asset efficiency by developing new securitization products and focusing more on buying and selling loans, rather than originating them, and will also strengthen credit derivative trading and

distribution by improving our capability to structure risks on our balance sheet and distributing such risks to investors.

### **Reinforcing Compliance System**

In order to expand our business operations on a global scale, we must adapt our compliance system to the differing legal systems and ethical practices prevailing in the various countries where we wish to do business. In line with this, we have set up an International Compliance Department and a Compliance Department in the Americas Division. We have also assigned Compliance Officers from the head office to all our principal overseas business bases.

We will take every opportunity to be an active player on the international banking scene, fully leveraging our competitive advantage in Japan and Asia.

## **Topics**

### **Expanding our Service Network**

We are opening overseas offices dedicated to the specific needs of their local markets. For example, our Houston Representative Office (opened in June 2006) specializes in the financing of businesses in the energy and natural resources fields, while the staff of the Milan Branch of Sumitomo Mitsui Banking Corporation Europe Ltd. (opened October 2006) focus their efforts on project finance. In March 2007 we became the first Japanese bank to open a branch in Dubai, which will become our central base for business in the Middle East. In China, we opened a representative office in the Binhai New Area of Tianjin in March of this year, followed by an office in the Industrial Park of Suzhou City in April, and preparations for the opening of our Beijing Branch are currently underway.

### **Greenhouse Gas Emissions Trading**

In collaboration with Banco do Brasil, the largest commercial bank in Brazil, we have commenced an introduction service for companies wishing to engage in greenhouse gas emissions trading. This service utilizes the framework put in place by the Kyoto Protocol for collaboration between advanced industrialized countries and developing countries in the fight against global warming. In 2006 we were able to combine a number of emissions rights together into a single package and find a prospective Japanese purchaser. This innovative business model received high evaluation from the market, and as a result, Banco Sumitomo Mitsui Brasileiro S.A. was awarded a prize for excellence by the Financial Times in the "Achievement in Carbon Finance" category. We will continue to promote environment-related businesses of this kind, in line with the importance that SMFG places on fulfilling its corporate social responsibility.

### Establishment of China Division

SMBC has established a China Division and a planning department to oversee operations in China. This will allow SMBC to respond even faster to deregulation, market liberalization and other events in China's rapidly growing markets. Thanks to these organizational changes, the bank expects to achieve even higher levels of customer satisfaction through the provision of products and services that meet specific needs, as well as the further reinforcement of risk management and compliance systems.

### Alliance signed with Kookmin Bank of Korea

SMBC has concluded an alliance with Kookmin Bank, a South Korean bank with an established reputation in the fields of deposit and loan transactions with individuals and SMEs, as well as local financial products. The alliance is intended to facilitate mutual financial support for Japanese companies setting up in business in Korea, and Korean companies entering the Japanese market. It will also facilitate collaboration in structured finance projects and funding for import/export businesses. The agreement is expected to provide SMBC with new business opportunities in Korea and other markets. SMBC will be able to offer a menu of techniques for procuring funds in the local currency to Japanese corporate clients entering the Korean market, as well as a wide range of other sophisticated financial services.

## Treasury Markets

SMFG aims to provide its clients with world-class support services for their market transaction needs through the Treasury Unit of SMBC. The Treasury Unit undertakes operations in the money, foreign exchange, bond, and derivatives markets. Based on a careful evaluation of each client's needs, we design financial products and services that deliver optimal value-added solutions.

The Treasury Unit focuses on expanding transaction volume, strengthening ALM operations and diversifying fund management channels through the accurate assessment of domestic and overseas market trends to further strengthen profitability, while effectively managing risk.

### Enhancing Customer Convenience

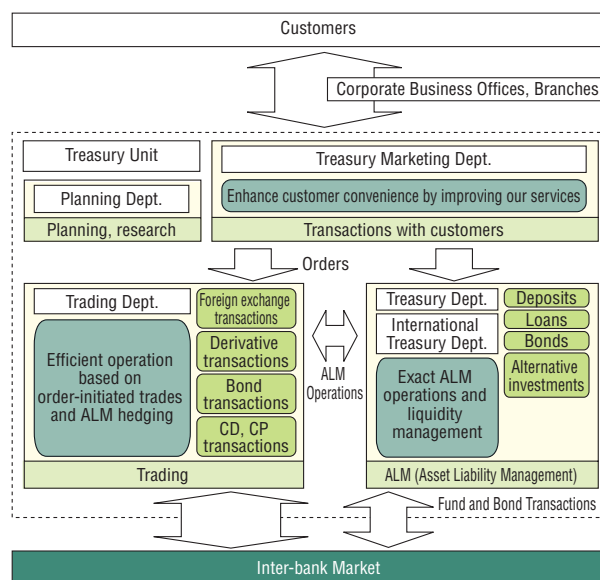
In fiscal 2006, the Treasury Unit, in collaboration with the marketing units, took steps to expand the market transaction services system for corporate and retail customers. We also increased the range of functions offered by *i-Deal*, a system that allows customers to conclude foreign exchange contracts over the Internet. The Treasury Unit will continue working to fulfill all our customers' market transaction needs by

providing comprehensive support services of the highest level.

### Asset Liability Management and Dealing Operations

Through its asset liability management (ALM) and trading operations, the Treasury Unit strives to control market and liquidity risks while maximizing earnings. To do this, it uses an expanded array of investment techniques, including alternative investments, leading to a more diversified investment portfolio and increased arbitrage investment opportunities.

We will continue to pursue optimal capital allocation with a level of risk exposure appropriate to market conditions, with the aim of securing stable profits.



### Topics

#### Expanding Support Systems to Meet User Needs

To further increase customer convenience, SMBC periodically enhances the functions of *i-Deal*.

We are responding promptly and effectively to the diversification of our customers' needs by such means as expanding our systems for providing foreign exchange risk hedging to customers engaging in large-scale capital transactions such as M&As, and our system for promoting Asian business for Japanese clients through our offices in the ASEAN nations, Hong Kong, and Shanghai.

#### Diversified Investment and Efficient Use of ALM

The Treasury Unit utilizes alternative investments, in addition to derivatives linked to interest rate and foreign exchange movements, to diversify and expand its investment options, and effectively employs ALM operations in response to market movements.