

Compliance

Compliance at SMFG

Basic Compliance Policies

To effectively carry out its mission as an important part of the nation's public infrastructure and fulfill its social responsibilities as a comprehensive financial services group, SMFG will intensify its efforts to strictly obey the principles of compliance. We believe that by so doing, SMFG will have opened the way to becoming an outstanding global corporate group.

At SMFG, compliance is one of the pillars of our Business Ethics (p.45), which serve as the basic principles of corporate social responsibility that we follow, and strengthening compliance has been positioned as one of our top management priorities.

Group Management of the Compliance System

As a financial holding company, SMFG works to sustain a system which monitors and also provides appropriate direction and guidance for each Group company's compliance system to ensure the sound and proper conduct of business activities throughout the entire Group.

Specifically, we hold regular meetings attended by representatives of all Group companies, as well as individual meetings with Group companies, to oversee the state of compliance at major Group companies.

In fiscal 2007, the current business term, we are focusing on:

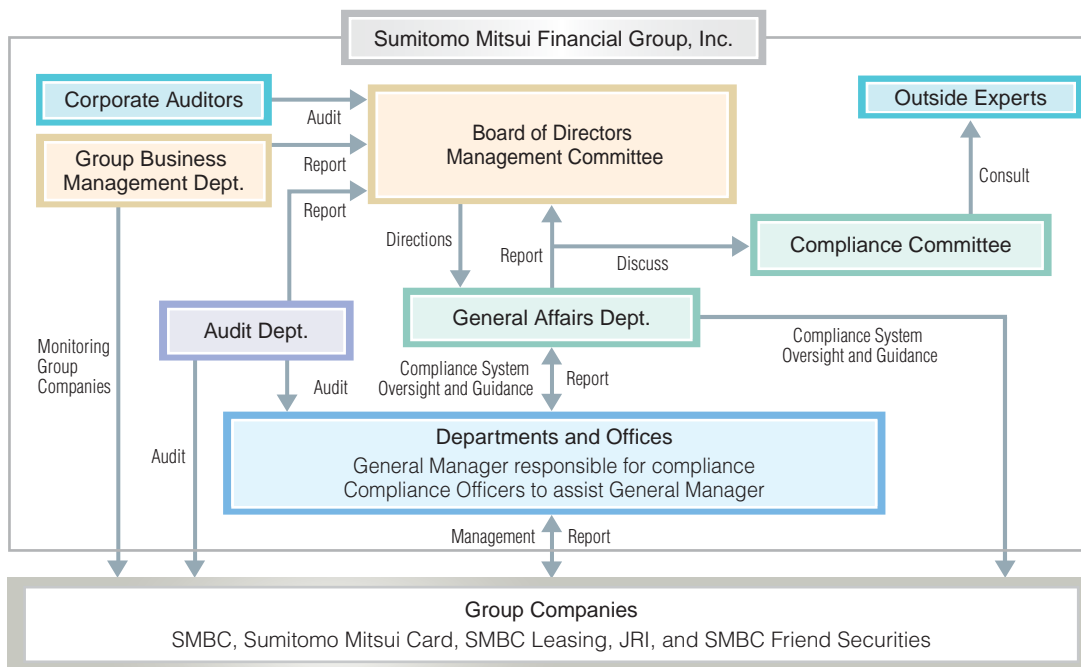
1. Ensuring strict compliance with the Antimonopoly Law.
2. Monitoring the state of compliance with newly enacted legal statutes.
3. Strengthening preventive measures against conflicts of interest.

In these ways, we are working to make certain that all Group members fully uphold our high standards of compliance.

Management of Legal Risk

Legal risk, which refers to the possibility of loss (including reputational loss) arising from violations of laws or contractual obligations, principally as a result of failure to sufficiently examine the legal implications before taking action, has become a matter requiring even greater attention in recent years, owing to the widespread deregulation of the financial sector.

SMFG has established rules for managing legal risk, collecting information on business laws and ordinances and examining the legal implications of new products, services and contracts under consideration. In these ways, SMFG is enhancing legal risk management.



Compliance at SMBC

Strengthening the Compliance System: A Top Management Priority

Compliance with laws, regulations, and other social standards is a matter of course for corporations. Ensuring compliance is a particularly important issue for banks because of their central role in the financial system and socioeconomic infrastructure.

In accordance with the basic concept of compliance instituted throughout the Group, SMBC expects and demands that all directors, officers, and other employees assign the utmost value to maintaining people's trust, abide by all relevant laws and regulations, uphold high ethical standards, and act fairly and sincerely.

Compliance System and Management

SMBC employs a dual structure whereby, firstly, each department and office is individually responsible for ensuring that its conduct complies with laws and regulations, and secondly, an independent auditing unit conducts rigorous audits of department and branch compliance.

To improve the effectiveness of this dual system, dedicated staff from the Compliance Unit, composed of the General Affairs Department and the Legal Department, carry out all necessary planning and supervision to ensure efficient functioning of the compliance system. Under the basic compliance policies drawn up by the bank's management, these compliance specialists supervise all departments and branches and conduct monitoring. They also provide assistance to branch staff in making compliance-related decisions.

The framework of our compliance system is shown in the diagram below. SMBC has also implemented the following measures to enable this compliance system to function effectively.

Compliance Manual

Set out in accordance with the resolution of the Board of Directors, the Compliance Manual lays out specific Rules of Conduct. These Rules of Conduct comprise 60 items describing relevant laws and regulations, as well as providing procedural guidelines and specific examples of conduct that must be followed by all directors, officers and employees of SMBC.

Compliance Program

The program's primary objective is to effectively implement the compliance system at SMBC and its consolidated subsidiaries. The Board of Directors annually updates the compliance program, and decides concrete annual plans regarding compliance, which include a review of rules and regulations, as well as the content and schedule of training programs, to further strengthen the compliance system. Priority tasks for fiscal 2007 include tightening the function for checking financial products and services; proactively ensuring full compliance with the Financial Instruments and Exchange Law to be enforced by the end of 2007; reinforcing SMBC's system of legal checks for compliance with the Antimonopoly Law and the prevention of conflicts of interest; and further tightening our information security system. At the same time, we will continue our pursuit of further refinements in the bank's internal rules, and will be taking steps to strengthen our training courses and monitoring.

Assignment of Compliance Officers

In addition to the compliance officers appointed within each department and branch, we have appointed Area Compliance Officers at some units, such as the Middle Market Banking Unit and the Consumer Banking Unit, who are independent from the front-line departments. These officers are responsible for directing and overseeing compliance regarding transactions carried out by the staff of our branches, Corporate Business Offices and other front-line offices.

Compliance Committee and Other Committees

The Compliance Committee is a cross-sectional organization, ensuring that compliance issues are reviewed and discussed widely. It is chaired by the director responsible for compliance issues and includes the heads of relevant departments. To enhance objectivity, the Committee includes an outside legal expert who serves as an advisor.

Additionally, in 2006 we established a Business Monitoring Committee, whose members consist principally of outside directors and other external experts, to enhance the bank's monitoring of compliance and customer satisfaction and ensure objective assessments of performance in these matters.

Compliance System Overview

