



Message from the Management

We would like to thank you for your continuing support and patronage of Sumitomo Mitsui Financial Group (SMFG). In this annual report, we review the initiatives implemented in fiscal 2007, ended March 31, 2008, and explain our management policies for fiscal 2008.

Economic and Financial Conditions in Fiscal 2007

During fiscal 2007, the economies of Europe held firm, while those of Asia showed generally rapid expansion. In contrast, in the wake of the subprime loan crisis, the U.S. economy showed growing signs of a deceleration, and, in September and subsequent months, a series of reductions in policy interest rates was implemented. In Japan, the impact of the subprime loan problem was marginal, but, as a result of a slump in private housing investment, a sharp run-up in prices of energy and raw materials, and other factors, by the end of fiscal 2007, the economy was showing clear signs of moving into a period of adjustment.

In the financial markets, beginning in the summer of 2007, long-term market interest rates moved onto a declining trend, and, as a result of rising concerns about the future course of the U.S. economy, the yen appreciated against the U.S. dollar and the Nikkei stock price average dropped substantially compared with the end of the previous fiscal year. In addition, concern about a credit crunch mounted in the financial markets of Europe and the United States because of the massive losses reported by some financial institutions as a result of the subprime loan problem.

Amid this operating environment, major developments in Japan's financial services industry included the implementation of the Financial Instruments and Exchange Law in September 2007, which established a broad framework for the protection of users of financial instruments and services; the implementation of a fully revised Trust Business Law; and

the privatization of the operations of Japan's postal services in October 2007. In addition, in December 2007, the marketing of insurance products by banks and other financial institutions was fully granted to banks.

Principal Initiatives in Fiscal 2007

We made a strong start as a "first step" towards accomplishing our medium-term management plan^{*1}, while "coping with uncertainty in business environment."^{*2}

^{*1}: For further details, please refer to page 6.

^{*2}: For further details, please refer to page 9.

Amid this economic and financial environment, with the beginning of fiscal 2007, we entered the first stage of our three-year medium-term management plan entitled "LEAD THE VALUE." Under this plan, we draw on our three core strengths, which are "Spirit of Innovation," "Speed," and "Solution & Execution," as well as focus on two strategic initiatives on a Groupwide basis: namely, "strengthening targeted growth business areas" and "fortifying platform for supporting sustainable growth." The seven growth areas are Financial consulting services for individuals; Payments & settlement services; Consumer finance; Solution providing for corporations; Investment banking; Trust business; Focused business areas in global markets; Proprietary investment; and Credit derivative, Trading & distribution.

At the same time, we took decisive measures to cope with unpredictability and uncertainty in business environment that followed the subprime loan crisis. Specifically, we sold our exposure to subprime-related securitized products at an early date and made appropriate write-offs and loss provisions. As a result of these measures, our subprime-related exposure at the end of the fiscal year under review, after the deduction of write-offs and loss provisions, amounted to ¥5.5 billion. We, therefore, believe the impact of this level of exposure will have only a marginal impact on the Group's financial position.

During the fiscal year under review, SMFG's principal subsidiary SMBC reported an increase over the previous fiscal year in non-consolidated banking profit of ¥79.1 billion, owing to a combination of improvement in Gains (losses) on bonds and an increase in interest income from an improvement in the loan-to-deposit spread. These improvements more than offset the increase in expenses. Net income for SMFG on a consolidated basis rose ¥20.1 billion over the previous fiscal year, to ¥461.5 billion, as the rise in Total credit cost at SMBC and deterioration in Gains on equities were both offset by the increase in Banking profit and improvement in profit performance of other Group companies.



Teisuke Kitayama

President

Sumitomo Mitsui
Financial Group, Inc.

To increase returns to shareholders, SMFG raised its annual cash dividend per common share by ¥5,000, to ¥12,000. As a result of this increase, we attained our medium-term dividend payout ratio goal of more than 20%.

Fiscal 2008 Management Policies

The turbulence in the financial markets following the sub-prime loan crisis has still not subsided, and concern about a deceleration in economic growth is mounting both in Japan and overseas. Amid these conditions, we have positioned fiscal 2008 as a “year for taking step forward to accomplishing the medium-term management plan, while coping with uncertainty in business environment.” We will, therefore, continue to pursue our two strategic initiatives of “strengthening targeted growth business areas” and “fortifying platform for supporting sustainable growth.”

Strengthening Targeted Growth Business Areas

Provide Optimum Added Value to Our Customers Financial Consulting for Individuals

Foremost, as we seek to strengthen our position in the growth businesses, we would like to further enhance our “total consulting services” and provide “one-stop” shopping at SMBC for all types of financial services to our individual customers. In specific terms, this includes offering insurance products, such as whole-life, term, medical, and other policies, that we can now sell following their full liberalization in December 2007, and introducing a broader range of investment trusts and individual annuities. We would also like to substantially improve the services we offer to individuals by expanding the lineup of discretionary investment account based asset management services and products of SMBC Friend Securities, which became a wholly owned subsidiary of SMFG in September 2006, to create a new “business model that fuses banking and securities.” In addition, we are working to increase the number of consultants and reinforce the skills of personnel through further training. We will also significantly expand our office network by actively broadening the variety of outlets through the addition of more branches, SMBC Consulting Plazas, and SMBC Consulting Offices, principally in Japan's three major urban centers.

Payment & Settlement Services, Consumer Finance

Next, in our credit card business, based on the credit card business strategy of our group that we announced in February 2008, we are planning to implement a merger among Central Finance Co., Ltd., OMC Card, Inc., and QOUQ with a target date of April 2009. With this newly merged company

and Sumitomo Mitsui Card as the focal points, we will work to achieve economies of scale within the Group and, by fusing the business bases of alliance partners, seek to maximize top-line synergies, and aim to become a “number one credit card entity in Japan.” In addition, in the consumer finance business, we will continue to promote our collaborative relationship with Promise Co., Ltd., by increasing the number of automated contract machines and responding to the sound needs of customers within the context of their lifestyles.

Solution Providing for Corporations and Investment Banking, Trust Business

For our corporate customers, we will continue to offer high-quality solutions that respond accurately to their diverse business issues by promoting closer collaboration among Corporate Business Offices and other business offices of the Middle Market Banking Unit, Corporate Advisory Division, and Daiwa Securities SMBC Co. Ltd. Moreover, through the Private Advisory Department, we will move ahead with initiatives in business areas where needs of individual customers and corporate customers co-exist, such as private banking, workplace banking and business succession consulting. Also, the Global Advisory Department, which we formed in April 2008, to enhance teamwork among offices in Japan and overseas and strengthen our capabilities for offering solutions to assist companies that are entering overseas markets and those corporate clients that wish to expand

Masayuki Oku

President

Sumitomo Mitsui
Banking Corporation



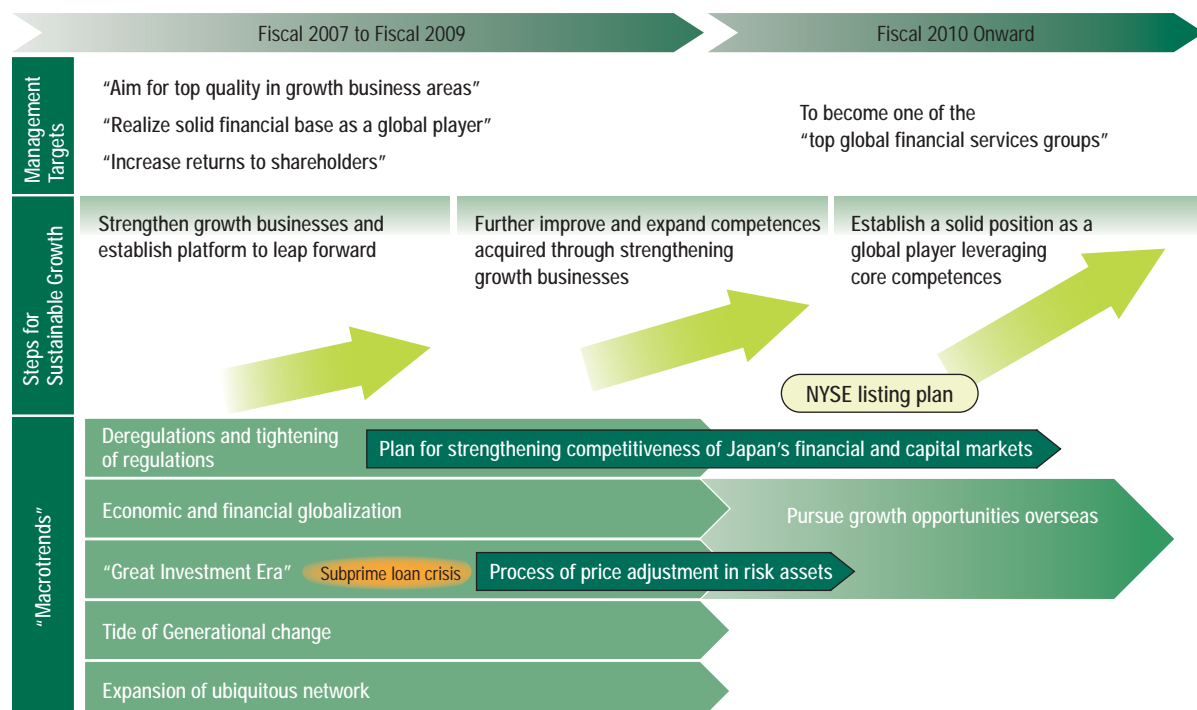
existing operations. In our investment banking operations, last fiscal year, we ranked number one for the first time in the domestic syndicated loan league table (Note 1). We will continue to offer a diverse range of financing methods, including structured finance, and continue to steadily strengthen our capabilities for offering proposals for business expansion and restructuring through M&A as well as other solutions to meet customer needs. In addition, we will move forward with initiatives to provide support for venture businesses and growth companies as well as promote activities in growth areas, such as environment-related businesses, including trading in emission rights.

Moreover, based on the strategic alliance SMFG concluded with the Sumitomo Corporation Group in October 2007, we have formed SMFG Finance and Leasing Company, Ltd., through the merger of SMBC Leasing Company, Limited, and Sumisho Lease Co., Ltd., and the newly formed company is engaged in offering a diverse range of leasing services. In addition, we intend to pursue further possibilities for offering business solutions drawing on the capabilities of the Group as a whole. These activities include offering systems development and operating services as well as security-related consulting and other services through the Group company JRI Solutions, Ltd.

Focused Business Areas in Global Markets

In overseas markets, demand for funds in the natural resource, energy, and other areas is strong, but in the wake of the subprime loan crisis, the competitive environment vis-à-vis European and U.S. banks has changed, leading to an expansion in opportunities for SMFG. However, the course of future development in the financial markets and the real economy has become less clear than in the past. We are, therefore, appraising changes in the market environment carefully and intend to take steady initiatives, while adopting an approach that allows for both aggressive action and defensive measures. In more specific terms, in those markets that are expected to show high rates of growth going forward, such as China, Southeast Asia, the Middle East, and Eastern Europe, we will strengthen our office network, expand the number of personnel, and take other measures to promote the development of our activities in these areas. In addition to these activities, SMBC has invested approximately GBP500 million and entered into collaborative agreement with Barclays PLC, one of the leading financial institutions in the United Kingdom, in June 2008.

Becoming a “Globally Competitive Financial Services Group with the Highest Trust”



Fortifying Platform for Supporting Sustainable Growth

Becoming a “Globally Competitive Financial Services Group with the Highest Trust”

Our second strategic initiative is to implement policies for fortifying our operational platform to support sustainable growth. In the area of compliance, which is one of the key related requirements, strict and thorough observance of laws and regulations in Japan and elsewhere will continue to be implemented in order to build a stronger ethical foundation for our activities. In addition, regarding customer satisfaction and quality enhancement, we intend to further strengthen our systems for taking action based on our customers' suggestions and requests.

In the area of risk management, we are moving ahead steadily with the measures we introduced in fiscal 2006 under Basel II (the new BIS regulations) and substantially increase the sophistication of our risk management systems. We are also stepping up our support and guidance for the Corporate Business Offices and other business offices of the Middle Market Banking Unit to substantially reinforce and strengthen our credit management systems.

In addition, to strengthen our systems as globalization proceeds, we are aiming to be a “globally competitive financial services group with the highest trust” and are considering a listing on the New York Stock Exchange (NYSE).

Aiming to Create Sustainable Shareholder Value

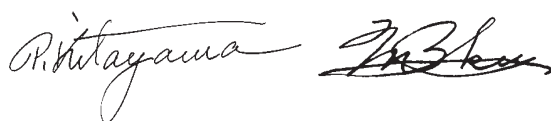
Through the various initiatives we have mentioned, we are aiming to attain our three management targets stated in our medium-term management plan of “aiming for top quality in growth business areas,” “realizing solid financial base as a global player,” and “increasing return to shareholders.”

Our outlook for fiscal 2008 calls for Net income on a non-consolidated basis at SMBC of ¥390 billion and Net

income on a consolidated basis for SMFG of ¥480 billion. Both of these figures will represent increases over the previous fiscal year. In addition, we are planning to increase dividends per common share by ¥2,000, to a total of ¥14,000 for the full fiscal year (Note 2). We will continue to seek to attain a well-balanced growth cycle of profitability, capital base, and risk assets, implying that we will expand our capital base through the further accumulation of retained earnings, invest in risk assets with a view to growth businesses, and work to enhance our risk-return profile. By maintaining this well-balanced flow, we aim to create sustainable shareholder value of our Group.

As we have outlined in this message, we are making steady advances toward attaining the targets of our medium-term management plan with the aim of responding to the trust and confidence placed in us by our stakeholders. As we continue this endeavor, we look forward to your continued support and understanding.

July 2008



Teisuke Kitayama

President

Sumitomo Mitsui
Financial Group, Inc.

Masayuki Oku

President

Sumitomo Mitsui
Banking Corporation

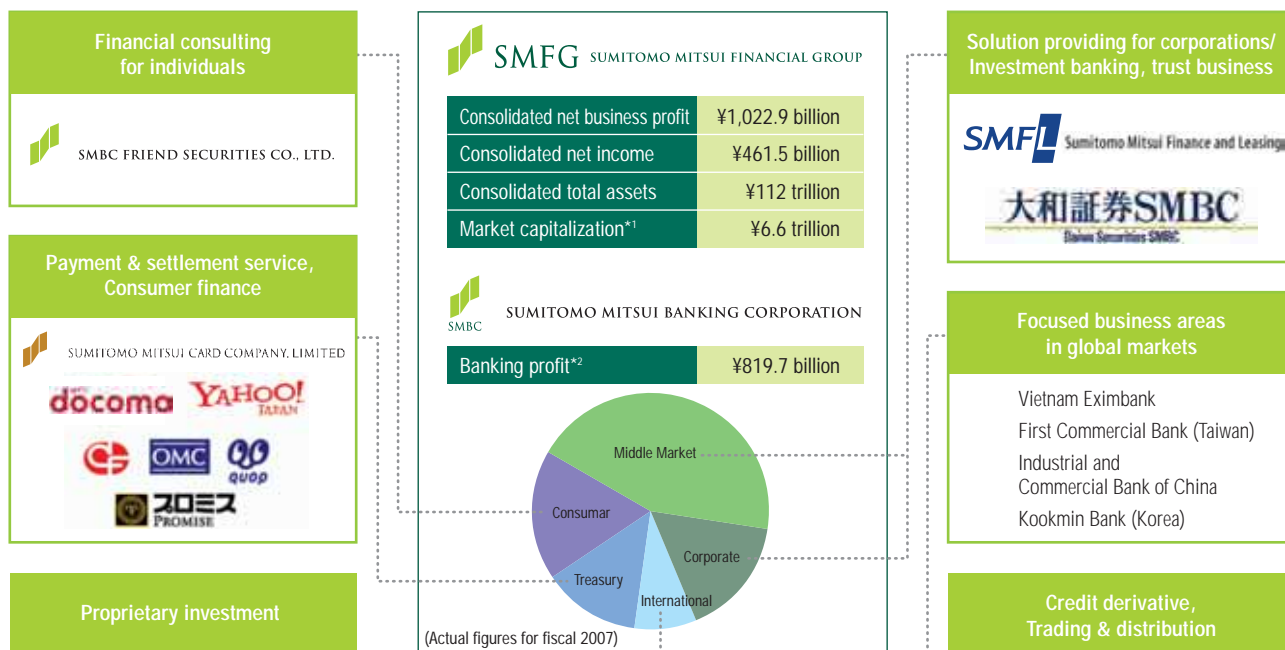
Notes: 1. Thomson Financial, Syndication Mandated Arranger Ranking for Japan in fiscal 2007

2. Before taking account of the stock split scheduled for January 2009

Supplementary Information Initiatives in Growth Business Areas

Basic Policies

To steadily move forward toward accomplishing the medium-term management plan, we are reinforcing our initiatives in growth business areas through both organic and inorganic approach.



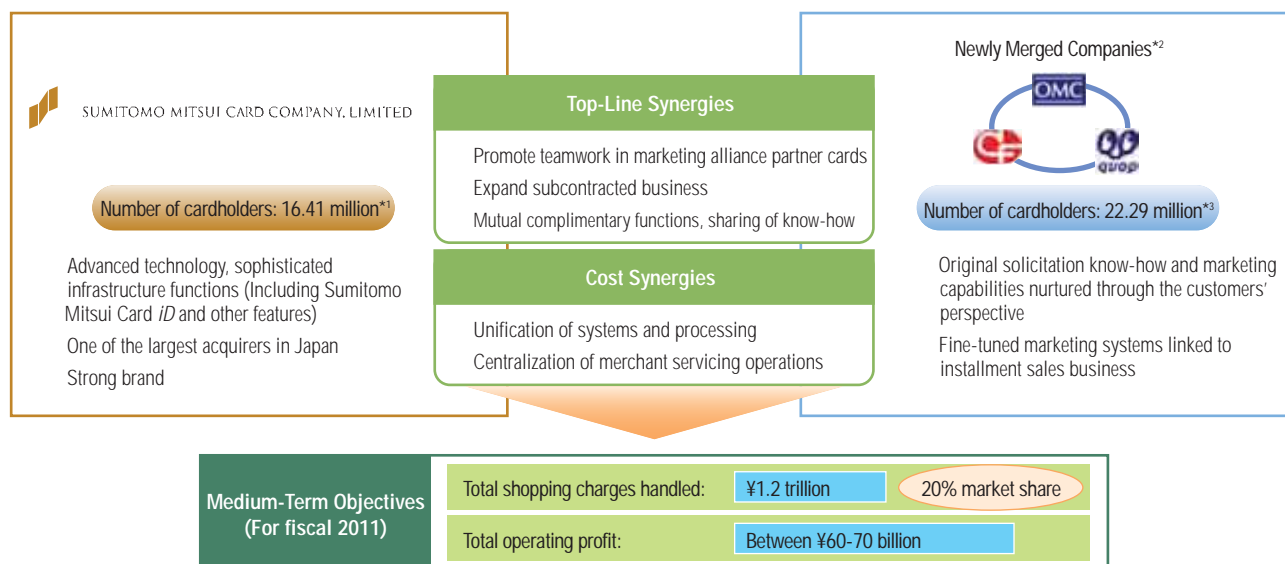
*1: As of May 23, 2008

*2: Managerial accounting basis. The graph excludes the portion supervised by Headquarters (Banking profit of negative ¥135.7 billion for fiscal 2007).

Payment & Settlement Service, Consumer Finance

Implementation of Group Strategy for Credit Card Business

SMFG is aiming to become the number one credit card entity in Japan by realizing top-line synergies as it fuses the expertise, customer bases, and networks of Group card companies as well as taking advantage of cost synergies generated by economies of scale throughout the Group.



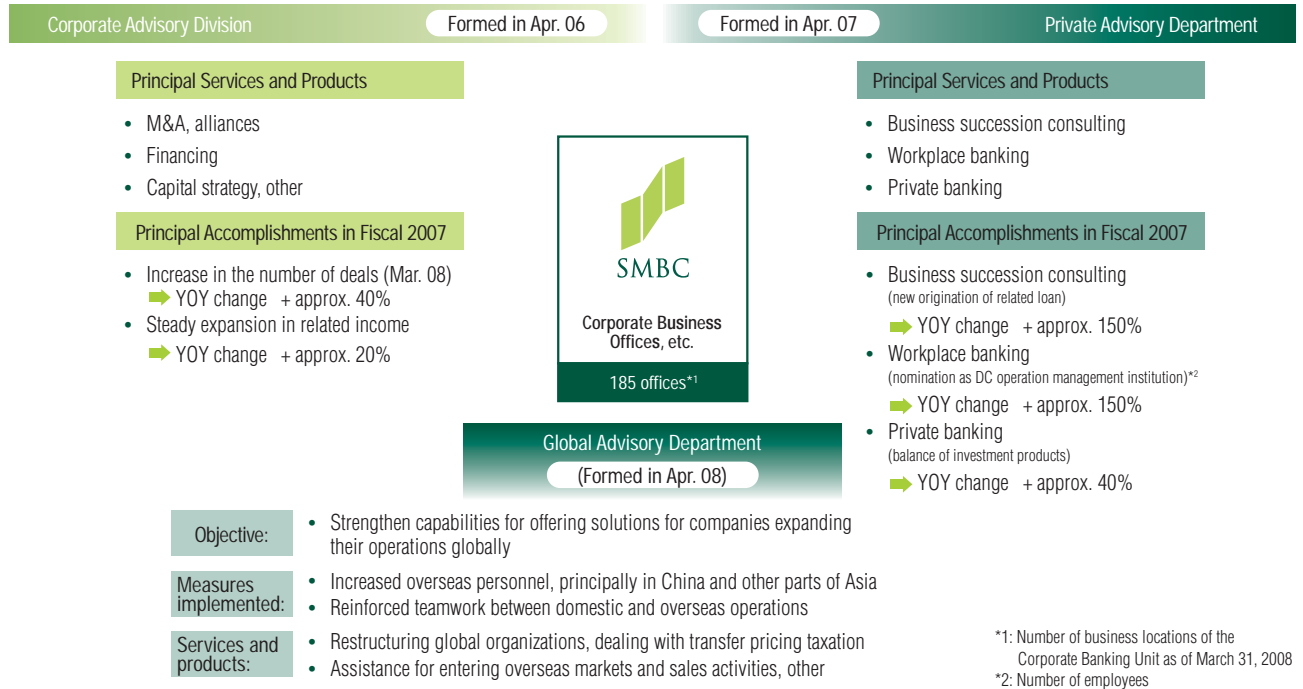
*1: As of March 31, 2008

*2: Merger scheduled for April 2009

*3: Total cardholders of the three companies (Figures for OMC Card are as of February 29, 2008, and those for Central Finance and QUOO are as of March 31, 2008).

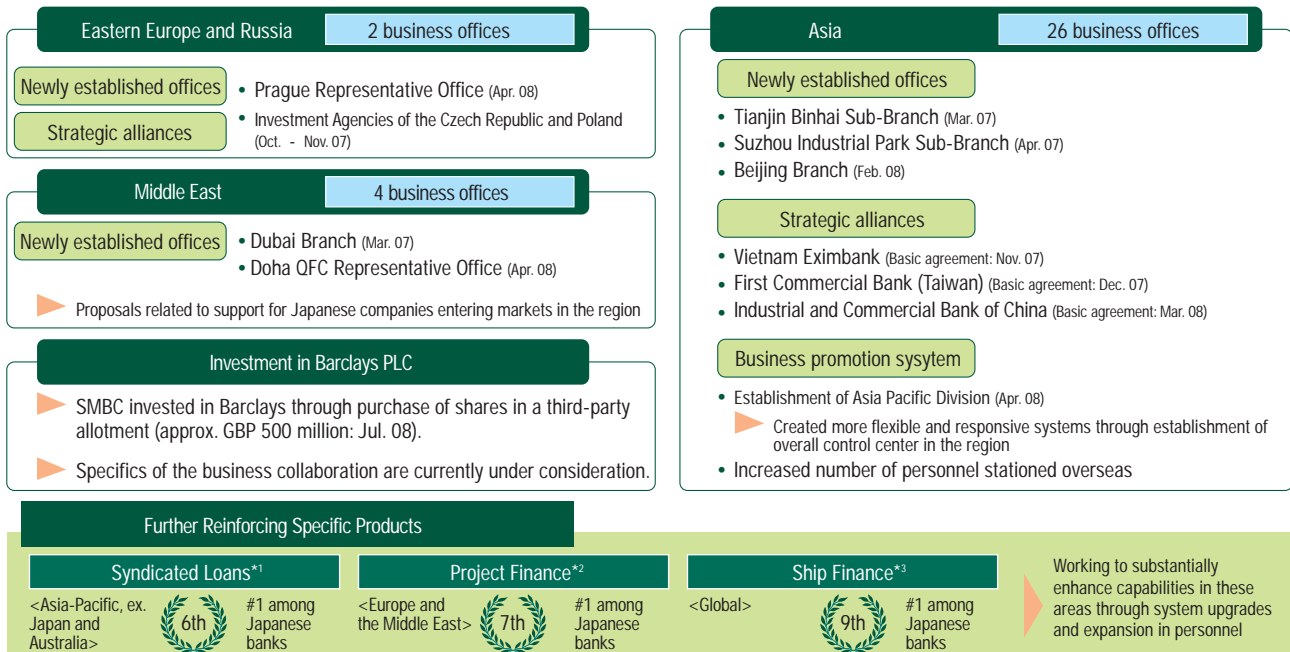
Solution Providing for Corporations

Through the seamless approach as "One Bank" centered on the Corporate Business Offices and other marketing channels, SMBC is well positioned to offer proposals to contribute to solving a diverse range of customers' management issues.



Focused Business Areas in Global Markets

Activities include expansion of the marketing network in the high-growth markets of Asia, the Middle East, Eastern Europe, and elsewhere; aggressive promotion of strategic alliances and improvements in systems; and further improvements in selected products where the Group has competitive strengths.



^{*1}: Thomson Financial, Syndicated loan Mandated Arranger Ranking for 2007

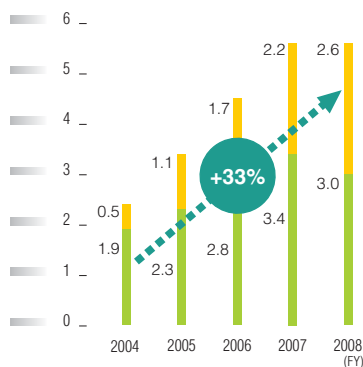
^{*2}: Thomson Financial, Project Finance Mandated Arranger Ranking for 2007

^{*3}: Dealogic, Ship Finance Mandated Arranger Ranking for 2007

Performance in Growth Businesses (SMBC Non-Consolidated) (Note: Figures in the green circles are average compound annual growth rates.)

Customer Assets (Investment Trusts and Pension-Type Insurance)

Unit: ¥ trillion, term-end
Cumulative sales of pension-type insurance
Balance of investment trusts



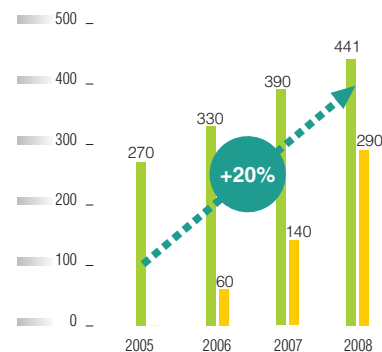
Housing Loans

Unit: ¥ trillion
Securitized balance
Balance outstanding



Consumer Finance (Term-end balance)

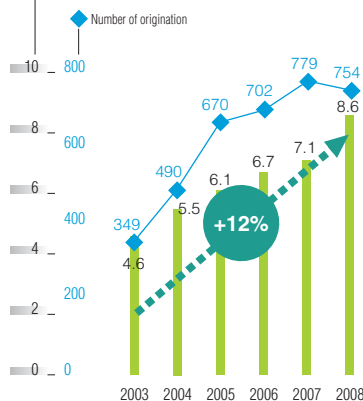
Unit: ¥ billion
Unsecured card loans
Including, portion under tie-up with Promise



Note: During FY2007, about ¥300 billion of these loans were securitized. Managerial accounting basis including corporate bonds.

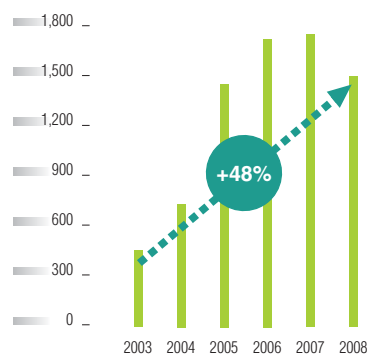
Loan Syndications

Amount originated (¥ trillion)
Number of origination



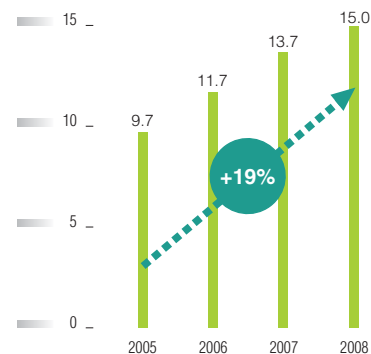
Business Select Loans (Term-end balance)

Unit: ¥ billion



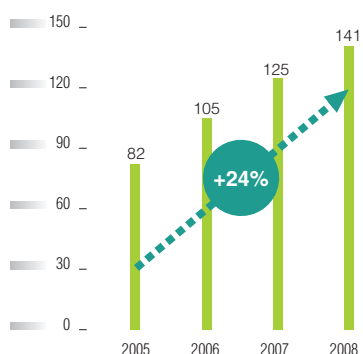
Global e-Trade Service (Number of Contracts)

Unit: Thousands of contracts



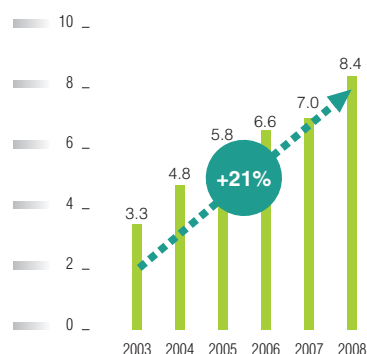
PC Bank Web21 (Number of Contracts)

Unit: Thousands of contract



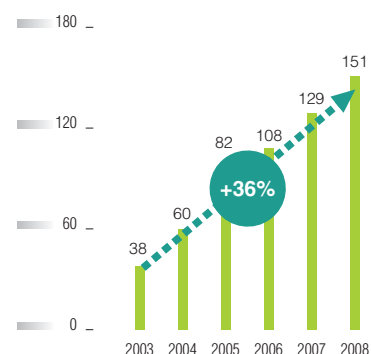
One's Direct Customer Contracts

Unit: Million customers



Number of Internet Transactions

Unit: Millions



Supplementary Information

Coping with Uncertainty in Business Environment

Prevent Additional Losses by Quickly Dealing with Subprime Loan Problem

To deal decisively with the Group's exposure to subprime-related securitized products, approximately ¥350 billion of these exposures was sold, and appropriate write-offs and loss provisions were made in the first half of fiscal 2007. As a result, as of March 31, 2008, the Group's subprime-related exposure after provisions and write-offs was ¥5.5 billion. We believe that possible financial impact on the Group will be marginal.

Further, the Group's exposure to non-subprime-related securitized products was approximately ¥260 billion after write-offs and loss provisions. The majority of the exposure was mortgage bonds guaranteed by Government Sponsored Entities ("GSEs") with AAA ratings.

Regarding the Group's exposure to monoline insurance companies, credit derivative transactions (credit default swaps) with monoline insurance companies that experienced a major decline in creditworthiness totaled approximately ¥30 billion. To avoid any future losses on these transactions, the full amount was written off and recognized as loss. As a result, remaining CDS exposure to monoline insurance companies, after making provisions was approximately ¥30 billion as of March 31, 2009. Moreover, the total amount of investment and loan exposures backed by monoline insurance company guarantees as of March 31, 2008, was approximately ¥40 billion. The exposures are investment grade equivalent non-subprime-related exposures.

Subprime related products (As of March 31, 2008)

(¥ billion)	Balance (before provisions and write-offs)	Net unrealized gains (losses) (before write-offs)	Provisions and write-offs	Balance (after provisions and write-offs)	Credit ratings of underlying assets
Investments to securitized products	73.5	(68.6)	68.6	4.9	Speculative ratings, etc..
Warehousing loans, etc.*	21.1	—	20.5	0.6	
Total	94.6	(68.6)	89.1	5.5	

Losses recognized linked to subprime loans totaled ¥93.0 billion (comprising provisions and write-offs of ¥89.1 billion and losses on sale of ¥3.9 billion)

(SMFG consolidated basis)

* Among warehousing loans, etc., the balance of exposure secured by collateral other than that linked to subprime loans, as of March 31, 2008, was ¥14.3 billion (before write-offs) and write-offs and loss provisions against these loans amounted to ¥8.4 billion. (All such loans were overseas.)

(For Reference) Products other than subprime related (As of March 31, 2008)

(¥ billion)	Balance (before provisions and write-offs)	Net unrealized gains (losses) (before write-offs)	Provisions and write-offs	Balance (after provisions and write-offs)	Credit ratings of underlying assets
RMBS (Guaranteed by GSE etc.)	219.8	(1.6)	—	219.8	AAA
Cards	12.5	(0.6)	—	12.5	A—BBB
CLO	24.3	(3.4)	0.4	23.9	AAA—A (Some securities without ratings)
CMBS	6.0	0.0	—	6.0	BBB
Total	262.6	(5.6)	0.4	262.2	

(SMFG consolidated basis)

Exposure Linked to Monoline Insurance Companies (As of March 31, 2008)

(¥ billion)	Net exposure*	Loan loss reserve*	Amount of reference assets*
Exposure to CDS transactions with monoline insurance companies	31.1	1.9	559.1

* These figures do not include the portion written off as loss (about ¥30 billion)

(¥ billion)	Balance	Loss provisions
Investments and loans, guaranteed by monoline insurance companies	41.7	—

The claims are project finance, regional government bonds, and other claims with investment grade equivalent, unrelated to subprime loans.

(For reference) In addition to the above exposures, there are exposures amounting to approximately ¥16.0 billion (drawn-down amount ¥10 million) including a commitment line to an insurance company whose group member is a monoline insurance company.

(SMFG consolidated basis)