Capital Ratio Information

Sumitomo Mitsui Financial Group, Inc. and Subsidiaries

The consolidated capital ratio at the end of March 2007 and thereafter is calculated using the method stipulated in "Standards for Bank Holding Company to Examine the Adequacy of Its Capital Based on Assets, Etc. Held by It and Its Subsidiaries Pursuant to Article 52-25 of the Banking Law" (Notification 20 issued by the Japanese Financial Services Agency in 2006; hereinafter referred to as "the Notification").

In addition to the method stipulated in the Notification to calculate the consolidated capital ratio (referred to as "First Standard" in the Notification), SMFG has adopted the foundation internal ratings-based approach for calculating credit risk-weighted asset amounts and implemented market risk controls. In calculating the amount corresponding to operational risk, SMFG has used the advanced measurement approaches. Please note that the basic indicator approach was employed for the prior fiscal year ended March 31, 2007.

"Capital Ratio Information" was prepared based on the Notification and the terms and details in the section may differ from the terms and details in other sections of the Annual Report.

■ Scope of Consolidation

1. Consolidated Capital Ratio Calculation

- Number of consolidated subsidiaries: 268
  Please refer to "Principal Subsidiaries and Affiliates" on page 204 for their names and business outline.
- Scope of consolidated subsidiaries for the calculation of the consolidated capital ratio is based on the scope of consolidated subsidiaries for preparing consolidated financial statements.
- There are no affiliates to which the proportionate consolidation method is applied.
- There are no companies engaged exclusively in ancillary banking business or in developing new businesses as stipulated in Article 52-23 of the Banking Law.

2. Deduction from Capital

- Number of nonconsolidated subsidiaries subject to deduction from capital: 241
  Principal subsidiaries: SMLC MAHOGANY Co., Ltd. (Office rental, etc.)
  SBCS Co., Ltd. (Venture capital and consulting)
- Number of financial affiliates subject to deduction from capital: 96
  Please refer to "Principal Subsidiaries and Affiliates" on page 204 for their names and business outline.

3. Restrictions on Movement of Funds and Capital within Holding Company Group

There are no special restrictions on movement of funds and capital among SMFG and its group companies.

4. Companies Subject to Deduction from Capital with Capital below Basel II Required Amount and Total Shortfall Amount

Not applicable.

■ Capital Structure Information (Consolidated Capital Ratio (First Standard))

Regarding the calculation of capital ratio as of March 31, 2007, certain procedures were performed by KPMG AZSA & Co. pursuant to "Treatment of Inspection of the Capital Ratio Calculation Framework Based on Agreed-Upon Procedures" (JICPA Industry Committee Report No. 30). The certain procedures performed by the external auditor are not part of the audit of consolidated financial statements. The certain procedures performed on our internal control framework for calculating the capital ratio are based on procedures agreed upon by SMFG and the external auditor and are not a validation of appropriateness of the capital ratio itself or opinion on the internal controls related to the capital ratio calculation.

		Millions of yen	
March 31		2008	2007
Tier I capital:	Capital stock	¥ 1,420,877	¥ 1,420,877
	Capital surplus	57,826	57,773
	Retained earnings	1,740,610	1,386,436
	Treasury stock	(123,989)	(123,454)
	Cash dividends to be paid	(60,135)	(66,619)
	Foreign currency translation adjustments	(27,323)	(30,656)
	Stock acquisition rights	43	14
	Minority interests	1,643,903	1,399,794
	Goodwill and others	(178,645)	(100,850)
	Gain on sale on securitization transactions	(44,045)	(40,057)
	Deductions of deferred tax assets	(47,657)	—
	Total Tier I capital (A)	4,381,464	3,903,257
Tier II capital:	Unrealized gains on other securities after 55% discount	334,313	825,432
	Land revaluation excess after 55% discount	37,220	39,367
	General reserve for possible loan losses	59,517	35,309
	Excess amount of provision	67,758	175,921
	Subordinated debt	2,523,062	2,564,195
	Total Tier II capital	3,021,872	3,640,226
	Tier II capital included as qualifying capital (B)	3,021,872	3,640,226
Deductions*:	(C)	737,792	690,759
Total qualifying capital:	(D) = (A) + (B) - (C)	¥ 6,665,543	¥ 6,852,723
Risk-adjusted assets:	On-balance sheet items	¥49,095,397	¥47,394,806
	Off-balance sheet items	10,239,755	8,713,413
	Market risk items	430,220	412,044
	Operational risk	3,351,976	4,020,082
	Total risk-adjusted assets (E)	¥63,117,349	¥60,540,346
Tier I risk-adjusted capital ratio:	(A) / (E) x 100	6.94%	6.44%
Total risk-adjusted capital ratio:	(D) / (E) x 100	10.56%	11.31%
Required capital:	(E) x 8%	¥ 5,049,387	¥ 4,843,227

* "Deductions" refers to deductions stipulated in Article 8-1 of the Notification and includes willful holding of securities issued by other financial institutions and securities stipulated in Clause 2.

Capital Requirements

March 31	Billions of yen 2008	2007
Capital requirements for credit risk:		
Internal ratings-based approach	**¥5,294.7**	¥5,155.6
Corporate exposures:	**3,351.0**	3,185.5
Corporate exposures (excluding specialized lending)	**2,943.4**	2,836.8
Sovereign exposures	**42.8**	42.8
Bank exposures	**137.3**	126.6
Specialized lending	**227.5**	179.3
Retail exposures:	**844.3**	763.6
Residential mortgage exposures	**336.8**	332.1
Qualifying revolving retail exposures	**123.6**	81.1
Other retail exposures	**383.9**	350.4
Equity exposures:	**368.6**	424.6
Grandfathered equity exposures	**245.3**	336.2
PD/LGD approach	**53.1**	35.7
Market-based approach	**70.1**	52.7
Simple risk weight method	**59.7**	52.7
Internal models method	**10.4**	—
Credit risk-weighted assets under Article 145 of the Notification	**241.5**	301.5
Securitization exposures	**164.1**	158.9
Other exposures	**325.3**	321.3
Standardized approach	**677.6**	487.1
Total capital requirements for credit risk	**¥5,972.3**	¥5,642.7
Capital requirements for market risk:		
Standardized measurement method	**9.2**	4.7
Interest rate risk	**6.9**	3.2
Equity position risk	**0.2**	0.6
Foreign exchange risk	**2.0**	0.9
Commodities risk	**—**	—
Options	**—**	—
Internal models method	**25.3**	28.2
Total capital requirements for market risk	**34.4**	33.0
Capital requirements for operational risk	**268.2**	321.6
Total amount of capital requirements	**¥6,274.9**	¥5,997.2

Notes: 1. Capital requirements for credit risk are capital equivalents to "credit risk-weighted assets x 8%" under the standardized approach and "credit risk-weighted assets x 8% + expected loss amount" under the internal ratings-based approach. Regarding exposures to be deducted from capital, the deduction amount is added to the amount of required capital.
2. The above amounts are after credit risk mitigation.
3. Securitization exposures include such exposure based on the standardized approach.
4. "Other exposures" includes estimated lease residual values, purchased receivables (including exposure to qualified corporate enterprises and others), and other assets.

Internal Ratings-Based (IRB) Approach

1. Scope

SMFG and the following consolidated subsidiaries have adopted the foundation IRB approach for exposures.

(1) Domestic Operations

Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Card Company, Limited, SMBC Guarantee Co., Ltd. and SMBC Finance Service Co., Ltd.

(2) Overseas Operations

Sumitomo Mitsui Banking Corporation Europe Limited, Sumitomo Mitsui Banking Corporation of Canada, Banco Sumitomo Mitsui Brasileiro S.A., PT Bank Sumitomo Mitsui Indonesia, SMBC Leasing and Finance, Inc., SMBC Capital Markets, Inc., SMBC Capital Markets Limited, and SMBC Derivative Products Limited

Further, of consolidated subsidiaries that have adopted the standardized approach for exposures as of March 31, 2008, Sumitomo Mitsui Finance and Leasing Co., Ltd., THE MINATO BANK, LTD., and Kansai Urban Banking Corporation are scheduled to adopt the foundation IRB approach from March 31, 2010.

Note: Directly controlled SPCs and limited partnerships for investment of consolidated subsidiaries using the foundation IRB approach have also adopted the foundation IRB approach. Further, the IRB approach is applied to equity exposures on a group basis, including equity exposures of consolidated subsidiaries applying the standardized approach.

2. Exposures by Asset Class

(1) Corporate Exposures

A. Corporate, Sovereign and Bank Exposures

(A) Rating Procedures

- "Corporate, sovereign and bank exposures" includes credits to domestic and overseas C&I companies, individuals for business purposes (domestic only), sovereigns, public sector entities, and financial institutions. Business loans such as apartment construction loans, and SME loans with the standardized screening process (hereinafter referred to as "standardized SME loans") are, in principle, included in "retail exposures". However, credits of more than ¥100 million are treated as corporate exposures in accordance with the Notification.
- An obligor is assigned an obligor grade by first assigning a financial grade using a financial strength grading model and data obtained from the obligor's financial statements. The financial grade is then adjusted taking into account the actual state of the obligor's balance sheet and qualitative factors to derive the obligor grade (for details, please refer to "Credit Risk Assessment and Quantification" on page 39). Different rating series are used for domestic and overseas obligors - J1 ~ J10 for domestic obligors and G1 ~ G10 for overseas obligors - as shown below due to differences in actual default rate levels and portfolios' grade distribution. Different PD (Probability of Default) values are applied also.
- In addition to the above basic rating procedure which builds on the financial grade assigned at the beginning, in some cases, the obligor grade is assigned based on the parent company's credit quality or credit ratings published by external rating agencies. The Japanese government, local authorities and other public sector entities with special basis for existence and unconventional financial statements are assigned obligor grades based on their attributes (for example, "local municipal corporations"), as the data on these obligors are not suitable for conventional grading models. Further, credits to individuals for business purposes, business loans and standardized SME loans are assigned obligor grades using grading models developed specifically for these exposures.
- PDs used for calculating credit risk-weighted assets are estimated based on the default experience for each grade and taking into account the possibility of estimation errors. In addition to internal data, external data are used to estimate and validate PDs. The definition of default is the definition stipulated in the Notification (an event that would lead to an exposure being classified as "substandard loans," "doubtful assets" or "bankrupt and quasi-bankrupt assets" occurring to the obligor).

Obligor Grade			
Domestic Corporate	Domestic Corporate	Definition	Borrower Category
J1	G1	Very high certainty of debt repayment	Normal Borrowers
J2	G2	High certainty of debt repayment	
J3	G3	Satisfactory certainty of debt repayment	
J4	G4	Debt repayment is likely but this could change in cases of significant changes in economic trends or business environment	
J5	G5	No problem with debt repayment over the short term, but not satisfactory over the mid - to long - term and the situation could change in cases of significant changes in economic trends or business environment	
J6	G6	Currently no problem with debt repayment, but there are unstable business and financial factors that could lead to debt repayment problems	
J7	G7	Close monitoring is required due to problems in meeting loan terms and conditions, sluggish/unstable business, or financial problems	Borrowers Requiring Caution
J7R	G7R	Of which substandard borrowers	Substandard Borrowers
J8	G8	Currently not bankrupt, but experiencing business difficulties, making insufficient progress in restructuring, and highly likely to go bankrupt	Potentially Bankrupt Borrowers
J9	G9	Though not yet legally or formally bankrupt, has serious business difficulties and rehabilitation is unlikely; thus, effectively bankrupt	Effectively Bankrupt Borrowers
J10	G10	Legally or formally bankrupt	Bankrupt Borrowers

(B) Portfolio

a. Domestic Corporate, Sovereign and Bank Exposures

March 31, 2008	Billions of yen: Exposure amount: Total	On-balance sheet assets	Off-balance sheet assets	Weighted-average PD	Weighted-average LGD	Weighted-average risk weight
J1-J3	¥18,826.6	¥13,563.7	¥ 5,263.0	0.10%	44.74%	23.61%
J4-J6	13,657.5	10,647.2	3,010.3	1.10	41.31	69.45
J7 (excluding J7R)	1,820.6	1,588.6	232.0	11.50	42.34	174.93
Japanese government and local municipal corporations	15,013.1	13,854.4	1,158.7	0.00	41.65	0.49
Other	6,158.2	5,309.2	849.0	1.54	43.29	74.03
Default (J7R, J8-J10)	937.6	905.6	32.0	100.00	42.77	—
Total	¥56,413.7	¥45,868.7	¥10,545.0	—	—	—

March 31, 2007	Billions of yen: Exposure amount: Total	On-balance sheet assets	Off-balance sheet assets	Weighted-average PD	Weighted-average LGD	Weighted-average risk weight
J1-J3	¥18,261.6	¥13,350.4	¥ 4,911.1	0.10%	44.97%	22.88%
J4-J6	14,378.6	11,355.4	3,023.2	0.84	41.78	63.13
J7 (excluding J7R)	1,978.0	1,759.6	218.4	10.67	40.63	161.66
Japanese government and local municipal corporations	10,983.0	10,875.2	107.8	0.00	44.70	0.46
Other	6,793.1	6,016.1	777.0	1.26	43.48	70.91
Default (J7R, J8-J10)	991.9	965.0	26.9	100.00	43.45	—
Total	¥53,386.2	¥44,321.7	¥ 9,064.5	—	—	—

Notes: 1. "LGD" stands for loss given default.
2. "Other" includes exposures guaranteed by credit guarantee corporations, exposures to public sector entities and voluntary organizations, and exposures to obligors not assigned obligor grades because they have yet to close their books (for example, newly established companies), as well as business loans and standardized SME loans of more than ¥100 million.

b. Overseas Corporate, Sovereign and Bank Exposures

March 31, 2008	Billions of yen: Exposure amount: Total	On-balance sheet assets	Off-balance sheet assets	Weighted-average PD	Weighted-average LGD	Weighted-average risk weight
G1-G3	¥21,243.9	¥12,861.7	¥8,382.2	0.17%	39.04%	27.20%
G4-G6	985.7	744.8	240.8	1.71	44.42	106.65
G7 (excluding G7R)	176.0	79.7	96.3	23.72	44.89	239.05
Other	75.5	57.2	18.4	1.38	44.89	112.32
Default (G7R, G8-G10)	70.9	24.9	46.0	100.00	44.63	—
Total	¥22,552.0	¥13,768.3	¥8,783.7	—	—	—

March 31, 2007	Billions of yen: Exposure amount: Total	On-balance sheet assets	Off-balance sheet assets	Weighted-average PD	Weighted-average LGD	Weighted-average risk weight
G1-G3	¥12,579.4	¥6,984.1	¥5,595.3	0.22%	43.73%	38.57%
G4-G6	670.4	478.4	192.0	1.71	44.66	105.65
G7 (excluding G7R)	152.0	71.5	80.5	27.13	44.89	251.83
Other	163.6	121.5	42.1	0.94	44.88	86.24
Default (G7R, G8-G10)	88.7	77.8	10.9	100.00	44.95	—
Total	¥13,654.1	¥7,733.3	¥5,920.8	—	—	—

Note: "Other" includes exposures to obligors not assigned obligor grades because they have yet to close their books (for example, newly established companies).

B. Specialized Lending (SL)

(A) Rating Procedures

- "Specialized lending" is sub-classified into "project finance," "object finance," "commodities finance," "income-producing real estate" (IPRE) and "high-volatility commercial real estate" (HVCRE) in accordance with the Notification. Project finance is financing of a single project, such as a power plant or transportation infrastructure, and cash flows generated by the project is the primary source of repayment. Object finance includes aircraft finance and ship finance, and IPRE and HVCRE include real estate finance (a primary example is non-recourse real estate finance). There were no commodities finance exposures as of March 31, 2008.
- Each SL product is assigned a grade using grading models based primarily on the expected loss ratio, and qualitative assessment. As with obligor grades, there are ten grade levels but the definition of each grade differs from that of the obligor grade which is focused on PD.

  The credit risk-weighted asset amount for the SL category is calculated by mapping the expected loss-based facility grades to the below five categories of the Notification.

(B) Portfolio

a. Project Finance, Object Finance and IPRE

March 31	Risk weight	Billions of yen 2008 Project finance	Object finance	IPRE	2007 Project finance	Object finance	IPRE
Strong:							
Residual term less than 2.5 years	50%	**¥ 123.4**	**¥ 7.3**	**¥ 423.3**	¥100.4	¥ 3.2	¥ 274.6
Residual term 2.5 years or more	70%	**583.0**	**67.5**	**705.0**	435.9	64.8	695.7
Good:							
Residual term less than 2.5 years	70%	**28.3**	**—**	**53.4**	34.8	1.0	44.7
Residual term 2.5 years or more	90%	**285.3**	**15.2**	**132.0**	146.8	10.0	105.0
Satisfactory	115%	**40.5**	**16.0**	**83.2**	31.4	9.0	56.4
Weak	250%	**15.4**	**4.7**	**10.7**	22.7	8.2	1.5
Default	—	**5.0**	**0.1**	**—**	3.6	—	—
Total		**¥1,080.9**	**¥110.9**	**¥1,407.5**	¥775.6	¥96.3	¥1,177.9

b. HVCRE

March 31	Risk weight	Billions of yen 2008	2007
Strong:			
Residual term less than 2.5 years	70%	**¥ 3.9**	¥ 5.9
Residual term 2.5 years or more	95%	**—**	5.6
Good:			
Residual term less than 2.5 years	95%	**76.3**	86.8
Residual term 2.5 years or more	120%	**105.1**	46.4
Satisfactory	140%	**201.5**	162.0
Weak	250%	**—**	—
Default	—	**—**	—
Total		**¥386.8**	¥306.7

(2) Retail Exposures

A. Residential Mortgage Exposures

(A) Rating Procedures

- "Residential mortgage exposures" includes mortgage loans to individuals and some real estate loans in which the property consists of both residential and commercial facilities such as a store or rental apartment units, but excludes apartment construction loans.
- Mortgage loans are rated as follows.

  Mortgage loans are allocated to a portfolio segment with similar risk characteristics in terms of (a) default risk determined using loan contract information, results of an exclusive grading model and a borrower category under self-assessment executed in accordance with the financial inspection manual of the Japanese FSA, and (b) recovery risk at the time of default determined using LTV (Loan To Value) calculated based on the assessment value of collateral real estate. PDs and LGDs are estimated based on the default experience for each segment and taking into account the possibility of estimation errors.

  Further, the portfolio is subdivided based on the lapse of years from the contract date, and the effectiveness of segmentation in terms of default risk and recovery risk is validated periodically.

  Internal data are used to estimate and validate PDs and LGDs. The definition of default is the definition stipulated in the Notification.

(B) Portfolio

March 31, 2008	Billions of yen: Exposure amount: Total	On-balance sheet assets	Off-balance sheet assets	Weighted-average PD	Weighted-average LGD	Weighted-average risk weight
Mortgage loans						
PD segment:						
Not delinquent						
Use model	¥ 9,086.6	¥ 8,993.8	¥ 92.8	0.39%	40.15%	25.59%
Other	853.1	853.1	—	0.78	61.05	70.76
Delinquent	51.5	44.8	6.6	38.53	44.49	249.90
Default	114.9	114.2	0.8	100.00	40.94	29.07
Total	¥10,106.1	¥10,005.9	¥100.2	—	—	—

March 31, 2007	Billions of yen: Exposure amount: Total	On-balance sheet assets	Off-balance sheet assets	Weighted-average PD	Weighted-average LGD	Weighted-average risk weight
Mortgage loans						
PD segment:						
Not delinquent						
Use model	¥8,925.2	¥8,818.8	¥ 106.4	0.32%	45.91%	25.11%
Other	915.3	915.3	—	0.62	70.60	67.60
Delinquent	39.1	31.9	7.3	26.34	51.49	287.54
Default	119.3	116.7	2.6	100.00	46.09	26.54
Total	¥9,998.9	¥9,882.7	¥ 116.2	—	—	—

Notes: 1. "Other" includes loans guaranteed by employers.
2. "Delinquent" loans are past due loans and loans to obligors categorized as "Borrowers Requiring Caution" that do not satisfy the definition of default stipulated in the Notification.
3. The EL default weighted average is included in the LGD weighted average for default. Please note that the LGD weighted average for default as of March 31, 2007 was 48.21% and as of March 31, 2008 was 43.27%.

B. Qualifying Revolving Retail Exposures (QRRE)

(A) Rating Procedures

- "Qualifying revolving retail exposures" includes card loans and credit card balances.
- Card loans and credit card balances are rated as follows.

Card loans and credit card balances are allocated to a portfolio segment with similar risk characteristics determined based, for card loans, on the credit quality of the loan guarantee company, credit limit, settlement account balance and payment history, and, for credit card balances, on repayment history and frequency of use.

PDs and LGDs used to calculate credit risk-weighted asset amounts are estimated based on the default experience for each segment and taking into account the possibility of estimation errors.

Further, the effectiveness of segmentation in terms default risk and recovery risk is validated periodically; internal data are used to estimate and validate PDs and LGDs; and the definition of default is the definition stipulated in the Notification.

(B) Portfolio

	Billions of yen								
	Exposure amount								
		On-balance sheet assets							
March 31, 2008	Total	Balance	Increase	Off-balance sheet assets	Undrawn amount	Average CCF	Weighted-average PD	Weighted-average LGD	Weighted-average risk weight
Card loans									
PD segment:									
Not delinquent	**¥ 451.3**	**¥ 379.3**	**¥ 71.9**	**¥—**	**¥ 146.2**	**49.18%**	**2.04%**	**83.41%**	**51.67%**
Delinquent	**59.9**	**58.7**	**1.2**	**—**	**8.6**	**14.24**	**47.35**	**90.63**	**257.00**
Credit card balances									
PD segment:									
Not delinquent	**978.3**	**653.0**	**325.3**	**—**	**3,795.9**	**8.57**	**1.14**	**79.82**	**26.80**
Delinquent	**7.0**	**5.7**	**1.2**	**—**	**—**	**—**	**75.37**	**82.68**	**137.44**
Default	**22.3**	**19.6**	**2.7**	**—**	**—**	**—**	**100.00**	**81.79**	**83.99**
Total	**¥1,518.7**	**¥1,116.4**	**¥402.3**	**¥—**	**¥3,950.7**	**—**	**—**	**—**	**—**

	Billions of yen								
	Exposure amount								
		On-balance sheet assets							
March 31, 2007	Total	Balance	Increase	Off-balance sheet assets	Undrawn amount	Average CCF	Weighted-average PD	Weighted-average LGD	Weighted-average risk weight
Card loans									
PD segment:									
Not delinquent	¥ 430.4	¥ 356.3	¥ 74.1	¥—	¥ 141.8	52.24%	2.45%	79.11%	58.93%
Delinquent	29.9	29.2	0.7	—	4.3	15.33	9.81	81.16	126.30
Credit card balances									
PD segment:									
Not delinquent	904.3	599.4	305.0	—	3,497.3	8.72	1.09	80.49	26.27
Delinquent	6.0	4.9	1.1	—	—	—	71.46	83.42	152.96
Default	14.4	12.3	2.2	—	—	—	100.00	83.22	48.93
Total	¥1,385.1	¥1,002.1	¥383.0	¥—	¥3,643.4	—	—	—	—

Notes: 1. The on-balance sheet exposure amount is estimated by estimating the amount of increase in each transaction balance and not by multiplying the undrawn amount by CCF (credit conversion factor).
2. "Average CCF" is the "on-balance sheet exposure amount ÷ undrawn amount" and provided for reference only. It is not used for estimating on-balance sheet exposure amounts.
3. Past due loans of less than three months are recorded in "delinquent."
4. The EL default weighted average is included in the LGD weighted average for default. Please note that the LGD weighted average for default as of March 31, 2007 was 87.13% and as of March 31, 2008 was 88.51%.

C. Other Retail Exposures

(A) Rating Procedures

- "Other retail exposures" includes business loans such as apartment construction loans, standardized SME loans, and consumer loans such as My Car Loan.
- Business loans, standardized SME loans and consumer loans are rated as follows.
  a. Business loans and standardized SME loans are allocated to a portfolio segment with similar risk characteristics in terms of (a) default risk determined using loan contract information, results of an exclusive grading model and a borrower category under self-assessment executed in accordance with the financial inspection manual of the Japanese FSA, and (b) recovery risk determined based on, for standardized SME loans, obligor attributes and, for business loans, LTV. PD and LGD are estimated based on the default experience for each segment and taking into account the possibility of estimation errors.
  b. Rating procedures for consumer loans depends on whether the loan is collateralized. Collateralized consumer loans are allocated to a portfolio segment using the same standards as for mortgage loans of "A. Residential Mortgage Exposures." Uncollateralized consumer loans are allocated to a portfolio segment based on account history. PDs and LGDs are estimated based on the default experience for each segment and taking into account the possibility of estimation errors.

  Further, the effectiveness of segmentation in terms default risk and recovery risk is validated periodically, and internal data are used to estimate and validate PDs and LGDs. The definition of default is the definition stipulated in the Notification.

(B) Portfolio

	Billions of yen					
	Exposure amount					
March 31, 2008	Total	On-balance sheet assets	Off-balance sheet assets	Weighted-average PD	Weighted-average LGD	Weighted-average risk weight
Business loans						
PD segment:						
Not delinquent						
Use model	**¥1,506.6**	**¥1,485.0**	**¥21.7**	**1.16%**	**62.77%**	**59.31%**
Other	**231.9**	**231.6**	**0.4**	**1.25**	**56.70**	**57.41**
Delinquent	**524.7**	**520.8**	**3.9**	**11.72**	**67.99**	**110.04**
Consumer loans						
PD segment:						
Not delinquent						
Use model	**319.5**	**302.9**	**16.6**	**1.63**	**43.46**	**51.07**
Other	**240.8**	**238.7**	**2.1**	**1.81**	**65.68**	**81.19**
Delinquent	**38.0**	**37.6**	**0.3**	**31.17**	**47.27**	**120.99**
Default	**214.3**	**211.4**	**2.8**	**100.00**	**61.85**	**65.39**
Total	**¥3,075.9**	**¥3,028.0**	**¥47.9**	**—**	**—**	**—**

	Billions of yen					
	Exposure amount					
March 31, 2007	Total	On-balance sheet assets	Off-balance sheet assets	Weighted-average PD	Weighted-average LGD	Weighted-average risk weight
Business loans						
PD segment:						
Not delinquent						
Use model	¥1,805.5	¥1,790.1	¥15.4	1.82%	60.42%	64.34%
Other	208.7	208.7	0.0	1.78	53.09	62.24
Delinquent	352.2	348.5	3.7	10.99	60.21	98.65
Consumer loans						
PD segment:						
Not delinquent						
Use model	370.1	356.3	13.8	1.47	45.11	51.30
Other	249.3	247.1	2.3	1.76	66.29	64.45
Delinquent	37.2	36.9	0.3	23.10	49.81	116.06
Default	195.8	184.0	11.8	100.00	56.46	44.71
Total	¥3,218.8	¥3,171.5	¥47.3	—	—	—

Notes: 1. "Business loans" includes apartment construction loans and standardized SME loans.
2. "Other" includes loans guaranteed by employers.
3. Delinquent" loans are past due loans and loans to obligors categorized as "Borrowers Requiring Caution" that do not satisfy the definition of default stipulated in the Notification.
4. The EL default weighted average is included in the LGD weighted average for default. Please note that the LGD weighted average for default as of March 31, 2007 was 60.04% and as of March 31, 2008 was 67.08%.

(3) Equity Exposures and Credit Risk-Weighted Assets under Article 145 of the Notification

A. Equity Exposures

(A) Rating Procedures

When acquiring equities subject to the PD/LGD approach, issuers are assigned obligor grades using the same rules as those of general credits to C&I companies, sovereigns and financial institutions. The obligors are monitored (for details, please refer to page 41) and their grades are revised if necessary (credit risk-weighted asset amount is set to 1.5 times when they are not monitored individually). In the case there is no credit transaction with the issuer or it is difficult to obtain financial information, internal grades are assigned using ratings of external rating agencies if it is a qualifying investment. In the case it is difficult to obtain financial information and it is not a qualifying investment, the simple risk weight method under the market-based approach is applied.

(B) Portfolio

a. Equity Exposure Amounts

	Billions of yen	
March 31	2008	2007
Market-based approach	¥ 238.8	¥ 166.8
Simple risk weight method	191.0	166.8
Listed equities (300%)	60.1	45.6
Unlisted equities (400%)	130.9	121.2
Internal models method	47.9	—
PD/LGD approach	504.2	367.5
Grandfathered equity exposures	2,892.9	3,965.0
Total	¥3,636.0	¥4,499.3

Notes: 1. The above exposures are equity exposures stipulated in the Notification and differ from "stocks" described in the consolidated financial statements.
2. The "Grandfathered equity exposures" amount was calculated in accordance with Supplementary Provision No. 15 of the Notification.

b. PD/LGD Approach

	Billions of yen					
	2008			2007		
March 31	Exposure amount	Weighted-average PD	Weighted-average risk weight	Exposure amount	Weighted-average PD	Weighted-average risk weight
J1-J3	¥481.8	0.08%	111.66%	¥350.0	0.05%	104.84%
J4-J6	10.4	0.60	194.76	8.9	0.47	176.29
J7 (excluding J7R)	11.1	9.89	440.46	4.4	9.30	432.42
Other	0.9	2.60	275.48	4.2	2.24	275.00
Default (J7R, J8-J10)	0.1	100.00	—	0.0	100.00	—
Total	¥504.2	—	—	¥367.5	—	—

Notes: 1. The above exposures are "equity exposures" stipulated in the Notification to which the PD/LGD approach is applied and differ from "stocks" of consolidated financial statements.
2. "Other" includes exposures to public sector entities.

B. Credit Risk-Weighted Assets under Article 145 of the Notification

(A) Outline of method for calculating credit risk assets

Exposures under Article 145 of the Notification include credits to funds. In the case of such exposures, in principle, each underlying asset of the fund is assigned an obligor grade to calculate the asset's credit risk-weighted asset amount and the amounts are totaled to derive the credit risk-weighted asset amount of the fund. When stocks account for more than half of the underlying assets of the fund, or it is difficult to directly calculate the credit risk-weighted asset amount of individual underlying assets, the credit risk-weighted asset amount of the fund is calculated using the simple majority adjustment method, in which credit risk assets are calculated using a risk weight of 400% (when the risk weighted average of individual assets underlying the portfolio is less than 400%) or a risk weight of 1,250% (in other cases).

(B) Portfolio

	Billions of yen	
March 31	2008	2007
Exposures under Article 145 of the Notification	¥1,010.8	¥1,896.2

(4) Analysis of Actual Losses

A. Year-On-Year Comparison of Actual Losses

SMFG recorded total credit costs (general provisions, nonperforming loan write-offs, and gains on collection of written-off claims) of ¥248.6 billion on a consolidated basis in fiscal 2007, a year-on-year increase of ¥103.6 billion.

SMBC recorded ¥147.8 billion in total credit costs on a nonconsolidated basis in fiscal 2007, a year-on-year increase of ¥58.3 billion. In terms of credit exposure category, credit costs for corporate exposures increased ¥84.6 billion, to ¥143.2 billion. The principal factors accounting for this increase were the removal of nonperforming exposure from the balance sheets, a decline in the amount of reversal of reserves for possible loan losses accompanying the improvement in obligor classification of loan customers and as a result of other factors, and the emergence of unexpected deterioration in the standing of a portion of obligors as a result of worsening of industry conditions. In addition, credit costs for other retail exposures increased ¥15.8 billion, to ¥59.8 billion, mainly due to higher default rates.

Total Credit Costs

	Billions of yen			
	Fiscal 2007	Fiscal 2006	Fiscal 2005	Fiscal 2007 increase (decrease) from Fiscal 2006
SMFG (consolidated) total	**¥248.6**	¥145.0	¥302.0	¥103.6
SMBC (consolidated) total	**221.6**	122.9	275.0	98.7
SMBC (nonconsolidated) total	**147.8**	89.5	230.9	58.3
Corporate exposures	**143.2**	58.7	49.1	84.6
Sovereign and bank exposures	**0.5**	(0.7)	(0.4)	1.2
Residential mortgage exposures	**0.1**	0.5	(0.1)	(0.4)
QRRE	**0.0**	(0.1)	0.7	0.1
Other retail exposures	**59.8**	43.9	33.6	15.8

Notes: 1. The above amounts do not include gains/losses on equity exposures, exposures on capital market-driven transactions (such as bonds) and exposures under Article 145 of the Notification that were recognized as gains/losses on bonds and stocks in the income statement.
2. Exposure category amounts do not include general provisions for Normal Borrowers.
3. Bracketed fiscal year amount indicates gains generated by the reversal of provisions, etc.
4. Credit costs for residential mortgages and QRRE guaranteed by consolidated subsidiaries are not included in the total credit costs of SMBC (nonconsolidated).

B. Comparison of Estimated and Actual Losses

	Billions of yen		
	Estimated loss amounts		**Actual losses (Fiscal 2007)**
		After deduction of reserves	
SMFG (consolidated) total	¥ —	¥ —	**¥248.6**
SMBC (consolidated) total	—	—	**221.6**
SMBC (nonconsolidated) total	741.1	164.8	**147.8**
Corporate exposures	637.4	111.5	**143.2**
Sovereign and bank exposures	10.8	9.0	**0.5**
Residential mortgage exposures	4.5	4.0	**0.1**
QRRE	0.1	0.1	**0.0**
Other retail exposures	88.3	53.3	**59.8**

Notes: 1. The "Estimated loss amounts" are the EL for the end of fiscal 2006. Amounts on consumer loans guaranteed by SMBC's consolidated subsidiaries or its affiliates as well as on equity exposures and other exposures subject to Article 145 of the Notification are excluded.
2. Representing the estimated loss amount "After deduction of reserves" for possible losses on substandard loans or below.

■ Standardized Approach

1. Scope

The following consolidated subsidiaries have adopted the standardized approach for exposures as of March 31, 2008. (i.e. consolidated subsidiaries not listed in the "Internal Ratings-Based (IRB) Approach: 1. Scope" on page 140.)

(1) Consolidated subsidiaries planning to adopt phased rollout of the foundation IRB approach

Sumitomo Mitsui Finance and Leasing Co., Ltd., THE MINATO BANK, LTD., and Kansai Urban Banking Corporation. These three subsidiaries are scheduled to adopt the foundation IRB approach from March 31, 2010.

(2) Other consolidated subsidiaries

These are consolidated subsidiaries judged not to be significant in terms of credit risk management based on the type of business, scale, and other factors. These subsidiaries will adopt the standardized approach on a permanent basis.

2. Credit Risk-Weighted Asset Calculation Methodology

A 100% risk weight is applied to claims on corporates in accordance with Article 45 of the Notification, and risk weights corresponding to country risk scores published by the Organization for Economic Cooperation and Development (OECD) are applied to claims on sovereigns and financial institutions.

3. Exposure Balance by Risk Weight Segment

	Billions of yen			
	2008		2007	
March 31		Assigned country risk score		Assigned country risk score
0%	**¥ 1,208.0**	**¥ 96.0**	¥1,078.7	¥ 83.7
10%	**547.1**	**—**	562.3	—
20%	**748.8**	**318.4**	574.4	261.9
35%	**1,356.8**	**—**	1,247.5	—
50%	**156.7**	**1.1**	97.7	1.9
75%	**1,835.1**	**—**	643.5	—
100%	**6,397.6**	**0.3**	5,128.1	0.4
150%	**24.5**	**—**	16.6	—
Total	**¥12,274.7**	**¥415.8**	¥9,348.9	¥348.0

Notes: 1. The above amounts are exposures after credit risk mitigation (but before deduction of direct write-offs). Please note that for off-balance sheet assets the amount of exposure has been included.
2. Securitization exposures have not been included.

■ Credit Risk Mitigation Techniques

1. Credit Risk Management Policy and Procedures

In calculating credit risk-weighted asset amounts, SMFG takes into account credit risk mitigation (CRM) techniques. Specifically, amounts are adjusted for eligible financial or real estate collateral, guarantees, and credit derivatives or by netting loans against the obligors' deposits with SMFG financial institutions. The methods and scope of these adjustments and methods of supervision are as follows.

(1) Scope and Management

A. Collateral (Eligible Financial or Real Estate Collateral)

SMBC designates deposits and securities as eligible financial collateral and land and buildings as eligible real estate collateral.

Real estate collateral is evaluated by taking into account its fair value, appraised value, and current conditions, as well as our lien position. Real estate collateral must maintain sufficient collateral value in the event security rights must be exercised due to delinquency. However, during the period from acquiring the rights to exercising the rights, the property may deteriorate or suffer damages from earthquakes or other natural disasters, or there may be changes in the lien position due to, for example, attachment or establishment of liens by a third party. Therefore, the regular monitoring of collateral is implemented according the type of property and the type of security interest.

B. Guarantees and Credit Derivatives

Guarantors are sovereigns, municipal corporations, credit guarantee corporations and other public entities, financial institutions, and commercial/industrial (C&I) corporations. Counterparties to credit derivative transactions are mostly domestic and overseas banks and securities companies.

Credit risk-weighted asset amounts are calculated taking into account credit risk mitigation of guarantees and credit derivatives acquired from entities with sufficient ability to provide production, such as sovereigns, municipal corporations, and other public sector entities of comparable credit quality, and financial institutions and C&I companies with sufficient credit ratings.

C. Netting of Loans against Deposits

SMBC verifies the legal effectiveness of netting arrangements for loans and deposits for each transaction. Specifically, lending transactions subject to the netting of loans against deposits are stipulated in the "Agreement on Bank Transactions," and fixed-term deposits that have fixed maturity dates and cannot be transferred to third-party entities are subject to netting. Regarding deposits with us submitted as collateral, their effect as credit risk mitigation is taken into account under the eligible financial collateral framework described in A. above.

Further, maturity dates and balances (including the post-netting situation) are monitored for subject loans and deposits in accordance with the Notification. When there is a maturity/currency mismatch, netting is executed after making adjustments as stipulated in the Notification, and the credit risk-weighted asset amount is calculated after netting.

(2) Concentration of Credit Risk and Market Risk Accompanying Application of Credit Risk Mitigation (CRM) Techniques

At SMBC, there is a framework in place for controlling concentrations of risk in obligors with large exposures, which includes credit limit guidelines, risk concentration monitoring, and reporting to the Credit Risk Committee (please refer to page 38). Further, exposures to these obligors are monitored on a group basis, taking account of risk concentration in their parent companies in cases of guaranteed exposures.

When marketable financial products (for example, credit derivatives) are used as credit risk mitigants, market risk generated by these products is controlled by setting upper limits.

2. Exposure Balance after CRM

March 31	2008 Eligible financial collateral	2008 Eligible real estate collateral	2007 Eligible financial collateral	2007 Eligible real estate collateral
	Billions of yen			
Foundation IRB approach	**¥5,070.6**	**¥3,081.8**	¥2,325.5	¥2,661.4
Corporate exposures	**997.0**	**3,080.3**	1,675.0	2,660.2
Sovereign exposures	**1,107.4**	**1.4**	0.1	1.2
Bank exposures	**2,966.2**	**0.1**	650.4	0.1
Standardized approach	**104.6**	**—**	133.4	—
Total	**¥5,175.2**	**¥3,081.8**	¥2,458.9	¥2,661.4

March 31	2008 Guarantee	2008 Credit derivative	2007 Guarantee	2007 Credit derivative
	Billions of yen			
Foundation IRB approach	**¥5,078.6**	**¥302.5**	¥3,659.7	¥226.0
Corporate exposures	**4,189.8**	**302.5**	3,044.9	226.0
Sovereign exposures	**245.2**	**—**	58.3	—
Bank exposures	**399.9**	**—**	294.8	—
Residential mortgage exposures	**243.6**	**—**	261.3	—
QRRE	**—**	**—**	—	—
Other retail exposures	**0.2**	**—**	0.4	—
Standardized approach	**120.4**	**—**	90.2	—
Total	**¥5,199.0**	**¥302.5**	¥3,749.9	¥226.0

Derivative Transactions and Long Settlement Transactions

1. Risk Management Policy and Procedures

(1) Policy on Collateral Security and Impact of Deterioration of Our Credit Quality

Collateralized derivative is a CRM technique in which collateral is delivered or received regularly in accordance with replacement cost. The Group conducts collateralized derivative transactions as necessary, thereby reducing credit risk. In the event our credit quality deteriorates, however, the counterparty may demand additional collateral, but its impact is deemed to be insignificant.

(2) Netting

Netting is another CRM technique, and "close-out netting" is the main type of netting. In close-out netting, when a default event, such as bankruptcy, occurs to the counterparty, all claims against, and obligations to, the counterparty, regardless of maturity and currency, are netted out to create a single claim or obligation.

Close-out netting is applied to foreign exchange and swap transactions covered under a master agreement with a net-out clause or other means of securing legal effectiveness, and the effect of CRM is taken into account only for such claims and obligations.

2. Credit Equivalent Amounts

(1) Derivative Transactions and Long Settlement Transactions

A. Calculation Method

Current exposure method

B. Credit Equivalent Amounts

March 31	Billions of yen 2008	2007
Gross replacement cost	¥4,796.6	¥2,901.8
Gross add-on amount	3,977.6	3,931.1
Gross credit equivalent amount	8,774.2	6,832.9
Foreign exchange related transactions	4,116.3	2,932.7
Interest rate related transactions	4,244.9	3,616.1
Gold related transactions	—	—
Equities related transactions	2.1	2.3
Precious metals (excluding gold) related transactions	—	—
Other commodity related transactions	289.5	265.1
Credit default swaps	121.4	16.7
Reduction in credit equivalent amount due to netting	4,535.8	3,253.1
Net credit equivalent amount	4,238.4	3,579.8
Collateral amount	170.7	216.6
Qualifying financial collateral	60.2	122.7
Qualifying real estate collateral	110.4	93.9
Net credit equivalent amount (after taking into account credit risk mitigation effect of collateral)	¥4,238.4	¥3,579.8

Note: The net credit equivalent amount was the same before and after taking into account the CRM effect of collateral as the foundation IRB approach and simple approach of the standardized approach have been adopted.

(2) Notional Principal Amounts of Credit Derivatives

	Billions of yen			
	2008		2007	
March 31	Notional principal amount	Of which for CRM	Notional principal amount	Of which for CRM
Protection purchased	¥1,559.0	¥302.5	¥1,260.4	¥226.0
Protection provided	1,134.7	—	1,067.4	—

Note: The "Notional principal amount" is defined as the total of "amounts subject to calculation of credit equivalents" and "amounts employed for CRM."

Securitization Exposures

1. Risk Management Policies and Procedures

Definition of securitization exposure has been clarified in order to properly identify, measure, evaluate and report risks, and a risk management department, independent of business units, has been established to centrally manage risks from recognizing securitization exposures to measuring, evaluating and reporting credit risk-weighted assets.

The Group takes one of the following positions in securitization transactions.

- Originator (a direct or indirect originator of underlying assets or a sponsor of an ABCP conduit or a similar program that acquires exposures from third-party entities)
- Investor
- Other (for example, provider of swaps for preventing a mismatch between the dividend on trust beneficiary rights and cash flows generated by underlying assets on which the rights are issued)

2. Credit Risk-Weighted Asset Calculation Methodology

There are three methods of calculating the credit risk-weighted asset amount of securitization exposures subject to the IRB approach: the external ratings-based approach, supervisory formula, and the internal assessment approach. The methods are used as follows.

- First, securitization exposures are examined and the external ratings-based approach is applied to qualifying exposures.
- The remaining exposures are examined and the supervisory formula is applied to qualifying exposures.
- The remaining exposures are deducted from capital.

The credit risk-weighted asset amount for securitization exposures subject to the standardized approach is calculated mostly using ratings published by qualifying rating agencies or based on weighted average risk weights of underlying assets as stipulated in the Notification.

3. Accounting Policy on Securitization Transactions

Accounting treatment of securitization of financial assets is as follows. Extinguishment of financial assets is recognized when the contractual rights over the financial assets is exercised, forfeited or control over the rights is transferred to a third-party, and the difference between the book value of the financial assets and the amount received/paid is recorded as the term's gain/loss. When the control over the contractual rights is not deemed to have been transferred, the securitization transaction is treated as a financial transaction such as a mortgage loan.

When a portion of financial assets satisfies the extinguishment condition, the extinguishment of the said portion is recognized and the difference between the book value of the extinguished portion and the amount received/paid is recorded as the term's gain/loss. The book value of the extinguished portion is calculated by allocating the book value of the financial assets based on the proportion of the financial assets' fair value that the extinguished portion represents.

Further, the remaining portion is subject to self-assessment, and write-offs and provisions are made as necessary.

4. Qualifying External Ratings Agencies

When computing credit risk-weighted asset amounts for securitization exposures using the external rating-based approach under the IRB approach or standardized approach, the risk weights are determined by mapping the ratings of qualifying rating agencies to the risk weights stipulated in the Notification. The qualifying rating agencies are Rating and Investment Information, Inc. (R&I), Japan Credit Rating Agency, Ltd. (JCR), Moody's Investors Service, Inc. (Moody's), Standard & Poor's Ratings Services (S&P), and Fitch Ratings Ltd. (Fitch). When more than one rating is available for an exposure, the second smallest risk weight is used.

5. Portfolio

(1) Securitization Transactions as Originator

A. As Originator (excluding as Sponsor)

(A) Underlying Assets

	Billions of yen						
	March 31, 2008			**Fiscal 2007**			
	Underlying asset amount						
	Total	Asset transfer type	Synthetic type	Securitized amount	Default amount	Loss amount	Gains/losses on sales
Claims on corporates	**¥ 273.8**	**¥ 171.3**	**¥102.5**	**¥ 657.9**	**¥ 7.5**	**¥0.3**	**¥ —**
Mortgage loans	**1,751.7**	**1,751.7**	**—**	**312.3**	**0.6**	**0.1**	**15.9**
Retail loans (excluding mortgage loans)	**260.2**	**64.1**	**196.1**	**154.2**	**43.4**	**6.6**	**—**
Other claims	**295.7**	**148.4**	**147.3**	**129.5**	**0.1**	**1.0**	**0.0**
Total	**¥2,581.4**	**¥2,135.5**	**¥445.9**	**¥1,253.9**	**¥51.6**	**¥8.1**	**¥15.9**

	Billions of yen						
	March 31, 2007			Fiscal 2006			
	Underlying asset amount						
	Total	Asset transfer type	Synthetic type	Securitized amount	Default amount	Loss amount	Gains/losses on sales
Claims on corporates	¥ 330.2	¥ 181.5	¥148.7	¥ 520.5	¥13.3	¥4.3	¥ —
Mortgage loans	1,550.9	1,550.9	—	789.7	0.3	0.0	26.8
Retail loans (excluding mortgage loans)	450.4	—	450.4	341.2	20.1	2.1	—
Other claims	174.7	5.9	168.8	0.4	0.0	0.2	—
Total	¥2,506.3	¥1,738.4	¥768.0	¥1,651.7	¥33.7	¥6.6	¥26.8

Notes: 1. The above amounts include the amount of underlying assets securitized during the term without entailing securitization exposure.
2. The "Default amount" is the total of underlying assets which are past due three months or more and defaulted underlying assets.
3. Other claims" includes claims on PFI (Private Finance Initiative) businesses and lease fees.
4. Following Articles 230 and 248 of the Notification, there were no amounts that represent exposure to products subject to early call provisions to investors.
5. There were no credit risk-weighted assets calculated using Supplementary Provision 15 of the Notification.

(B) Securitization Exposures

a. Underlying Assets by Asset Type

	Billions of yen					
	2008			2007		
March 31	Term-end balance	To be deducted from capital	Increase in capital equivalent	Term-end balance	To be deducted from capital	Increase in capital equivalent
Claims on corporates	**¥139.8**	**¥ 5.3**	**¥ —**	¥183.4	¥ 1.7	¥ —
Mortgage loans	**170.1**	**35.9**	**44.0**	142.7	29.9	40.1
Retail loans (excluding mortgage loans)	**80.0**	**12.8**	**—**	111.1	6.8	—
Other claims	**90.9**	**20.5**	**—**	8.4	8.4	—
Total	**¥480.8**	**¥74.4**	**¥44.0**	¥445.6	¥46.7	¥40.1

b. Risk Weights

	Billions of yen			
	2008		2007	
March 31	Term-end balance	Required capital	Term-end balance	Required capital
20% or less	**¥264.5**	**¥ 2.2**	¥175.1	¥ 1.2
100% or less	**5.7**	**0.1**	76.7	1.0
650% or less	**2.0**	**0.7**	2.0	0.7
1250% or less	**—**	**—**	—	—
Capital deduction	**208.6**	**74.4**	191.8	46.7
Total	**¥480.8**	**¥77.5**	¥445.6	¥49.6

B. As Sponsor

(A) Underlying Assets

Billions of yen

	March 31, 2008			Fiscal 2007		
	Underlying asset amount					
	Total	Asset transfer type	Synthetic type	Securitized amount	Default amount	Loss amount
Claims on corporates	**¥790.6**	**¥790.6**	**¥ —**	**¥6,305.8**	**¥156.8**	**¥154.9**
Mortgage loans	**3.8**	**3.8**	**—**	**—**	**0.6**	**0.6**
Retail loans (excluding mortgage loans)	**54.1**	**54.1**	**—**	**142.4**	**1.2**	**3.3**
Other claims	**64.9**	**64.9**	**—**	**214.1**	**1.5**	**1.3**
Total	**¥913.5**	**¥913.5**	**¥ —**	**¥6,662.3**	**¥160.1**	**¥160.1**

Billions of yen

	March 31, 2007			Fiscal 2006		
	Underlying asset amount					
	Total	Asset transfer type	Synthetic type	Securitized amount	Default amount	Loss amount
Claims on corporates	¥1,014.3	¥1,014.3	¥ —	¥5,898.5	¥206.0	¥204.8
Mortgage loans	—	—	—	—	—	—
Retail loans (excluding mortgage loans)	37.1	37.1	—	0.5	0.0	0.0
Other claims	124.2	124.2	—	175.0	1.5	1.3
Total	¥1,175.6	¥1,175.6	¥ —	¥6,074.0	¥207.5	¥206.0

Notes: 1. The above amounts include the amount of underlying assets securitized during the term without entailing securitization exposure.
2. The "Default amount" is the amount of defaulted underlying assets and those past due three months or more.
3. The "Default amount" and "Loss amount" when acting as a sponsor of securitization of customer claims are estimated using the following methods and alternative data are used as it is difficult to obtain relevant data in a timely manner because the underlying assets are recovered by the customer.
(1) "Default amount" estimation method
- For securitization transactions subject to the external ratings-based approach, the amount is estimated based on information on underlying assets obtainable from customers, etc.
- For securitization transactions subject to the supervisory formula, the amount is estimated based on obtainable information on, or default rate of, each obligor. Further, when it is difficult to estimate the amount using either method, it is conservatively estimated by assuming that the underlying asset is a default asset.

(2) "Loss amount" estimation method
- For securitization transactions subject to the external ratings-based approach, the amount is the same amount as the default amount estimated conservatively in (1) above.
- For securitization transactions subject to supervisory formula, when expected loss ratios of defaulted underlying assets can be determined, the amount is estimated using the ratios. When it is difficult to determine the ratios, the amount is the same amount as the default amount estimated in (1) above.

4. "Other claims" includes lease fees.
5. Following Articles 230 and 248 of the Notification, there were no amounts that represent exposure to products subject to early call provisions to investors.
6. There were no credit risk-weighted assets calculated using Supplementary Provision 15 of the Notification.

(B) Securitization Exposures

a. Underlying Assets by Asset Type

Billions of yen

	2008			2007		
March 31	Term-end balance	To be deducted from capital	Increase in capital equivalent	Term-end balance	To be deducted from capital	Increase in capital equivalent
Claims on corporates	**¥608.1**	**¥ 0.1**	**¥ —**	¥807.7	¥ 13.1	¥ —
Mortgage loans	**3.8**	**—**	**—**	—	—	—
Retail loans (excluding mortgage loans)	**54.1**	**—**	**—**	37.1	—	—
Other claims	**59.7**	**—**	**—**	100.3	—	—
Total	**¥725.7**	**¥ 0.1**	**¥ —**	¥945.1	¥ 13.1	¥ —

Note: "Other claims" includes lease fees.

b. Risk Weights

March 31	2008 Term-end balance	2008 Required capital	2007 Term-end balance	2007 Required capital
	Billions of yen			
20% or less	¥634.1	¥3.9	¥809.4	¥ 5.6
100% or less	91.5	2.6	103.1	3.7
650% or less	—	—	18.9	2.4
1250% or less	—	—	—	—
Capital deduction	0.1	0.1	13.7	13.1
Total	¥725.7	¥6.6	¥945.1	¥24.9

(2) Securitization Transactions in which the Group is the Investor

A. Securitization Exposures

(A) Underlying Assets by Asset Type

March 31	2008 Term-end balance	2008 To be deducted from capital	2008 Increase in capital equivalent	2007 Term-end balance	2007 To be deducted from capital	2007 Increase in capital equivalent
	Billions of yen					
Claims on corporates	¥339.5	¥66.0	¥ —	¥301.6	¥76.9	¥ —
Mortgage loans	—	—	—	379.3	—	—
Retail loans (excluding mortgage loans)	15.0	—	—	17.8	—	—
Other claims	24.6	10.6	—	124.0	1.3	—
Total	¥379.1	¥76.6	¥ —	¥822.8	¥78.2	¥ —

Notes: 1. "Other claims" includes securitization products.
2. There were no credit risk-weighted assets calculated using Supplementary Provision 15 of the Notification.

(B) Risk Weights

March 31	2008 Term-end balance	2008 Required capital	2007 Term-end balance	2007 Required capital
	Billions of yen			
20% or less	¥228.4	¥ 1.5	¥668.5	¥ 4.7
100% or less	35.0	1.6	26.2	1.6
650% or less	0.6	0.1	—	—
1250% or less	—	—	—	—
Capital deduction	115.1	76.6	128.1	78.2
Total	¥379.1	¥79.9	¥822.8	¥84.4

■ Equity Exposures in Banking Book

1. Risk Management Policy and Procedures

Securities in the banking book are properly managed, for example, by setting upper limits on the allowable amount of risk under the market or credit risk management framework selected according to their holding purpose and risk characteristics. For securities held as "other securities," the upper limits are also set in terms of price fluctuation risk.

Regarding stocks of subsidiaries, assets and liabilities of subsidiaries are managed on a consolidated basis, and risks related to stocks of affiliates are recognized separately. Their risk as equity is not measured as upper limits on the allowable amount of risk are set for stocks of subsidiaries and affiliates, and the limits are established within the "risk capital limit" of SMFG, taking into account the financial and business situations of the subsidiaries and affiliates.

2. Valuation of Securities in Banking Book and Other Significant Accounting Policies

Stocks of subsidiaries and affiliates are carried at amortized cost using the moving-average method. Other securities with market prices are carried at their average market prices during the final month of the fiscal year. Securities other than these securities are carried at their fiscal year-end market prices (cost of securities sold is calculated using primarily the moving-average method) and those with no available market prices are carried at cost using the moving-average method.

Net unrealized gains (losses) on other securities, net of income taxes, are reported as a component of "net assets." Derivative transactions are carried at fair value.

3. Consolidated Balance Sheet Amounts and Fair Values

	Billions of yen			
	2008		2007	
March 31	Balance sheet amount	Fair value	Balance sheet amount	Fair value
Listed equity exposures	¥2,913.3	¥2,913.3	¥3,980.3	¥3,980.3
Stocks of subsidiaries and affiliates and equity exposures other than above	670.5	—	519.0	—
Total	¥3,583.8	¥ —	¥4,499.3	¥ —

4. Gains (Losses) on Sale and Devaluation of Stocks of Subsidiaries and Affiliates and Equity Exposures

	Billions of yen	
	Fiscal 2007	Fiscal 2006
Gains (losses)	¥ (7.1)	¥44.7
Gains on sale	61.5	62.8
Losses on sale	5.7	1.5
Devaluation	62.8	16.6

Note: The above amounts are “gains (losses) on stocks and other securities” in the consolidated statements of income.

5. Unrealized Gains (Losses) Recognized on Consolidated Balance Sheet but Not on Consolidated Statements of Income

	Billions of yen	
March 31	2008	2007
Unrealized gains (losses) recognized on consolidated balance sheet but not on consolidated statements of income	¥940.3	¥1,982.6

Note: The above amount is for stocks of Japanese companies and foreign stocks with market prices.

6. Unrealized Gains (Losses) Not Recognized on Consolidated Balance Sheet or Consolidated Statements of Income

	Billions of yen	
March 31	2008	2007
Unrealized gains (losses) not recognized on consolidated balance sheet or consolidated statements of income	¥(24.4)	¥ 65.7

Note: The above amount is for stocks of affiliates with market prices.

■ Exposure Balance by Type of Assets, Geographic Region, Industry and Residual Term

1. Exposure Balance by Type of Asset, Geographic Region and Industry

March 31, 2008	Billions of yen				
	Loans, etc.	Bonds	Derivatives	Other	Total
Domestic operations (excluding offshore banking accounts)					
Manufacturing	¥ 8,402.1	¥ 130.0	¥ 550.3	¥ 2,453.7	¥ 11,536.1
Agriculture, forestry, fishery and mining	317.4	0.1	13.7	61.3	392.6
Construction	1,745.7	38.0	16.0	147.6	1,947.2
Transport, information, communications and utilities	4,173.9	127.6	177.3	757.4	5,236.2
Wholesale and retail	6,719.0	49.3	645.4	682.3	8,095.9
Financial and insurance	10,540.0	965.7	1,330.7	273.5	13,109.9
Real estate	8,580.1	263.0	55.9	285.5	9,184.5
Services	6,681.9	107.5	95.9	658.2	7,543.5
Local municipal corporations	2,592.3	604.9	4.4	6.1	3,207.8
Other industries	19,574.7	12,709.5	6.2	4,935.8	37,226.2
Subtotal	¥69,327.1	¥14,995.5	¥2,895.8	¥10,261.4	¥ 97,479.8
Overseas operations and offshore banking accounts					
Sovereigns	¥ 335.1	¥ 791.2	¥ 9.4	¥ —	¥ 1,135.7
Financial institutions	3,651.6	337.1	950.1	0.0	4,938.8
C&I companies	10,512.3	223.9	377.7	—	11,113.9
Others	1,956.8	290.9	2.9	347.3	2,597.9
Subtotal	¥16,455.8	¥ 1,643.0	¥1,340.1	¥ 347.3	¥ 19,786.2
Total	¥85,782.9	¥16,638.5	¥4,235.9	¥10,608.8	¥117,266.0

March 31, 2007	Billions of yen				
	Loans, etc.	Bonds	Derivatives	Other	Total
Domestic operations (excluding offshore banking accounts)					
Manufacturing	¥ 8,135.7	¥ 132.7	¥ 400.5	¥2,846.4	¥ 11,515.2
Agriculture, forestry, fishery and mining	179.1	1.1	9.0	66.7	255.9
Construction	1,772.1	57.9	14.6	185.3	2,029.8
Transport, information, communications and utilities	3,793.9	137.7	97.7	880.6	4,909.9
Wholesale and retail	6,982.3	64.3	433.6	685.1	8,165.2
Financial and insurance	7,593.2	1,275.2	1,217.3	322.3	10,408.0
Real estate	8,766.4	89.1	40.0	262.0	9,157.5
Services	7,010.9	65.6	87.5	515.1	7,679.1
Local municipal corporations	1,133.8	750.2	1.1	2.6	1,887.7
Other industries	18,412.1	7,912.8	160.7	3,771.8	30,257.3
Subtotal	¥63,779.4	¥10,486.5	¥2,461.9	¥9,537.9	¥ 86,265.7
Overseas operations and offshore banking accounts					
Sovereigns	¥ 315.8	¥ 82.5	¥ 8.4	¥ —	¥ 406.6
Financial institutions	2,473.8	243.9	805.3	0.0	3,523.0
C&I companies	8,964.0	258.8	263.0	—	9,485.7
Others	2,075.2	350.4	41.3	293.8	2,760.7
Subtotal	¥13,828.8	¥ 935.5	¥1,117.9	¥ 293.8	¥ 16,176.0
Total	¥77,608.2	¥11,422.0	¥3,579.8	¥9,831.6	¥102,441.7

Notes: 1. The above amounts are exposure amounts after credit risk mitigation.
2. The above amounts do not include equity exposures and credit risk-weighted assets under Article 145 of the Notification.
3. "Loans, etc." includes loans, commitments and off-balance sheet assets except other derivatives, and "Other" includes equity exposures and standardized approach applied funds.
4. "Domestic operations" comprises the operations of SMFG, its domestic consolidated banking subsidiaries (excluding overseas branches) and other domestic consolidated subsidiaries. "Overseas operations" comprises the operations of the overseas branches of domestic consolidated banking subsidiaries and overseas consolidated subsidiaries.

2. Exposure Balance by Type of Asset and Residual Term

March 31, 2008	Billions of yen				
	Loans, etc.	Bonds	Derivatives	Other	Total
To 1 year	¥27,614.5	¥ 3,003.3	¥ 653.2	¥ 373.7	¥ 31,644.8
More than 1 year to 3 years	13,973.9	4,301.5	1,452.3	927.9	20,655.6
More than 3 years to 5 years	12,047.3	5,687.3	1,048.3	1,158.8	19,941.8
More than 5 years to 7 years	4,836.6	873.0	476.4	310.1	6,496.0
More than 7 years	21,409.4	2,773.3	605.7	191.8	24,980.2
No fixed maturity	5,901.1	—	—	7,646.5	13,547.7
Total	¥85,782.9	¥16,638.5	¥4,235.9	¥10,608.8	¥117,266.0

March 31, 2007	Billions of yen				
	Loans, etc.	Bonds	Derivatives	Other	Total
To 1 year	¥22,237.0	¥ 3,747.2	¥ 389.4	¥ 176.6	¥ 26,550.3
More than 1 year to 3 years	11,762.0	1,628.6	1,232.6	503.0	15,126.2
More than 3 years to 5 years	11,734.2	1,451.8	1,058.7	621.5	14,866.1
More than 5 years to 7 years	4,508.1	1,382.4	431.9	162.9	6,485.3
More than 7 years	20,365.9	3,212.1	467.2	110.4	24,155.7
No fixed maturity	7,000.9	—	—	8,257.2	15,258.2
Total	¥77,608.2	¥11,422.0	¥3,579.8	¥9,831.6	¥ 102,441.7

Notes: 1. The above amounts are exposure amounts after credit risk mitigation.
2. The above amounts do not include equity exposures and credit risk-weighted assets under Article 145 of the Notification.
3. "Loans, etc." includes loans, commitments and off-balance sheet assets except other derivatives, and "Other" includes equity exposures and standardized approach applied funds.
4. "No fixed maturity" includes exposures not classified by residual term.

3. Term-end Balance of Exposures Past Due 3 Months or More or Defaulted and Their Breakdown

(1) By Geographic Region

March 31	Billions of yen	
	2008	2007
Domestic operations (excluding offshore banking accounts)	¥1,759.4	¥1,948.3
Overseas operations and offshore banking accounts	140.7	135.0
Asia	42.0	81.9
North America	83.2	42.3
Other regions	15.4	10.8
Total	¥1,900.0	¥2,083.3

Notes: 1. The above amounts are credits subject to self-assessment, including mainly off-balance sheet credits to obligors categorized as "Substandard Borrowers" or lower under self-assessment.
2. The above amounts include partial direct write-offs (direct reductions).
3. "Domestic operations" comprises the operations of SMFG, its domestic consolidated banking subsidiaries (excluding overseas branches) and other domestic consolidated subsidiaries. "Overseas operations" comprises the operations of the overseas branches of domestic consolidated banking subsidiaries and overseas consolidated subsidiaries, and the term-end balances are calculated based on the obligor's domicile country.

(2) By Industry

March 31	Billions of yen 2008	2007
Domestic operations (excluding offshore banking accounts)		
Manufacturing	¥ 180.4	¥ 123.6
Agriculture, forestry, fishery and mining	7.1	6.3
Construction	153.4	196.4
Transport, information, communications and utilities	96.9	155.8
Wholesale and retail	288.6	170.5
Financial and insurance	38.2	16.6
Real estate	325.1	556.5
Services	347.0	452.2
Other industries	322.6	270.4
Subtotal	¥1,759.4	¥1,948.3
Overseas operations and offshore banking accounts		
Financial institutions	¥ 1.0	¥ 1.1
C&I companies	139.7	133.9
Others	—	—
Subtotal	¥ 140.7	¥ 135.0
Total	¥1,900.0	¥2,083.3

Notes: 1. The above amounts are credits subject to self-assessment, including mainly off-balance sheet credits to obligors categorized as "Substandard Borrowers" or lower under self-assessment.
2. The above amounts include partial direct write-offs (direct reductions).
3. "Domestic operations" comprises the operations of SMFG, its domestic consolidated banking subsidiaries (excluding overseas branches) and other domestic consolidated subsidiaries. "Overseas operations" comprises the operations of the overseas branches of domestic consolidated banking subsidiaries and overseas consolidated subsidiaries.

4. Term-end Balances of General Reserve for Possible Loan Losses, Specific Reserve for Possible Loan Losses and Loan Loss Reserve for Specific Overseas Countries

(1) By Geographic Region

March 31	Billions of yen 2008	2007	Increase (decrease)
General reserve for possible loan losses	¥ 593.7	¥ 683.6	¥ (89.9)
Loan loss reserve for specific overseas countries	0.0	1.9	(1.9)
Specific reserve for possible loan losses	819.6	693.7	125.9
Domestic operations (excluding offshore banking accounts)	738.5	661.0	77.5
Overseas operations and offshore banking accounts	81.1	32.7	48.4
Asia	10.1	14.1	(4.0)
North America	68.1	12.9	55.2
Other regions	2.9	5.7	(2.8)
Total	¥1,413.3	¥1,379.2	¥ 34.1

Notes: 1. "Specific reserve for possible loan losses" includes partial direct write-offs (direct reductions).
2. "Domestic operations" comprises the operations of SMFG, its domestic consolidated banking subsidiaries (excluding overseas branches) and other domestic consolidated subsidiaries. "Overseas operations" comprises the operations of the overseas branches of domestic consolidated banking subsidiaries and overseas consolidated subsidiaries, and the term-end balances are calculated based on the obligor's domicile country.

(2) By Industry

March 31	Billions of yen 2008	2007	Increase (decrease)
General reserve for possible loan losses	¥ 593.7	¥ 683.6	¥ (89.9)
Loan loss reserve for specific overseas countries	0.0	1.9	(1.9)
Specific reserve for possible loan losses	819.6	693.7	125.9
Domestic operations (excluding offshore banking accounts)	738.5	661.0	77.5
Manufacturing	76.3	43.6	32.7
Agriculture, forestry, fishery and mining	1.3	0.4	0.9
Construction	71.3	37.5	33.8
Transport, information, communications and utilities	49.2	48.7	0.5
Wholesale and retail	142.7	82.7	60.0
Financial and insurance	19.2	8.7	10.5
Real estate	110.9	157.7	(46.8)
Services	135.2	154.6	(19.4)
Other industries	132.4	127.1	5.3
Overseas operations and offshore banking accounts	81.1	32.7	48.4
Financial institutions	0.9	0.9	(0.0)
C&I companies	80.2	31.8	48.4
Others	—	—	—
Total	¥1,413.3	¥1,379.2	¥ 34.1

Notes: 1. "Specific reserve for possible loan losses" includes partial direct write-offs (direct reductions).
2. "Domestic operations" comprises the operations of SMFG, its domestic consolidated banking subsidiaries (excluding overseas branches) and other domestic consolidated subsidiaries. "Overseas operations" comprises the operations of the overseas branches of domestic consolidated banking subsidiaries and overseas consolidated subsidiaries.

5. Loan Write-Offs by Industry

	Billions of yen Fiscal 2007	Fiscal 2006
Domestic operations (excluding offshore banking accounts)		
Manufacturing	¥ 25.7	¥10.6
Agriculture, forestry, fishery and mining	0.3	0.0
Construction	16.0	5.6
Transport, information, communications and utilities	11.3	14.9
Wholesale and retail	42.6	21.3
Financial and insurance	(0.0)	1.1
Real estate	(3.6)	(10.2)
Services	24.7	16.2
Other industries	18.7	25.4
Subtotal	¥135.7	¥84.9
Overseas operations and offshore banking accounts		
Financial institutions	¥ 0.0	¥ 0.0
C&I companies	6.0	(3.5)
Others	—	—
Subtotal	¥ 6.0	¥ (3.5)
Total	¥141.8	¥81.4

Note: "Domestic operations" comprises the operations of SMFG, its domestic consolidated banking subsidiaries (excluding overseas branches) and other domestic consolidated subsidiaries. "Overseas operations" comprises the operations of the overseas branches of domestic consolidated banking subsidiaries and overseas consolidated subsidiaries.

■ Market Risk

1. Scope

The following approaches are used to calculate market risk equivalent amounts.

(1) Internal Models Approach

General market risk of SMBC, Sumitomo Mitsui Banking Corporation Europe Limited, SMBC Capital Markets, Inc., SMBC Capital Markets Limited, and SMBC Derivative Products Limited

(2) Standardized Measurement Method

- Specific risk
- General market risk of consolidated subsidiaries other than SMBC, Sumitomo Mitsui Banking Corporation Europe Limited, SMBC Capital Markets, Inc., SMBC Capital Markets Limited, and SMBC Derivative Products Limited

2. Valuation Method Corresponding to Transaction Characteristics

All assets and liabilities held in the trading book - therefore, subject to calculation of the market risk equivalent amount - are transactions with high market liquidity. Securities and monetary claims are carried at the fiscal year-end market price, and derivatives such as swaps, futures and options are stated at amounts that would be settled if the transactions were terminated at the consolidated balance sheet date.

■ Interest Rate Risk in Banking Book

Interest rate risk in the banking book fluctuates significantly depending on the method of recognizing maturity of demand deposits (such as current accounts and ordinary deposits which funds can be withdrawn on demand) and the method of predicting early withdrawal from fixed-term deposits and prepayment of consumer loans. Key assumptions made by SMBC in measuring interest rate risk in the banking book are as follows.

1. Method of Recognizing Maturity of Demand Deposits

The total amount of demand deposits expected to remain with the bank for the long term (with 50% of the lowest balance during the past 5 years as the upper limit) is recognized as a core deposit amount and interest rate risk is measured for each maturity with 5 years as the maximum term (the average is 2.5 years).

2. Method of Estimating Early Withdrawal from Fixed-term Deposits and Prepayment of Consumer Loans

The rate of early withdrawal from fixed-term deposits and the rate of prepayment of consumer loans are estimated and the rates are used to calculate cash flows used for measuring interest rate risk.

VaR Results

	Billions of yen			
	Fiscal 2007		Fiscal 2006	
	Trading	Banking	Trading	Banking
Fiscal year-end	**¥2.2**	**¥23.3**	¥2.9	¥47.6
Maximum	**4.3**	**59.3**	4.7	78.9
Minimum	**2.1**	**20.9**	2.1	36.8
Average	**2.8**	**31.3**	2.9	51.6

Notes: 1. The VaR results for a one-day holding period with a one-sided confidence interval of 99.0%, computed daily using historical simulation method based on data collected over a four-year period.
2. Includes principal consolidated subsidiaries.
3. Figures for the trading book exclude specific risks.

■ Operational Risk

1. Operational Risk Equivalent Amount Calculation Methodology

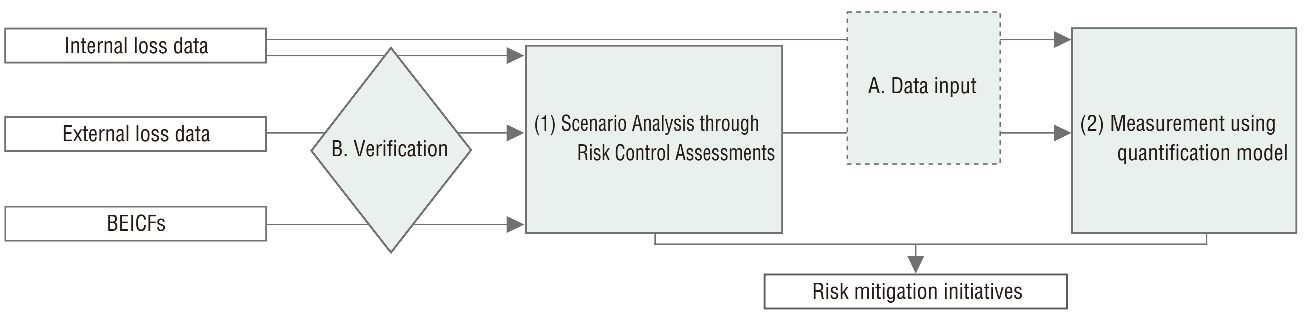
SMFG has adopted the Advanced Measurement Approaches (AMA) for exposures as of March 31, 2008. The following consolidated subsidiaries have also adopted the AMA, and the remaining consolidated subsidiaries have adopted the Basic Indicator Approach (BIA).

Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Card Company, Limited, The Japan Research Institute, Limited, SMBC Friend Securities Co., Ltd., The Japan Net Bank, Limited, SMBC Guarantee Co., Ltd., SMBC Finance Service Co., Ltd., THE MINATO BANK, LTD., SMBC Center Service Co., Ltd., SMBC Delivery Service Co., Ltd., SMBC Green Service Co., Ltd., SMBC International Business Co., Ltd., SMBC International Operations Co., Ltd., SMBC Loan Business Service Co., Ltd., SMBC Market Service Co., Ltd., SMBC Loan Administration and Operations Service Co., Ltd., and Sumitomo Mitsui Banking Corporation Europe Limited.

Further, the following companies that have adopted the BIA are making preparations to adopt the AMA: Kansai Urban Banking Corporation (for exposures as of September 30, 2008), Sumitomo Mitsui Finance and Leasing Company, Limited (for exposures as of March 31, 2009), and QUOQ Inc. (for exposures as of March 31, 2011).

2. Outline of the AMA

An outline of the AMA for operational risk management is described in the section on Risk Management. In this section, we would like to present an explanation of the preparation of data that is input into the quantification model and the verification of scenario assessment using internal loss data, external loss data, and Business Environment and Internal Control Factors (BEICFs). We will also give an outline of the methodology for measuring the operational risk equivalent amount ("required capital") using the quantification model.



(1) Scenario Analysis through Risk Control Assessments

A. Preparation of Data Input into the Quantification Model

In order to estimate the frequency of occurrence of "low-frequency and high-severity" events, which is the purpose of risk control assessment, we estimate the loss frequency in terms of four loss amounts (¥100 million, ¥1 billion, ¥5 billion, and ¥10 billion) for each scenario, then input the total amount by loss event type for each entity, namely, SMFG (consolidated), SMBC (consolidated), and SMBC (nonconsolidated), into the quantification model.

At SMFG and SMBC, by using a different assessment method according to loss event type and organizational classification, we obtain a proper grasp of operational risk profile of the Group. The following section provides typical calculation examples for scenarios of SMBC domestic business offices.

(A) Deriving and Scoring Scenarios

a. Deriving Scenarios

In order to grasp all potential risks of a business/product, we first identify "business processes & /products" stipulated in the "Common Procedures of Operations". Then, we derive all possible scenarios for the generation of a loss event of prescribed magnitude by breaking down the operation process of each "business processes &/ products" into "processing types".

We evaluate each individual scenario on an operation process basis.

Classification of Business, Products and Processing Type (Example)

(Example)

Product	Exchange forward contract
Business	Conclusion of exchange forward contract

Operation process	
(a) Explanation to customer	Explanation
(b) Request for preparation of application form	Receipt and check
(c) Presentation of conditions to customer, conclusion of contract	Agreements and contracts
(d) Conclusion of the deal with Market Operations Promotion Department	Internal transfer
(e) Entry of contract implementation form	System entries
(f) Exchange of forward contract	Issuance, notification and reporting

Processing type	(a) Explanation
	(b) Attribute confirmation
	(c) Receipt and check
	(d) Issuance, notification and reporting
	(e) Internal transfer
	(f) Application, decision and authorization
	(g) Agreements and contracts
	(h) Preparation of vouchers, etc. and making entries
	(i) System entries
	(j) Management during contract period
	(k) Safekeeping, depositing and withdrawal

b. Scenario Assessment

In order to assess scenarios, it is necessary to quantify loss frequency and amount for each scenario. At SMBC, in order to quantify loss frequency for each scenario, we execute risk control assessments on each scenario.

In risk assessment, in order to measure the easiness of loss occurrence in each operation process before taking into account the risk management (control) situation, we set standards for various assessment items - transaction volume, volatility of transaction volume, time limits and so on - and the operation process is scored on how well the standards are met.

Risk Scoring (Examples)

Perspective	Risk Items	What to Assess	Score
Easiness of making an error	(a) Transaction volume	Largeness of annual processing volume	1
	(b) Volatility of transaction volumes	Degree of concentration of processing on specific dates	0
	(c) Time limits	Shortness of deadlines and degree of urgency	2
	(d) Complexity of process	Degree of processing complexity, processing volume per task	1
	(e) Complexity of products	Product complexity	0
Easiness of an error leading to a clerical accident	(f) Deal with outside party	Easiness of error in transferring actual items/funds to customer/other bank leading to loss accident	0
	(g) Booking of business products	Easiness of error in handling of, or in notifying actions to be taken on, products with market risk leading to loss event	0

Control assessment is executed from the perspective of preventive control and detection & recovery control. We set standards for various items - establishment of manuals and procedures, processing authority and pre-process check, post-process check, and so on - and the operation process is scored on how well the standards are met.

Control Assessment (Examples)

Perspective	Risk Items	What to Assess	Score
Design of procedures	(a) Establishment of manuals and procedures	Whether rules/ procedures/etc. have been documented or updated	1
	(b) Details of manuals and procedures	Whether there are rules for accurate processing execution without omissions and whether they are effective (excluding those included in below three risk items)	0
Authority and verification	(c) Processing authority and pre-process check	Assess processing authority, pre-process check	1
	(d) Post-process check	Assess post-process check and accident detection measures (assess only preventive measures)	0
System situation	(e) Degree of system processing	System processing	0

(B) Quantifying Loss Frequency of Each Scenario

a. Generation of "Average Frequency Table" for Domestic Business Offices

To quantify loss frequency for domestic branches, we assume future loss frequency is similar to historical loss frequency. And we generate an average frequency table, which is used to estimate future loss frequency. The average frequency table comprises rows of total risk score and columns of total control score and the number of loss occurrences in a one-year period for each combination of scores is given.

As risk and control assessment items are expected to have different loss occurrence contribution ratios, we analyze their loss occurrence contribution ratios for each assessment item by executing a regression analysis and weight each assessment item.

Average Frequency Table (Example)

(Times/Year)

Total Score		Control					
		～2.0	2.4	2.8	3.2	3.6	4.0
Risk	5.5～	***	***	***	***	***	***
	4.5～5.5	***	***	***	***	***	***
	3.5～4.5	***	***	***	***	***	***
	2.5～3.5	***	***	***	***	2.40	***
	1.5～2.5	***	***	***	***	***	***
	0.5～1.5	***	***	***	***	***	***
	～0.5	***	***	***	***	***	***

b. Quantifying Loss Frequency of Each Scenario

Total risk assessment score and total control assessment score are calculated for each scenario taking into account the weight of each assessment item described above. Then, the loss frequency of each scenario (the number of times the loss event described in the scenario occurs during a one-year period) is estimated using the average frequency table.

(C) Quantifying Loss Amount for Each Scenario

In order to quantify the loss amount for each scenario, we generate loss distribution for each "business process & product" by using the historical transaction data of SMBC. Specifically, we assume that the historical transaction volume follows a logarithmic normal (log-normal) distribution for each "business process & product" and generate the log-normal distribution.

(D) Estimating the Frequency of Occurrence of the "Low-Frequency and High-Severity" Events

In order to estimate the probability of occurrence in terms of four loss amounts (¥100 million, ¥1 billion, ¥5 billion, and ¥10 billion) for each scenario, we use a cumulative distribution function estimated for each scenario.

Because we assume the log-normal distribution to each "business process & product", in case one loss event occurs in a one-year period, maximum potential loss is the cumulative distribution function based on log-normal distribution. Therefore, in this case, we estimate the probability of occurrence of four loss amounts by substituting each loss amount for the maximum loss amount of cumulative distribution function.

In case that one loss event occurs in a one-year period, the method described above is followed. However, in case that several numbers of loss events occur in a one-year period, it is conceivable that the events occurred independently of each other. Therefore, the probability of occurrence of several loss events can be calculated by the probability of one loss event raised to the power of its loss frequency.

As we quantify the loss frequency for each scenario using the average frequency table,we are able to estimate the probability of four loss amounts by the probability raised to the power of loss frequency derived from the frequency table.

After estimating the loss frequency in terms of the four loss amounts for each scenario, we sum results for each loss event type and input them into the quantification model for SMFG (consolidated), SMBC (consolidated), and SMBC (nonconsolidated).

B. Verification of Scenarios Using Three Data Elements

At SMFG and SMBC, the verifications of the assessments of scenarios using internal loss data, external loss data, and BEICFs (hereinafter, "3 data elements") is implemented quarterly. Specifically, SMFG and SMBC use these data and information and use them to determine, on a quarterly basis, whether there are any scenarios that have been omitted and whether the assessments of the scenarios are appropriate to ensure the completeness and appropriateness of the scenarios.

(A) Reassessment of Scenarios Using Internal Loss Data

Both SMFG and SMBC, in principle, compile internal loss data on all gross loss amounts of at least one yen. From the data, internal loss data which fulfill the established criteria are drawn, and the content of the related loss events is considered; then, a judgment is made regarding whether or not to review the scenario in question. Specifically, we pose a number of issues to consider, such as whether the scenario exists at SMBC, and, if so, whether the deviation between the actual loss and the assessed value of the scenario is within the tolerance range. In considering these issues, we follow a set pattern of logical reasoning in making a decision on whether the scenario should be revised.

When we decide it is necessary to revise the scenario, we make a reassessment based on the internal loss data. In this process, we consider redeveloping and reassessing the scenario and other related matters to ensure that the internal loss data is properly reflected in the scenario.

(B) Reassessment of Scenarios Using External Loss Data

At SMFG and SMBC, we have a database containing more than 5,000 cases of external losses that have been taken from the mass media, including newspapers, and purchased from data vendors. A framework has been created to enable the sharing of this database across the Group.

From this database, we draw external loss data which fulfill the established criteria, and the content of the related loss events is considered; then, a judgment is made regarding whether or not to revise the scenario in question. Specifically, we pose a number of issues to consider, such as whether the scenarios in question exist at SMBC, and, if so, whether the deviation between the actual loss and the assessed value of the scenario is within the tolerance range. In considering these issues, we follow a set pattern of logical reasoning in making a decision on whether the scenario should be reviewed.

When we decide it is necessary for the scenario to be reviewed, we make a reassessment based on the external loss data. In this process, we consider deriving and reassessing the scenario and other related matters to ensure that the external loss data is properly reflected in the scenario.

(C) Reassessment of Scenarios using BEICFs

At SMFG and SMBC, we compile data related to changes in laws and regulations, changes in internal rules, policies and procedures, and new business, products and process, all of which are business environment and internal control factors (BEICFs). We use this information to consider periodically whether our scenarios should be reconsidered, and, even for events other than those listed previously, when major changes occur in the business environment, our systems provide, as necessary, for the consideration of whether scenarios should be revised.

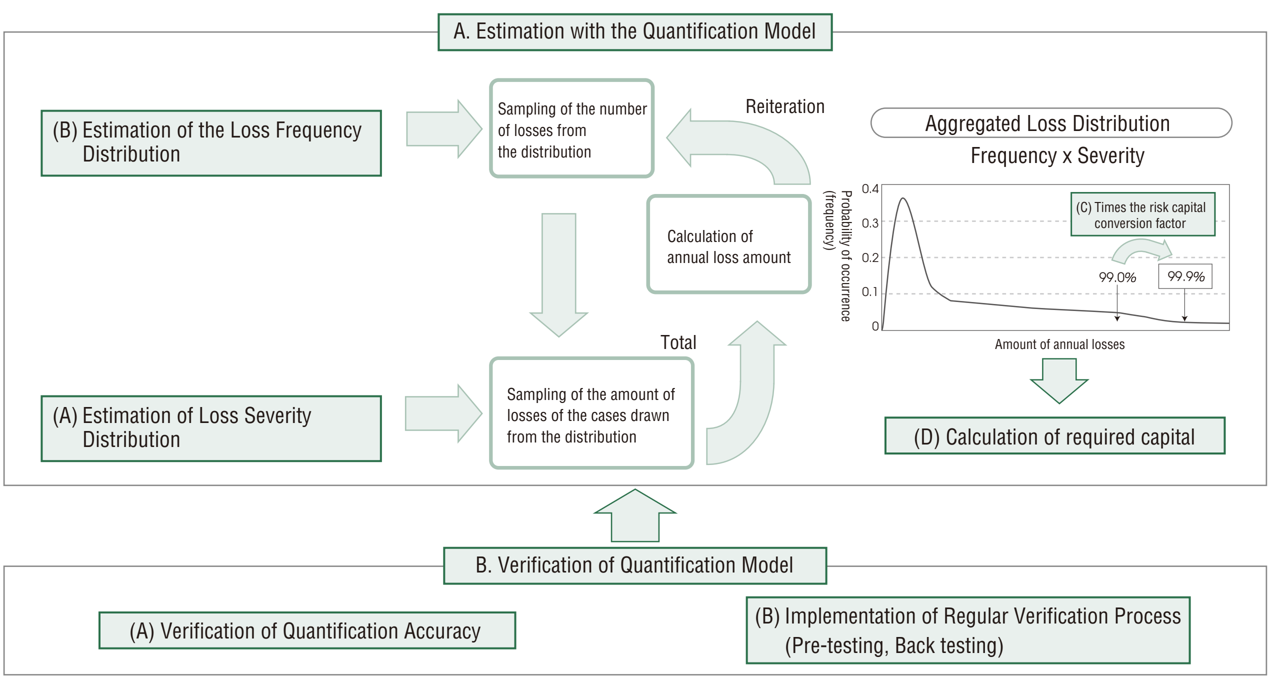
When we decide it is necessary for the scenario to be reviewed, we make a reassessment based on the information related to changes and other factors in BEICFs. In this process, we consider redeveloping and reassessing the scenario and other related matters to ensure that the changes in BEICFs are properly reflected in our scenarios.

(2) Measurement using Quantification Models

When calculating operational risk using the quantification model, firstly, we input seven-year historical internal loss data and the data on the frequency of "low-frequency and high-severity" events in terms of four loss amounts, which have been estimated through risk control assessments, and generate a loss distribution. Secondly, we use this distribution to estimate the maximum loss amount with a 99.0 percentile confidence interval (hereinafter referred to as 99.0% VaR). Thirdly, we multiply this maximum loss by a number, which we call "the risk capital conversion factor", to estimate 99.9% VaR.Finally, we calculate required capital by using a multiplier that has been determined based on the number of times in which actual losses have exceeded predicted losses through the use of back testing. In estimation of the aggregated loss distribution, we need to estimate the loss severity and frequency distribution.

In addition, we confirm whether the quantification model is functioning appropriately and conservatively in measuring operational risk by implementing various types of sensitivity analysis and verification tests.

The following chart puts the main points of this quantification method in order and explains how the results of measurement are verified.



A. Measurement using the Quantification Model

(A) Estimation of Loss Severity Distribution

a. Smoothed Bootstrap Method

We employ the “smoothed bootstrap” method for generating the loss distribution.The smoothed bootstrap method is one of the methods that connect the distribution, of the realized risk and the potential risk event, smoothly. Under this method, no assumptions are made about the shape of the distribution as a whole, but assumptions are on the individual distribution related to realized individual losses. Therefore, this method takes advantage of the widely known parametric method as well as the non-parametric one.

Under the non-parametric method, if we use historical internal loss data to generate the loss severity distribution, we are not able to create the samples outside the actual observation points, and also it is particularly difficult to create a distribution with a fat tail. However, through the use of the method that can combine such data (on actual observations) with data on potential risks, it becomes possible to create large losses that occur rarely (with a potential impact) and that have not actually been found in historical internal loss data. In generating the distribution, while “high-frequency low-severity” events are based on sufficient historical internal loss data volume, for “low-frequency high-severity” events in the tail of the distribution, the historical internal data volume is insufficient. This approach makes it possible to reflect the severity (frequency of occurrence) of potential risk that has been assessed in the risk control assessments. In this way, using this model, realized risks and potential risks can be combined with congruity.

In estimating the loss distribution under this method, the Kernell function is applied to the loss data to derive “Kernell estimate” by the pile-up of functions. In particular, the log-normal distribution is applied as the Kernell function.

b. Supplementing Results of Risk Control Assessments with Extreme Value Theory

In order to capture potential risks, a statistical method known as Extreme Value Theory is used in addition to the results of risk control assessments. Extreme Value Theory is the statistical assessment method by which risks that may occur in the future accompanying larger losses than the actually observed ones in the internal loss data can be quantified, and fulfills the role of supplementing the risk control assessments.

Gaining a grasp of realized risk

Collection of internal loss data

(Example)

Loss occurrence for the last 7 years (or period actually collected)

Period	Amount of loss
2003 / 1H	5,000,000
2004 / 1H	10,000,000
2005 / 1H	8,000,000
2005 / 1H	15,000,000
2005 / 2H	7,000,000
…	…

Capturing potential risks

Statistical estimates from internal loss data (Extreme Value Theory)

Estimates from risk control assessments

(Example)

Estimates of potential risk that may emerge

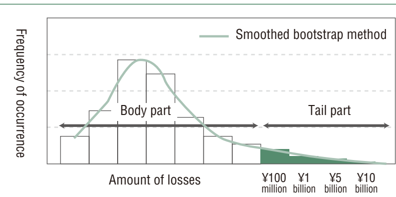
Amount of loss	Frequency of occurrence
¥100 million or more	Once in 5 years
¥1 billion or more	Once in 10 years
¥5 billion or more	Once in 50 years
¥10 billion or more	Once in 100 years

Body part of the “high- frequency low- severity” loss severity distribution

Tail part of the “low- frequency high- severity” loss severity distribution

Combination of the loss severity distributions

Smoothed bootstrap method



(B) Estimation of Loss Frequency Distribution

The Poisson distribution is used for generating the loss frequency distribution. To estimate the Poisson distribution, it is necessary to estimate the average number of annual losses, but in this model, we do not simply take the annual average of all cases of losses for the entire period (several fiscal years) but instead, estimate the annual average number of loss cases for each fiscal year individually. Through this approach, we are able to take account of the deviations in the historical incidence of losses for different periods and are able to estimate loss cases that may occur in the future more appropriately.

(C) Risk Capital Conversion Factor γ

We calculate 99.0% VaR from the estimated aggregated loss distribution, and then multiply the risk capital conversion factor γ (gamma) in order to compute 99.9% VaR. By introducing γ it is unnecessary to estimate 99.9% VaR directly which can be estimated with lower accuracy, and it provides with stable estimation results by estimating 99.0% VaR which can be estimated with higher accuracy.

The factor γ means the ratio between 99.9% VaR and 99.0% VaR. In other words, it is the risk profile of the loss distribution and an indicator for the characteristics of the tail part of the distribution. The risk profile of the loss distribution is different for each loss event type, by which the calculation is performed. In addition, we have verified statistically that it could differ among SMFG (consolidated), SMBC (consolidated), and SMBC (nonconsolidated). To reflect their characteristics, we set a different value of γ for each entity. There is a tendency for γ to become smaller, etc., when there is a distribution of large expected losses or when the tail of the distribution is highly dense.

When setting γ initially, we conduct an analysis, taking into account the possibility of changes in the risk profiles of many types of loss distributions, and set values that maintain the stability and the conservativeness of capital. In addition, we assess changes in the risk profiles of the most recent loss distributions, including the present one, and, when changes are above a certain level, we conduct a review of the γ values. This makes it possible to keep values of γ appropriate to changes in the risk profile of the loss distribution and calculate stable values of required capital.

(D) Calculation of Required Capital

We calculate required capital by multiplying the 99.9% VaR calculated in the previous section by the multiplier for each loss event type that has been determined based on the number of breaches in back testing. As will be mentioned later, back testing is conducted periodically, and, when realized risk is found to be greater than the risks estimated with the quantification model (back testing excess), we take necessary steps, such as multiplying by the multiplier determined through prior analysis, to maintain the conservativeness of required capital estimates.

We then added the required capital amounts calculated for each loss event type to compute the required capital for SMFG (consolidated), SMBC (consolidated), and SMBC (nonconsolidated).

Please note that in calculating required capital, we do not subtract expected losses.

B. Verification of the Quantification Model

We conduct a range of sensitivity and verification tests to ensure that the measurement results of the quantification model are appropriate (quantification accuracy) and to confirm that our model is capable of measuring the amounts corresponding to the maximum losses from operational risk that may be incurred for a one year holding period, with a one-sided 99.9 percentile confidence interval. In the following paragraphs, we would like to explain the methods for assessing the quantification accuracy of our measurements and the framework we have in place for regular verifications.

(A) Verification of Quantification Accuracy

We have confirmed the reliability of the quantification model through a verification process from various perspectives. Specifically, we obtain a quantitative grasp of the possibilities for variation in measurement results that may arise from preconditions or assumptions made at the time the models were designed. In particular, we assess the possibilities for underestimating required capital and the possible magnitude of such underestimates. Then, in our periodic verification framework, which is described below, we make analyses of how to compensate for such underestimates. We apply our understanding of the possibilities for underestimation to the multiplier derived from back testing, and, if the accuracy of the quantification model deteriorates, we introduce a framework for making adjustments in the multiplier to avoid underestimating the amount of required capital.

(B) Implementation of Regular Verification Process

To confirm the appropriateness of the quantification model on a continuing basis, we conduct a regular verification process. Specifically, there are two types of verifications. One is back testing, which enables us to make a comprehensive judgment on the appropriateness of measurement results, and the other is pre-testing, in which we verify the accuracy of the quantification model prior to conducting actual measurements. In the following paragraphs, we present an explanation of these two test types.

a. Back Testing

In conducting back tests, we compare the estimates made by the quantification model with the maximum loss arising from business activities to verify on an ex post fact basis whether the measurement results obtained from the model are conservative enough and appropriate. When actual losses become greater than the losses estimated by the model (actual losses exceed the estimate when back tests are conducted), we apply the multiplier factor in accordance with the number of excesses in order to ensure conservativeness of quantification results.

Back testing is a well-known method for verifying comprehensively the appropriateness of VaR (statistical) models. We employ the test to obtain the maximum loss amount with the given confidence interval which the tests work effectively. By comparing the test results with the losses that actually occur, we increase the effectiveness of back testing.

b. Pre-testing

Pre-testing is conducted periodically, prior to use of the model for actual measurements, to verify whether the possibility of underestimation is increasing (model risk is rising), since it is possible that the multiplier used in back testing may lead to underestimation. As a result of pre-test verifications, we are able to confirm, on a continuing basis, whether the multiplier used in back testing are conservative enough or whether model risk is emerging.

3. Usage of Insurance to Mitigate Risk

SMFG had not taken measures to mitigate operational risk through insurance coverage for exposures as of March 31, 2008.

4. Required Capital by Operational Risk Measurement Method

The amount of required capital to cover operational risk by measurement method was as follows for exposures as of March 31, 2008.

(¥ billion)

	Amount of Required Capital
Advanced Measurement Approaches	224.5
Basic Indicator Approach	43.7
Total	268.2