

LEAD THE VALUE

**Merrill Lynch Japanese Financial Conference**

**“Short Term View / Long Term View”**

**Sumitomo Mitsui Financial Group, Inc.**

Teisuke KITAYAMA, President



**SMFG**

**September 11, 2007**



## Today's Agenda

LEAD THE VALUE

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# 1. Medium-term Management Plan

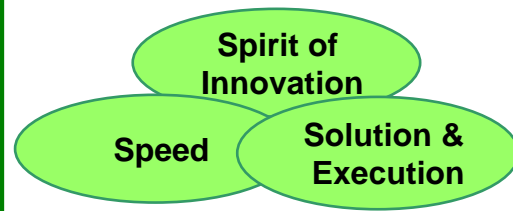
FY 2007-2009

## “LEAD THE VALUE” Plan

Aim for “a globally competitive financial services group with the highest trust” by maximizing our strengths to LEAD THE VALUE

To LEAD the competition in creating and delivering customer VALUE

Our strengths  
(Sources of corporate value)



### Strategic initiatives

- ✓ Strengthen targeted growth business areas

“7 growth areas”

- ✓ Fortify platform for supporting sustainable growth

### Management targets

- ✓ Aim for top quality in growth business areas
- ✓ Realize solid financial base as a global player
- ✓ Increase return to shareholders (realize payout ratio of more than 20%)

### Financial targets for FY 2009 (SMFG consolidated)

Net income	: JPY 650 billion
Net income RORA	: Approx. 1%
Tier I ratio	: Approx. 8%
Overhead ratio (SMBC non-consolidated)	: 40-45%

ROE (SMFG consolidated) : 10-15%



# 1-1. Capital Policy and Return to Shareholders

FY2007-2009

FY2010 -

“Top quality in growth business areas”

To become one of the “top global financial services groups”

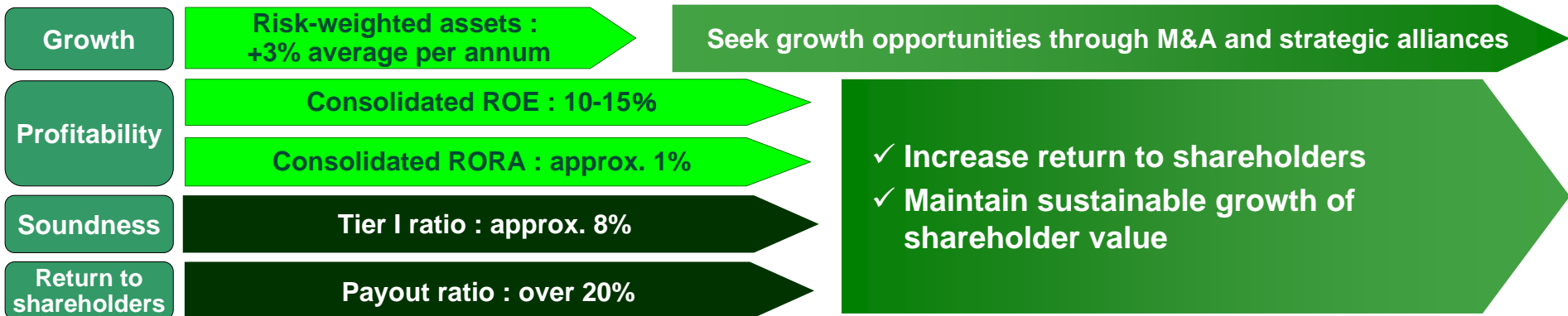
Steps for sustainable growth

Strengthen growth businesses and establish platform to leap forward

Further improve and expand competences acquired through strengthening growth businesses

Establish a solid position as a global player leveraging core competences

Steps in capital strategy





## 1-2. Growth Strategy of Medium-term Management Plan

### Top-line profit growth

- ✓ +14% CAGR in SMFG consolidated net business profit  
FY2006: JPY 924.2 billion ► FY2009: JPY 1,360 billion
- ✓ Strengthen targeted “seven growth areas”

### Active allocation of management resources

- ✓ Increase budgeted investments and expenses  
Expenses in FY 2009 (plan) : Increase by JPY 115 billion from FY2006\*
- ✓ Cost competitiveness will be maintained  
Overhead ratio: 40-45%\*

### Seek opportunities for inorganic growth

- ✓ Actively promote strategic alliances in growth business areas

\*SMBC non-consolidated basis



# 1-3. Top-line Profit (Organic Growth)

SMFG consolidated net business profit:

FY2006 JPY 924.2 bil.



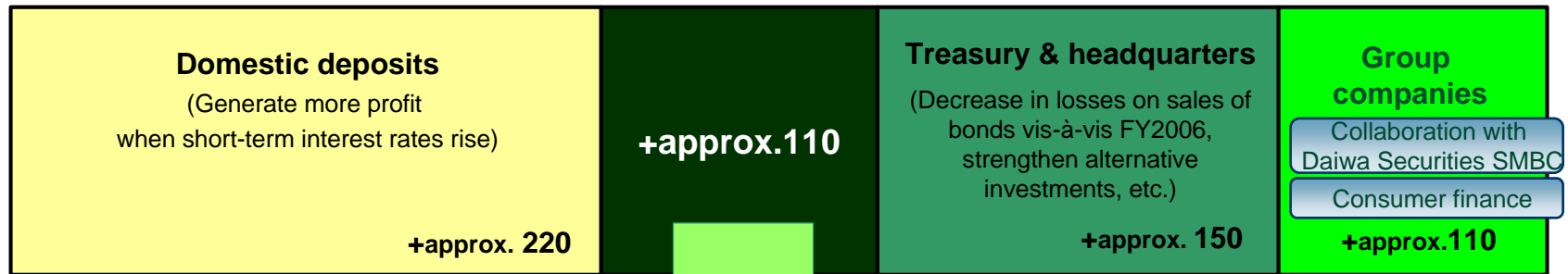
FY2009 Plan JPY 1,360 bil.

**CAGR: +14%**

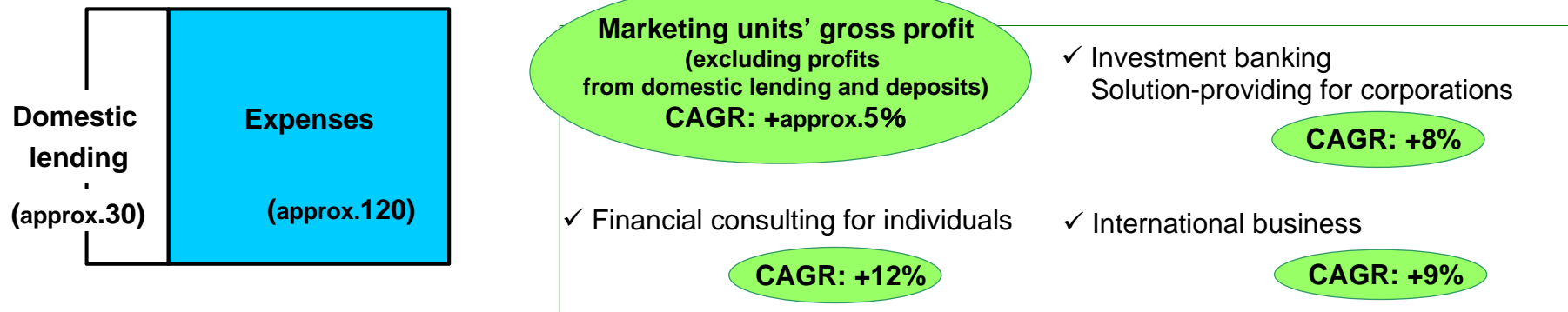
**+JPY 440 billion**

(Billions of yen)

Factors of profit increase



Factors of profit decrease



(Note) Economic assumptions: Exchange rate \$1 = JPY 115

	FY2007	FY2008	FY2009
3 month TIBOR (average)	0.72%	1.12%	1.16%
10 Year Swap (average)	1.87%	2.10%	2.12%
Nominal GDP growth (annual)	2.5%	2.9%	2.4%



## 1-4. “Seven Growth Areas”

### Financial consulting for individuals

- ✓ Expand product line-up in response to deregulation
- ✓ Increase marketing channels & financial consultants

### Solution providing for corporations

- ✓ Further promote “solution providing business”
- ✓ Strengthen capability to nurture growth companies including equity investments

- ✓ Strengthen business areas such as private banking and business succession consulting where needs of individual and corporate customers co-exist

### Payment & settlement service Consumer finance

- ✓ Strengthen credit card business and consumer finance business through strategic alliances

### Investment banking Trust business

- ✓ Strengthen investment banking business which includes collaboration with Daiwa Securities SMBC
- ✓ Move into new business frontiers opening up as trust-related laws were revised

### Focused business areas in global markets

- ✓ Enhancing specific industries with high growth potential, strategies in high growth areas, and specific products with competitive edge

### Proprietary investment

### Credit derivative, trading & distribution (Structuring and distribution of risks)

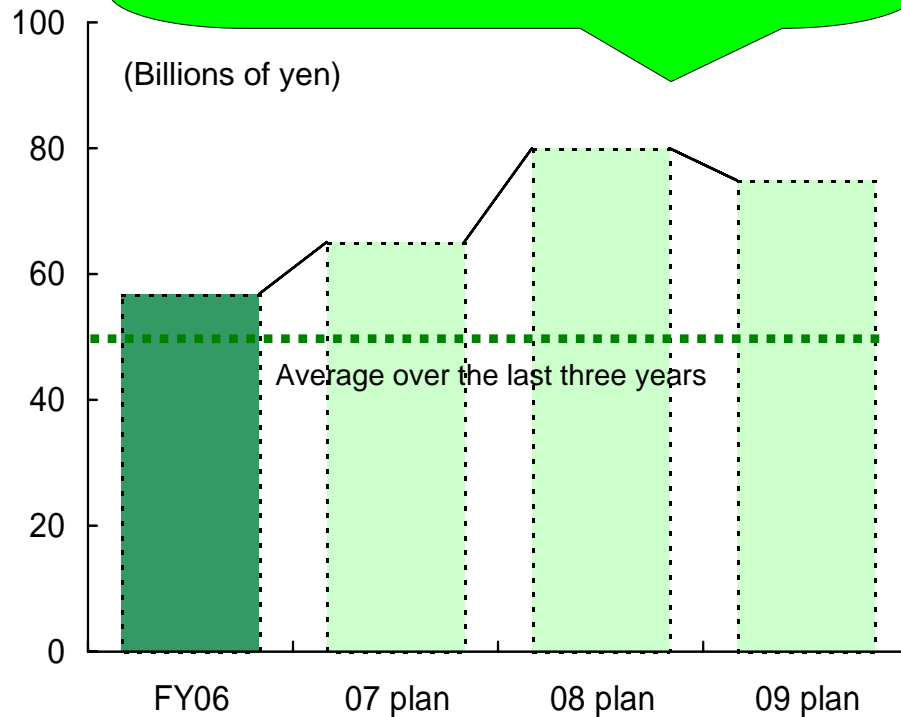


# 1-5. Active Allocation of Management Resources (1)

## – Increase Investments in IT system and Operational Infrastructure

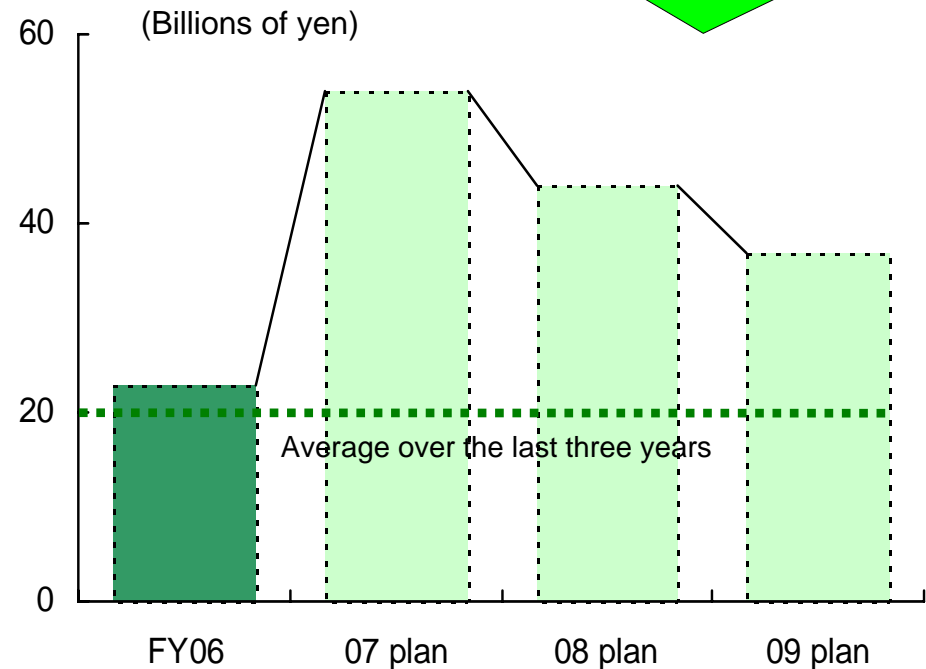
### IT system

- ✓ Plan to invest in growth business areas for IT system, compliance and operational efficiency
- ✓ Total amount of investment for 3 years: JPY 220 billion (+70 billion to total of last 3 years)



### Operational infrastructure

- ✓ Expand marketing channels and facilities to improve CS and service level
- ✓ Total amount of investment for 3 years: JPY 135 billion (+75 billion to total of last 3 years)



(SMBC non-consolidated)

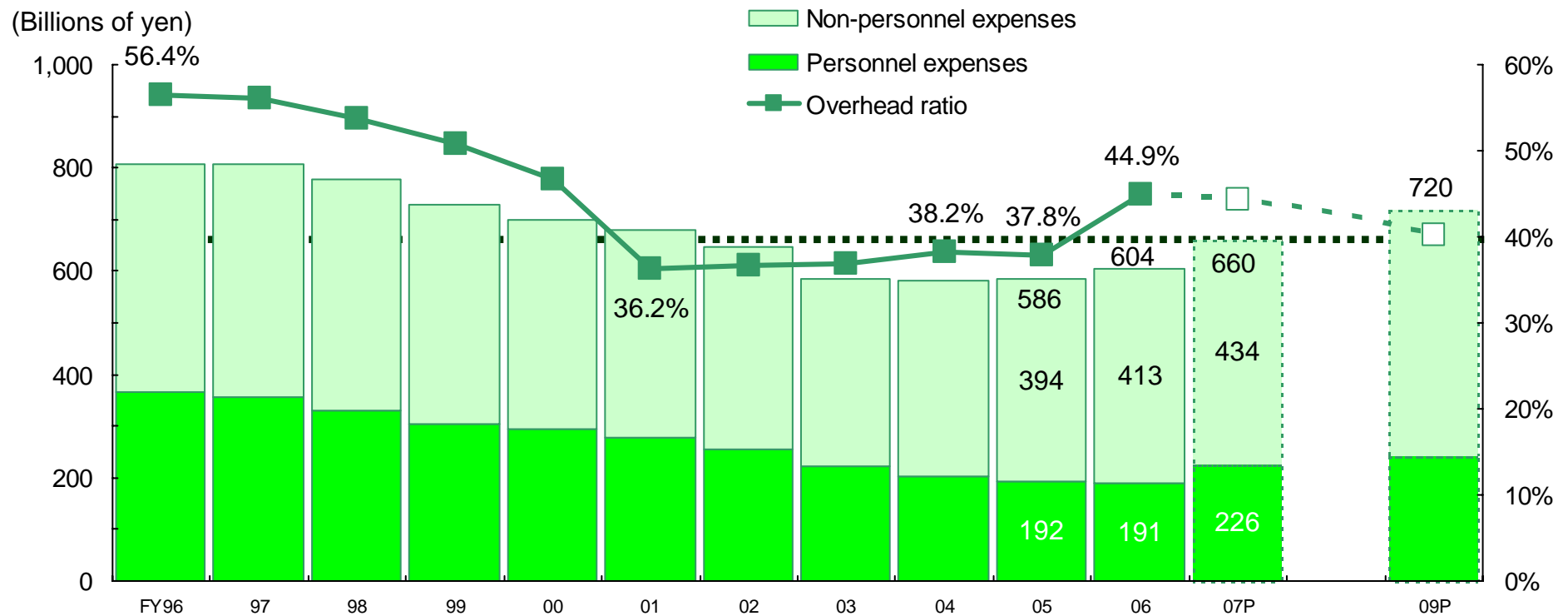




## 1-5. Active Allocation of Management Resources (2)

### — Increase Budgeted Operating Expenses

- ✓ Expenses in FY 2009 will be increased by JPY 115 billion (personnel: 50 billion, non-personnel: 65 billion) including investment to human resources
- ✓ Cost competitiveness will be maintained (targeted OHR : 40-45%)

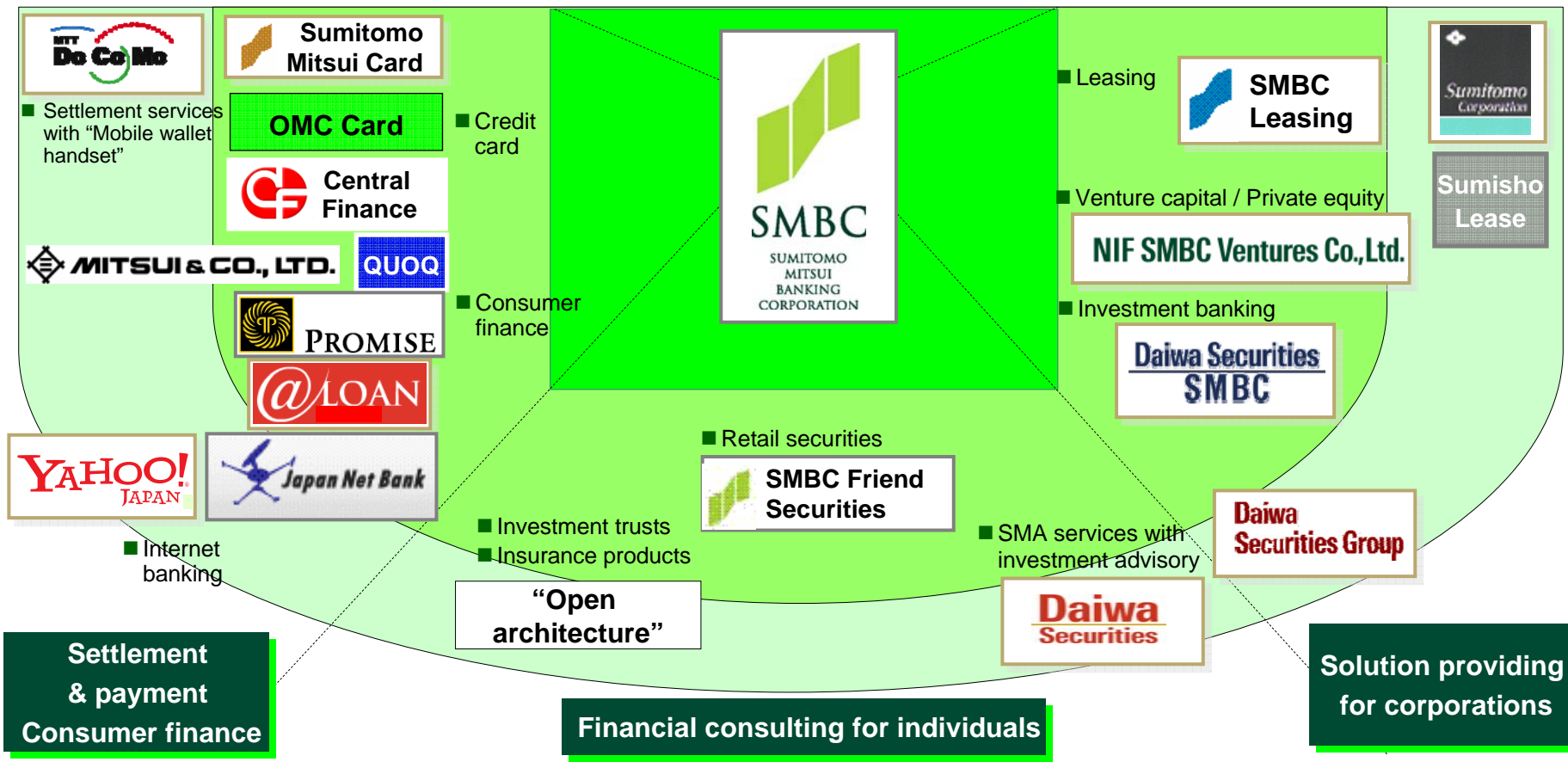


(Note) FY2000 and before: aggregated figures of former Sakura Bank and Sumitomo Bank

(SMBC non-consolidated)


# 1-6. Seek Inorganic Growth Opportunities

Accelerate growth as “a global financial services group” by actively promoting alliance strategies



## 2. Strategy on Consumer Finance

### Credit card business

- ✓ Credit card market expected to remain on growth track (Diversifying payment and settlement technologies)
- 
- ✓ Seeking to establish “the number one credit card group in Japan” by forming alliances with companies with different expertise, customer base and network

Strategic alliance  
with OMC Card

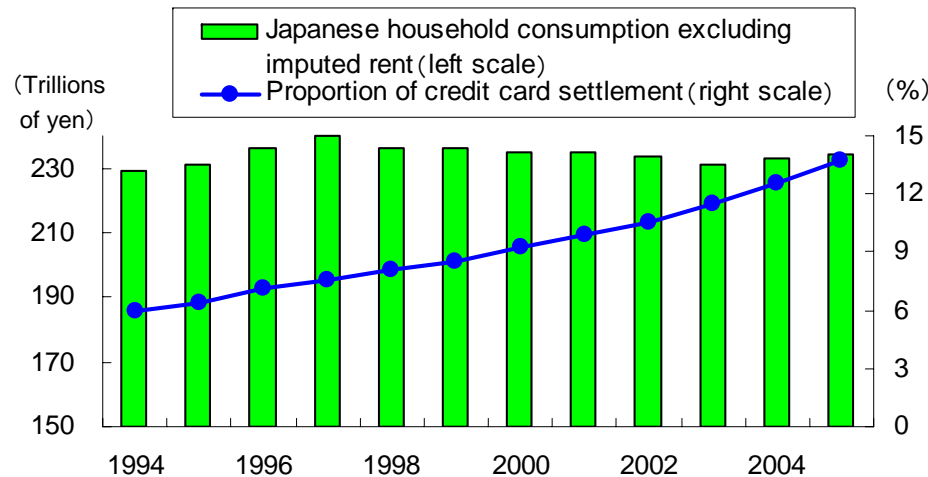
Strategic alliance  
with Central Finance

### Consumer finance business

- ✓ Capture business opportunities in “medium-risk medium-return segment” of consumer finance market which is expected to remain firm despite shrinking overall market
- 
- ✓ Strengthen consumer finance business centered on strategic alliance with Promise Co., Ltd.

## 2-1. Credit Card Business Environment

### Market size\*



**The market is expected to continue growing supported by diversification of settlement technologies, growth of service acceptances and other favorable factors**

### Business environment

- ✓ **Investment in IT system increasing**
  - More sophisticated customer needs
  - Providing new technologies and services such as E-money
  - Greater fortification of user security
- ✓ **Business environment changing as related laws are revised**
  - Revision of the Money Lending Business Control and Regulation Law, etc.

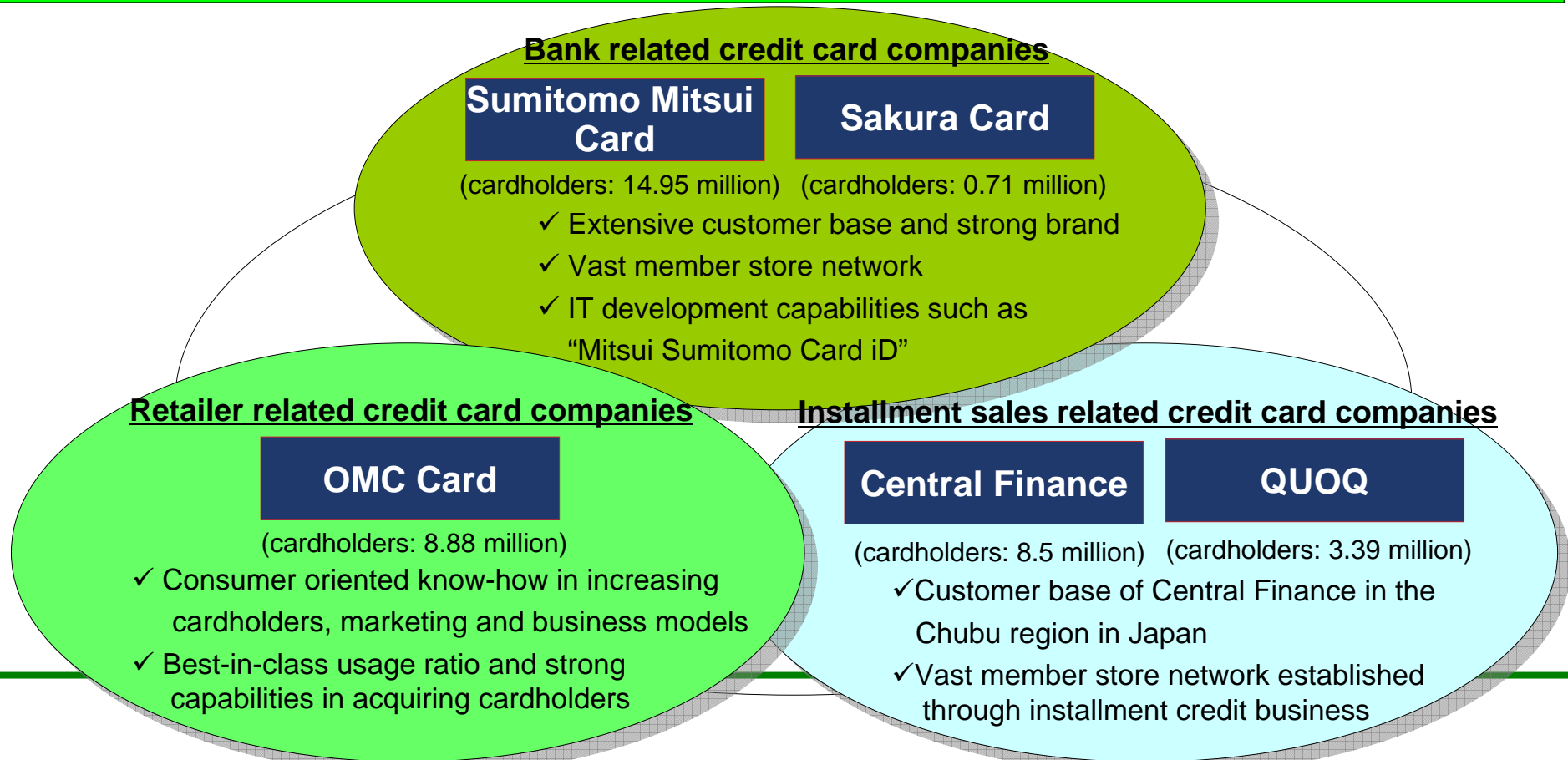
**Need to strengthen competitiveness and enhance operating efficiency**

- Increase market share and strengthen cost competitiveness through alliances

\* Source: "SNA," Cabinet Office of Japan, "Statistics on Japanese Consumer Credit," Japan Consumer Industry Association  
Amount of credit card settlement is based on card sales amount handled

## 2-2. Active Development of Strategic Alliances in Credit Card Business

- ✓ Combine expertise, customer base, network and brand image of alliance companies
- ✓ Examine to strengthen cost competitiveness by developing shared services on IT, middle/back offices, etc.
- ✓ Capture opportunity to realize group-wide business growth by leveraging wide range of customers and settlement functions





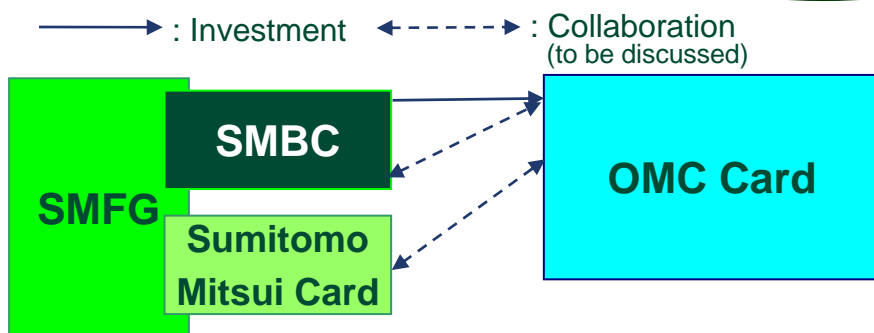
## 2-3. Strategic Alliances with OMC Card and Central Finance

### Strategic alliance with OMC Card

Announced in July 2007

Discuss consolidation and strengthening of brand strategy, card issuing and member-store acquiring, and reorganization of group related businesses of SMFG and OMC

By Feb. 2008



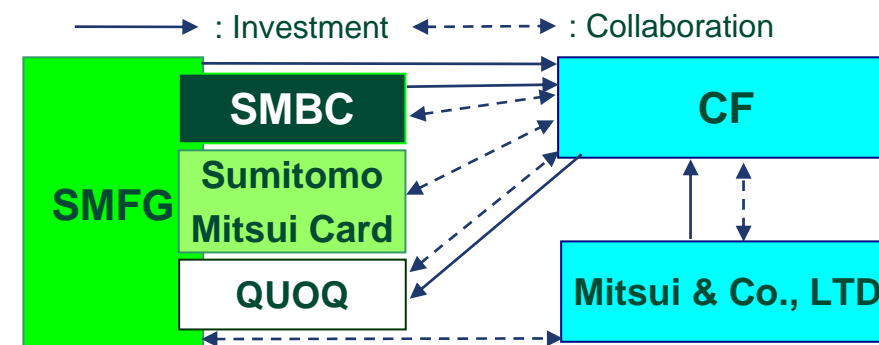
SMFG Group

Voting rights: 32.62% Purchase amount: approx. JPY 74.8 billion \*1

### Strategic alliance with Central Finance (CF)

Announced in Apr. 2007

Further develop consumer finance business by leveraging SMFG's group-wide expertise (card, installment finance) and customer base, CF's franchise (network of member retailers) and Mitsui & Co., LTD.'s retail franchise



SMFG Group

Voting rights: approx. 20% Purchase amount: approx. JPY 19.4 billion \*2

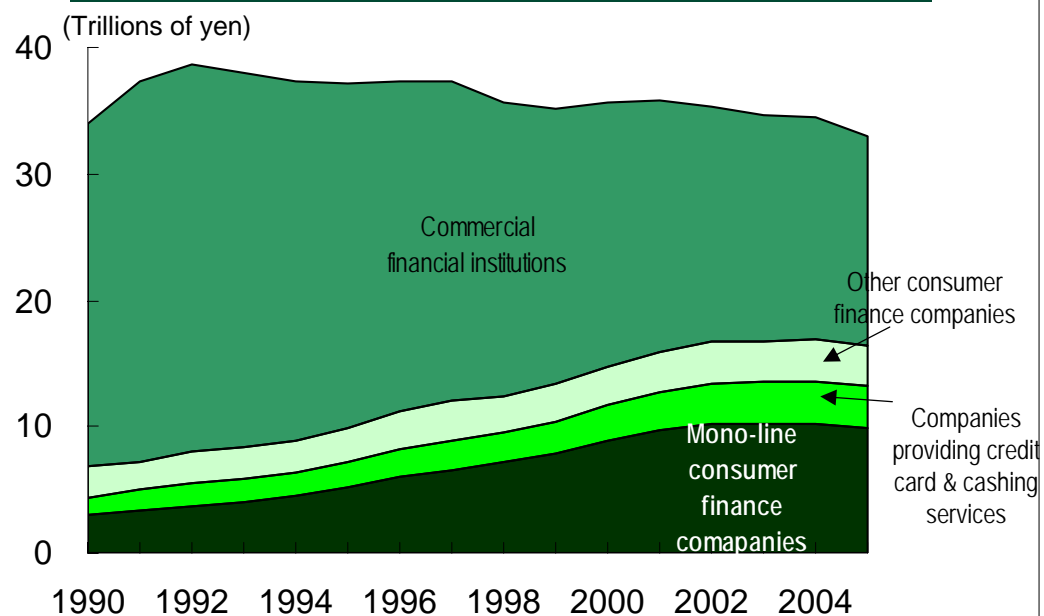
Expected Synergies (examples)	✓ Top-line synergy	⇒ Share marketing channels, products and services	▶ Developing medium to long-term strategy of SMFG group to maximize synergies
	✓ Cost synergy	⇒ Integrate back offices and IT systems	

\*1 Voting rights: After termination of comprehensive securities and money trust    Purchase amount: Includes both common shares and money trusts

\*2 Voting rights: After conversion of acquired convertible bonds into common shares    Purchase amount: Includes both common shares and convertible bonds

## 2-4. Consumer Finance Business Environment

### Market size\*



Though the overall market is expected to shrink due to the regulatory reform in the market, consumer needs for sound borrowing are expected to remain firm.

### Business environment

- ✓ **Business environment changing significantly**
- Reduction of maximum interest rate and implementation of aggregate debt control due to regulatory reform of money-lending business
- Claims for refund of overpayment of interest

### Strengthen competitiveness in “medium-risk medium-return segment”

- Strengthen cost competitiveness
- Improve brand strategy
- Acquire and retain high quality customers
- Refine channel network
- Diversify profit sources

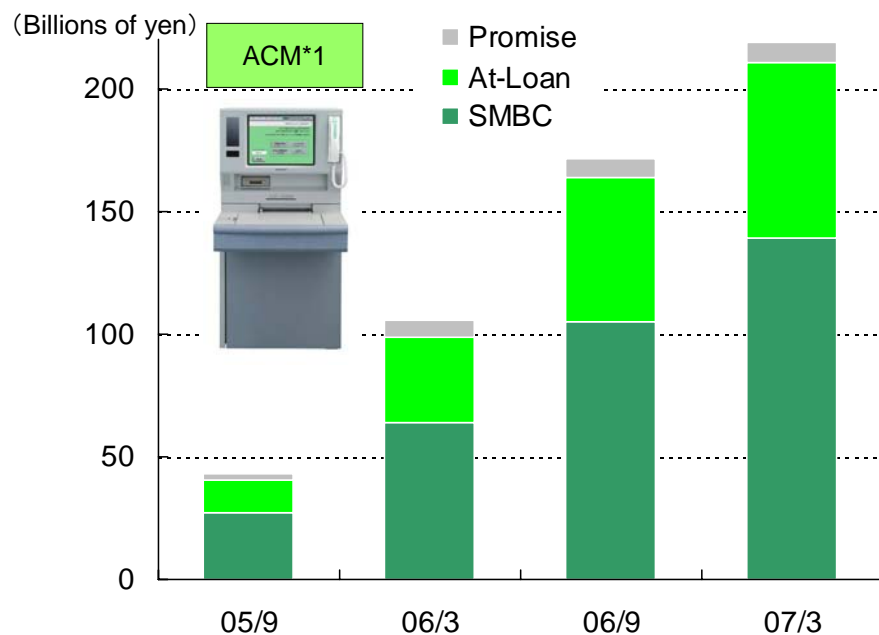
\* Source: “Statistics on Japanese Consumer Credit,” Japan Consumer Industry Association

## 2-5. Strategic Alliance with Promise

- ✓ Further develop businesses under the strategic alliance with Promise Co., Ltd. in order to establish competitive advantage in the “medium-risk medium-return segment”
  - ▶ Combining SMBC’s brand and channel network and Promise’s credit know-how

### Balance of loan through collaboration

Since Apr. 2005



### <Reference> Recent topic on Promise

#### Management integration between Promise and Sanyo Shinpan

Announced in Jul. 2007

Promise

TOB \*2

Sanyo Shinpan

(Loan balance : approx. 1.5 trillion yen)

(Loan balance : approx. 0.5 trillion yen)

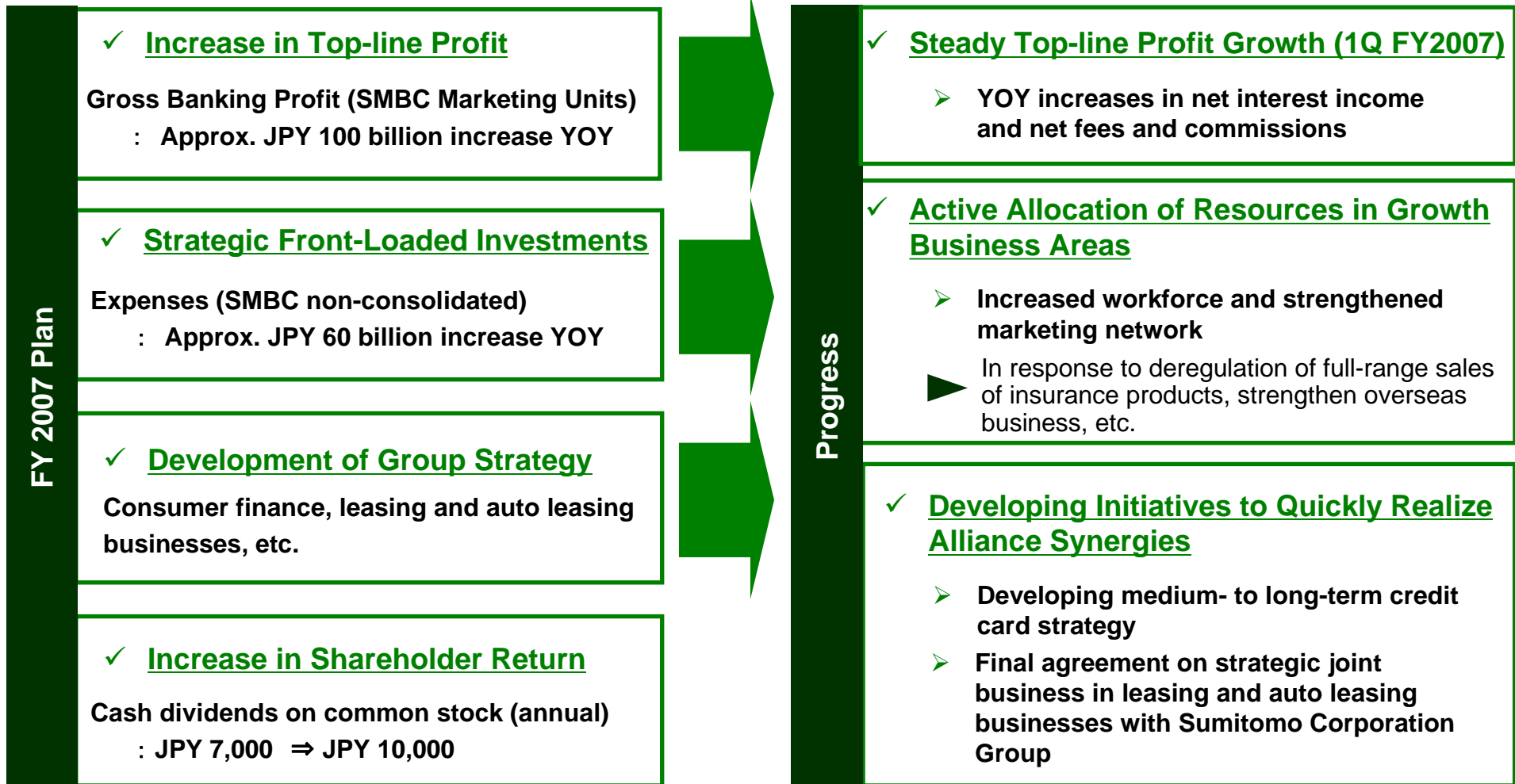
- ✓ Strengthen revenue base through expansion of customer base and marketing channels
- ▶ No. 1 loan balance on a combined basis in industry
- ✓ Strengthen cost competitiveness through elimination of duplications in branch networks, integration of customer service centers and headquarters, implementation of shared systems, etc.

\*1 Automatic Contract Machines: 623 machines as of March 31, 2007

\*2 Tender offer period: August 13 through September 13, 2007



### 3. FY2007 Plan and its Progress





### 3-1. Summary of 1Q FY2007 Earnings Results

✓ Overall results were in line with forecast  
 ▶ Top-line increased steadily YOY. Bottom-line also increased YOY, if exclude the effect of “gains on return of securities from retirement benefits trust” (36.3 billion yen) in FY2006

	1Q FY2007 Results	YOY change	FY2007 Forecast*2	FY2006 Results
<b>[SMFG consolidated]</b>				(Billions of yen)
Gross profit	481.3	+96.1	-	1,906.2
Ordinary profit	195.0	+63.3	980	798.6
Net income	119.7	(0.4)	540	441.4
<b>[SMBC non-consolidated]</b>				
Gross banking profit	329.0	+74.2	1,490	1,344.5
Expenses	(165.8)	(14.5)	(660)	(603.9)
Banking profit*1	163.2	+59.7	830	740.6
Total credit cost	(39.1)	(8.8)	(90)	(89.5)
Ordinary profit	109.3	+35.9	700	573.3
Net income	73.8	(2.6)	410	315.7

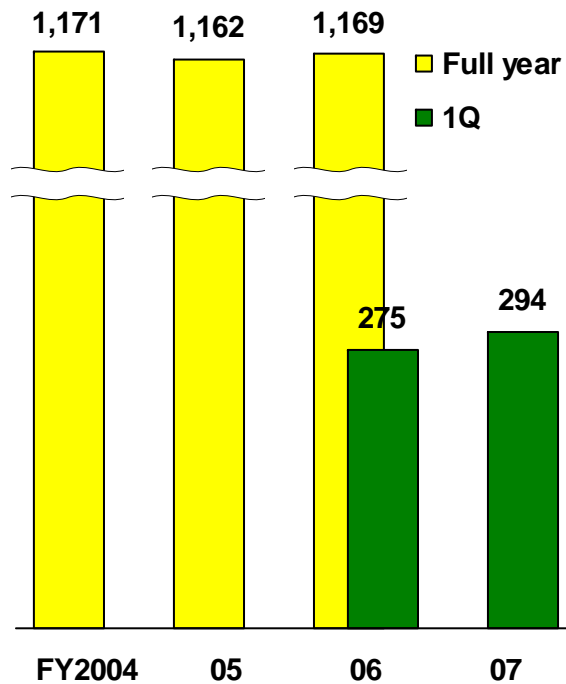
\*1 Before provision for general reserve for possible loan losses    \*2 Announced on May 21, 2007



### 3-2. Gross Profit (Net Interest Income)

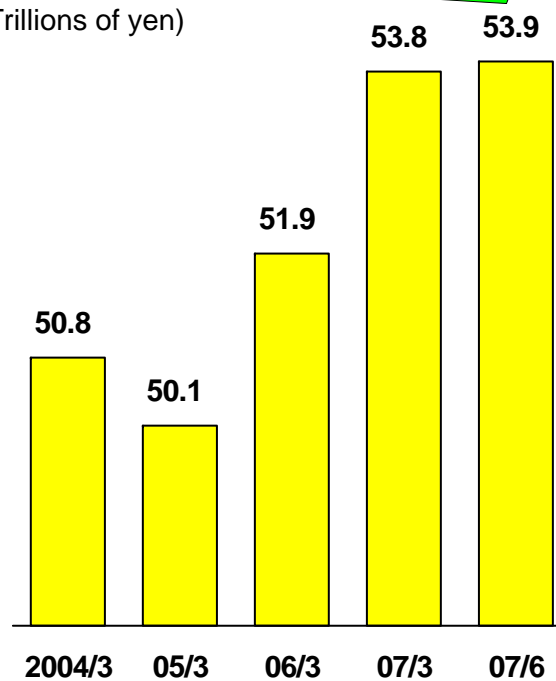
#### Net interest income\*1

(Billions of yen)



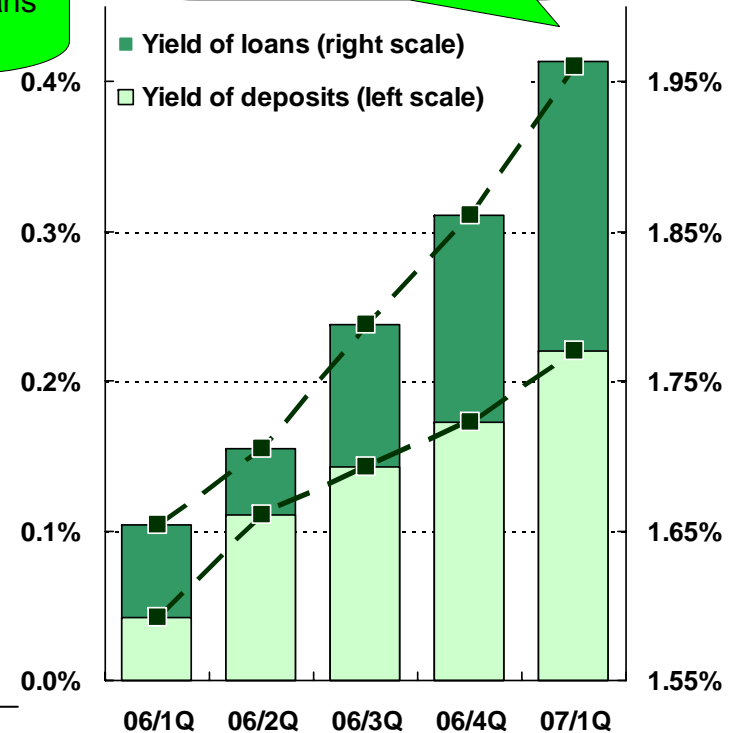
#### Loan balance\*2

(Trillions of yen)



#### Loan to deposit spread <domestic>\*2

Effect of BOJ's hike in policy interest rate in Feb. 2007



Overseas: Increased ⇒ Working capital funding for clients with high credit ratings, etc  
 Domestic: decreased ⇒ Decrease in loans to the government, etc

\*1 SMFG consolidated basis

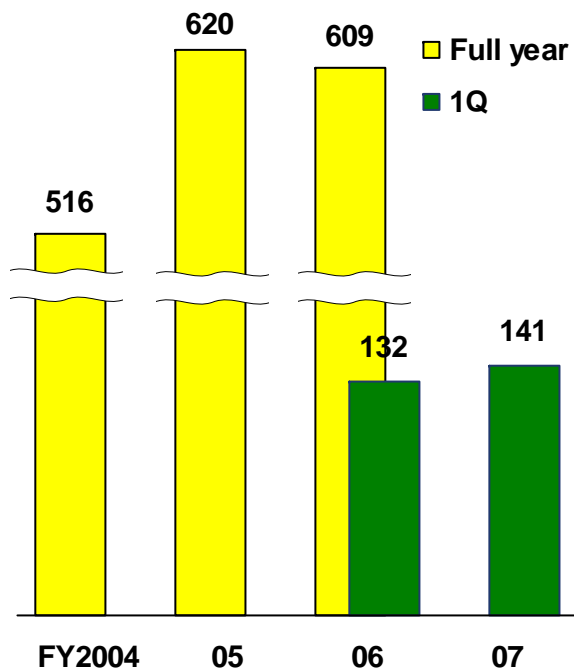
\*2 SMBC non-consolidated basis loan to deposit spread: managerial accounting basis



### 3-3. Gross Profit (Net Fees and Commissions)

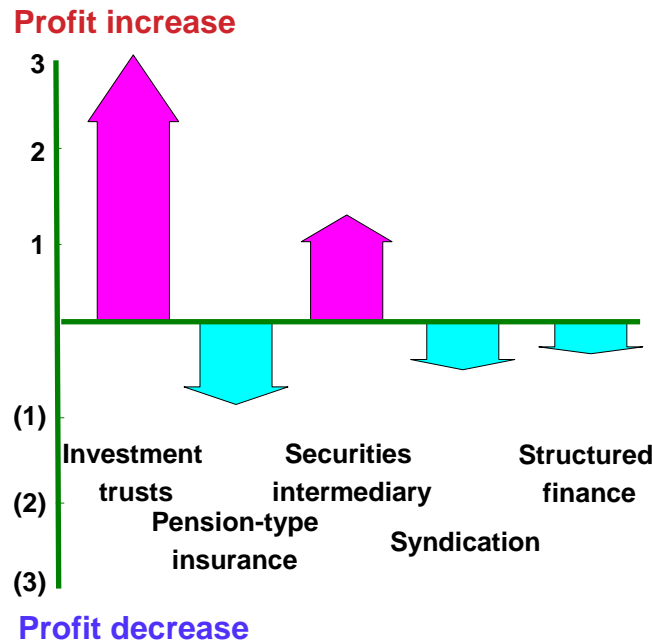
#### Net fees and commissions\*1

(Billions of yen)



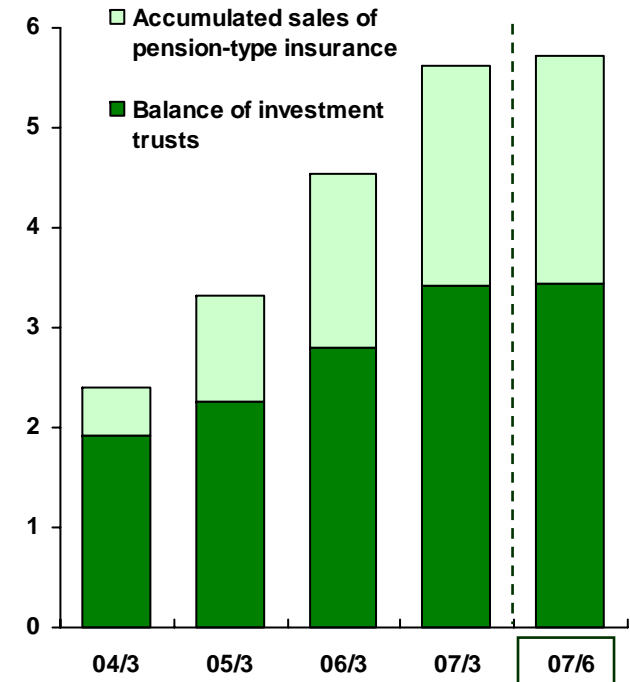
#### YOY profit increase/decrease by major products/services\*2

(Billions of yen)



#### Balance of investment trusts and pension-type insurances\*2

(Trillions of yen)



\*1 SMFG consolidated basis

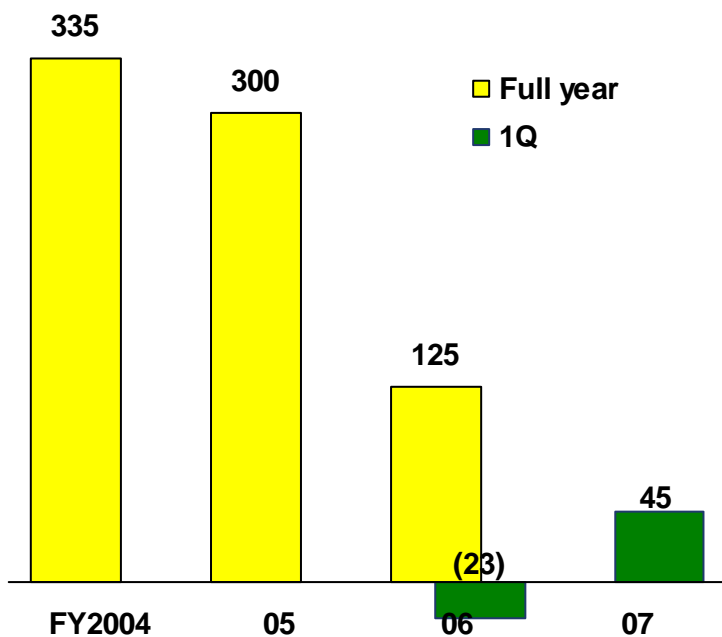
\*2 SMBC non-consolidated basis



### 3-4. Gross Profit (Net Trading Income + Net Other Operating Income)

#### Net trading income + net other operating income\*1

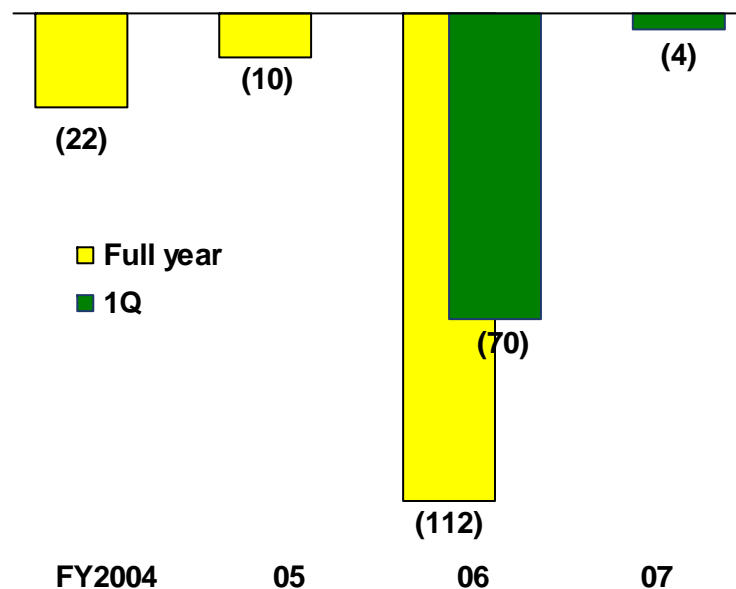
(Billions of yen)



#### Gains / losses on bonds\*2

✓ Improved due to reduction in risks associated with bond portfolio during previous fiscal year

(Billions of yen)



\*1 SMFG consolidated basis  
\*2 SMBC non-consolidated basis

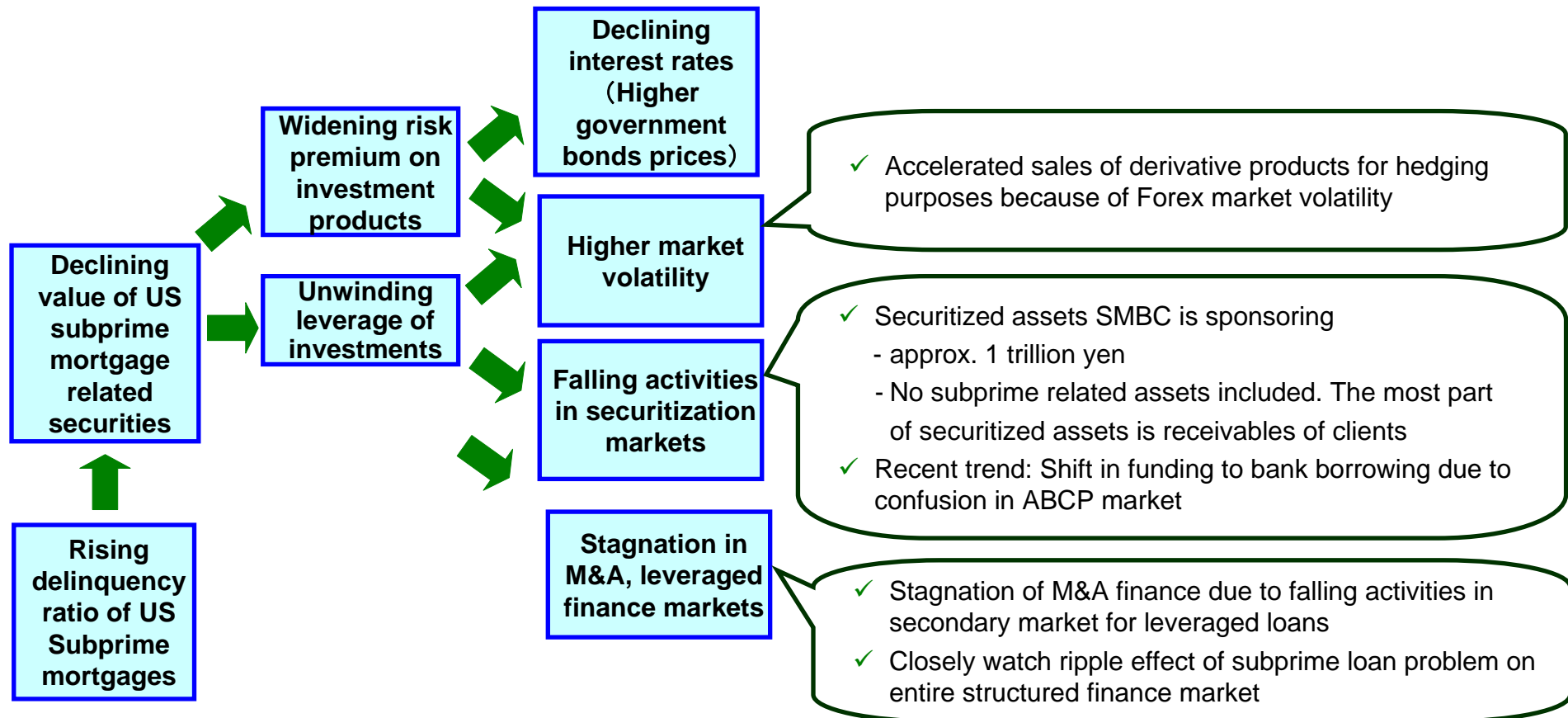
## 4. Views on the “Subprime Loan Problem” (1)

- ✓ **Current:** Have both negative and positive impacts. We will take appropriate measures to mitigate risks and impacts on our earnings would be limited.
- ✓ **Hereafter:** Key to sustainable growth is how to capture new opportunities created by “process of adjustment in asset-pricing,” while properly controlling our risk exposure

	Changes in external environment	Impacts on our securities portfolio	Impacts on our marketing units
<b>Current</b>	<ul style="list-style-type: none"> <li>➤ Market volatile</li> <li>➤ Liquidity of investment products declining (⇔ Higher JGB prices)</li> <li>➤ Activities in overseas securitization markets falling</li> </ul>	<ul style="list-style-type: none"> <li>➤ Reduction in investment securities exposure*</li> <li>➤ Reinforcement of risk tolerance through appropriate write-downs and provisions</li> <li>➤ Higher prices of JGBs, etc</li> </ul>	<ul style="list-style-type: none"> <li>➤ Lower activities and smaller US/European structured finance markets including M&amp;A finance</li> <li>➤ Short-term financing to clients who securitized receivables (ABCP, etc.)</li> <li>➤ Providing of derivatives and other risk hedge instruments</li> </ul>
<b>Hereafter</b>	<ul style="list-style-type: none"> <li>➤ Transition to “process of adjustment in asset-pricing”</li> </ul>	<ul style="list-style-type: none"> <li>➤ Expansion of investment and loan frontiers</li> <li>➤ Enhance investment strategy supported by sophisticated risk management</li> </ul>	<ul style="list-style-type: none"> <li>➤ Increase high-quality assets with better risk-return profile</li> </ul>

\* In the 1<sup>st</sup> Quarter of fiscal 2007, SMBC reduced its amount of investment products backed by U.S. mortgages including sub-prime loans by approximately JPY 350 billion on a book value basis. As a result, SMBC’s holdings of such investments was approximately JPY 100 billion as of June 30, 2007. Although SMBC incurred losses of several billion yen from the reduction, these losses have already been reflected in its financial results for the 1<sup>st</sup> Quarter of fiscal 2007.

## 4. Views on the “Subprime Loan Problem” (2) — Impacts on Investment Banking Business





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## In Closing — A Message to Investors

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SMFG





## Appendices



# (Appendix a) Financial Targets for FY2009

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(Billions of yen)		FY2006 Results	FY2009 Plan	Change in 3 years
<b>Earnings</b>	SMFG consolidated <b>Net business profit</b>	924.2	1,360	+ approx. 440
	SMBC non-consolidated <b>Banking profit</b>	740.6	1,070	+ approx. 330
	SMBC non-consolidated <b>Gross banking profit</b>	1,344.5	1,790	+ approx. 450
	SMBC non-consolidated <b>Expenses</b>	(603.9)	(720)	(approx. 120)
	SMBC non-consolidated <b>Overhead ratio</b>	45%	40-45%	(approx. 5%)
	SMFG consolidated <b>Net income</b>	441.4	650	+ approx. 210
<b>Profit distribution</b>	<b>Payout ratio</b> (common stock)	12.5%	over 20%	+ approx. 8%
<b>Soundness</b>	<b>Tier I ratio</b>	6.44%	Approx. 8%	+ approx. 1.5%
<b>Profitability</b>	SMFG consolidated <b>net income RORA</b>	0.72%	Approx. 1%	+ approx. 0.3%
	SMFG consolidated <b>ROE</b>	10.5%	10-15%	

Financial targets on  
new medium-term plan

(Note) Economic assumptions: Exchange rate \$1 = JPY 115

	FY2007	FY2008	FY2009
3 month TIBOR (average)	0.72%	1.12%	1.16%
10 Year Swap (average)	1.87%	2.10%	2.12%
Nominal GDP growth (annual)	2.5%	2.9%	2.4%



(Appendix b)

Profile of Credit Card Alliance Partners

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(Billions of yen)

<FY2006>	Sumitomo Mitsui Card	OMC Card	Central Finance
Number of cardholders	14.95 million	8.88 million	8.5 million
Transaction volume	4,753.8	1,670.1	2,586.0
Operating revenue	157.6	155.4	100.8
Ordinary profit	14.3	33.3	8.9
Brands*	VISA Master Mitsui Sumitomo Card iD China Union Pay	VISA Master JCB	VISA Master JCB

Source: Group companies' disclosure (Consolidated basis for OMC Card and Central Finance)

\* Sakura Card: JCB, QUOQ: Master



## (Appendix c) Securitization Exposures

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### Securitization Transactions as Sponsor

(Billions of yen)

#### (a) Securitization Exposures: Underlying Assets by Assets Type

March 31, 2007	Term-end balance	To be deducted from capital	Increase in capital equivalent
Claims on corporates	807.7	13.1	-
Mortgage loans	-	-	-
Retail loans(excluding mortgage loans)	37.1	-	-
Other claims <sup>*1</sup>	100.3	-	-
<b>Total</b>	<b>945.1</b>	<b>13.1</b>	<b>-</b>

#### (b) Risk Weights

March 31, 2007	Term-end balance	Required capital
20% or less	809.4	5.6
100% or less	103.1	3.7
650% or less	18.9	2.4
Capital deduction	13.7	13.1
<b>Total</b>	<b>945.1</b>	<b>24.9</b>

### Securitization Transactions in which SMFG is the Investor

#### (a) Securitization Exposures: Underlying Assets by Assets Type<sup>\*3</sup>

March 31, 2007	Term-end balance	To be deducted from capital	Increase in capital equivalent
Claims on corporates	301.6	76.9	-
Mortgage loans	379.3	-	-
Retail loans(excluding mortgage loans)	17.8	-	-
Other claims <sup>*2</sup>	124.0	1.3	-
<b>Total</b>	<b>822.8</b>	<b>78.2</b>	<b>-</b>

#### (b) Risk Weights

March 31, 2007	Term-end balance	Required capital
20% or less	668.5	4.7
100% or less	26.2	1.6
650% or less	-	-
Capital deduction	128.1	78.2
<b>Total</b>	<b>822.8</b>	<b>84.4</b>

\*1 Includes lease fees

\*2 Includes securitization products

\*3 There were no credit risk-weighted assets calculated using Supplementary Provision 15 of the Notification.



This material contains certain forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may materially differ from those contained in the forward-looking statements as a result of various factors.

The following items are among the factors that could cause actual results to differ materially from the forward-looking statements in this material: business conditions in the banking industry, the regulatory environment, new legislation, competition with other financial services companies, changing technology and evolving banking industry standards and similar matters.