

September 15, 2009

**Presentation at the Bank of America Merrill Lynch Japan Conference 2009**  
**“SMFG’s Strategy under Changing Landscape”**

Teisuke Kitayama, President  
Sumitomo Mitsui Financial Group Inc.

< Presentation Summary >

=====  
**(Cover page)**

Good afternoon, ladies and gentlemen.

It is my great pleasure to be here with you this afternoon to make a presentation. I would also like to thank Bank of America Merrill Lynch for organizing this conference. Today, I would like to explain our current management policy and business strategies of Sumitomo Mitsui Financial Group, SMFG. Please go on to page 2.

**(P.2)**

I remember that, one year ago, I was at this conference on the day just after the collapse of Lehman Brothers, and I had to make additional explanation on our exposure to Lehman Brothers at the beginning of my presentation. Since then, the world started to face the financial crisis surging like a *tsunami*, a tidal wave, and the bottomless free-fall of the industrial production. The advanced economies eventually fell into the negative growth simultaneously, for the first time since the 2<sup>nd</sup> World War.

Recently, thanks to the multi-national cooperative initiatives to stabilize financial markets and to stimulate the economy, we started to see a few signs of recovery; however, we do not have any optimistic idea enough to revise our assumptions at the beginning of this fiscal year of minus 3.5% in nominal GDP growth rate.

On the other hand, the revision of financial systems and regulation is discussed to avoid future crises; and, the Group of Central Bank Governors and Heads of Supervision, the oversight body of the Basel Committee, announced the “Comprehensive response to the global banking crisis” on September 7<sup>th</sup>. It will take a little more time to see the exact details; however, the outline of a “New Financial Regime” is being drawn gradually.

Please go on to page 3.

**(P.3)**

As just described, managing a financial group contains various new challenges; however, our core strategies remain unchanged. That is, we form our strategies around our strengths; namely, our core commercial banking business, with a solid customer base built on relationships, providing us with a core deposit base.

We will continue to “follow the basics,” that is to center our efforts on our solid franchise with deposits and settlement transactions as a commercial banking entity, rather than pursuing risky profit opportunities with high leverage. We also strive to reinforce our corporate platform, including capital base, which is enhanced by the recent common equity offering. Moreover, we will focus on growth businesses both through organic and in-organic approaches. Please turn to page 5.

**(P.5)**

On this page, you can see our current management policy for fiscal March 2010. While continuing to strengthen businesses consistent with our philosophy of “follow the basics”, we are strengthening our initiatives to manage credit costs, risk-adjusted assets, and expenses, as a first priority this fiscal year.

Please go on to page 6.

**(P.6)**

Here, I would like to touch upon the key achievements in the 1<sup>st</sup> quarter, which shows the progress of such initiatives. We have recorded steady growth in SMBC’s banking profit, which represents our core earnings, and in SMFG’s consolidated Net income. We were also able to realize a good start in managing credit costs and expenses.

In addition, while making key investments in growth business areas, such as the acquisition of Nikko Cordial, we were able to make a steady step toward establishing a solid capital base as a global player, through the common equity offering. Please go on to page 7.

**(P.7)**

Regarding credit costs, as you can see on the right chart of this page, we forecast SMBC’s non-consolidated Total credit cost for fiscal March 2010 to be 380 billion yen. If we add back the precautionary reserve of 110 billion yen set aside in the previous fiscal year, we can also say that we forecast the virtual credit costs on this fiscal year to be 490 billion yen. This is fairly in line with our estimate by internal macro-simulation model, based on minus 3.5% nominal GDP growth rate for this

year, which is the assumption for the earnings forecast.

In the 1<sup>st</sup> quarter, SMBC reasonably controlled its credit costs at 69 billion yen, 18% progress compared to annual forecast of 380 billion yen. However, we hold SMBC's 1<sup>st</sup> half credit cost forecast of 230 billion yen unchanged, because the economy is still in a severe situation, and because the credit assessment based on March 09 results is to be finalized in the 2<sup>nd</sup> quarter, which typically makes 2<sup>nd</sup> quarter credit costs higher than 1<sup>st</sup> quarter.

By the way, SMFG's consolidated Total credit cost in the 1<sup>st</sup> quarter was 120 billion yen, almost at the same level as we recorded a year ago, while contribution of group companies increased by about 20 billion yen year over year. Please turn to page 8.

**(P.8)**

On the left-hand side is SMBC's expense plan for fiscal March 2010. Although we have cost expansion factors due to the previous year's increase in human resources, channels and IT investments, and although we have an increase in pension costs, we target to achieve 695 billion yen in SMBC's expenses, or 6.5 billion yen decrease year over year, by introducing measures to cut costs by about 40 billion yen. We would like to sustain our class-leading efficiency, through stringent cost control and efficient allocation of expenses. Please turn to page 9.

**(P.9)**

If I add a comment on the efficiency and profitability, our wider loan-to-deposit spread in domestic operations, shown on the left-hand top, is the other key ingredient of our strong earnings generation capacity. Especially in this fiscal year, we are making our efforts to improve risk-return profile of our credit portfolio, which is a part of our initiatives to control risk-adjusted assets.

And, as you can see on the left-bottom, our loan spread we charge to large corporations started to improve in the 2<sup>nd</sup> half of last fiscal year, and the trend continued in the 1<sup>st</sup> quarter of this fiscal year.

On the right, in fiscal March 09, we achieved the highest ROA and Tier I ratio among our peers. In the mid-term, we believe that our high earnings generation capacity protects capital and leads to a healthy capital base. Please turn to page 10.

**(P.10)**

From here, I would like to explain our initiatives to strengthen growth business areas, namely business strategies. I would like to begin with our strategy for securities business both in wholesale and retail areas. Please move on to page 11.

**(P.11)**

First, on the wholesale securities business, we will promote our integrated business model between banking and securities activities, in view of the acceleration of the global trend to combine banking and securities, which was triggered by the Lehman Brothers collapse in September 08, and the favorable environment created through the amendment of the firewall regulations in June 09. Taking into consideration such trend and regulatory changes, SMFG and Daiwa Securities Group, Inc. have held extensive discussions concerning possible enhancement of cooperation since the second half of the last year; however, as we announced last week, we concluded that it would be desirable for each of us to pursue its own securities strategies separately, and agreed to terminate the joint venture, because the differences in our opinions became clear concerning the future implementation of the integrated business model between banking and securities in the wholesale securities business.

Our joint venture company, Daiwa Securities SMBC, was formed as one and only comprehensive joint venture between a mega-bank and a major securities company in April 1999 and achieved substantial results in the field of wholesale securities business; however, during the past decade, the business environment has dramatically changed with the increasing trend of “from savings to investment” and with other factors mentioned above.

Meanwhile, Citigroup invited us to its potential sale of Nikko Cordial in January 09. With this recognition of business environment, we participated into and won the bid for Nikko Cordial.

Nikko Cordial Securities will start its new operation as a comprehensive securities company wholly-owned by SMFG. In order to get the new structure of wholesale securities business on track, Nikko Cordial is going to enhance domestic underwriting and investment banking, expand corporate coverage, establish new department for wholesale trading, and to form new organizations for securities intermediary business and risk management. SMBC will also send several managements to Nikko Cordial.

Through these initiatives, we would like to strengthen SMFG’s solution providing capability, and to capture business opportunities created through the revision of the firewall regulations, as quickly as possible. Please turn to page 12.

**(P.12)**

On the retail securities business, the Nikko acquisition is a significant step to further expand our financial consulting services for individual customers. Firstly, as shown on the top-left, our distribution channel will be significantly empowered by adding Nikko's 109 branches, increasing to a total of 600. Secondly, as shown on the bottom left, we will be equipped with a sales force of close to 10,000.

The triangles on the upper right show an illustration of the customer base of SMBC and Nikko Cordial. Nikko Cordial, originally, has a larger portion of affluent customers who make active investments in financial products, complementing SMBC's broad customer base. Leveraging resources of both companies, we envision building a synergistic business model that creates cross-selling opportunities.

Our customer assets will also increase from 40 trillion yen to 64 trillion yen. With strengthened franchise as I described, we plan to fully tap uncultivated markets through cross selling of compelling products. Please turn to page 13.

**(P.13)**

Next, I would like to explain the Payment, Settlement and Consumer Finance businesses. The global financial turmoil reminds us of the importance of core deposit. At SMBC, we have continuously made our efforts to fortify domestic deposit base through strengthening settlement-related businesses as shown on the left.

As a result, SMBC maintains stable and sticky domestic funding base through retail and corporate deposits.

You can see the global comparison of loan-to-deposit ratio on the bottom left. Particularly under the current uncertain environment, excess deposits, with 78% in terms of loan-to-deposit ratio, provide us with the excellent buffer to the liquidity risks. Please turn to page 14.

**(P.14)**

Next, I would like to touch upon our credit card business. The growth rate of credit card settlement is temporarily slowing down under the sudden fall in domestic consumption since the 2<sup>nd</sup> half of the last fiscal year. However, the proportion of credit card settlement to Japanese household consumption has just reached to 15% level, so that credit card settlement is expected to grow further, supported by the increase in service acceptance and so on.

In order to capture this opportunity, Sumitomo Mitsui Card will work on strengthening its cooperation with Cedyne Financial, which was formed in April this year, as well as its existing alliances with major players such as NTT DoCoMo

and China UnionPay. Sumitomo Mitsui Card and Cedyna try to maximize the top-line synergy through their mutual introduction of member stores and by sharing the products and services platform. They will also make their efforts to realize cost synergy through sharing their next-generation IT platform now under development. Please turn to page 15.

**(P.15)**

Right here, I will touch upon consumer finance business. Affected by the amendments to laws regulating moneylenders, the size of the consumer finance market for Japanese moneylenders is unavoidably shrinking. Related to our group, Promise needed to increase allowances for loan losses and to higher interest repayment expenses last fiscal year. The business environment of moneylenders is still severe, represented by still high level of refund claims. We have been paying closer attention to this situation, in view of SMFG's management as a group.

On the other hand, the alliance business with Promise has been growing steadily, as you can see on the right-top of this page. Especially, the balance of card-type loan acquired through SMBC's franchise is almost reaching to 300 billion yen level during these five years, and contributing to the improvement in the risk-return profile of SMBC's loan portfolio.

Moreover, in May this year, SMBC and ORIX agreed to collaborate on joint business development of ORIX Credit. I expect that ORIX Credit will contribute to SMFG's growth because it has very little impact from refund claims, fits our consumer finance strategy very well, and has unique strength in web-marketing with high-end customers.

In the medium-term, the bottom-line is that the healthy demand for unsecured consumer loans would exist, as long as timing gaps between payment for consumption and revenue of monthly salary and seasonal bonus remain in the world. SMFG will continue to pursue medium-term development of consumer finance business by capturing the market through not only a commercial bank's broader customer base, but also multiple layers of business units which have developed their own business models in different client segments, with their own brands and know-hows. Please go on to page 16.

**(P.16)**

Next, I would like to touch upon overseas business strategy. Our core strategy in global markets has not changed, even after the drastic changes in the landscape; that is, to strengthen our initiatives in,

- (i) market with expectation for high economic growth, such as Asia, and
- (ii) products with global competitive advantage.

In Asia, in order to make business more responsive to local needs, we have established Asia Pacific Division last year and a subsidiary bank in mainland China this year.

Also we are developing business collaboration with local financial institutions in Asia. Recently, in July this year, we signed a memorandum of understanding (MOU) with the largest privately-owned commercial bank in Indonesia, BCA, regarding its support to SMBC on local currency funding and the collaboration in cash management services (CMS).

With Vietnam Eximbank, we agreed to provide technical support for their operational development in areas such as risk management. In addition, we plan to explore new business opportunities, through Eximbank's retail network.

Regarding alliances with global financial institutions, our discussion with Barclays on collaboration in multiple fields has been progressing, such as in wealth management business and cooperation in South Africa. We also announced the start of our sales of euro-yen bonds issued by Barclays through our securities intermediary services. Moreover, we, the top managements of SMFG and Barclays have intensified our communications through, for example, intensive dialogue regarding the strengthened regulation on the global banking industry.

Please go on to page 17.

**(P.17)**

Regarding overseas lending, we are still operating in cautious stance since the 2<sup>nd</sup> half of fiscal March 09, and the overseas loan balance on June 09 was slightly decreased compared to March.

We have established Credit Management Dept. in International Banking Unit, and increased the monitoring by management committee on overseas loan book. On the other hand, the improvement in lending spread is maintained.

While paying more attention to the credit quality, we would like to continue our efforts to improve risk-return profile of our overseas credits. Please go on to page 18.

**(P.18)**

Next, I would like to explain our recent capital policy.

The purpose of the recent common equity offering is to establish strong capital base necessary to remain competitive and to realize sustainable growth even under the “New Financial Regime,” being created through the progress of tighter regulations. We successfully completed the deal, with the total paid-in amount of 861 billion yen, well above our original plan of 800 billion yen.

As a result, from the perspective of capital allocation, about 260 billion yen is set aside for the planned expansion of risk-adjusted assets for this fiscal year, 350 to 400 billion yen is supposed to be the capital allocated for the acquisition of Nikko Cordial and so on; therefore, the remaining balance of 200 to 250 billion yen of capital could be an additional “buffer” created through the deal. I would like to thank our shareholders and investors for continuous support all through this offering.

Now, SMFG’s consolidated Tier I ratio at June 09 was 9.69%, because of the offering, as well as our conservative control on risk-adjusted assets. We could secure about 6.3% of “Core Tier I Ratio,” excluding preferred stocks and preferred securities.

In addition, by the termination of the joint venture with Daiwa, we will be able to improve BIS capital ratio by about 0.3%, because it would decrease the amount of deduction in regulatory capital. Please go on to page 20.

**(P.20)**

Finally, I would like to touch upon SMFG’s general management policy going forward. We announced our medium-term management plan, the “LEAD THE VALUE” plan in April 07 and fiscal March 2010 is the closing year of this three-year plan. In order to set new management goals of SMFG, we need to find the conclusion on the regulatory front, as well as the changes in business environment.

The basic framework of our management approach so far is shown on the slide.

No matter what the new regulatory standard will be, we believe we will not have to change the basics of our management policy, as long as the pre-requisites of steady and sustainable growth remains to be “good relationship with customers,” “robust economic capital base,” “sufficient liquidity,” and “stringent risk management.”

We would like to pursue a well-balanced growth cycle of profitability, economic capital, and risk-adjusted assets or investment for growth, with sustaining operational efficiency as our priority. Thank you very much for your attention.

Now, I would be very happy to take any questions you may have.

(End)