

The Summary of the Plan for
Strengthening the Financial Base

September 2003

Sumitomo Mitsui Financial Group

1. Business rationalization policies

(1) Business reconstruction policy

(i) Corporate strategy

- Basic policy
 - Expand business volumes through value-added services that match customers' needs by utilizing the unified group-wide capabilities.
 - Enhance capital efficiency through the improvement of the risk-return profile, and concentration of business resources in business fields with high profitability.
 - Strengthen cost efficiency through reinforcement of low cost operation.
- On-going initiatives: "Two reforms" with early realization of the synergy through merger.
 - "Business reform" reviews the operation of commercial banking business on a full-scale basis.
 - "Structural reform" realizes potential capabilities of important group companies to enhance their level of products, services, and financial bases.

Following strategies are to be implemented in order to accelerate these reforms.

(ii) Strategy in each business segment

[Consumer banking]

- Business expansion through distinct consulting services.

Provide a comprehensive range of financial products and services addressing both the asset management and financing requirements of the individual through consulting services that match the customers' needs.

<Asset management>

Provide products such as investment trusts and pension-type insurance through suitable consulting services that match the customers' needs.

<Financing>

Offer housing loans and highly focused solutions to customers' specific borrowing needs through the life-plan consulting services provided by Money-Lifestyle Consulting Desks and expand/improve the Loan Plaza network to strengthen housing loan facilitation capability.

- Full-scale expansion of settlement finance business

Expand profit opportunities by improving settlement finance service functions through a unified group-wide settlement infrastructure, and increase market share in consumer financing

- Reinforcement of low cost operation

Boost operational efficiency further while simultaneously enhancing the quality of customer service by radically streamlining business processing-routines at branches by applying the hub-and-spoke structure, and cost performance on manpower by utilizing retired employees and outsourcing.

[Corporate banking]

- Improve risk-return profile and strengthen credit risk taking capability
 - Reexamine lending practices, and secure appropriate risk-return profile by forging new business relationship with existing customers.
 - Strengthen credit risk taking capability through the promotion of "reform of credit supervision system" incorporating further upgrading of credit risk evaluation capability, establishment of credit supervision structure by segment and amount, standardization of credit decision process, delegation of authority, etc.
- Strengthen ability to provide financial solutions
 - Further diversify and upgrade solution-providing approach by utilizing the unified group-wide capabilities.
 - Strengthen loan syndication businesses
- Develop new customers, especially in small- and medium-sized companies sector

Develop new customers, especially in small- and medium-sized companies sector through the efficient marketing networks and the solid risk management capabilities that realize further credit risk-taking.

(2) Response to administrative order issued in FY2003

(i) Reasons for the differences between the SMBC's Plan for the Strengthening of the Financial Base of the Bank and the actual results

- Aggressive disposition of non-performing assets
 - Total credit cost*: 1,074.5 billion yen (574.5 billion yen above the plan)
 - *Including Transfer to general reserve for possible loan losses
 - "Off-balancing" of non-performing assets: 2,228.3 billion yen
- Greater-than-expected drop in Japanese stock prices
 - Losses on stocks: 635.7 billion yen (565.7 billion yen above the plan)
 - Of which write-off for impairment: 527.5 billion yen
 - Sales of cross-shareholding: 1,100.0 billion yen

(ii) Situation of ROE

- ROE (numerator = Banking profit*): 40.52% (14.28% above the plan)
- Gross banking profit: 1,760.6 billion yen (260.6 billion yen above the plan)
- Expenses: 647.0 billion yen (3 billion below the plan)

*Excluding transfer to general reserve for possible loan losses

(iii) Response to administrative order

SMFG is fully committed to continue efforts to strengthen profitability, and for the early repayment of public funds through the business restructuring plan.

(3) Business restructuring plan

Total annual expenses of SMBC in FY2002 were 647.0 billion yen, a decrease of 161.6 billion yen, or about 20%, compared with FY1997 (808.6 billion yen), when expenses were the largest.

In FY2003, SMBC plans to achieve the annual expenses target of 600 billion yen, a full year ahead of the original schedule.

From FY2004 onward, SMBC will keep controlling total annual expenses by further reducing ordinary expenses, while making the necessary investments in realize various measures for business reconstruction.

	FY02 Actual	FY03 Plan	FY04 Plan	FY05 Plan	FY06 Plan
(%)					
OHR (SMBC Expenses / SMBC Gross banking profit)	36.74	37.50	37.50	35.52	32.77
(Billions of yen)					
Personnel expenses + Non-personnel expenses	609.6	568.6	565.6	560.6	555.6

(i) Personnel expenses

In addition to freezing the salary base-up structure for seven consecutive years and reducing the headcount, other steps such as cutting bonuses to employees were taken to reduce SMBC's personnel expenses in FY2002 to 254.3 billion yen, a decrease of 102.0 billion yen, or more than 28%, from 356.3 billion yen in FY1997.

In FY2003, SMBC plans to cut bonuses to employees by 13.4% compared with FY2002, and to keep taking various measures like outsourcing of the clerical work in the loan and treasury related operation.

While strategically allocating staff to consumer banking and corporate banking to strengthen these businesses, the overall headcount will be further reduced through such steps as boosting business processing efficiency at the branch level, and utilizing retired employees and temporary staff to create a more cost-efficient human resource portfolio.

	FY02 Actual	FY03 Plan	FY04 Plan	FY05 Plan	FY06 Plan
(Billions of yen)					
Personnel expenses	254.3	238.8	235.8	232.8	229.8
(Number of employees)					
Full-time employees (As of the fiscal year end)	24,024	22,600	21,300	20,900	20,500

(ii) Non-personnel expenses

SMBC completed systems integration in July 2002, and the integration of branches by bringing together certain branches serving overlapping areas into one location.

As SMBC's computer systems operating function was transferred to the Japan Research Institute, a hub of the group's computer system operation, after FY2003, SMFG will realize greater efficiency by bolstering of procurement capabilities as a result of the concentration of IT expenditure, and of the concentration of Group's facilities while reexamining other expenses.

	FY02 Actual	FY03 Plan	FY04 Plan	FY05 Plan	FY06 Plan
(Billions of yen)					
Non-personnel expenses	355.2	329.8	329.8	327.8	325.8
(Billions of yen)					
Excluding System related cost	264.8	247.5	247.0	245.8	245.0

(iii) Subsidiaries and affiliates

Under the basic policy of having one entity in one sector, SMFG has integrated the Group subsidiaries and affiliates to promote greater efficiency by concentrating business resources within the Group. As for the major business fields, SMFG completed the integration by April 2003.

The integration of major subsidiaries and affiliates is as follows:

[April 2001] - Sakura Securities transferred its business to Daiwa Securities SB Capital Markets (Daiwa SBCM), and Daiwa SBCM changed its corporate name to Daiwa Securities SMBC.
- Sakura Institute of Research and JRI Business Consulting merged to form SMBC Consulting.
- Sakura Capital and SB Investment merged to form SMBC Capital.

[May 2001] - Sakura Leasing became a subsidiary of SB Leasing (changed its corporate name to SMBC Leasing in September 2001) to unify the leasing business.

[April 2003] - SMBC Finance, Mitsui Finance Service and Sakura Finance Service merged to form SMBC Finance Service.
- Sakura Friend Securities and Meiko National Securities merged to form SMBC Friend Securities.

<Scheduled>

[October 2003] - SMBC Leasing will merge Sakura Leasing.

2. Outline for the plan of income

[SMBC <non-consolidated>]

(Billions of yen)

	FY02 Actual	FY03 Plan	FY04 Plan	FY05 Plan	FY06 Plan
Gross banking profit	1,760.6	1,600.0	1,600.0	1,675.0	1,800.0
Expenses	(647.0)	(600.0)	(600.0)	(595.0)	(590.0)
Banking profit ^{*1}	1,113.6	1,000.0	1,000.0	1,080.0	1,210.0
Total credit cost ^{*2}	(1,074.5)	(650.0)	(450.0)	(300.0)	(300.0)
Gains(losses) on stocks	(635.7)	(110.0)	0	0	0
Ordinary profit(loss)	(597.2)	170.0	480.0	710.0	840.0
Net income(loss)	(478.3)	100.0	250.0	400.0	470.0
OHR	36.74%	37.50%	37.50%	35.52%	32.77%

*1 Excluding transfer to general reserve for possible loan losses.

*2 The sum of Credit cost and Transfer to general reserve for possible loan losses.

[Reference: SMFG <SMBC +Sumitomo Mitsui Card +SMBC Leasing +Japan Research Institute>]

(Billions of yen)

	FY02 Actual	FY03 Plan	FY04 Plan	FY05 Plan	FY06 Plan
Total net business profits*	1,157.8	1,048.0	1,058.0	1,148.0	1,288.0
Ordinary profit(loss)	(563.7)	209.0	531.0	773.0	913.0
Net income(loss)	(453.3)	122.0	279.0	436.0	513.0

*The sum of SMBC's Banking profit (excluding transfer to general reserve for possible loan losses) and Operating profit of Sumitomo Mitsui Card, SMBC Leasing, and Japan Research Institute.

3. Measures taken to establish the responsible management structure

(1) Corporate governance structure

SMFG has established a corporate governance structure in which SMFG's Board of Directors is responsible for deciding the major issues and supervising the operations of the Group as a whole. And SMFG has appointed two outside directors to the Board of Directors to improve its effectiveness, and have reinforced the Board's oversight functions by setting up the following three subcommittees within the Board of Directors.

(i) Risk Management Committee

Discusses the issues related to the basic policies and the system of risk management and other issues with a potentially material impact on operations regarding the group-wide risk management and compliance.

(ii) Nominating Committee

Discusses the issues related to the selection of candidates for Board directorships and the issues related to the appointment of managing directors having specific management responsibilities and representative directors of SMFG and SMBC. It has also discussed the issues related to the appointment of the president of the Sumitomo Mitsui Card, SMBC Leasing and the Japan Research Institute.

(iii) Compensation Committee

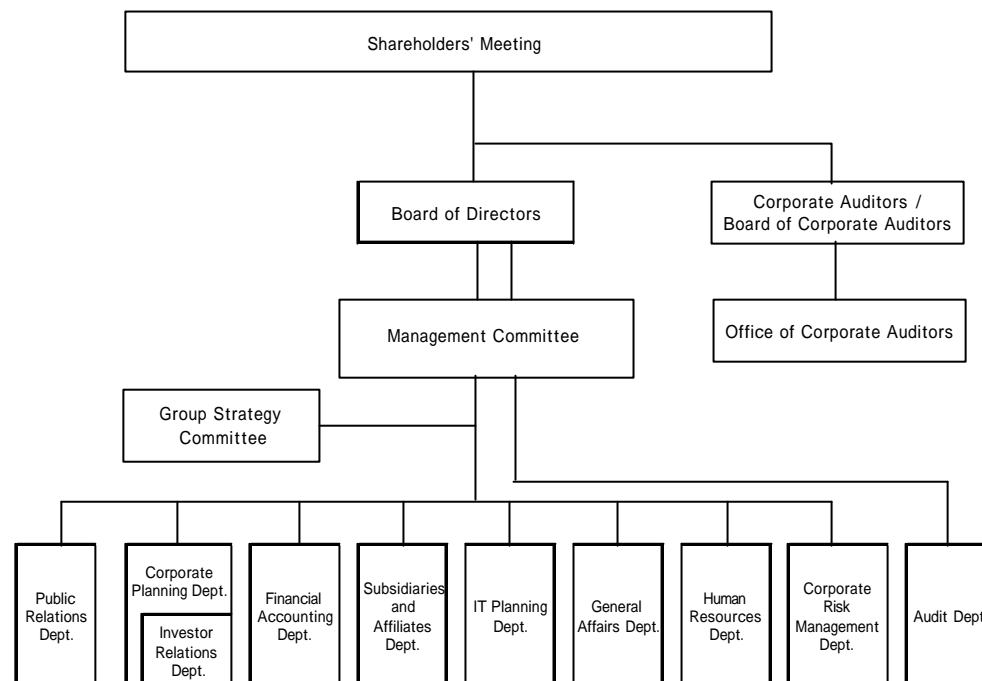
Discusses the issues related to remuneration, the stock option program, and other remuneration issues of Board Members and Executive Officers of SMFG and SMBC.

SMFG reports quarterly business performances of the Group, including those of the major subsidiaries, to the Board of Directors. As SMFG was issued a business improvement administrative order by the FSA and has submitted the business improvement plan, SMFG plans to report the progress of the plan, as well as the ordinary business performances, to the Board of Directors every quarter.

(2) Organization and Board of Directors

SMFG is responsible for corporate strategy and management, resource allocation, financial accounting, investor relations, IT strategy, nomination of executives, risk management, and audit of the Group as a whole with ten departments as indicated below.

<SMFG Organization>



4. Measures to prevent excessive outflow of retained earnings through dividends and other payouts

(1) Basic policy

SMFG will fortify its Tier I capital in both quality and quantity, by building up its internal reserve through enhanced profitability resulting from the early realization of initiatives such as cost reduction through business process restructuring and through rationalization, improvement in asset quality by reducing the amount of non-performing assets and cross-shareholdings.

(2) Stance on dividends and director compensation

With the aim of building up internal reserve, dividend per share was reduced from 6 yen in FY2000 to 4 yen in FY2001 and to 3,000 yen (equivalent to 3 yen dividend per SMBC share) in FY2002. SMFG will endeavor to improve the group's earning power and implement a shareholder-oriented dividend policy as soon as it has built up sufficient level of capital.

Regarding director compensation, as with dividends, the appropriate level will be determined based on the level of internal reserve and medium-term business outlook. The amount of compensation is set after deliberation by the Compensation Committee which includes outside directors.

5. Measures for orderly supply of credit

(1) Measures

To strengthen its capacity to supply credit, SMFG is actively promoting "credit-risk-taking products" - unsecured credit portfolio with appropriate interest spreads.

<Credit-risk-taking products: 41,000 loans or 1.25 trillion yen in FY2002>

- Business Select Loan
- Middle I and II Funds^{*1}
- SMBC-CLO
- Client Support Loan^{*2}

^{*1} Already changed to "N Fund" with standardized lending criteria, streamlined lending process, and wider range of target customers.

^{*2} Launched in FY2003.

(2) Reexamination of Organization and Structure

- Assign general managers exclusively in charge of small- and medium-sized companies to provide more detailed services to such customers (30 general managers in FY2002).
 - Increase staff of Business Support Offices and Corporate Promotion Offices (96 persons in FY2002).
 - Establishment of Corporate Business Sub-Branches
- Establish Corporate Business Sub-Branches jointly with group companies to develop new markets in areas without branches or offices (since FY2003).
- Establishment of satellite offices of Corporate Business Offices and Business Support Offices.

Establish satellite offices of Corporate Business Offices and Business Support Offices in areas without Corporate Business Office since FY2003.

6. Measures to secure funds for redemption, refund, or repayment of shares issued and loans by retained earnings

(1) Policy on redemption/refund/repayment of the public fund capital

Early repayment of the public funds of 1,301 billion yen, raised through issuance of preferred stocks, will be considered after building up a sufficient level of retained earnings for the repayment by enhancing profitability, taking the economic situation into account.

(2) Build up retained earnings

Build up the combined Retained earnings in consolidated basis of SMFG and its 100%-owned subsidiaries to 2,600 billion yen by the end of FY2006 (more than 1,700 billion yen excluding Capital reserve), and secure a level of Retained earnings that is substantially above the amount of public funds (1,301 billion yen) by appropriately executing the Plan for Strengthening the Financial Base of the Bank.

<Build-up of Retained Earnings>

(Billions of yen)

	FY02 Actual	FY03 Plan	FY04 Plan	FY05 Plan	FY06 Plan
Retained Earnings*	1,013.0	1,590.6	1,798.3	2,179.9	2,633.4
Other capital surplus	413.9	898.5	898.5	898.5	898.5

*The sum of Retained earnings of SMFG, SMBC, Sumitomo Mitsui Card, SMBC Leasing and Japan Research Institute.

<Outline of the Public Funds>

(Billions of yen)

	Type I	Type II	Type III
Issue Price	201.0	300.0	800.0
Mandatory Conversion Date	Feb. 27, 2009	Feb. 27, 2009	Oct. 1, 2009

7. Measures to secure SMFG's financial soundness, and sound and appropriate business operation

(1) Disposition of non-performing assets

Strengthen SMBC's financial base through the continued initiative of aggressively executing "off-balancing", in order to halve the problem asset ratio by the end of FY2004 in line with the basic concept of the Program for Financial Revival.

<Target for the end of FY2004>

- Total amount of problem assets: around 2,500 billion yen
- Problem asset ratio: around 4% (8.9% at the end of March 2002)

(2) Situation and policy on Unrealized gains (losses)

In FY2002, in order to substantially reduce its stock price fluctuation risks, SMBC sold its cross-shareholdings by approximately 1,100 billion yen, reduced the book value by approximately 500 billion yen due to impairment, and offset significant unrealized losses on securities held by approximately 700 billion yen using the merger surplus resulting from the merger of SMBC with the Wakashio Bank in March 2003.

In FY2003, SMBC will further reduce its cross-shareholdings, and therefore, reduce its stock price fluctuation risks, with sufficient care to avoid negative impact on the stock market.