

The Summary
of
the Plan for Strengthening the Financial Base

September 2005

Sumitomo Mitsui Financial Group

1. Business rationalization policies

(1) Corporate strategy

(i) Management policy: Become a top bank with “the highest trust”

- Reinforce top-line earnings
- Further improve capital efficiency
- Continue to develop and reinforce corporate governance

(ii) Basic policy on corporate strategy

- Reinforce top-line earnings by challenging new types of risks, new regions and new business areas
- Aggressively allocate management resources to focus areas
- Improve capital efficiency by improving risk-return profile of each business and reallocate capital and risk-adjusted assets
- Proactively seek alliances that lead to higher corporate value
- Improve corporate governance in order to increase corporate value and fulfill our social responsibility

[Consumer banking]

Aim for a top market share in consumer banking through expansion of customer base

- Reinforce new businesses to provide more comprehensive financial services to consumers
- Drastically strengthen marketing capability mainly by expanding marketing channels and proactively allocating human resources
- Provide expanded line-up of products in order to respond thoroughly to customer needs
- Achieve higher productivity by further increasing efficiency

[Corporate banking]

Reinforce financial consulting for corporations

- Establish unparalleled customer base in the “small- and medium-sized enterprises” (SMEs) market by further strengthening its competitive advantages in the field of standardized, portfolio-based lending etc.

- Expand businesses with large corporations by improving product developing and new-business cultivating capabilities and strengthening capability to provide financial solutions

[International banking]

- Aim for a global commercial bank based in Asia by expanding business franchise and increasing profit by tapping into emerging markets.

(2) About business improvement administrative order to earnings results for FY2004

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

- Proactive disposal of non-performing loans and further preparation for future credit risks
=> Total credit cost: 954.8 billion yen (504.8 billion yen above the plan)
- Impairment of preferred stocks in order to reduce future risks
=> Cost of the impairment: 211.5 billion yen

(ii) ROE

- ROE (numerator = Banking profit): 33.44% (8.27% below the plan)

(iii) Response to administrative order

SMFG received a business improvement administrative order from the Financial Services Agency (FSA) on July 22, pursuant to Clause 2 of Article 20 of the Financial Function Early Strengthening Law and Clause 1 of Article 52-33 of the Banking Law because earnings results for FY2004 were far below the targets set in the Plan for Strengthening the Financial Base (the “Plan”) and measures should be taken to secure steady implementation of the Plan. SMFG is determined to continue its efforts to enhance profitability for the early repayment of public funds.

(3) Rationalization plan

SMBC has been maintaining its OHR of less than 40%, reflecting its high efficiency (FY2004 result: 38%). SMBC aims to improve its high efficiency with its OHR of 30% level (FY2008 plan: 33%).

SMBC will conduct a review of its current personnel expenses and non-personnel expenses, while enforcing its profitability through aggressive allocation of management resources to focus areas in order to realize various business reconstruction initiatives.

	FY04 Actual	FY05 Plan	FY06 Plan	FY07 Plan	FY08 Plan
(%)					
OHR (SMBC Expenses / SMBC Gross banking profit)	38.24	38.51	36.36	34.67	33.06
(Billions of yen)					
Personnel expenses + Non-personnel expenses	544.5	557.2	563.1	568.5	578.6

(i) Personnel expenses

In addition to freezing the base-up portion of the salary for ten consecutive years since FY1996 and downsizing by 6,100 employees after the merger, other steps such as reducing the funds for bonuses to employees were taken to reduce SMBC's personnel expenses to 205.3 billion yen in FY2004, a 30% reduction from FY2000. Besides, SMBC took several measures such as efficient reallocation of employees, relocation of branches, efficient expansion of marketing channels using IT, and boosting business processing efficiency. From FY2006 onward, SMBC will further boost productivity through allocating resources to focus areas and utilizing external human resources.

	FY04 Actual	FY05 Plan	FY06 Plan	FY07 Plan	FY08 Plan
(Billions of yen)					
Personnel expenses	205.3	207.3	213.3	216.3	214.3
(Number of employees)					
Full-time employees	21,020	20,900	20,900	20,900	20,900

(ii) Non-personnel expenses

FY2004 result was 339.1 billion yen, an 8% reduction from FY2000. From FY2005 onward, SMBC will continue to reduce ordinary expenses, while strengthening profitability through aggressive allocation of business resources to strategic businesses, such as establishment of new business lines and brand strategies, strategic investments based on the alliance with Promise, aggressive employment of external human resources and so on.

	FY04 Actual	FY05 Plan	FY06 Plan	FY07 Plan	FY08 Plan
(Billions of yen)					
Total non-personnel expenses	339.1	349.9	349.8	352.2	364.3
(Billions of yen)					
Excluding System related cost	259.6	267.9	267.8	270.2	282.3

(iii) Subsidiaries and affiliates

Under the basic policy of having one entity in one sector, SMFG will continue to effectively utilize Group's management resources and promote greater efficiency.

(iv) Directors

SMFG has been freezing directors' bonuses since FY1996 and will continue to do so. In addition, remunerations to directors and executive officers of SMFG and SMBC, which have been reduced constantly, will be reduced by 10% maximum and an average of 5% for six months from October 2005.

2. Outline for the plan of income

[SMBC <non-consolidated>]

(Billions of yen)

	FY04 Actual	FY05 Plan	FY06 Plan	FY07 Plan	FY08 Plan
Gross banking profit	1,522.9	1,545.0	1,650.0	1,745.0	1,860.0
Expenses	582.4	595.0	600.0	605.0	615.0
Banking profit ^{*1}	940.5	950.0	1,050.0	1,140.0	1,245.0
Total credit cost ^{*2}	954.8	300.0	250.0	230.0	180.0
Gains (losses) on stocks	(118.7)	(10.0)	-	-	-
Ordinary profit (loss)	(71.7)	610.0	760.0	865.0	1,015.0
Net income (loss)	(136.8)	350.0	430.0	490.0	570.0
OHR	38.24%	38.51%	36.36%	34.67%	33.06%

*1 Banking profit: Before provision for general reserve for possible loan losses

*2 Total credit cost: Provision for general reserve for possible loan losses + Credit costs

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

(Billions of yen)

	FY04 Actual	FY05 Plan	FY06 Plan	FY07 Plan	FY08 Plan
Total net business profits*	998.0	1,012.6	1,120.1	1,220.0	1,335.0
Ordinary profit (loss)	(22.1)	666.8	824.2	940.3	1,100.0
Net income (loss)	(103.1)	383.0	467.0	534.0	620.0

*Total net business profits: The sum of SMBC's Banking profit (before provision for general reserve for possible loan losses) and Operating profits of Sumitomo Mitsui Card, SMBC Leasing, and Japan Research Institute

3. Measures taken to establish responsible management structure

(1) Our mission

- To provide optimum added value to our customers and together with them achieve growth
- To create sustainable shareholder value through business growth
- To provide a challenging and professionally rewarding work environment for our dedicated employees

(2) Corporate governance system

SMFG employs a corporate governance system where the Board of Directors is responsible for decision-making on important management issues of the entire group and for supervising management in their execution of operational duties. In addition, in order to improve the effectiveness of the Board, SMFG has two outside directors as well as three committees—the Risk Management Committee, the Compensation Committee, and the Nominating Committee—to complement the function of the Board. In June 2005, SMFG has established the Auditing Committee in order to strengthen the Board’s supervising function. The committees are responsible for considering the issues listed below.

(i) Auditing Committee

Discusses issues relating to Groupwide internal auditing policy and system

(ii) Risk Management Committee

Discusses extraordinary issues relating to Groupwide risk management and compliance, which would cause significant effect on Group’s management

(iii) Nominating Committee

Discusses issues related to the selection of candidates for Board directorships at SMFG and SMBC, issues related to the appointment of managing directors having specific management responsibilities at SMFG and SMBC, issues related to the appointment of representative directors of SMFG and SMBC, issues relating to the selection of president and representative director of Sumitomo Mitsui Card Company, SMBC Leasing Company, and the Japan Research

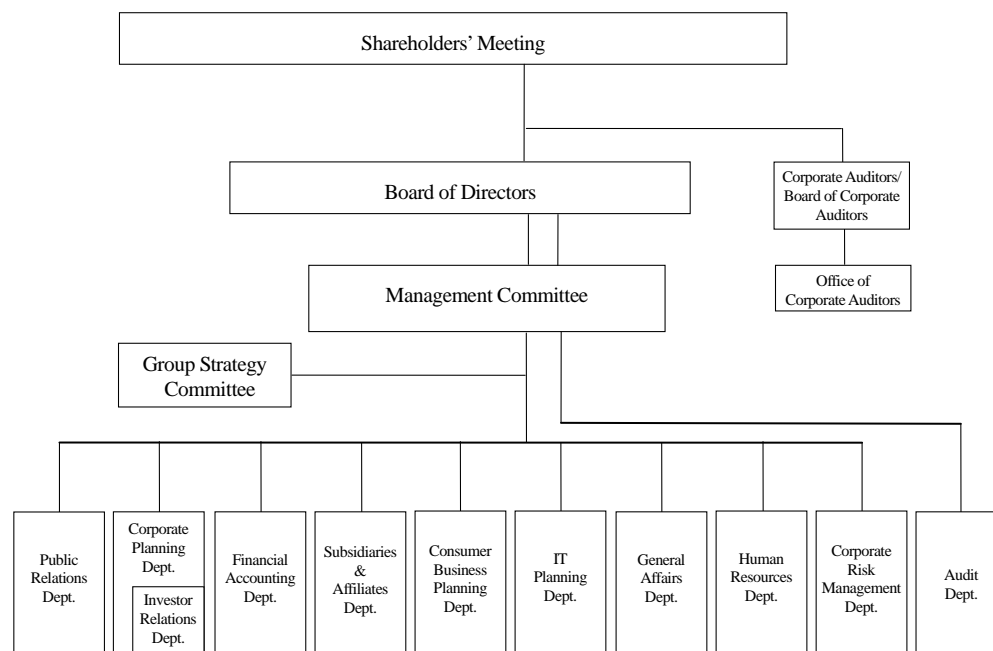
Institute

(iv) Compensation Committee

Discusses issues related to remuneration of Board members and executive officers of SMFG and SMBC

Two outside directors are appointed to all these committees to facilitate the implementation of corporate governance from a suitably objective perspective. (In the case of the Auditing Committee and the Compensation Committee, the chairmanship of these committees is assigned to outside directors.)

(3) Organization



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

(1) Basic policy

SMFG will build up its retained earnings by further strengthening profitability through cost reductions resulting from business process restructuring and from rationalization, while maintaining soundness of financial base by reducing non-performing assets and cross-shareholdings. SMFG gives first priority to fortifying its Tier I capital in terms of both quality and quantity.

(2) Stance on dividends and director compensation

Stable dividend payout is SMFG's basic policy. Taking into consideration the financial results and the level of retained earnings, 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 former SMBC's share before the establishment of SMFG) in FY2002. Now that SMFG has completed the intensive improvement in asset quality, it will endeavor to improve the group's earning power quickly and implement a more shareholder-oriented dividend policy as soon as it has built up a sufficient level of capital.

Predicated on achieving a sustainable bottom-line profit, and factoring in its business outlook and the level of payout ratio and other factors, SMBC is considering increasing the dividend on common stock after FY2006.

Regarding director compensation, as with dividends, the appropriate level will be determined based on the level of retained earnings and medium-term business outlook. The amount of compensation is set after deliberation by the Compensation Committee chaired by an outside director.

5. Measures for orderly supply of credit

(1) Concrete measures

SMBC regards supplying of credit to financially sound SMEs and individuals as financial institutions' social responsibility. While maintaining the soundness of loan portfolio, SMBC will continue to make every effort to increase the supply of credit to financially sound SMEs and individuals.

(i) Loans to individual

- Expand consulting channels
- Reinforce consumer finance business through the alliance with Promise

(ii) Loans to SMEs

- Continue to promote new-type unsecured loan products with relatively high interest spread, which basically require no collateral, aiming to improve the ability to supply funds to SMEs by strengthening risk taking capability
- Try to increase the supply of credit to financially sound SMEs through various measures including introduction of new-type unsecured loans, such as "SMBC Crecer Loan" launched this year.

(2) Organization and structure

SMBC makes every effort to find and meet customers' financial needs through a variety of channels, such as Corporate Business Offices, Business Support Offices, specialized channel for SMEs, and Corporate Sales Offices, operated by small number of officers in areas without branches or offices.

(3) Provide products which support development of local economy

Since March 2003, SMBC has been promoting new alliances with government credit guarantee corporations in each region and expanding promotion of loans guaranteed by such credit guarantee corporations. SMBC will continue to provide various products in order to contribute to the development of regional economies.

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

(1) Policy on redemption/refund/repayment of public funds

With regard to SMFG's 1,100 billion yen in public funds, procured through issuance of preferred stocks, SMFG aims to completely repay the amount by the end of FY2007, earlier than their maturity, by building up retained earnings through enhancement of group profitability, subject to the approval of government authorities and stable economic situation.

(2) Build up retained earnings

SMFG plans to build up combined Retained earnings of SMFG and SMFG's four subsidiaries (SMBC, Sumitomo Mitsui Card Company, Ltd., SMBC Leasing Company, Ltd., and The Japan Research Institute, Ltd.) to 2,760.7 billion yen (1,531.4 billion yen excluding Other capital surplus) by the end of FY2006, well above the amount of public funds (1,100 billion yen).

<Build-up of Retained Earnings>

(Billions of yen)

	FY04 Actual	FY05 Plan	FY06 Plan	FY07 Plan	FY08 Plan
Retained earnings*	1,648.8	2,347.2	2,760.7	3,232.8	3,782.7
Other capital surplus	898.5	1,229.3	1,229.3	1,229.3	1,229.3

*Sum of Retained earnings of SMFG, SMBC, Sumitomo Mitsui Card Company, Ltd., SMBC Leasing Company, Ltd., and The Japan Research Institute, Ltd. (Retained earnings of Sumitomo Mitsui Card Company, Ltd. are included in the figure according to the ownership ratio of SMFG.)

SMBC transferred 344.9 billion yen from its Capital reserve to Retained earnings in FY2005

<Outline of the Public Funds>

(Billions of yen)

	Type 1	Type 2	Type 3
Original Amount Issued	201.0	300.0	800.0
Outstanding Balance	105.0	300.0	695.0
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) Disposal of non-performing assets

Designated as the year for completing the "intensive improvement in asset quality," in FY2004, SMBC drastically strengthened its financial base by aggressively executing "off-balancing" and corporate revitalization of borrowers. In the six months ended September 30, 2004, SMBC achieved the target of halving the problem asset ratio, prescribed by the Program for Financial Revival, six months ahead of the original schedule, and put the NPL problem behind it in FY2004.

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

SMBC reduced its exposure to stock market fluctuation risk by aggressively reducing its stockholdings. In FY2002, SMBC took sweeping measures on unrealized losses resulting from the sluggish stock market. As a result, stockholdings at the end of March 2005 totaled approximately 2 trillion yen on an acquisition cost basis, approximately 4 trillion yen lower than at the time of the merger in April 2001. SMBC will continue to reduce stockholdings in FY2005 to achieve the target of reducing its equity portfolio to approximately half of Tier I capital in the medium term.

Unrealized losses on bonds classified in Other securities were approximately 100.0 billion yen in FY2003. After disposing unrealized losses in order to minimize its exposure to potential risks in FY2004, Unrealized gains on bonds classified in Other securities was 7.7 billion yen at the end of March 2005.

As a result, Unrealized gains on Other securities were 651.4 billion yen at the end of March 2005.