

Significant Accounting Policies for Non-consolidated Financial Statements

1. Valuation of securities
Investments in subsidiaries and affiliates, and other securities without market value are carried at cost using the moving-average method.
2. Depreciation of fixed assets
 - (1) Premises and equipment
Premises and equipment owned by Sumitomo Mitsui Financial Group, Inc. (SMFG) are depreciated using the straight-line method for premises and the declining-balance method for equipment.
 - (2) Intangible assets
SMFG computes depreciation for capitalized software for internal use using the straight-line method over its estimated useful life (five years).
3. Deferred charges
Stock issuance costs are expensed when they are incurred. Organization cost is recognized as assets and depreciated using the straight-line method over five years pursuant to Article 35 of the Ordinance of the former Commercial Code.
4. Reserve
Reserve for employee bonuses is provided for payment of bonuses to employees, in the amount of estimated bonuses, which are attributable to this fiscal year.
5. Lease transactions
Financing leases, excluding those in which the ownership of the property is transferred to the lessee, are accounted for in the same manner as operating leases.
6. Consumption taxes
National and local consumption taxes are accounted for using the tax-excluded method.

Change in Accounting Method

Effective April 1, 2005, SMFG applied “Accounting Standards for Impairment of Fixed Assets” (“Opinion Concerning Establishment of Accounting Standard for Impairment on Fixed Assets” issued by the Business Accounting Council on August 9, 2002) and “Guidelines on Implementation of Accounting Standard for Impairment of Fixed Assets” (Guidelines on Implementation of Business Accounting Standard No.6, issued on October 31, 2003). This accounting change has no impact on profit and loss account.

Additional Information

On January 31, 2006, SMFG issued 80,000 new shares of common stock at 1,130,500 yen per share (issue price) for final allocation by underwriters at 1,166,200 yen per share (offer price). Furthermore, in connection with the over-allotment of 40,700 shares of common stock offered for sale at 1,166,200 yen per share (sales price) in the public offering, SMFG issued on February 28, 2006 the same number of new shares of common stock at 1,130,500 yen per share (issue price) through third-party allocation to the underwriter who conducted the over-allotment. The purchase agreement for the offering prescribes that the total amount of issue price be treated as the total amount of subscription price and no underwriting commission be paid. Accordingly, Stock issuance cost does not include the amount equivalent to the underwriting commission for the offering. Out of the issue price per share, 565,250 yen is accounted for as capital stock and 565,250 yen as capital surplus.

Also, on January 31, 2006, SMFG disposed of 400,000 shares of treasury stock at 1,130,500 yen per share (disposal price) for final allocation by underwriters at 1,166,200 yen per share (sales price). The purchase agreement for the offering prescribes that the total amount of disposal price be treated as the total amount of subscription price and no underwriting commission be paid. Accordingly, Fees and commissions expenses do not include the amount equivalent to the underwriting commission for the offering. The difference between the disposal price and the book value of the treasury stock sold in the offering is accounted for as “other capital surplus.”

Notes to Non-consolidated Balance Sheet

1. Amounts less than one million yen have been omitted.
2. Accumulated depreciation of premises and equipment was 1 million yen.
3. Assets and liabilities related to transactions with subsidiaries and affiliates are as follows:

| | |
|------------------------|-----------------------|
| Deposits | : 561,862 million yen |
| Short-term borrowings: | 230,000 million yen |
4. Contingent liabilities

SMFG has guaranteed the Deposit Protection Fund within the Association of German Banks for the return of up to 48,545 million yen in customers' deposits at SMBC's Düsseldorf Branch.
5. Number of shares authorized

| | |
|------------------|-------------------|
| Common stock: | 15,000,000 shares |
| Preferred stock: | 1,515,000 shares |

Number of shares issued

| | |
|------------------|---------------------|
| Common stock: | 7,424,172.77 shares |
| Preferred stock: | 950,101 shares |
6. Treasury stock

Number of treasury stock (common stock) as of year-end is 6,307.15.
7. Under the Articles of Incorporation of SMFG, followings are the maximum amounts of annual cash dividends to preferred shareholders:

| | |
|---------------------------|---|
| Preferred stock (type 1): | 10,500 yen per share |
| Preferred stock (type 2): | 28,500 yen per share |
| Preferred stock (type 3): | 13,700 yen per share |
| Preferred stock (type 4): | Amount to be resolved at meeting of the Board of Directors (Max. 200,000 yen per share) |
| Preferred stock (type 5): | Amount to be resolved at meeting of the Board of Directors (Max. 200,000 yen per share) |
| Preferred stock (type 6): | Amount to be resolved at meeting of the Board of Directors (Max. 300,000 yen per share) |

Notes to Non-consolidated Statement of Income

1. Amounts less than one million yen have been omitted.
2. General and administrative expenses include salaries and related expenses of 1,203 million yen, rent and lease expenses of 315 million yen, advertising and publicity expenses of 215 million yen, taxes other than income taxes of 213 million yen and outsourcing expenses of 652 million yen.
3. Non-operating income includes interest received from a subsidiary of 26 million yen.
4. Non-operating expenses include interest on borrowings from a subsidiary of 1,490 million yen.

Securities

SMFG has no investments in subsidiaries and affiliates that have market value.

Tax Effect Accounting

1. Major components of deferred tax assets as of March 31, 2006 were as follows:

| | |
|----------------------------------|-------------|
| (Millions of yen) | |
| Deferred tax assets | |
| Stock of subsidiaries | 1,202,944 |
| Net operating loss carryforwards | 562 |
| Other | 43 |
| Subtotal | 1,203,550 |
| Valuation allowance | (1,202,944) |
| Deferred tax assets | 605 |
| Net deferred tax assets | 605 |

2. A reconciliation of the effective income tax rate reflected in the accompanying statement of income to the statutory tax rate for the year ended March 31, 2006 was as follows:

| | |
|--|--------------|
| Statutory tax rate | 40.69% |
| [Adjustments] | |
| Dividends exempted for income tax purposes | (45.78%) |
| Valuation allowance | 8.30% |
| Other | 0.01% |
| Effective income tax rate | <u>3.21%</u> |

Per Share Data

Stockholders' equity per share was 330,206.27 yen.

Net income per share was 6,836.35 yen.

Net income per share (diluted) was 6,737.46 yen.

(Note)

“Net income per share” and “Net income per share (diluted)” were calculated based on the following data.

| | | |
|--|-----------|-------------|
| Net income per share | | |
| Net income | 73,408 | million yen |
| Amount not attributed to common stockholders | 25,697 | million yen |
| [preferred stock dividends] | [25,697] | million yen |
| Net income attributed to common stock | 47,710 | million yen |
| Average number of common stock during the year | 6,978,978 | shares |

| | | |
|------------------------------------|-----------|-------------|
| Net income per share (diluted) | | |
| Adjustment for net income | 367 | million yen |
| [preferred stock dividends] | [367] | million yen |
| Increase in number of common stock | 156,973 | shares |
| [preferred stock] | [156,522] | shares |
| [stock acquisition rights] | [450] | shares |

Following potentially dilutive securities are not included in calculation of “Net income per share (diluted)” because they do not have dilutive effect:

| | |
|---|--|
| Preferred stock | |
| type 2: 100,000 shares outstanding | |
| type 3: 695,000 shares outstanding | |
| 1st-12th series type 4: 50,100 shares outstanding | |

Subsequent Events

- On April 28, 2006, SMFG resolved to make SMBC Friend Securities Co., Ltd. (“Friend Securities”) into a wholly-owned subsidiary of SMFG through a share exchange, subject to regulatory approval, in order to establish a new business model distinct from the conventional one by combining banking and securities businesses and maximizing synergies between them, and signed a share exchange agreement whose effective date is September 1, 2006 with Friend Securities.
- SMFG resolved to repurchase shares of Type 1 preferred stock and Type 2 preferred stock owned by the Resolution and Collection Corporation and retire such shares at the meeting of the Board of Directors held on May 12, 2006, and carried it out on May 17, 2006 as described below. The repurchase of the preferred shares was executed within SMFG's own stock repurchase limit pursuant to Article 210 of the former Commercial Code. The amount of retired shares was deducted from Other capital surplus.

Details of repurchase and retirement

 - Type 1 preferred stock
 - Number of shares to be repurchased: 35,000 shares
 - Total amount of repurchase: 141,960,000,000 yen
 - Type 2 preferred stock
 - Number of shares to be repurchased: 33,000 shares
 - Total amount of repurchase: 133,956,900,000 yen