



Financial Review

Sumitomo Mitsui Financial Group (Consolidated)

Sumitomo Mitsui Financial Group, Inc. and Subsidiaries

The following is a summary of SMFG's consolidated financial results for fiscal 2005 ended March 31, 2006.

1. Operating Results

Operating results for fiscal 2005 include the results of 162 consolidated subsidiaries (114 in Japan and 48 overseas) and 63 subsidiaries and affiliates accounted for by the equity method (36 in Japan and 27 overseas).

Gross profit showed a year-on-year increase of ¥65.1 billion to ¥2,090.1 billion, primarily attributable to an increase of ¥103.4 billion in income from fees and commissions generated by the consulting business for individuals, which includes sales of investment trusts and pension-type insurance products.

After factoring in general and administrative expenses, total credit cost and gains on stocks, ordinary income of ¥963.5 billion was posted, for a year-on-year increase of

¥993.8 billion, compared with ordinary loss of ¥30.3 billion registered in the previous term. The previous term's loss was attributable to the recording of a massive amount of credit cost resulting from non-performing loan (NPL) write-offs and provisioning by SMBC, the banking subsidiary of SMFG, to complete the intensive improvement in asset quality. As a result, credit cost in the reporting period was down sharply from the previous term.

Extraordinary gains and income taxes resulted in net income of ¥686.8 billion, compared with net loss of ¥234.2 billion loss in the previous term, a year-on-year improvement of ¥921.0 billion.

Number of Consolidated Subsidiaries, and Subsidiaries and Affiliates Accounted for by the Equity Method

March 31	2006 (A)	2005 (B)	Increase (decrease) (A) – (B)
Consolidated subsidiaries	162	167	(5)
Subsidiaries and affiliates accounted for by the equity method	63	53	10

Income Summary

Year ended March 31	Millions of yen		
	2006 (A)	2005 (B)	Increase (decrease) (A) – (B)
Consolidated gross profit	¥2,090,149	¥ 2,024,990	¥ 65,159
Net interest income	1,161,607	1,171,342	(9,735)
Trust fees	8,631	2,609	6,022
Net fees and commissions	619,591	516,109	103,482
Net trading income	32,807	144,387	(111,580)
Net other operating income	267,511	190,540	76,971
General and administrative expenses	(853,796)	(852,715)	(1,081)
Credit cost (A)	(333,571)	(1,196,797)	863,226
Write-off of loans	(69,355)	(759,399)	690,044
Provision for specific reserve	(45,047)	(493,947)	448,900
Provision for general reserve for possible loan losses	(120,078)	201,216	(321,294)
Others	(99,091)	(144,666)	45,575
Gains (losses) on stocks	47,119	(101,918)	149,037
Equity in earnings of affiliates	31,887	27,142	4,745
Other income (expenses)	(18,233)	69,005	(87,238)
Ordinary profit (loss)	963,554	(30,293)	993,847
Extraordinary gains (losses)	79,807	(78,242)	158,049
Losses on impairment of fixed assets	(12,303)	/	(12,303)
Gains on collection of written-off claims (B)	31,584	1,032	30,552
Income (loss) before income taxes and minority interests	1,043,362	(108,535)	1,151,897
Income taxes:			
Current	(69,818)	(30,638)	(39,180)
Refund	—	8,869	(8,869)
Deferred	(226,901)	(52,912)	(173,989)
Minority interests in net income	(59,800)	(50,983)	(8,817)
Net income (loss)	¥ 686,841	¥ (234,201)	¥ 921,042
Total credit cost (A) + (B)	¥ (301,987)	¥ (1,196,797)	¥ 894,810
[Reference]			
Consolidated banking profit (Billions of yen)	¥ 1,225.4	¥ 1,014.4	¥ 211.0

- Notes: 1. Consolidated gross profit = (Interest income – Interest expenses) + Trust fees + (Fees and commissions (income) – Fees and commissions (expenses)) + (Trading profits – Trading losses) + (Other operating income – Other operating expenses)
2. Total credit cost for the year ended March 31, 2006 includes gains on collection of written-off claims.
3. Consolidated banking profit = SMBC's nonconsolidated banking profit (before provision for general reserve for possible loan losses) + SMFG's ordinary profit + Other subsidiaries' ordinary profit (excluding nonrecurring factors) + Equity method affiliates' ordinary profit x Ownership ratio – Internal transactions (dividends, etc.)

Deposits (excluding negotiable certificates of deposit) as of March 31, 2006, stood at ¥70,834.1 billion, a ¥2,359.2 billion increase compared with the previous fiscal year-end. Negotiable certificates of deposit stood at ¥2,708.6 billion, a decrease of ¥4.6 billion over the same period. Loans and bills discounted increased ¥2,467.3 billion to ¥57,267.2 billion, while securities increased ¥1,272.1 billion to ¥25,505.8 billion.

During the term, stockholders' equity increased ¥1,678.6 billion to ¥4,454.3 billion, due to the posting of net income, an increase in unrealized gains on the valuation of securities, and a capital increase through the public offering of new shares and the secondary offering of treasury stock.

Assets, Liabilities and Stockholders' Equity

March 31	Millions of yen		
	2006 (A)	2005 (B)	Increase (decrease) (A) – (B)
Assets.....	¥107,010,575	¥99,731,858	¥7,278,717
Loans and bills discounted.....	57,267,203	54,799,805	2,467,398
Securities.....	25,505,861	24,233,701	1,272,160
Liabilities.....	101,443,151	95,934,927	5,508,224
Deposits.....	70,834,125	68,474,861	2,359,264
Negotiable certificates of deposit.....	2,708,643	2,713,270	(4,627)
Minority interests.....	1,113,025	1,021,203	91,822
Stockholders' equity.....	4,454,399	2,775,728	1,678,671

2. Unrealized Gains (Losses) on Securities

Net unrealized gains on securities as of March 31, 2006 amounted to ¥1,342.7 billion, which is an increase of ¥648.0 billion from the previous fiscal year-end. Net unrealized gains on other securities (including "other money held in trust"), changes in which are directly credited to

stockholders' equity, increased by ¥677.0 billion over the same period, to ¥1,373.5 billion. The increase in unrealized gains on other securities resulted from an increase in unrealized gains on stocks in the amount of ¥997.6 billion year on year due to higher stock prices.

Unrealized Gains (Losses) on Securities

March 31	Millions of yen						
	2006				2005		
	Net unrealized gains (losses) (A)	(A) – (B)	Unrealized gains	Unrealized losses	Net unrealized gains (losses) (B)	Unrealized gains	Unrealized losses
Held-to-maturity securities.....	¥ (30,781)	¥ (28,963)	¥ 580	¥ 31,361	¥ (1,818)	¥ 2,114	¥ 3,933
Other securities.....	1,373,337	676,998	1,771,170	397,833	696,339	801,356	105,017
Stocks.....	1,702,690	997,637	1,722,129	19,438	705,053	750,480	45,426
Bonds.....	(297,233)	(312,194)	988	298,222	14,961	34,971	20,010
Others.....	(32,120)	(8,445)	48,052	80,172	(23,675)	15,903	39,579
Other money held in trust.....	209	5	209	—	204	300	95
Total.....	1,342,765	648,041	1,771,960	429,195	694,724	803,771	109,046
Stocks.....	1,702,690	997,637	1,722,129	19,438	705,053	750,480	45,426
Bonds.....	(328,288)	(340,909)	1,294	329,583	12,621	36,554	23,932
Others.....	(31,636)	(8,686)	48,535	80,172	(22,950)	16,735	39,686

- Notes: 1. The figures above include unrealized gains (losses) on negotiable certificates of deposit bought in "Deposits with banks" and beneficiary claims on commodity investment trust in "Commercial paper and other debt purchased."
2. Unrealized gains (losses) on stocks are mainly calculated using the average market price during the final month of the respective reporting period. The rest of the securities are valued at the market price as of the balance sheet date.
3. "Other securities" and "Other money held in trust" are valued and recorded on the consolidated balance sheet at market prices. The figures in the table above indicate the differences between the acquisition costs (or amortized costs) and the balance sheet amounts.
- "Unrealized gains (losses) on other securities" as of March 31, 2006 include losses of ¥3,193 million that were recognized in the income statement by applying fair value hedge accounting, which are included in the amount to be directly included in stockholders' equity. "Unrealized gains (losses) on other securities" as of March 31, 2005 include gains of ¥469 million that were recognized as income by applying fair value hedge accounting and valuation gains of ¥82 million on embedded financial instruments in their entirety that were recorded as income because their embedded derivatives are not measured separately. Therefore, ¥551 million was excluded from the amount to be directly included in stockholders' equity.

3. Consolidated Capital Ratio

SMFG's consolidated capital ratio as of March 31, 2006 was 12.39%. (Please refer to "Capital Ratio" section on page 122 for more information.)

Total capital, which constitutes the numerator in the capital ratio calculation equation, was ¥8,094.3 billion, representing a ¥2,074.2 billion increase from the previous fiscal year-end. The main factors were the posting of net income, the issuance of new shares through public offering and private placement,

and the secondary offering of treasury stock.

On the other hand, risk-weighted assets, the denominator in the equation, increased ¥4,769.7 billion to ¥65,322.3 billion from the previous fiscal year-end. This is principally attributable to increases in loans made overseas, and the active marketing of housing loans and unsecured loans to small and medium-sized enterprises.

Consolidated Capital Ratio

March 31	Millions of yen		
	2006 (A)	2005 (B)	Increase (decrease) (A) – (B)
Tier I capital (A)	¥ 4,645,905	¥ 3,262,250	¥1,383,655
Tier II capital included as qualifying capital (B)	4,067,736	3,262,250	805,486
Deductions (C)	(619,279)	(504,430)	(114,849)
Total capital (D) = (A) + (B) – (C)	8,094,361	6,020,069	2,074,292
Risk-adjusted assets (E)	65,322,349	60,552,620	4,769,729
Capital ratio = (D) / (E) × 100	12.39%	9.94%	2.45%

4. Dividend Policy

Given the public nature of its business and respecting the stockholders' interests, SMFG subscribes to a fundamental policy of paying dividends as deemed appropriate in view of the need to increase capital and preserve sound operation.

The term-end dividend was determined taking into account the need for a sufficient amount of retained earnings for SMFG as a whole to enhance Tier I capital.

As a result, SMFG paid an annual dividend of ¥3,000 per share of common stock. Annual dividends for preferred stock were paid in the predetermined amounts for each category of preferred stock.

SMFG did not pay an interim dividend for the reporting period.