

Sumitomo Mitsui Banking Corporation (Nonconsolidated)

Sumitomo Mitsui Banking Corporation

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

1. Operating Results

Banking profit (before provision for general reserve for possible loan losses) for fiscal 2005 increased ¥25.0 billion to ¥965.5 billion year on year, as a result of a ¥29.1 billion increase in gross banking profit to ¥1,552.0 billion, and a ¥4.0 billion increase in expenses (excluding nonrecurring losses) to ¥586.4 billion.

Ordinary profit, calculated by adjusting banking profit (before provision for general reserve for possible loan losses) for nonrecurring items such as total credit cost and gains on stocks, amounted to ¥720.9 billion.

After adjusting ordinary profit for extraordinary gains (losses) and income taxes, net income was ¥519.5 billion, a year-on-year increase of ¥656.3 billion.

2. Income Analysis

Gross Banking Profit

Gross banking profit for fiscal 2005 increased ¥29.1 billion year on year to ¥1,552.0 billion. This was attributable to a ¥68.5 billion year-on-year increase in revenue from fees and commissions generated by the consulting business, which

includes sales of investment trusts and pension insurance products, and securities brokerage services. A year-on-year decline of ¥17.9 billion in profit on banking operations in foreign currencies by the International Banking Unit, owing to the rise in U.S. interest rates, was more than offset by increased revenue from fees and commissions.

Expenses

Expenses (excluding nonrecurring losses) increased ¥4.0 billion year on year, to ¥586.4 billion. This increase is mainly attributable to higher expenses incurred in the purchase of premises and equipment as part of our policy of aggressive investment in priority business fields, which more than offset our continued efforts to cut costs in existing operations through workforce downsizing and rationalization of administrative systems.

Banking Profit

Banking profit (before provision for general reserve for possible loan losses) increased ¥25.0 billion year on year, to ¥965.5 billion.

Banking Profit

Year ended March 31	Millions of yen		
	2006 (A)	2005 (B)	Increase (decrease) (A) – (B)
Gross banking profit	¥1,552,033	¥1,522,861	¥ 29,172
[Gross domestic banking profit]	[1,266,488]	[1,182,811]	[83,677]
[Gross international banking profit]	[285,545]	[340,049]	[(54,504)]
Net interest income	954,544	972,506	(17,962)
Trust fees	8,626	2,609	6,017
Net fees and commissions	366,675	298,076	68,599
Net trading income	11,937	131,579	(119,642)
Net other operating income	210,248	118,088	92,160
[Gross banking profit (excluding gains (losses) on bonds)]	[1,562,354]	[1,544,452]	[17,902]
Expenses (excluding nonrecurring losses)	(586,459)	(582,365)	(4,094)
Personnel expenses	(192,359)	(204,146)	11,787
Nonpersonnel expenses	(360,720)	(341,534)	(19,186)
Taxes	(33,379)	(36,684)	3,305
Banking profit (before provision for general reserve for possible loan losses)	965,573	940,495	25,078
[Banking profit (before provision for general reserve for possible loan losses and gains (losses) on bonds)]	[975,894]	[962,086]	[13,808]
Provision for general reserve for possible loan losses	(154,980)	351,477	(506,457)
Banking profit	810,593	1,291,972	(481,379)

<Reference>

Banking Profit by Business Unit

Year ended March 31, 2006	Billions of yen						
	Consumer Banking Unit	Middle Market Banking Unit	Corporate Banking Unit	International Banking Unit	Treasury Unit	Others	Total
Banking profit (before provision for general reserve for possible loan losses)	¥155.6	¥487.5	¥165.4	¥65.5	¥201.3	¥(109.7)	¥965.6
Year-on-year increase (decrease)	29.3	(9.2)	(12.9)	17.9	(3.6)	3.6	25.1

Notes: 1. Year-on-year comparisons are those used for internal reporting and exclude changes due to interest rate and foreign exchange rate fluctuations.
2. "Others" consists of (1) financing costs on preferred securities and subordinated debt, (2) profit earned on investing the Bank's own capital, and (3) adjustment of inter-unit transactions, etc.

Nonrecurring Losses (Credit Cost, etc.)

Nonrecurring losses amounted to ¥89.6 billion, representing a major improvement from the previous year. This was the result of the substantial NPL write-offs implemented in the previous term in order to complete the intensive improvement in asset quality to cope with the possible future materialization of risk. As a consequence, credit cost declined by ¥1,199.7 billion from the previous term, to ¥106.5 billion.

Total credit cost was ¥230.9 billion, net of credit cost, provision for general reserve for possible loan losses, and gains on collection of written-off claims. (Please refer to the "Asset Quality" section beginning on page 44 for more information on credit cost and problem assets.)

Ordinary Profit (Loss)

As a result of the foregoing, ordinary profit totaled ¥720.9 billion, an increase of ¥792.6 billion from the previous term.

Extraordinary Gains (Losses)

Net extraordinary gains amounted to ¥25.7 billion, a year-on-year increase of ¥54.1 billion.

Net Income

Current income taxes amounted to ¥13.5 billion, and deferred income taxes amounted to ¥213.6 billion. As a result, net income increased ¥656.3 billion to ¥519.5 billion year on year.

Ordinary Profit and Net Income

Year ended March 31	Millions of yen		
	2006 (A)	2005 (B)	Increase (decrease) (A) – (B)
Banking profit (before provision for general reserve for possible loan losses)	¥ 965,573	¥ 940,495	¥ 25,078
Provision for general reserve for possible loan losses (A)	(154,980)	351,477	(506,457)
Banking profit	¥ 810,593	¥1,291,972	¥ (481,379)
Nonrecurring gains (losses)	(89,659)	(1,363,653)	1,273,994
Credit cost (B)	(106,560)	(1,306,320)	1,199,760
Write-off of loans	(12,650)	(697,941)	685,291
Provision for specific reserve	(15,825)	(474,155)	458,330
Losses on sale of delinquent loans	(79,659)	(138,052)	58,393
Provision for loan loss reserve for specific overseas countries	1,575	3,828	(2,253)
Gains (losses) on stocks	25,460	(118,727)	144,187
Gains on sale of stocks	70,085	113,059	(42,974)
Losses on sale of stocks	(13,367)	(4,206)	(9,161)
Losses on devaluation of stocks	(31,257)	(227,580)	196,323
Others	(8,559)	61,394	(69,953)
Ordinary profit (loss)	720,933	(71,680)	792,613
Extraordinary gains (losses)	25,739	(28,398)	54,137
Gains (losses) on disposal of premises and equipment	1,457	(12,495)	13,952
Losses on impairment of fixed assets	(6,300)	/	(6,300)
Gains on collection of written-off claims (C)	30,605	181	30,424
Amortization of net transition obligation from initial application of the new accounting standard for employee retirement benefits	—	(16,001)	16,001
Income taxes:			
Current	(13,512)	(6,379)	(7,133)
Refund	—	8,184	(8,184)
Deferred	(213,639)	(38,579)	(175,060)
Net income (loss)	¥ 519,520	¥ (136,854)	¥ 656,374
Total credit cost (A) + (B) + (C)	¥(230,935)	¥ (954,843)	¥ 723,908

Note: Total credit cost for the year ended March 31, 2006 includes gains on collection of written-off claims.

3. Assets, Liabilities and Stockholders' Equity

Assets

SMBC's total assets as of March 31, 2006 stood at ¥97,443.4 billion on a nonconsolidated basis, a ¥6,313.6 billion increase compared with the previous fiscal year-end. Factors behind this increase in total assets include 1) a rise in the term-end balance of loans of ¥1,789.9 billion compared with the previous term-end, due to growth in housing loans, unsecured loans to SMEs, and overseas loans; 2) an increase in the value of SMBC's securities holdings of ¥1,525.8 billion, as a result of growth in the category of "Other securities," consisting mainly of overseas securities, and the rise in stock prices; and 3) an increase of ¥1,388.3 billion in receivables under securities borrowing transactions to take advantage of interest rate fluctuations.

Liabilities

Liabilities as of March 31, 2006 increased ¥5,431.6 billion to ¥93,808.6 billion from the previous fiscal year-end. This was the result of an increase of ¥2,525.4 billion in bills sold as part of our strategy of seeking more efficient means of procuring funds, and by an increase of ¥2,282.4 billion in deposits, spurred by an increase in the liquid deposit balance.

Stockholders' Equity

Stockholders' equity increased by ¥882.0 billion from the previous year to ¥3,634.7 billion as of March 31, 2006. This is mainly attributable to the posting of net income and an increase in net unrealized gains on available-for-sale securities.

Assets, Liabilities and Stockholders' Equity

March 31	Millions of yen		
	2006 (A)	2005 (B)	Increase (decrease) (A) – (B)
Assets.....	¥97,443,428	¥91,129,776	¥6,313,652
Loans and bills discounted.....	51,857,559	50,067,586	1,789,973
Securities	25,202,541	23,676,696	1,525,845
Liabilities.....	93,808,652	88,377,041	5,431,611
Deposits	65,070,784	62,788,328	2,282,456
Negotiable certificates of deposit	3,151,382	2,803,299	348,083
Stockholders' equity	3,634,776	2,752,735	882,041

4. Unrealized Gains (Losses) on Securities

Net unrealized gains on securities as of March 31, 2006 amounted to ¥1,553.2 billion, which was an increase of ¥843.1 billion from the previous fiscal year-end. Net unrealized gains on other securities (including "other money held in trust"), changes in which are recorded in stockholders'

equity, increased by ¥664.8 billion over the same period, to ¥1,316.4 billion. The increase in unrealized gains on other securities was attributable to an unrealized gain on stockholdings from a rise in 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.....	¥ (30,782)	¥ (28,938)	¥ 577	¥ 31,359	¥ (1,844)	¥ 2,089	¥ 3,933	
Stocks of subsidiaries and affiliates	267,575	207,232	270,285	2,710	60,343	60,690	347	
Other securities	1,316,206	664,821	1,695,589	379,383	651,385	750,143	98,757	
Stocks	1,632,404	965,078	1,649,881	17,476	667,326	708,643	41,317	
Bonds	(282,254)	(289,954)	727	282,981	7,700	27,343	19,642	
Others	(33,943)	(10,302)	44,980	78,924	(23,641)	14,155	37,797	
Other money held in trust.....	209	5	209	—	204	300	95	
Total	1,553,208	843,120	1,966,661	413,453	710,088	813,222	103,133	
Stocks	1,899,979	1,172,310	1,920,166	20,186	727,669	769,333	41,664	
Bonds	(313,307)	(318,667)	1,033	314,341	5,360	28,925	23,565	
Others	(33,463)	(10,522)	45,460	78,924	(22,941)	14,963	37,904	

- 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 (excluding stocks of subsidiaries and affiliates) are 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 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.

5. Deferred Tax Assets

Deferred Tax Assets on the Balance Sheet

SMBC computes deferred tax assets based on reasonable estimates of the size of tax benefits on collectibility of assets in question in the future in line with Accounting Standards for Tax Effect Accounting (issued by the Business Accounting Deliberation Council on October 30, 1998) and related practical guidelines. Moreover, SMBC continues to take a conservative stance on the recognition of deferred tax assets from the viewpoint of maintaining a sound financial position, taking into full consideration the opinions expressed in the "Strict Audit to Major Banks," issued by the Japanese Institute of Certified Public Accountants (JICPA) on February 24, 2003.

Net deferred tax assets as of March 31, 2006 amounted to ¥976.2 billion, a ¥526.0 billion decrease from the previous term-end. This is mainly attributable to a steady decrease in deferred tax assets by the posting of net income, as well as a substantial increase in deferred tax liabilities corresponding to a substantial increase in unrealized gains on stockholdings against the backdrop of a rising stock market.

In addition, the valuation allowance (which was not included in the scope of outstanding deferred tax assets due to taking a conservative stance) amounted to ¥504.6 billion at March 31, 2006.

March 31		(Billions of yen)			(Reference)	
		2006	Change from 2005	2005	Temporary differences 2006	
(A)	Total deferred tax assets (B) – (C)	1	¥1,572.7	¥(253.1)	¥1,825.8	
(B)	Subtotal of deferred tax assets	2	2,077.3	(301.8)	2,379.1	¥5,090.5
	Reserve for possible loan losses	3	250.7	(64.7)	315.4	617.0
	Write-off of loans	4	170.2	(391.9)	562.1	418.9
	Write-off of securities	5	447.7	(85.3)	533.0	1,101.9
	Reserve for employee retirement benefits	6	74.4	(2.5)	76.9	183.2
	Depreciation	7	6.5	0.4	6.1	16.0
	Net unrealized losses on other securities	8	—	—	—	—
	Net operating loss carryforwards	9	1,087.4	264.6	822.8	2,654.2
	Other	10	40.4	(22.4)	62.8	99.3
(C)	Valuation allowance	11	504.6	(48.7)	553.3	
(D)	Total deferred tax liabilities	12	¥ 596.5	¥ 272.9	¥ 323.6	¥1,468.0
	Gains on securities contributed to employee retirement benefits trust	13	51.6	(0.1)	51.7	127.1
	Net unrealized gains on other securities	14	536.2	271.7	264.5	1,319.7
	Other	15	8.7	1.3	7.4	21.2
	Net deferred tax assets (balance sheet amount) (A) – (D)	16	¥ 976.2	¥(526.0)	¥1,502.2	
	Amount corresponding to the deferred tax liabilities shown in 14 above (Note)	17	(536.2)	(271.7)	(264.5)	(1,319.7)
	Net deferred tax assets excluding the amount shown in 17 above	18	1,512.4	(254.3)	1,766.7	3,700.0
	Effective income tax rate	19	40.63%	—	40.63%	

Note: Deferred tax assets are recognized on the balance sheet on a net basis after offsetting against deferred tax liabilities arising from net unrealized gains on other securities. But the collectability is assessed for the gross deferred tax assets, before offsetting against deferred tax liabilities. (JICPA Auditing Committee Report No. 70 "Auditing Treatment Regarding Application of Tax Effect Accounting to Valuation Differences of Other Securities and Losses on Impairment of Fixed Assets")

Reason for Recognition of Deferred Tax Assets on the Balance Sheet

(a) Recognition Criteria

Practical Guideline 5 (1), examples (4) proviso

- (1) SMBC has significant tax loss carryforwards that result from taking the measures described below in order to quickly strengthen its financial base under the prolonged deflationary pressure, and are accordingly judged to be attributable to extraordinary factors. As a result, SMBC recognized deferred tax assets to the limit of the estimated future taxable income for the period (approximately 5 years) pursuant to the practical guidelines on assessing the collectability of deferred tax assets issued by the JICPA ("Practical Guidelines") (*).
- (a) Disposal of Non-performing Loans
SMBC established internal standards for write-offs and provisions based on self-assessment in accordance with the "Prompt Corrective Action" adopted in fiscal 1998 pursuant to the law concerning the maintenance of sound management of financial institutions (June 1996). SMBC has been aggressively disposing of non-performing loans and bolstering provisions against the risk of asset deterioration under the severe business environment of a prolonged sluggish economy.
In addition, pursuant to the government's "Program for Financial Revival" of October 2002, SMBC accelerated the disposal of non-performing loans in order to reduce the problem asset ratio to half by the end of fiscal 2004. As a result, SMBC achieved this target 6 months ahead of schedule, in the first half of fiscal 2004. In the process, taxable disposals that were made in the past were realized, while taxable disposals (**) were newly recognized (taxable disposal of non-performing loans as of March 31, 2006 amounted to approximately ¥1.04 trillion).
- (b) Write-off of Stocks
SMBC has been accelerating its effort to reduce stockholdings in order to lower the risk of stock price fluctuations, and to comply, at an early date, with the regulation limiting stockholdings that was adopted in fiscal 2001.
During fiscal 2002, SMBC sold stocks and reduced the balance by approximately ¥1.1 trillion and also disposed in lump sum unrealized losses on stocks of approximately ¥1.2 trillion by writing off impaired stocks and using the gains on the March 2003 merger. Consequently, SMBC complied with the regulation limiting stockholdings at the end of fiscal 2002, before the deadline.
As a result, the outstanding balance of taxable write-offs on securities (***) increased temporarily (from approximately ¥0.1 trillion as of March 31, 1999 to approximately ¥1.5 trillion as of March 31, 2003). On the other hand, taxable write-offs of securities carried out in the past are now being realized through accelerated selling of stocks (the balance of taxable write-offs on securities as of March 31, 2006 amounted to approximately ¥1.1 trillion).
- (2) Consequently, tax loss carryforwards (**) amounted to approximately ¥2.65 trillion as of March 31, 2006, but they are certain to be offset by the end of their carry-over period by the taxable income that will be generated in the future. No material tax loss carryforwards have expired in the past.

(*) JICPA Auditing Committee Report No. 66 "Auditing Treatment Regarding Judgment of Realizability of Deferred Tax Assets"

(**) Corresponds to "Temporary differences" in the table on the previous page.

(Reference 1) Outline of Practical Guideline 5 (1), examples (4)

When a company has material tax loss carryforwards as of term-end, deferred tax assets may be considered to be collectable to the extent of the estimated taxable income for the next fiscal year and relating to the temporary differences expected to be reversed in the next fiscal year.

However, when tax loss carryforwards are due to the company's restructuring efforts, changes in laws, and/or other extraordinary factors, the deferred tax assets may be considered to be collectable to the extent of the estimated taxable income for the estimation period (approximately 5 years) and relating to the temporary differences expected to be reversed over the estimation period.

(b) Period for Future Taxable Income to be Estimated: 5 years

(c) Accumulated Amount of Estimated Future Taxable Income before Adjustments for the Next 5 Years

		Billions of yen	
		Estimates of next 5 years	
	Banking profit (before provision for general reserve for possible loan losses)	1	¥5,205.0
A	Income before income taxes	2	3,385.8
B	Adjustments to taxable income (excluding reversal of temporary differences as of March 31, 2006)	3	680.5
C	Taxable income before adjustments (A + B)	4	¥4,066.3
			⇩
	Deferred tax assets corresponding to taxable income before adjustments	5	¥1,652.1

Basic Policy on Estimation of Future Taxable Income

- (1) Estimate when the temporary differences will be reversed
- (2) Conservatively estimate the taxable income before adjustments for the next 5 years
 - (a) Rationally make earnings projections for up to fiscal 2010 based on the "Plan for strengthening the financial base (up to fiscal 2008)"
 - (b) Reduce by an amount reflecting the uncertainty of the projected amount from the projected amount
 - (c) Add the adjustments to the above amount
- (3) Apply the effective tax rate to the above amount and record the amount as "deferred tax assets"

(Reference 2) Income of final return (before deducting tax loss carryforwards) for the last 5 years

	Billions of yen				
	FY2005	FY2004	FY2003	FY2002	FY2001
Income of final return (before deducting tax loss carryforwards).....	¥(652.8)	¥317.2	¥(1,437.8)	¥(745.5)	¥241.9

Notes: 1. Income of final return (before deducting tax loss carryforwards) = Taxable income before adjustments for each fiscal year – Temporary differences to be reversed for each fiscal year

2. Since the final declaration for the corporate income tax is being done in the end of June, the figures for March 31, 2006 are estimated income of final return as of March 31, 2006.

3. The figures above include amounts arising from "extraordinary factors" that are specified in the Practical Guidelines. Taxable income has been reported each year when these amounts are excluded.