

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 the first half of fiscal 2005, the six-month period ended September 30, 2005.

1. Operating Results

Business results for the first half of fiscal 2005 include the results of 166 consolidated subsidiaries (120 in Japan and 46 overseas) and 59 subsidiaries and affiliates accounted for by the equity method (31 in Japan and 28 overseas).

Consolidated gross profit increased ¥1.9 billion year on year to ¥1,021.9 billion. Net interest income declined by ¥42.0 billion as a result of an increase in interest paid on deposits and other fund procurement expenses incurred during the six-month reporting period. This was offset by growth in income from fees and commissions, an increase of ¥43.3 billion, attributable to growth in the sale of investment trusts and similar products.

After factoring in general and administrative expenses, total credit cost and gains on stocks, ordinary profit increased ¥349.6 billion year on year to ¥463.7 billion, principally owing to a major decrease in total credit cost.

Net income increased ¥338.9 billion to ¥392.3 billion, due in part to the posting of net extraordinary gains of ¥47.5 billion.

Deposits (excluding negotiable certificates of deposit) as of September 30, 2005 stood at ¥69,242.5 billion, a ¥767.6 billion increase compared with the previous fiscal year-end. Negotiable certificates of deposit stood at ¥2,529.7 billion, a decrease of ¥183.4 billion over the same period.

Loans and bills discounted increased ¥1,295.2 billion to ¥56,095.0 billion, while securities decreased ¥654.1 billion to ¥23,579.5 billion.

Stockholders' equity increased ¥486.6 billion during the reporting period to ¥3,262.3 billion, due mainly to the posting of net income as well as an increase in the net unrealized gains on other securities (available-for-sale securities).

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

September 30, 2005 and 2004, and March 31, 2005

	September 30, 2005	September 30, 2004	March 31, 2005
Consolidated subsidiaries.....	166	166	167
Subsidiaries and affiliates accounted for by the equity method.....	59	50	53

Income Summary

Six months ended September 30, 2005 and 2004, and year ended March 31, 2005

	Millions of yen		
	Six months ended September 30, 2005	Six months ended September 30, 2004	Year ended March 31, 2005
Consolidated gross profit	¥1,021,916	¥1,019,955	¥2,024,990
Net interest income	553,715	595,790	1,171,342
Trust fees	4,285	729	2,609
Net fees and commissions	278,707	235,379	516,109
Net trading income	12,259	30,322	144,387
Net other operating income	172,948	157,732	190,540
General and administrative expenses	(421,626)	(423,612)	(852,715)
Total credit cost	(176,525)	(612,826)	(1,196,797)
Write-off of loans	(42,681)	(391,236)	(759,399)
Provision for specific reserve	(143,816)	(408,321)	(493,947)
Provision for general reserve for possible loan losses	39,495	240,215	201,216
Others	(29,522)	(53,482)	(144,666)
Gains (losses) on stocks	35,265	48,817	(101,918)
Equity in earnings of affiliates	14,081	12,893	27,142
Other income (expenses)	(9,342)	68,873	69,005
Ordinary profit (loss)	463,768	114,100	(30,293)
Extraordinary gains (losses)	47,524	(17,385)	(78,242)
Losses on impairment of fixed assets	(10,580)	/	/
Income (loss) before income taxes and minority interests	511,293	96,715	(108,535)
Income taxes:			
Current	(32,367)	(17,079)	(30,638)
Refund	—	8,104	8,869
Deferred	(60,672)	(5,277)	(52,912)
Minority interests in net income	(25,925)	(29,090)	(50,983)
Net income (loss)	¥ 392,327	¥ 53,372	¥ (234,201)
[Reference]			
Consolidated banking profit (Billions of yen)	¥ 579.6	¥ 544.9	¥ 1,014.4

- 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. 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.)

Assets, Liabilities and Stockholders' Equity

September 30, 2005 and 2004, and March 31, 2005

	Millions of yen		
	September 30, 2005	September 30, 2004	March 31, 2005
Assets	¥102,233,832	¥101,054,242	¥99,731,858
Loans and bills discounted	56,095,034	55,422,034	54,799,805
Securities	23,579,596	24,073,122	24,233,701
Liabilities	97,896,973	97,015,765	95,934,927
Deposits	69,242,541	67,619,961	68,474,861
Negotiable certificates of deposit	2,529,775	3,038,333	2,713,270
Minority interests	1,074,517	1,017,565	1,021,203
Stockholders' equity	3,262,340	3,020,911	2,775,728

2. Unrealized Gains (Losses) on Securities

Net unrealized gains on securities as of September 30, 2005 amounted to ¥890.4 billion, which was an increase of ¥195.7 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 ¥201.3 billion over the same period, to ¥897.8 billion.

The increase in unrealized gains on other securities resulted from an increase in unrealized gains on stocks in the amount of ¥287.6 billion due to higher stock prices.

Unrealized Gains (Losses) on Securities

September 30, 2005 and March 31, 2005

	September 30, 2005				March 31, 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.....	¥ (7,411)	¥ (5,593)	¥ 1,390	¥ 8,802	¥ (1,818)	¥ 2,114	¥ 3,933
Other securities	897,653	201,314	1,070,345	172,691	696,339	801,356	105,017
Stocks.....	992,730	287,677	1,031,519	38,788	705,053	750,480	45,426
Bonds	(83,132)	(98,093)	4,822	87,955	14,961	34,971	20,010
Others.....	(11,944)	11,731	34,002	45,947	(23,675)	15,903	39,579
Other money held in trust	209	5	209	—	204	300	95
Total	890,450	195,726	1,071,944	181,493	694,724	803,771	109,046
Stocks.....	992,730	287,677	1,031,519	38,788	705,053	750,480	45,426
Bonds	(90,986)	(103,607)	5,771	96,757	12,621	36,554	23,932
Others.....	(11,293)	11,657	34,654	45,947	(22,950)	16,735	39,686

- Notes: 1. The figures above include unrealized gains (losses) on negotiable certificates of deposit in “Deposits with banks” and beneficiary claims on trust such as receivables in “Commercial paper and other debt purchased.”
2. Unrealized gains (losses) on stocks are mainly calculated using average market prices during the final month of the reporting period. The rest of the securities are valued at market prices 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 September 30, 2005 include losses of ¥557 million that were recognized in the income statement by applying fair value hedge accounting and valuation losses of ¥400 million on embedded financial instruments in their entirety that were recorded in the income statement because their embedded derivatives are not measured separately. Therefore, ¥957 million was added to 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 September 30, 2005 was 11.00%.

Total capital, which constitutes the numerator in the capital ratio calculation equation, was ¥6,944.1 billion, representing a ¥924.0 billion increase from the previous fiscal year-end. This was due mainly to the posting of net income and an increase in subordinated debt.

On the other hand, risk-adjusted assets, the denominator in the equation, increased ¥2,575.2 billion to ¥63,127.8 billion from the previous fiscal year-end. This is principally attributable to increases in loans made overseas, a growth in the value of assets denominated in foreign currencies (as a result of the depreciation of the yen on the foreign exchange market), and the active marketing of housing loans and unsecured loans to small and medium-sized enterprises.

Consolidated Capital Ratio

September 30, 2005 and 2004, and March 31, 2005

	Millions of yen		
	September 30, 2005	September 30, 2004	March 31, 2005
Tier I capital (A)	¥ 3,746,083	¥ 3,645,613	¥ 3,262,250
Tier II capital included as qualifying capital (B).....	3,746,083	3,419,442	3,262,250
Deductions (C).....	548,006	443,633	504,430
Total capital (D) = (A) + (B) – (C).....	6,944,161	6,621,422	6,020,069
Risk-adjusted assets (E).....	63,127,899	60,539,127	60,552,620
Capital ratio = (D) / (E) × 100.....	11.00%	10.93%	9.94%