Sumitomo Mitsui Banking Corporation (Nonconsolidated)

Sumitomo Mitsui Banking Corporation

The following is a summary of SMBC's nonconsolidated financial results for the first half of fiscal 2005, the six-month period ended September 30, 2005.

1. Operating Results

Banking profit (before provision for general reserve for possible loan losses) in the first half of fiscal 2005 increased ¥2.6 billion year on year to ¥474.2 billion, as a result of a ¥3.9 billion increase in gross banking profit to ¥766.6 billion. Meanwhile, expenses (excluding nonrecurring losses) increased ¥1.2 billion to ¥292.4 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 net gains on stocks, increased ¥234.5 billion to ¥359.7 billion.

After adjusting ordinary profit for extraordinary gains (losses) and income taxes, net income increased ¥180.2 billion to ¥298.7 billion.

2. Income Analysis

Gross Banking Profit

Gross banking profit in the first half of fiscal 2005 increased ¥3.9 billion year on year to stand at ¥766.6 billion. This occurred in spite of a ¥36.5 billion decline in interest income owing to a fall in earnings by the Treasury Unit resulting from a rise in dollar-denominated interest rates. The primary factors in the increase in gross banking profit were a ¥36.4 billion growth in income from fees and commissions generated by the consulting business, which includes sales of investment trusts and pension-type insurance products, and a ¥3.5 billion increase in income from trust fees.

Expenses

Expenses (excluding nonrecurring losses) increased ¥1.2 billion year on year to ¥292.4 billion. Reductions in personnel expenses achieved through workforce downsizing were not sufficient to offset the costs incurred in the purchase of premises and equipment as part of our policy of aggressive investment in priority business fields.

Banking Profit

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
Gross banking profit	**¥766,648**	¥762,716	¥1,522,861
[Gross domestic banking profit]	**[626,576]**	[590,117]	[1,182,811]
[Gross international banking profit]	**[140,071]**	[172,598]	[340,049]
Net interest income	**454,350**	490,868	972,506
Trust fees	**4,284**	729	2,609
Net fees and commissions	**163,433**	127,021	298,076
Net trading income	**3,570**	21,150	131,579
Net other operating income	**141,009**	122,946	118,088
[Gross banking profit (excluding gains (losses) on bonds)]	**[738,282]**	[736,053]	[1,544,452]
Expenses (excluding nonrecurring losses)	**(292,415)**	(291,136)	(582,365)
Personnel expenses	**(98,888)**	(104,320)	(204,146)
Nonpersonnel expenses	**(177,046)**	(168,549)	(341,534)
Taxes	**(16,480)**	(18,266)	(36,684)
Banking profit (before provision for general reserve for possible loan losses)	**474,233**	471,580	940,495
[Banking profit (before provision for general reserve for possible loan losses and gains (losses) on bonds)]	**[445,867]**	[444,917]	[962,086]
Provision for general reserve for possible loan losses	**24,335**	349,734	351,477
Banking profit	**498,568**	821,314	1,291,972

<Reference>

Banking Profit by Business Unit

Six months ended September 30, 2005

	Billions of yen						
	Consumer Banking Unit	Middle Market Banking Unit	Corporate Banking Unit	International Banking Unit	Treasury Unit	Others	Total
Banking profit (losses) (before provision for general reserve for possible loan losses)	¥69.0	¥238.3	¥80.3	¥28.0	¥114.5	¥(55.9)	¥474.2
Year-on-year increase (decrease)	15.8	10.6	(2.6)	6.3	(27.6)	0.1	2.6

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.

Banking Profit

Banking profit (before provision for general reserve for possible loan losses) increased ¥2.6 billion year on year to ¥474.2 billion.

Nonrecurring Losses (Credit Costs, etc.)

Nonrecurring losses decreased significantly to ¥138.7 billion due to a ¥651.5 billion decrease in nonperforming loan write-offs and gains on sale of stocks. The nonperforming loan write-offs declined as a result of measures we had taken to strengthen our loan asset portfolio, including additional provisions for general reserve for possible loan losses.

Total credit cost was ¥129.7 billion, net of a reversal of general reserve for possible loan losses, in the amount of ¥24.3 billion. (Please refer to the "Asset Quality" section beginning on page 23 for more information on credit cost and problem assets.)

Ordinary Profit

As a result of the foregoing, ordinary profit increased ¥234.5 billion year on year to ¥359.7 billion.

Extraordinary Gains and Losses

Net extraordinary losses amounted to ¥4.6 billion, a significant improvement compared with the ¥12.1 billion in losses recorded in the corresponding period of the previous year.

Net Income

Income taxes prior to the application of tax-effect accounting amounted to ¥5.0 billion, and deferred income taxes under tax-effect accounting amounted to ¥51.2 billion. As a result of the various factors described above, net income increased ¥180.2 billion to ¥298.7 billion year on year.

Ordinary Profit and Net Income

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
Banking profit (before provision for general reserve for possible loan losses)	**¥ 474,233**	¥ 471,580	¥ 940,495
Provision for general reserve for possible loan losses (A)	**24,335**	349,734	351,477
Banking profit	**¥ 498,568**	¥ 821,314	¥1,291,972
Nonrecurring gains (losses)	**(138,790)**	(696,116)	(1,363,653)
Credit cost (B)	**(153,994)**	(805,505)	(1,306,320)
Write-off of loans	**(16,804)**	(348,769)	(697,941)
Provision for specific reserve	**(122,647)**	(403,866)	(474,155)
Losses on sale of delinquent loans	**(14,746)**	(55,707)	(138,052)
Provision for loan loss reserve for specific overseas countries	**202**	2,838	3,828
Gains (losses) on stocks	**24,942**	44,819	(118,727)
Gains on sale of stocks	**34,137**	60,005	113,059
Losses on sale of stocks	**(360)**	(434)	(4,206)
Losses on devaluation of stocks	**(8,833)**	(14,751)	(227,580)
Others	**(9,738)**	64,570	61,394
Ordinary profit (loss)	**359,778**	125,198	(71,680)
Extraordinary gains (losses)	**(4,662)**	(12,127)	(28,398)
Gains (losses) on disposal of premises and equipment	**665**	(3,991)	(12,495)
Losses on impairment of fixed assets	**(5,288)**	/	/
Amortization of net transition obligation from initial application of the new accounting standard for employee retirement benefits	**—**	(8,000)	(16,001)
Income taxes:			
Current	**(5,081)**	(1,645)	(6,379)
Refund	**—**	7,405	8,184
Deferred	**(51,267)**	(276)	(38,579)
Net income (loss)	**¥ 298,766**	¥ 118,554	¥ (136,854)
Total credit cost (A) + (B)	**¥(129,659)**	¥(455,771)	¥ (954,843)

3. Assets, Liabilities and Stockholders' Equity

Assets

SMBC's total assets as of September 30, 2005 stood at ¥93,293.7 billion, a ¥2,163.9 billion increase compared with the previous fiscal year-end. This is due mainly to increases in receivables under securities borrowing transactions, call loans, and loans and bills discounted. Receivables under securities borrowing transactions and call loans increased ¥1,597.4 billion and ¥233.9 billion, respectively, resulting from ALM operations based on interest rate movements. Loans and bills discounted increased ¥881.5 billion on the continued aggressive expansion of our financial product lineup, including products targeted at overseas customers with high credit ratings, as well as housing loans for individuals and new-type unsecured loans for SMEs in the domestic market.

Liabilities

Liabilities as of September 30, 2005 increased ¥1,745.4 billion to ¥90,122.5 billion from the previous fiscal year-end. This was the result of an increase of ¥592.5 billion in deposits, spurred by an increase in the liquid deposit balance, and by an increase of ¥1,217.1 billion in bills sold as part of our strategy of seeking more efficient means of procuring funds.

Stockholders' Equity

Stockholders' equity increased by ¥418.5 billion to ¥3,171.2 billion as of September 30, 2005. This is mainly attributable to the posting of net income and an increase in net unrealized gains on available-for-sale securities.

During the six-month reporting period, we reduced the amount of the capital reserve that was in excess of capital stock by ¥344.9 billion and transferred the amount to the "other capital surplus" account.

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	**¥93,293,761**	¥92,742,940	¥91,129,776
Loans and bills discounted	**50,949,158**	50,723,607	50,067,586
Securities	**23,039,486**	23,524,899	23,676,696
Liabilities	**90,122,526**	89,986,163	88,377,041
Deposits	**63,380,886**	62,011,605	62,788,328
Negotiable certificates of deposit	**2,602,639**	3,239,176	2,803,299
Stockholders' equity	**3,171,235**	2,756,776	2,752,735

4. Unrealized Gains (Losses) on Securities

Net unrealized gains on securities as of September 30, 2005 amounted to ¥961.2 billion, which was an increase of ¥251.1 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 ¥200.1 billion over the same period, to ¥851.7 billion.

The increase in unrealized gains on other securities was attributable to an unrealized gain on stockholdings in the amount of ¥278.0 billion.

Unrealized Gains (Losses) on Securities

September 30, 2005 and March 31, 2005

Millions of yen

	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	**¥ (7,434)**	**¥ (5,590)**	**¥ 1,367**	**¥ 8,801**	¥ (1,844)	¥ 2,089	¥ 3,933
Stocks of subsidiaries and affiliates	**116,899**	**56,556**	**116,899**	**—**	60,343	60,690	347
Other securities	**851,571**	**200,186**	**1,013,885**	**162,314**	651,385	750,143	98,757
Stocks	**945,387**	**278,061**	**980,079**	**34,692**	667,326	708,643	41,317
Bonds	**(80,253)**	**(87,953)**	**2,917**	**83,171**	7,700	27,343	19,642
Others	**(13,562)**	**10,079**	**30,888**	**44,450**	(23,641)	14,155	37,797
Other money held in trust	**209**	**5**	**209**	**—**	204	300	95
Total	**961,246**	**251,158**	**1,132,362**	**171,115**	710,088	813,222	103,133
Stocks	**1,062,286**	**334,617**	**1,096,979**	**34,692**	727,669	769,333	41,664
Bonds	**(88,106)**	**(93,466)**	**3,866**	**91,972**	5,360	28,925	23,565
Others	**(12,933)**	**10,008**	**31,517**	**44,450**	(22,941)	14,963	37,904

Notes: 1. The figures above include unrealized gains (losses) on negotiable certificates of deposit in “Deposits with banks.”
2. Unrealized gains (losses) on stocks (excluding stocks of subsidiaries and affiliates) are calculated using average market prices during the final month of the reporting period. The rest of the securities are valuated at market prices as of the balance sheet date.
3. “Other securities” and “Other money held in trust” are valuated 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 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.

5. Deferred Tax Assets

Deferred Tax Assets on the Balance Sheet

SMBC computes deferred tax assets based on a reasonable estimate of tax benefits that are expected to be realized in the future in accordance with the Accounting Standards for Tax Effect Accounting (issued by the Business Accounting Deliberation Council dated October 30, 1998) and related practical guidelines. Moreover, SMBC continues to take a conservative stance on the recognition of deferred tax assets in order to maintain 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.

As of September 30, 2005, net deferred tax assets amounted to ¥1,328.5 billion on a nonconsolidated basis, a ¥173.7 billion decrease from the previous fiscal year-end. This is mainly attributable to the posting of net income and a substantial increase in unrealized gains on stockholdings.

The valuation allowance (which was not included in the scope of outstanding deferred tax assets due to conservative estimation) amounted to ¥491.4 billion as of September 30, 2005.

Billions of yen; (Reference) Temporary differences

		September 30, 2005	Change from March 31, 2005	Change from September 30, 2004	(Reference) Temporary differences September 30, 2005
(A) Total deferred tax assets (B) – (C)	1	¥1,732.2	¥ (93.6)	¥(134.1)	
(B) Subtotal of deferred tax assets	2	2,223.6	(155.5)	(68.7)	¥5,452.9
Reserve for possible loan losses	3	233.3	(82.1)	(71.4)	574.2
Write-off of loans	4	368.5	(193.6)	(142.8)	907.0
Write-off of securities	5	444.5	(88.5)	(21.7)	1,094.1
Reserve for employee retirement benefits	6	71.7	(5.2)	(8.2)	176.4
Depreciation	7	6.8	0.7	0.1	16.7
Net unrealized losses on other securities	8	—	—	—	—
Net operating loss carryforwards	9	1,056.1	233.3	193.8	2,579.5
Other	10	42.7	(20.1)	(18.5)	105.0
(C) Valuation allowance	11	491.4	(61.9)	65.4	
(D) Total deferred tax liabilities	12	¥ 403.7	¥ 80.1	¥ 169.0	¥ 993.7
Gains on securities contributed to employee retirement benefits trust	13	51.7	—	(1.3)	127.2
Net unrealized gains on other securities	14	346.5	82.0	169.6	852.8
Other	15	5.5	(1.9)	0.7	13.7
Net deferred tax assets (balance sheet amount) (A) – (D)	16	¥1,328.5	¥(173.7)	¥(303.1)	
Amount corresponding to the deferred tax liabilities shown in 14 above (Note)	17	(346.5)	(82.0)	(169.6)	(852.8)
Net deferred tax assets excluding the amount shown in 17 above	18	1,675.0	(91.7)	(133.5)	4,125.6

Effective income tax rate	19	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 resulting 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 September 30, 2005 amounted to approximately ¥1.48 trillion).

(b) Write-down 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 September 30, 2005 amounted to approximately ¥1.1 trillion).

(2) Consequently, tax loss carryforwards (**) amounted to approximately ¥2.58 trillion as of September 30, 2005, 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) 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 the first half of 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					
	1st half FY 2005	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
Income of final return (before deducting tax loss carryforwards)	¥(571.0)	¥317.2	¥(1,437.8)	¥(745.5)	¥241.9	¥(176.0)

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. The figures above include amounts arising from "extraordinary factors" that are specified in the Practical Guideline. Taxable income has been reported each year when these amounts are excluded.
3. The figures for the first half of fiscal 2005 were estimated in interim closing.