

# 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 2006, the six-month period ended September 30, 2006.

### 1. Operating Results

Operating results for the first half of fiscal 2006 include the results of 176 consolidated subsidiaries (126 in Japan and 50 overseas) and 61 subsidiaries and affiliates accounted for by the equity method (34 in Japan and 27 overseas).

Gross profit showed a year-on-year decrease of ¥136.1 billion to ¥885.8 billion. As a result of a reduction in the bond portfolio in anticipation of higher interest rates in both Japan and the United States, the Group suffered a sharp decrease in gains on investments in bonds (including

Japanese government bonds) within the category of "other operating income."

After factoring in general and administrative expenses, credit cost and gains on stocks, ordinary profit decreased ¥106.6 billion year on year to ¥357.1 billion.

Net extraordinary gains and income taxes under tax-effect accounting resulted in a net income of ¥243.6 billion, a year-on-year decrease of ¥148.6 billion.

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

September 30, 2006 and 2005, and March 31, 2006

	September 30, 2006	September 30, 2005	March 31, 2006
Consolidated subsidiaries.....	176	166	162
Subsidiaries and affiliates accounted for by the equity method.....	61	59	63

### Income Summary

Six months ended September 30, 2006 and 2005, and year ended March 31, 2006

	Millions of yen		
	Six months ended September 30, 2006	Six months ended September 30, 2005	Year ended March 31, 2006
Consolidated gross profit.....	¥885,809	¥1,021,916	¥2,090,149
Net interest income.....	559,615	553,715	1,161,607
Trust fees.....	1,416	4,285	8,631
Net fees and commissions.....	283,394	278,707	619,591
Net trading income.....	51,613	12,259	32,807
Net other operating income.....	(10,230)	172,948	267,511
General and administrative expenses.....	(432,705)	(421,626)	(853,796)
Credit cost (A).....	(64,977)	(176,525)	(333,571)
Write-off of loans.....	(57,626)	(42,681)	(69,355)
Provision for specific reserve for possible loan losses.....	—	(143,816)	(45,047)
Provision for general reserve for possible loan losses.....	—	39,495	(120,078)
Others.....	(7,350)	(29,522)	(99,091)
Gains on stocks.....	10,370	35,265	47,119
Equity in earnings (losses) of affiliates.....	(32,344)	14,081	31,887
Other income (expenses).....	(9,016)	(9,342)	(18,233)
Ordinary profit.....	357,136	463,768	963,554
Extraordinary gains (losses).....	44,165	47,524	79,807
Losses on impairment of fixed assets.....	(2,006)	(10,580)	(12,303)
Gains on reversal of reserve for possible loan losses (B).....	6,470	—	—
Gains on collection of written-off claims (C).....	542	371	31,584
Gains on return of securities from retirement benefits trust.....	36,330	—	—
Income before income taxes and minority interests.....	401,302	511,293	1,043,362
Income taxes:			
Current.....	(42,273)	(32,367)	(69,818)
Deferred.....	(86,218)	(60,672)	(226,901)
Minority interests in net income.....	(29,149)	(25,925)	(59,800)
Net income.....	¥243,660	¥392,327	¥686,841
Total credit cost (A) + (B) + (C).....	¥(57,963)	¥(176,525)	¥(301,987)
[Reference]			
Consolidated banking profit (Billions of yen).....	¥426.4	¥579.6	¥1,225.4

- 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. Total credit cost for six months ended September 30, 2006 and year ended March 31, 2006 include 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 September 30, 2006, stood at ¥72,165.5 billion, a ¥1,331.4 billion increase compared with the previous fiscal year-end. Negotiable certificates of deposit stood at ¥2,492.3 billion, a decrease of ¥216.2 billion over the same period.

Loans and bills discounted increased ¥1,917.2 billion to

¥59,184.4 billion, while securities decreased ¥3,154.2 billion to ¥22,351.6 billion.

Net assets came to ¥4,622.7 billion, of which stockholders' equity amounted to ¥2,835.6 billion, and valuation and translation adjustments came to ¥725.1 billion.

## Assets, Liabilities and Net Assets

September 30, 2006 and 2005, and March 31, 2006

	Millions of yen		
	September 30, 2006	September 30, 2005	March 31, 2006
Assets.....	<b>¥102,551,964</b>	¥102,233,832	¥107,010,575
Securities.....	<b>22,351,635</b>	23,579,596	25,505,861
Loans and bills discounted.....	<b>59,184,457</b>	56,095,034	57,267,203
Liabilities.....	<b>97,929,171</b>	97,896,973	101,443,151
Deposits.....	<b>72,165,553</b>	69,242,541	70,834,125
Negotiable certificates of deposit.....	<b>2,492,353</b>	2,529,775	2,708,643
Minority interests.....	/	1,074,517	1,113,025
Net assets.....	<b>4,622,792</b>	3,262,340	4,454,399

Note: From this interim period, SMFG applied "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No.5) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No.8). Minority interests are included in net assets with an application of these standards.

## 2. Unrealized Gains (Losses) on Securities

Net unrealized gains on securities as of September 30, 2006 amounted to ¥1,371.9 billion, which was an increase of ¥29.1 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 net assets, increased by ¥14.6 billion over the same period, to ¥1,388.1 billion.

## Unrealized Gains (Losses) on Securities

September 30, 2006 and March 31, 2006

	Millions of yen						
	September 30, 2006				March 31, 2006		
	Net unrealized gains (losses) (A)	(A) – (B)	Unrealized gains	Unrealized losses	Net unrealized gains (losses) (B)	Unrealized gains	Unrealized losses
Held-to-maturity securities.....	¥ (16,195)	¥ 14,586	¥ 375	¥ 16,571	¥ (30,781)	¥ 580	¥ 31,361
Other securities.....	<b>1,387,933</b>	<b>14,596</b>	<b>1,652,324</b>	<b>264,391</b>	1,373,337	1,771,170	397,833
Stocks.....	<b>1,598,922</b>	<b>(103,768)</b>	<b>1,619,410</b>	<b>20,487</b>	1,702,690	1,722,129	19,438
Bonds.....	<b>(176,252)</b>	<b>120,981</b>	<b>1,354</b>	<b>177,607</b>	(297,233)	988	298,222
Others.....	<b>(34,736)</b>	<b>(2,616)</b>	<b>31,558</b>	<b>66,295</b>	(32,120)	48,052	80,172
Other money held in trust.....	217	8	236	18	209	209	—
Total.....	<b>1,371,955</b>	<b>29,190</b>	<b>1,652,936</b>	<b>280,980</b>	1,342,765	1,771,960	429,195
Stocks.....	<b>1,598,922</b>	<b>(103,768)</b>	<b>1,619,410</b>	<b>20,487</b>	1,702,690	1,722,129	19,438
Bonds.....	<b>(192,670)</b>	<b>135,618</b>	<b>1,508</b>	<b>194,178</b>	(328,288)	1,294	329,583
Others.....	<b>(34,296)</b>	<b>(2,660)</b>	<b>32,017</b>	<b>66,314</b>	(31,636)	48,535	80,172

Notes: 1. The figures above include unrealized gains (losses) on negotiable certificates of deposit in "Cash and due from banks & Deposits with banks" and on beneficiary claims on loan trust 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 respective 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.  
 Net unrealized gains on other securities as of March 31, 2006 include losses of ¥3,193 million that were recognized in income statement by applying fair value hedge accounting, which are included in the amount to be directly included in Stockholders' equity.

### 3. Consolidated Capital Ratio

SMFG's consolidated capital ratio (BIS guidelines) as of September 30, 2006 was 10.07%. (Please refer to "Capital Ratio" on page 57 for more information.)

Total capital, which constitutes the numerator in the capital ratio calculation equation, was ¥6,844.8 billion, representing a ¥1,249.4 billion decrease from the previous fiscal year-end. This was mainly the result of the repayment of

public funds.

On the other hand, risk-weighted assets, the denominator in the equation, increased ¥2,623.5 billion to ¥67,945.8 billion from the previous fiscal year-end. This was principally attributable to an increase in lending in response to demand from customers both in Japan and overseas.

#### Consolidated Capital Ratio

September 30, 2006 and 2005, and March 31, 2006

	Millions of yen		
	September 30, 2006	September 30, 2005	March 31, 2006
Tier I capital (A) .....	¥ 3,737,747	¥ 3,746,083	¥ 4,645,905
Tier II capital included as qualifying capital (B) .....	3,737,747	3,746,083	4,067,736
Deductions (C).....	(630,601)	(548,006)	(619,279)
Total capital (D) = (A) + (B) - (C) .....	6,844,893	6,944,161	8,094,361
Risk-adjusted assets (E).....	67,945,876	63,127,899	65,322,349
Capital ratio = (D) / (E) × 100.....	10.07%	11.00%	12.39%

### 4. Deferred Tax Assets

Net deferred tax assets decreased by ¥28.6 billion from the previous fiscal year-end, to stand at ¥973.4 billion. This decline was attributable to the posting of an income before income taxes and an increase in unrealized gains on other

(available-for-sale) securities. We have been adopting a conservative stance on the recording of deferred tax assets in consideration of the need to secure a sound financial position.

#### Deferred Tax Assets

September 30, 2006 and 2005, and March 31, 2006

	Millions of yen		
	September 30, 2006	September 30, 2005	March 31, 2006
Net deferred tax assets .....	¥973,448	¥1,367,233	¥1,002,125
Net deferred tax assets / Tier I capital × 100 .....	26.0%	36.5%	21.6%