Notes to Interim Consolidated Balance Sheet

1. Amounts less than one million yen have been omitted.

2. Transactions for trading purposes (seeking gains arising from short-term changes in interest rates, currency exchange rates, or market prices of securities and other market related indices or from variation among markets) are included in “Trading assets” or “Trading liabilities” on the interim consolidated balance sheet on a trade date basis.
   Securities and monetary claims purchased for trading purposes are stated at the interim term-end market value, and financial derivatives such as swaps, futures and options are stated at amounts that would be settled if the transactions were terminated at the consolidated interim balance sheet date.

3. Debt securities that consolidated subsidiaries have the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are carried at amortized cost (straight-line method) using the moving-average method.
   Investments in unconsolidated subsidiaries and affiliates that are not accounted for by the equity method are carried at cost using the moving-average method.
   Securities other than trading purpose securities, held-to-maturity securities and investments in unconsolidated subsidiaries and affiliates are classified as “other securities” (available-for-sale securities). Stocks in other securities that have market prices are carried at their average market prices during the final month of the interim term, and bonds and others that have market prices are carried at their interim term-end market prices (cost of securities sold is calculated using primarily the moving-average method). Other securities with no available market prices are carried at cost or amortized cost using the moving-average method. Net unrealized gains (losses) on other securities, net of income taxes, are included in “Stockholders’ equity,” after deducting the amount that is reflected in the interim term’s earnings by applying fair value hedge accounting.

4. Securities included in money held in trust are carried in the same method as in Notes 2 and 3.

5. Derivative transactions, excluding those classified as trading derivatives, are carried at fair value, though some consolidated overseas subsidiaries account for derivative transactions in accordance with their local accounting standards.

6. Premises and equipment owned by Sumitomo Mitsui Financial Group, Inc. (SMFG) and its consolidated subsidiary, Sumitomo Mitsui Banking Corporation (SMBC) are depreciated using the straight-line method for premises and the declining-balance method for equipment. They calculated the depreciation cost for the interim term by proportionally allocating the estimated annual cost to the interim term. The estimated useful lives of major items are as follows:
   Buildings: 7 to 50 years
   Equipment: 2 to 20 years
   Other consolidated subsidiaries depreciate premises and equipment, and lease assets primarily using the straight-line method over the estimated useful lives of the respective assets and the straight-line method over the lease term based on the residual value of assets at the end of the lease term, respectively.

7. Capitalized software for internal use owned by SMFG and its consolidated domestic subsidiaries is depreciated using the straight-line method over its estimated useful life (basically five years).

8. SMBC’s assets and liabilities denominated in foreign currencies and overseas branches’ accounts are translated into Japanese yen mainly at the exchange rate prevailing at the consolidated interim balance sheet date, with the exception of stocks of subsidiaries and affiliates translated at rates prevailing at the time of acquisition.
   Other consolidated subsidiaries’ assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at their respective balance sheet dates.

9. Reserve for possible loan losses of major consolidated subsidiaries is provided as detailed below in accordance with the internal standards for write-offs and provisions.
   For claims on borrowers that have entered into bankruptcy, special liquidation proceedings or similar legal proceedings (“bankrupt borrowers”) or borrowers that are not legally or formally insolvent but are regarded as substantially in the same situation (“effectively bankrupt borrowers”), a reserve is provided based on the amount of claims, after the write-off stated below, net of the expected amount of recoveries from collateral and guarantees.
   For claims on borrowers that are not currently bankrupt but are perceived to have a high risk of falling into bankruptcy (“potentially bankrupt borrowers”), a reserve is provided in the amount deemed necessary based on an overall solvency assessment of the claims, net of the expected amount of recoveries from collateral and guarantees.
   Discounted Cash Flows (DCF) method is used for claims on borrowers whose cash flows from collection of principals and interest can be rationally estimated and SMBC applies it to claims on large potentially bankrupt borrowers and claims on large borrowers requiring close monitoring that have been classified as “Past due loans (3 months or more)” or “Restructured loans,” whose total loans from SMBC exceed a certain amount. SMBC establishes a reserve for possible loan losses using the DCF method for such claims in the amount of the difference between the present value of principal and interest (calculated using the rationally estimated cash flows discounted at the initial contractual interest rate) and the book value.
   For other claims, a reserve is provided based on the historical loan-loss ratio.

For claims originated in specific overseas countries, an additional reserve is provided in the amount deemed necessary based on the assessment of political and economic conditions.

Branches and credit supervision departments assess all claims in accordance with the internal rules for self-assessment of assets, and the Credit Review Department, independent from these operating sections, audits their assessment. The reserves are provided based on the results of these assessments.

Reserve for possible loan losses of other consolidated subsidiaries for general claims is provided in the amount deemed necessary based on the historical loan-loss ratios, and for doubtful claims in the amount deemed uncollectible based on assessment of each claim.

For collateralized or guaranteed claims on bankrupt borrowers and effectively bankrupt borrowers, the amount exceeding the estimated value of collateral and guarantees is deemed to be uncollectible and written off against the total outstanding amount of the claims. The amount of write-off was 1,367,602 million yen.

10. Reserve for employee bonuses is provided for payment of bonuses to employees, in the amount of estimated bonuses, which are attributable to this interim term.

11. Reserve for employee retirement benefits is provided for payment of retirement benefits to employees, in the amount deemed accrued at interim term-end, based on the projected retirement benefit obligation and the fair value of plan assets at this fiscal year-end.

Unrecognized prior service cost is amortized using the straight-line method, primarily over 10 years within the employees’ average remaining service period at incurrence.

Unrecognized net actuarial gain (loss) is amortized using the straight-line method, primarily over 10 years within the employees’ average remaining service period, commencing from the next fiscal year of incurrence.

12. Financing leases of SMFG and its consolidated domestic subsidiaries, excluding those in which the ownership of the property is transferred to the lessee, are accounted for in the same method as operating leases.

13. As for the hedge accounting method applied to hedging transactions for interest rate risk arising from financial assets and liabilities, SMBC applies deferred hedge accounting or fair value hedge accounting.

SMBC applies deferred hedge accounting stipulated in “Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry” (JICPA Industry Audit Committee Report No.24) to portfolio hedges of large-volume, small-value monetary claims and debts.

As for the portfolio hedges to offset market fluctuation, SMBC assesses the effectiveness of such hedges by classifying the hedged items (such as deposits and loans) and the hedging instruments (such as interest rate swaps) by their maturity. As for the portfolio hedges to fix cash flows, SMBC assesses the effectiveness of such hedges by verifying the correlation between the hedged items and the hedging instruments.

As for the individual hedges, SMBC also basically applies deferred hedge accounting. But, SMBC applies fair value hedge accounting to hedging transactions for reducing the market volatility of bonds classified as other securities that are held for the purpose of Asset and Liability Management.

As a result of the application of JICPA Industry Audit Committee Report No.24, SMBC discontinued the application of hedge accounting or applied fair value hedge accounting to a portion of the hedging instruments using “macro hedge,” which had been applied in order to manage interest rate risk arising from large-volume transactions in loans, deposits and other interest-earning assets and interest-bearing liabilities as a whole using derivatives pursuant to “Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry” (JICPA Industry Audit Committee Report No.15). The deferred hedge losses and gains related to such a portion of hedging instruments are charged to “Interest income” or “Interest expenses” over a 12-year period (maximum) according to their maturity from the fiscal year ended March 31, 2004. At this interim term-end, gross amounts of deferred hedge losses and gains on “macro hedge” were 146,070 million yen and 119,788 million yen, respectively.

14. SMBC applies deferred hedge accounting stipulated in “Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry” (JICPA Industry Audit Committee Report No.25) to currency swap and foreign exchange swap transactions executed for the purpose of lending or borrowing funds in different currencies.

Pursuant to JICPA Industry Audit Committee Report No.25, SMBC assesses the effectiveness of currency swap and foreign exchange swap transactions executed for the purpose of offsetting the risk of changes in currency exchange rates by verifying that there are foreign-currency monetary claims and debts corresponding to the foreign-currency positions.

In order to hedge risk arising from volatility of exchange rates for stocks of subsidiaries and affiliates and other securities (excluding bonds) denominated in foreign currencies, SMBC applies deferred hedge accounting or fair value hedge accounting, on the conditions that the hedged securities are designated in advance and that sufficient on-balance (actual) or off-balance (forward) liability exposure exists to cover the cost of the hedged securities denominated in the same foreign currencies.

15. As for derivative transactions between consolidated subsidiaries or internal transactions between trading accounts and other accounts (or among internal sections), SMBC manages the interest rate swaps and currency swaps that are designated as hedging instruments in accordance with the non-arbitrary and strict hedging criteria for transactions with third parties stipulated in JICPA Industry Audit Committee Report No.24 and No.25. Therefore, SMBC accounts for the gains or losses that arise from interest rate swaps and currency swaps in its earnings or defers them, rather than eliminating them.

Certain other consolidated subsidiaries apply the deferred hedge accounting or the short-cut method (exceptional treatment for interest rate swaps). A consolidated domestic subsidiary (a leasing company) partly applies the accounting method that is permitted by “Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Leasing Industry” (JICPA Industry Audit Committee Report No.19).

16. National and local consumption taxes of SMFG and its consolidated domestic subsidiaries are accounted for using the tax-excluded method.

17. SMBC accounts for the exhibition expenses related to “The 2005 World Exposition, Aichi, Japan” as “Reserve for expenses related to EXPO 2005 Japan.” This reserve is stipulated in Article 43 of the Ordinance of the Commercial Code and includes the reserve that is stipulated in Article 57-2 of the Specific Taxation Measures Law.

18. Other reserves required by special laws are reserve for contingent liabilities from financial futures transactions in accordance with Article 81 of the Financial Futures Transaction Law of 18 million yen, and reserve for contingent liabilities from securities transactions in accordance with Article 51 of the Securities and Exchange Law of 1,074 million yen.

19. Accumulated depreciation on premises and equipment and accumulated depreciation on lease assets amounted to 537,597 million yen and 1,553,475 million yen, respectively.

20. Bankrupt loans and Non-accrual loans were 89,680 million yen and 1,084,678 million yen, respectively.
“Bankrupt loans” are loans, after write-off, to legally bankrupt borrowers as defined in Article 96-1-3 and 96-1-4 of the Enforcement Ordinance No.97 of the Japanese Corporate Tax Law (issued in 1965) and on which accrued interest income is not recognized as there is substantial doubt about the ultimate collectability of either principal or interest because they are past due for a considerable period of time or for other reasons. “Non-accrual loans” are loans on which accrued interest income is not recognized, excluding “Bankrupt loans” and loans on which interest payments are deferred in order to support the borrowers’ recovery from financial difficulties.

21. Past due loans (3 months or more) totaled 53,845 million yen.
“Past due loans (3 months or more)” are loans on which the principal or interest is past due for three months or more, excluding “Bankrupt loans” and “Non-accrual loans.”

22. Restructured loans totaled 560,295 million yen.
“Restructured loans” are loans on which terms and conditions have been amended in favor of the borrowers (e.g. reduction of the original interest rate, deferral of interest payments, extension of principal repayments or debt forgiveness) in order to support the borrowers’ recovery from financial difficulties, excluding “Bankrupt loans,” “Non-accrual loans” and “Past due loans (3 months or more).”

23. The total amount of Bankrupt loans, Non-accrual loans, Past due loans (3 months or more) and Restructured loans was 1,788,499 million yen.
The amounts of loans presented in Notes 20 to 23 above are the amounts before deduction of reserve for possible loan losses.

24. Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No.24. SMFG’s banking subsidiaries have rights to sell or pledge bank acceptance bought, commercial bills discounted, documentary bills and foreign exchanges bought without restrictions. The total face value was 863,193 million yen, and bank acceptance bought, commercial bills discounted, documentary bills and foreign exchanges bought that were rediscounted by the banking subsidiaries accounted for 881 million yen of the total amount.

25. Assets pledged as collateral were as follows:

	(Millions of yen)
Assets pledged as collateral	
Cash and due from banks	85,183
Trading assets	326,547
Securities	8,202,692
Loans and bills discounted	1,707,149
Other assets (installment account receivable etc.)	1,206
Liabilities corresponding to assets pledged as collateral	
Deposits	13,599
Call money and bills sold	5,279,499
Payables under repurchase agreements	498,622
Payables under securities lending transactions	3,443,828
Trading liabilities	190,640
Borrowed money	14,675
Other liabilities	20,808
Acceptances and guarantees	151,927

In addition, Cash and due from banks of 5,919 million yen, Trading assets of 495,451 million yen, Securities of 4,107,162 million yen were pledged as collateral for cash settlements, variation margins of futures markets and certain other purposes.

Premises and equipment include surety deposits and intangible of 98,602 million yen, and Other assets include initial margins of futures markets of 8,099 million yen.

26. Net amount of deferred unrealized gains (losses) on hedging instruments to which deferred hedge accounting is applied is reported as deferred losses on hedge and is included in “Other assets.” Gross deferred unrealized losses and gains on hedging instruments were 465,676 million yen and 351,915 million yen, respectively.

27. SMBC revaluated its own land for business activities in accordance with the “Law Concerning Land Revaluation” (the “Law”) effective March 31, 1998 and the law concerning amendment of the Law effective March 31, 2001. The income taxes corresponding to the net unrealized gains are deferred and reported in “Liabilities” as “Deferred tax liabilities for land revaluation,” and the net unrealized gains, net of deferred taxes, are reported as “Land revaluation excess” in “Stockholders’ equity.”

Certain other consolidated subsidiaries revaluated their own land for business activities in accordance with the Law. The income taxes corresponding to the net unrealized gains (losses) are deferred and reported in “Liabilities” or “Assets” as “Deferred tax liabilities for land revaluation” or “Deferred tax assets for land revaluation,” and the net unrealized gains (losses), net of deferred taxes, are reported as “Land revaluation excess” in “Stockholders’ equity.”

Date of the revaluation

SMBC:

March 31, 1998 and March 31, 2002

Certain other consolidated subsidiaries:

March 31, 1999 and March 31, 2002

Method of revaluation (stipulated in Article 3-3 of the Law)

SMBC:

Fair values were determined by applying appropriate adjustments for land shape and timing of appraisal to the values stipulated in Article 2-3, 2-4 or 2-5 of the Enforcement Ordinance of the Law Concerning Land Revaluation (the Enforcement Ordinance No.119) effective March 31, 1998.

Certain other consolidated subsidiaries:

Fair values were determined based on the values stipulated in Article 2-3 and 2-5 of the Enforcement Ordinance No.119.

28. The balance of subordinated debt included in “Borrowed money” was 685,500 million yen.

29. The balance of subordinated bonds included in “Bonds” was 2,125,016 million yen.

30. Stockholders’ equity per share was 261,250.37 yen.

31. Market value and unrealized gains (losses) on securities are shown as below:

The amounts shown in the following tables include trading securities and short-term bonds classified as “Trading assets,” negotiable certificates of deposit bought classified as “Cash and due from banks,” and beneficiary claims on trust such as receivables classified as “Commercial paper and other debt purchased,” in addition to “Securities” stated in the interim consolidated balance sheet. This definition is applied up to Notes 34.

(1) Securities classified as trading purposes

As of September 30, 2005	(Millions of yen)
Interim consolidated balance sheet amount	1,589,914
Valuations gains (losses) included in the earnings for the interim term	(1,296)

(2) Bonds classified as held-to-maturity with market value

As of September 30, 2005 (Millions of yen)

	Consolidated balance sheet amount	Market value	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
Japanese government bonds	659,835	653,970	(5,865)	948	6,813
Japanese local government bonds	58,545	57,397	(1,148)	–	1,148
Japanese corporate bonds	69,747	68,907	(840)	–	840
Other	27,678	28,120	441	441	–
Total	815,806	808,394	(7,411)	1,390	8,802

(3) Other securities with market value

As of September 30, 2005 (Millions of yen)

	Acquisition cost	Consolidated balance sheet amount	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
Stocks	1,904,528	2,897,259	992,730	1,031,519	38,788
Bonds	12,400,547	12,317,414	(83,132)	4,822	87,955
Japanese government bonds	10,723,139	10,649,794	(73,345)	1,207	74,552
Japanese local government bonds	540,423	534,633	(5,790)	939	6,729
Japanese corporate bonds	1,136,983	1,132,986	(3,997)	2,676	6,673
Other	3,878,943	3,866,998	(11,944)	34,002	45,947
Total	18,184,018	19,081,672	897,653	1,070,345	172,691

Net unrealized gains on other securities shown above include losses of 557 million yen that is recognized in this interim term's earnings by applying fair value hedge accounting and valuation losses of 400 million yen on embedded financial instruments in their entirety that are recognized in the earnings because their embedded derivatives are not measured separately. As a result of these two factors, the amount to be recorded in stockholders' equity is 898,610 million yen.

"Net unrealized gains on other securities" includes 532,930 million yen which is the sum of the following items:

(Millions of yen)

	Net unrealized gains to be included in stockholders' equity, as a result of applying fair value hedge accounting and excluding the embedded financial derivatives	(a)	898,610
(–)	Deferred tax liabilities	(b)	364,295
	(c) = (a) – (b)		534,315
(–)	Minority interests corresponding to (c)		10,029
(+)	SMFG's interests of net unrealized gains on valuation of other securities held by affiliates accounted for by the equity method		8,645
	Total		532,930

Other securities with market value are considered as impaired if the market value decreases materially below the acquisition cost and such decline is not considered as recoverable. The market value is recognized as the interim consolidated balance sheet amount and the amount of write-down is accounted for as valuation loss for this interim term. Valuation loss for this interim term was 212 million yen. The rule for determining "material decline" is as follows and is based on the classification of issuing company under self-assessment of assets.

Bankrupt/ Effectively bankrupt/ Potentially bankrupt issuers	: Market value is lower than acquisition cost.
Issuers requiring caution	: Market value is 30% or more lower than acquisition cost.
Normal issuers	: Market value is 50% or more lower than acquisition cost.

Bankrupt issuers: Issuers that are legally bankrupt or formally declared bankrupt.
Effectively bankrupt issuers: Issuers that are not legally bankrupt but regarded as substantially bankrupt.
Potentially bankrupt issuers: Issuers that are not bankrupt now, but are perceived to have a high risk of falling into bankruptcy.
Issuers requiring caution: Issuers that are identified for close monitoring.
Normal issuers: Issuers other than the above four categories of issuers.

32. The amount of other securities sold during the interim term is as follows:

Six months ended September 30, 2005 (Millions of yen)

Sales amount	Gains on sales	Losses on sales
24,077,266	88,639	13,991

33. Summary information on securities with no available market value is as follows:

As of September 30, 2005 (Millions of yen)

	Consolidated balance sheet amount
Bonds classified as held-to-maturity	
Unlisted foreign securities	2,531
Other	5,271
Other securities	
Unlisted stocks (excluding OTC stocks)	417,028
Unlisted bonds	2,264,800
Unlisted foreign securities	425,527
Other	267,941

34. Redemption schedule of other securities with maturities and held-to-maturity bonds is as follows:

As of September 30, 2005 (Millions of yen)

	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years
Bonds	2,338,479	7,357,651	2,618,161	3,056,053
Japanese government bonds	1,968,207	4,729,637	1,621,591	2,990,192
Japanese local government bonds	26,564	277,662	288,476	475
Japanese corporate bonds	343,707	2,350,350	708,093	65,385
Other	453,001	2,087,818	565,488	802,079
Total	2,791,480	9,445,469	3,183,649	3,858,132

35. Information on money held in trust is as follows:

Other money held in trust

As of September 30, 2005 (Millions of yen)

Acquisition cost	Consolidated balance sheet amount	Net unrealized gains	Unrealized gains	Unrealized losses
602	811	209	209	–

Net unrealized gains on other money held in trust of 124 million yen (after deducting 85 million yen in deferred tax liabilities from the above 209 million yen in net unrealized gains) are included in “Net unrealized gains on other securities.”

36. “Japanese government bonds” as a sub-account of “Securities” include 9,921 million yen of unsecured loaned securities for which borrowers have the right to sell or pledge.

As for the unsecured borrowed securities for which SMBC has the right to sell or pledge and the securities which SMBC purchased under resale agreements, that are permitted to be sold or pledged without restrictions, 2,002,583 million yen of securities are pledged, and 217,437 million yen of securities are held in hand as of the interim consolidated balance sheet date.

37. Commitment line contracts on overdrafts and loans are agreements to lend to customers up to a prescribed amount, as long as there is no violation of any condition established in the contracts. The amount of unused commitments was 37,859,678 million yen, and the amount of unused commitments whose original contract terms are within one year or unconditionally cancelable at any time was 33,042,642 million yen. Since many of these commitments are expected to expire without being drawn upon, the total amount of unused commitments does not necessarily represent actual future cash flow requirements. Many of these commitments include clauses under which SMBC and other consolidated subsidiaries can reject an application from customers or reduce the contract amounts in the event that economic conditions change, SMBC and other consolidated subsidiaries need to secure claims, or other events occur. In addition, SMBC and other consolidated subsidiaries may request the customers to pledge collateral such as premises and securities at the time of the contracts, and take necessary measures such as monitoring customers’ financial positions, revising contracts when need arises and securing claims after contracts are made.

38. Effective April 1, 2005, SMFG applied “Accounting Standards for Impairment of Fixed Assets” (“Opinion Concerning Establishment of Accounting Standard for Impairment on Fixed Assets” issued by the Business Accounting Council on August 9, 2002) and “Guidelines on Implementation of Accounting Standard for Impairment of Fixed Assets” (Guidelines on Implementation of Business Accounting Standard No.6, issued on October 31, 2003). As a result, net income before income taxes decreased by 9,997 million yen compared with the former method.

In the banking industry, fixed assets are stated at cost less accumulated depreciation pursuant to the Enforcement Ordinance of the Banking Law. Accumulated impairment loss is also deducted from the book value of each asset.