

Major Questions and Answers on the Financial Results
for the Six Months ended September 30, 2005

This document contains certain forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may materially differ from those contained in the forward-looking statements as a result of various factors.

The following items are among the factors that could cause actual results to differ materially from the forward-looking statements in this document: business conditions in the banking industry, the regulatory environment, new legislation, competition with other financial services companies, changing technology and evolving banking industry standards and similar matters.

The followings are frequent asked questions and their answers on the financial results for the six months ended September 30, 2005, announced on November 22, 2005.

1. SMBC's Financial Results for the Six Months ended September 30, 2005

Q. What was the reason for the year-over-year increase in Banking profit*? What was the reason for the increase from the original forecast announced in May 2005?

A. Banking profit* increased by JPY 2.6 billion year over year to JPY 474.2 billion.

On year-over-year basis, Gross banking profit increased by JPY 3.9 billion, because profits of the Marketing Units increased steadily (mainly due to the increase in non-interest income generated from sales of investment trust, etc.), offsetting the decrease in profits of the Treasury Unit (due to rise in U.S. dollar interest rates). On the other hand, Expenses increased by JPY 1.3 billion.

Compared with our original forecast announced in May 2005, Banking profit* was JPY 44.2 billion higher mainly because Gross banking profit was JPY 36.6 billion higher than the original forecast, thanks to higher profits of the Treasury Unit from active operations in bond portfolio management, and to higher profits of the Marketing Units from the increase in non-interest income. In addition, Expenses were JPY 7.6 billion lower than the original forecast.

**Banking profit before provision for general reserve for possible loan losses*

Q. What was the progress in reducing Expenses?

A. In the first half of fiscal 2005, Expenses increased by JPY 1.3 billion year over year to JPY 292.4 billion.

The increase in Expenses was attributable to the increase in Non-personnel expenses caused by aggressive investment in strategic businesses such as consumer finance under the strategic alliance with Promise Co., Ltd., although further rationalization measures, such as workforce streamlining, were taken in existing business operations. The number of employees fell by 1,141 year over year to 21,290.

2. SMBC's Balance Sheet

Q. What was the reason for the increase in loan balance?

A. The loan balance as of September 30, 2005 increased by approximately JPY 880.0 billion from March 31, 2005. Domestic loans increased by approximately JPY 190.0 billion, while overseas loans increased by approximately JPY 690.0 billion.

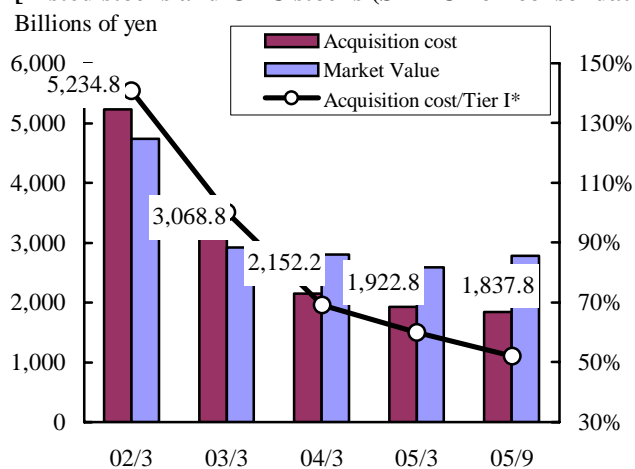
Despite the reduction in Risk-monitored loans, domestic loans increased mainly due to strengthened origination of new-type unsecured loans to SMEs and mortgage loans.

Q. Is reduction of stockholdings progressing? What's your strategy hereafter?

A. We sold approximately JPY 100.0 billion worth of stocks in the first half of fiscal 2005. We will continue to reduce stockholdings by selling stocks at optimal opportunities, minimizing the impact on the stock market, in order to reduce stockholdings to approximately 50% of Tier I capital.

< Reduction of Stockholdings >

[Listed stocks and OTC stocks (SMBC non-consolidated)]



* Tier I Capital: SMBC consolidated basis

Q. What was the amount of Net deferred tax assets as of September 30, 2005? What was the reason for the decrease?

A. The balance sheet amount of Net deferred tax assets as of September 30, 2005, was JPY 1,328.5 billion, a decrease of JPY 173.7 billion compared with March 31, 2005.

This is mainly due to steady collection of Deferred tax assets with recognition of Income before income taxes, as well as the increase in Deferred tax liabilities related to the increase in Net unrealized gains on Other securities. (Deferred tax assets are recognized on the balance sheet on a net basis after offsetting against Deferred tax liabilities.) Estimated future taxable income for the next 5 years (“Accumulated amount of estimated future taxable income before adjustments”), which is the basis for recognizing Deferred tax assets, is estimated conservatively, taking into account the necessary stress scenario of estimated Banking profit and credit cost.

Q. On a SMFG consolidated basis, what is the ratio of Net deferred tax assets to Tier I capital under the current Basel Accord?

A. The balance sheet amount of Net deferred tax assets as of September 30, 2005 on a SMFG consolidated basis, was JPY 1,367.2 billion, a decrease of JPY 185.7 billion compared with March 31, 2005, while the amount of Tier I capital was JPY 3,746.1 billion, an increase of JPY 483.8 billion compared with March 31, 2005.

As a result, the ratio of Net deferred tax assets to Tier I capital as of September 30, 2005 was 36.5%, a decrease of 11 percentage points compared with March 31, 2005. Thus, we have been making a steady progress. We will continue our effort to steadily collect deferred tax assets by further enhancing profitability.

3. SMBC's Asset Quality

Q. What was the reason for the decrease in Problem Assets based on the Financial Reconstruction Law ("Problem Assets")?

A. The balance of Problem Assets as of September 30, 2005 was JPY 1,406.0 billion, a decrease of JPY 418.6 billion. This was a result of our continuous efforts in:

- Corporate revitalization
- Prevention of deterioration of borrowers' financial conditions
- Further off-balancing of bankrupt and quasi-bankrupt assets through bulk-sales of assets and sales of collateralized real estates.

The Problem Asset ratio was 2.5%, a 0.8 percentage points decrease compared with March 31, 2005.

A breakdown of the decrease in Problem Assets is as follows: Bankrupt and quasi-bankrupt assets decreased by JPY 146.6 billion, Doubtful assets decreased by JPY 200.6 billion, and Substandard loans decreased by JPY 71.4 billion.

Q. Total credit cost for the first half of fiscal 2005 substantially decreased to JPY 129.7 billion compared with the last fiscal year (JPY 455.8 billion for the first half and JPY 954.8 billion for the full year), and it was approximately JPY 30.0 billion lower than the original forecast of JPY 160.0 billion. Please explain the reason for the decrease.

A. We have been increasing loan loss reserves in order to be better prepared for future credit risks by fiscal 2004, thereby ensuring that credit cost will be reduced to a normalized level in fiscal 2005 and onward. As a result, Total credit cost has decreased steadily. Moreover, it was lower than our original forecast due to (1) reversal of credit costs through work-out of NPLs, (2) progress in collection of loans and increase of collateral, and (3) reversal of loan loss reserves arising from upward migration of borrowers' categories as a result of an improvement in borrowers' financial conditions.

Q. What were the reserve ratios for Problem Assets?

A. Reserve ratios for the unsecured portion of Problem Assets by each borrowers' category are as follows: 100% for Bankrupt and quasi-bankrupt assets, 89.8% for Doubtful assets and 52.6% for Claims to Substandard borrowers. Reserve ratio for Doubtful assets decreased by 4.8 percentage points and the ratio of Claims to Substandard borrowers increased by 7.6 percentage points compared with March 31, 2005.

Q. What was the amount of credit cost on a SMFG consolidated basis? What was the reason for the difference compared with the SMBC non-consolidated figure?

A. Credit cost in the first half of fiscal 2005 was JPY 176.5 billion on a SMFG consolidated basis and JPY 129.7 billion on a SMBC non-consolidated basis, and the difference was JPY 46.8 billion. Subsidiaries engaging in lending business, such as The Minato Bank, Ltd. and Kansai Urban Banking Corporation, and subsidiaries engaging in mortgage loan guarantees accounted for a large portion of the difference.

4. SMBC's Business Strategy

Q. Please explain the results of new-type unsecured loans to SMEs in the first half of fiscal 2005 and the plan for the full term.

A. Origination of new-type unsecured loans to SMEs increased by approximately JPY 300.0 billion year over year to more than JPY 1.9 trillion in the first half of fiscal 2005, comprising of approximately JPY 790.0 billion in *Business Select Loan ("BSL")*, approximately JPY 200.0 billion in *Crecker Loan*, and approximately JPY 920.0 billion in *N Funds and others*.

Our full-term origination target for new-type unsecured loans to SMEs is approximately JPY 4 trillion.

Q. Please give the results of the financial consulting for individuals.

A. The balance of investment trusts held by individuals under SMBC account increased by approximately JPY 240.0 billion compared with March 31, 2005 to more than approximately JPY 2.5 trillion as of September 30, 2005. Sales of pension-type insurances was approximately JPY 320.0 billion, an increase of approximately JPY 55.0 billion year over year, and the cumulative total since their launch in October 2002 was approximately JPY 1.39 trillion. Origination of mortgage loans (residential purpose) in the first half of fiscal 2005 increased by approximately JPY 60.0 billion year over year to approximately JPY 920.0 billion, and the balance increased steadily to approximately JPY 9.66 trillion.

5. Earnings Forecasts

Q. Please give SMFG's and SMBC's earnings forecasts for fiscal 2005?

A. We have revised upward the previous consolidated earnings forecast for SMFG, which was announced in May 2005, and Ordinary profit and Net income are now expected to be JPY 850.0 billion (an increase of JPY 70.0 billion compared with the previous forecast) and JPY 550.0 billion (an increase of JPY 90.0 billion) respectively. As for SMBC's non-consolidated earnings forecast for fiscal 2005, we expect Banking profit* of JPY 950.0 billion. We also revised upward the previous forecast of SMBC's non-consolidated Net income to JPY 430.0 billion, an increase of JPY 80.0 billion.

**Banking profit before provision for general reserve for possible loan losses*

Q. Please explain SMBC's non-consolidated Banking profit* forecast for fiscal 2005. Please explain why it has not been revised, even though the first half result was JPY 44.2 billion higher than expected.

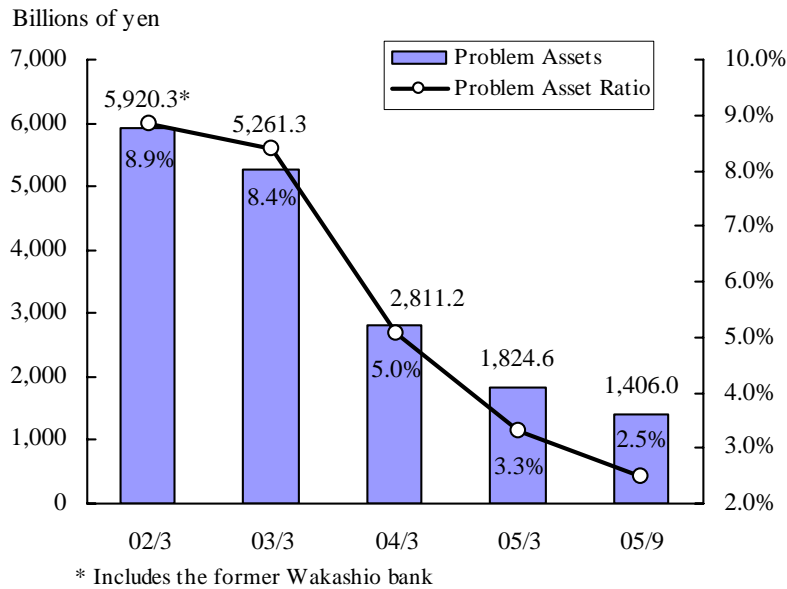
A. Banking profit* in the first half of fiscal 2005 was higher than the previous forecast, mainly due to higher-than-expected gains on bonds in a downward trend of interest rates, but the full-term forecast remains unchanged because the first-half result is approximately 50% of the original forecast for the full term.

**Banking profit before provision for general reserve for possible loan losses*

Q. Please explain SMBC's plan for reducing NPLs.

A. We will reduce the balance of NPLs and the Problem asset ratio further by steadfastly continuing our efforts in off-balancing, corporate revitalizations, and prevention of further deterioration of borrowers' financial conditions. By the end of March 2006, we aim to decrease the balance down to less than JPY 1 trillion and the ratio down to less than 2%, with minimum reduction targets of approximately JPY 1 trillion and approximately 2%, respectively.

< **Problem Assets Based on the Financial Reconstruction Law ("Problem Assets")** >



Q. Please explain SMBC's Total credit cost forecast for the second half of fiscal 2005. Please explain why it has not been revised, even though the first half result was approximately JPY 30.0 billion lower than expected.

A. We have not revised the full-year forecast because the first half result was only slightly outside the range of our original expectation. Therefore, JPY 300.0 billion of Total credit cost forecast on a SMBC non-consolidated basis for fiscal 2005 remains unchanged.

< **Total credit cost: SMBC non-consolidated** >

