22. Deferred Tax Assets <SMBC Non-consolidated>

(1) Deferred Tax Assets on the Balance Sheet

(Billions of yen)

			Mar. 31, 2006	Change	Mar. 31, 2005	(Reference) Temporary differences Mar. 31, 2006
(a) Total deferred tax assets	(b-c)	1	1,572.7	(253.1)	1,825.8	
(b) Subtotal of deferred tax assets		2	2,077.3	(301.8)	2,379.1	5,090.5
Reserve for possible loan losses		3	250.7	(64.7)	315.4	617.0
Write-off of loans		4	170.2	(391.9)	562.1	418.9
Write-off of securities		5	447.7	(85.3)	533.0	1,101.9
Reserve for employee retirement benefits		6	74.4	(2.5)	76.9	183.2
Depreciation		7	6.5	0.4	6.1	16.0
Net unrealized losses on other securities		8	-	-	-	-
Net operating loss carryforwards		9	1,087.4	264.6	822.8	2,654.2
Other		10	40.4	(22.4)	62.8	99.3
(c) Valuation allowance		11	504.6	(48.7)	553.3	
(d) Total deferred tax liabilities		12	596.5	272.9	323.6	1,468.0
Gains on securities contributed to employee retirement benefits trust		13	51.6	(0.1)	51.7	127.1
Net unrealized gains on other securities		14	536.2	271.7	264.5	1,319.7
Other		15	8.7	1.3	7.4	21.2
Net deferred tax assets (Balance sheet amount)	(a-d)	16	976.2	(526.0)	1,502.2	
Amount corresponding to the deferred tax liabilities shown in line 14	(Note)	17	(536.2)	(271.7)	(264.5)	(1,319.7)
Net deferred tax assets excluding the amount shown in line 17		18	1,512.4	(254.3)	1,766.7	3,700.0

Effective income tax rate	19	40.63%	-	40.63%

(Notes) 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 on Other Securities and Losses on Impairment of Fixed Assets")

(2) Reason for Recognition of Deferred Tax Assets

(a) Recognition Criteria

Practical Guideline, 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 March 31, 2006 amounted to approximately ¥1.04 trillion).

(b) Disposal of Unrealized Losses on 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 March 31, 2006 amounted to approximately ¥1.1 trillion).

(2) Consequently, tax loss carryforwards (**) amounted to approximately ¥2.65 trillion as of March 31, 2006, 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.

(b) Period for Future Taxable Income to be estimated

5 years

(c) Accumulated Amount of Estimated Future Taxable Income before Adjustments for the Next 5 Years

(Billions of yen)

			Estimates of next 5 years
	Banking profit (before provision for general reserve for possible loan losses)	1	5,205.0
A	Income before income taxes	2	3,385.8
B	Adjustments to taxable income (excluding reversal of temporary differences as of Mar. 31, 2006)	3	680.5
C	Taxable income before adjustments (A+B)	4	4,066.3
	Deferred tax assets corresponding to taxable income before adjustments	5	1,652.1

[Basic Policy]

(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 projection for up to the six months ended September 30, 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) Income of final return (before deducting operating loss carryforwards) for the last 5 years

(Billions of yen)

	FY2001	FY2002	FY2003	FY2004	FY2005
Income of final return (before deducting operating loss carryforwards)	241.9	(745.5)	(1,437.8)	317.2	(652.8)

(Notes) 1. (Income of final return before deduction of operating loss carryforwards)
= (Taxable income before adjustments for each fiscal year) - (Temporary differences to be reversed for each fiscal year)

2. Since the final declaration for the corporate income tax is being done in the end of June, the figures for March 31, 2006 are estimated income of final return as of March 31, 2006.

3. 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.