

**Major Questions and Answers on the Financial Results**  
**for the Fiscal Year ended September 30, 2006**

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 fiscal year ended September 30, 2006, announced on November 22, 2006.

**1. SMBC's Financial Results for 1<sup>st</sup> half of FY 2006**

Q. What was the reason for the year-over-year change in Banking profit\*? What was the reason for the decrease from the earnings forecast announced in May 2006?

A. Banking profit\* decreased by JPY 162.6 billion year over year to JPY 311.6 billion.

Gross banking profit decreased by JPY 157.5 billion, mainly due to approximately JPY 120 billion year-over-year decrease in the Treasury Unit's profits which is attributable to JPY 61.7 billion of Losses on bonds (a JPY 90.1 billion decrease year over year) from the reduction of bond portfolio in response to an upward movement of interest rates in Japan and the U.S. On the other hand, Expenses increased by JPY 5.1 billion.

Compared with our earnings forecast announced in May 2006, Banking profit\* was JPY 108.4 billion lower due to the decrease of Gross banking profit by JPY 110.9 billion, which is attributable to the factors such as the Losses on sales of bonds, offsetting a decrease in Expenses of JPY 2.5 billion compared with the original forecast.

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

Q. Please explain about Expenses.

A. In the 1<sup>st</sup> half of fiscal 2006, Expenses increased by JPY 5.1 billion year over year to JPY 297.5 billion. The increase in Expenses was attributable to our proactive allocation of expenses to focal business areas for the enhancement of sales promotion targeting our retail customers and reinforcing loans to medium and small-sized corporations. As of

September 30, 2006, the number of full-time employees fell by 120 year over year to 16,686.

Q. Total credit cost in the 1<sup>st</sup> half of fiscal 2006 was JPY 33.2 billion, decreased by JPY 51.8 billion compared with the original forecast of JPY 85 billion, substantially decreased compared with the last year's 1<sup>st</sup> half result of JPY 129.7 billion and the last year's result of JPY 230.9 billion. Please explain the factors behind the decrease.

A. Total credit cost in the 1<sup>st</sup> half of fiscal 2006 was JPY 33.2 billion, decreased by JPY 96.5 billion year-over-year. The decrease was mainly attributable to the decrease in non-performing loans from sales and recoveries, and the gains on reversal of reserve due to upward migrations of borrowers' category through recovery in borrowers' financial condition.

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

A. Credit cost in the 1<sup>st</sup> half of fiscal 2006 was JPY 58.0 billion on a SMFG consolidated basis and JPY 33.2 billion on a SMBC non-consolidated basis, and the difference was JPY 24.7 billion. Credit costs of subsidiaries engaging in lending business, such as The MINATO BANK, LTD. and Kansai Urban Banking Corporation, and of subsidiaries engaging in credit card business and leasing business accounted for a large portion of the difference. Credit costs of group companies also improved in the 1<sup>st</sup> half of fiscal 2006 as in the case of SMBC non-consolidated credit costs.

## 2. SMBC's Balance Sheet

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

A. The loan balance as of September 30, 2006 increased by approximately JPY 2,040 billion from March 31, 2006. Domestic loans (excluding offshore banking account) increased by approximately JPY 1,040 billion, while overseas loans (including offshore banking account) increased by approximately JPY 1 trillion.

Domestic loans increased mainly due to large M&A related finance and real estate non-recourse finance. Overseas loans increased mainly due to the increase of loans to corporations with high credit ratings, project finance and so on.

Q. What is the situation of the balance of Problem Assets based on the Financial Reconstruction Law (“Problem Assets”) and the reserve ratio?

A. The balance of Problem Assets as of September 30, 2006 was JPY 866.7 billion, a decrease of JPY 93.4 billion compared with March 31, 2006. The decrease was led by such factors as:

- upward migrations of borrowers’ category due to corporate revitalizations, and
- our continuous effort for reduction through sales of collateralized real estates and bulk-sales.

As a result, the Problem Asset ratio as of September 30, 2006 turned 1.5%, a 0.2 percentage points decrease compared with March 31, 2006.

A breakdown of the decrease in Problem Assets is as follows: Bankrupt and quasi-bankrupt assets decreased by JPY 28.5 billion, Doubtful assets decreased by JPY 48.3 billion, and Substandard loans decreased by JPY 16.6 billion.

On the other hand, reserve ratios for unsecured portion of each asset category as of September 30, 2006 were as follows: 100% for Bankrupt and quasi-bankrupt assets, 98.9% (1.1 percentage point decrease from March 31, 2006) for Doubtful assets, and 46.1% (6.5 percentage points decrease from March 31, 2006) for Substandard loans. Also, reserve ratio for unsecured portion of total Problem Assets was 74.0%, a 6.4 percentage points decrease from March 31, 2006.

Q. What was the amount of Net deferred tax assets as of September 30, 2006? What was the reason for the decrease?

A. The balance sheet amount of Net deferred tax assets as of September 30, 2006, was JPY 889.2 billion, a decrease of JPY 87.0 billion compared with March 31, 2006.

This is mainly due to steady collection of Deferred tax assets with recognition of Income before income taxes.

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, 2006 on a SMFG consolidated basis, was JPY 973.4 billion, a decrease of JPY 28.7 billion compared with March 31, 2006. On the other hand, mainly because of the repayment of public funds, the amount of Tier I capital turned JPY 3,737.7 billion, a decrease of

JPY 908.2 billion compared with March 31, 2006.

As a result, the ratio of Net deferred tax assets to Tier I capital as of September 30, 2006 increased by approximately 4 percentage points compared with March 31, 2006 to 26.0%. The ratio, however, is well below 40%, the upper limit for BIS capital ratio calculation under the Japanese regulatory guidelines for September-end 2006, and is also below 30%, the limit to be applied for March-end 2007.

### 3. SMBC's Business Strategy

Q. Please explain the results of unsecured loans to SMEs in the first half of fiscal 2006 and the plan for the full term.

A. Origination of unsecured loans to SMEs decreased by approximately JPY 480 billion year over year to approximately JPY 1.43 trillion in the first half of fiscal 2006, comprising of approximately JPY 630 billion in *Business Select Loan ("BSL")*, approximately JPY 120 billion in *Creceer Loan*, and approximately JPY 680 billion in *N-Funds and others*.

Our origination target on unsecured loans to SMEs for fiscal 2006 is approximately JPY 3.6 trillion in total.

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 160 billion compared with March 31, 2006 to approximately JPY 2.96 trillion as of September 30, 2006. Sales of pension-type insurances in the 1<sup>st</sup> half of fiscal 2006 was approximately JPY 240 billion, a decrease of approximately JPY 88 billion year over year, but the cumulative total since their launch in October 2002 was approximately JPY 1.96 trillion.

Meanwhile, origination of mortgage loans (residential purpose) in the first half of fiscal 2006 decreased by approximately JPY 40 billion year over year to approximately JPY 900 billion, and the balance decreased by approximately 130 billion to approximately JPY 9.9 trillion as of September 30, 2006 as a result of approximately JPY 440 billion of securitization. With regard to the highly popular mortgage loan with insurance for repayment of outstanding loan balance in the case the borrower is diagnosed with serious diseases such as cancer and heart attack, origination of the loan from since the launch in October 2005 reached approximately JPY 230 billion.

#### 4. Earnings Forecasts

Q. Please give SMFG's and SMBC's earnings forecasts for fiscal 2006.

A. SMFG's consolidated Ordinary profit revised to be JPY 950 billion (a JPY 60 billion decrease compared with the previous forecast), while Net income forecast of JPY 570 billion remains unchanged. At the same time, SMBC's non-consolidated Banking profit\* forecast revised to be JPY 845 billion (a JPY 95 billion decrease compared with the previous forecast), while Net income forecast of JPY 460 billion remains unchanged.

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

Q. Please explain SMBC's non-consolidated Banking profit\* forecast for fiscal 2006.

A. SMBC's non-consolidated Banking profit\* in fiscal 2006 is forecasted to decrease by approximately JPY 95 billion to JPY 845 billion, mainly due to a decrease in gross banking profits of approximately JPY 95 billion resulting from the recording of losses on bonds in the 1<sup>st</sup> half of fiscal 2006 from the reduction of bond portfolio. While gross banking profits is forecasted to decrease, we maintain the original expenses forecast of JPY 600 billion mainly due to the aggressive investment in strategic areas, such as actively promoting businesses to individual customers.

Q. Please explain SMBC's non-consolidated Total credit cost forecast for fiscal 2006.

A. We expect SMBC's non-consolidated Total credit cost for fiscal 2006 to be approximately JPY 100 billion, a decrease of JPY 70 billion compared with the original forecast.

#### 5. SMFG's Management Strategies

Q. Please tell us SMFG's dividend policy on common stock in the future.

A. From viewpoint of returning profits to shareholders, we have revised the forecast of cash dividends per common share for fiscal 2006 to be JPY 7,000, an increase by JPY 3,000 compared with the previous forecast and by JPY 4,000 compared with the previous fiscal year.

Q. Please explain about the strategic joint business in leasing and auto leasing businesses with Sumitomo Corporation group.

A. For details, please refer to the press release on our web-site at

[http://www.smfg.co.jp/news\\_e/e200044\\_01.html](http://www.smfg.co.jp/news_e/e200044_01.html)

Q. Please explain about the decision to make SMBC Friend Securities into a wholly-owned subsidiary of SMFG

A. For details, please refer to the press releases on our web-site at

[http://www.smfg.co.jp/news\\_e/e200025\\_01.html](http://www.smfg.co.jp/news_e/e200025_01.html)

[http://www.smfg.co.jp/news\\_e/e200019\\_01.html](http://www.smfg.co.jp/news_e/e200019_01.html)

Reference: Page 21 of the "Financial Results for the Six Months ended September 30, 2006 Supplementary Information"

#### 24. Earnings Forecast for FY2006

Sumitomo Mitsui Financial Group, Inc.

<Non-consolidated> (Billions of yen)

	FY2006		FY2005 Result
	Forecast	Change	
Operating income	370.0	314.6	55.4
Ordinary profit	365.0	316.8	48.2
Net income	365.0	291.6	73.4

Dividend per share forecast for the fiscal year end (Yen)

	FY2006		FY2005 Result
	Forecast	Change	
Common stock	7,000	4,000	3,000
Type 1 Preferred stock			10,500
Type 2 Preferred stock			28,500
Type 3 Preferred stock			13,700
1st - 12th series Type 4 Preferred stock	135,000	-	135,000
1st Series Type 6 Preferred stock	88,500	-	88,500

(Reference) (Billions of yen)

Total dividend planned	66.6	18.6	48.0
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<Consolidated> (Billions of yen)

	FY2006		FY2005 Result
	Forecast	Change	
Ordinary income	3,700.0	(5.1)	3,705.1
Ordinary profit	950.0	(13.6)	963.6
Net income	570.0	(116.8)	686.8

(Reference)

Sumitomo Mitsui Banking Corporation

<Non-consolidated> (Billions of yen)

	FY2006		FY2005 Result
	Forecast	Change	
Gross banking profit	1,445.0	(107.1)	1,552.1
Expenses	(600.0)	(13.5)	(586.5)
Banking profit (before provision for general reserve for possible loan losses)	845.0	(120.6)	965.6
Ordinary profit	760.0	39.1	720.9
Net income	460.0	(59.5)	519.5
Total credit cost (*)	(100.0)	130.9	(230.9)

(\*) (Provision for general reserve for possible loan losses) + (Credit cost included in non-recurring losses)

+ (Gains on collection of written-off claims included in Extraordinary gains)