Notes to 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 consolidated balance sheet on a trade date basis.
   Securities and monetary claims purchased for trading purposes are stated at the fiscal year-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 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 fiscal year, and bonds and others that have market prices are carried at their fiscal year-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 "Net assets," after deducting the amount that is reflected in the fiscal year'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. Tangible fixed assets owned by Sumitomo Mitsui Financial Group, Inc. (SMFG) and its consolidated subsidiary, Sumitomo Mitsui Banking Corporation (SMBC) are depreciated using the straight-line method. Equipments are depreciated using the declining-balance method. The estimated useful lives of major items are as follows:
   Buildings: 7 to 50 years
   Equipment: 2 to 20 years
   Other consolidated subsidiaries depreciate tangible fixed assets 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. Intangible fixed assets are depreciated using the straight-line method. Capitalized software for internal use owned by SMFG and its consolidated domestic subsidiaries is depreciated over its estimated useful life (basically five years).

8. Assets and liabilities of SMFG and SMBC denominated in foreign currencies and accounts of SMBC overseas branches are translated into Japanese yen mainly at the exchange rate prevailing at the consolidated 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 ¥490,123 million.

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

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

Unrecognized prior service cost is amortized using the straight-line method, primarily over 9 years within the employees' average remaining service period at incurrence.

Unrecognized net actuarial gain (loss) is amortized using the straight-line method, primarily over 9 years within the employees' average remaining service period, commencing from the next fiscal year of incurrence.

12. Reserve for executive retirement benefits is provided for payment of retirement benefits to directors, corporate auditors and other executive officers, in the amount deemed accrued at the fiscal year-end based on our internal regulations.

Retirement benefits to directors, corporate auditors and other executive officers were formerly expensed when they were paid. However, "Treatment for Auditing of Reserve under Special Taxation Measures Law and Reserve under Special Laws" (JICPA Audit Committee Report No.42, issued on September 21, 1982) was revised and "Treatment for Auditing of Reserve under Special Taxation Measures Law, Reserve under Special Laws and Reserve for Retirement Benefits to Directors and Corporate Auditors" (JICPA Audit and Assurance Practice Committee Report No.42) was announced on April 13, 2007. In accordance with this accounting change, from March 31, 2007, SMFG started recording "reserve for executive retirement benefits" in order to recognize periodic gains (losses) more proper by allocating the estimated retirement benefits to the tenure of the relevant executives. As a result, "Ordinary profit" and "Income before income taxes and minority interests" each decreased by ¥7,371 million as compared with the former method.

Interim consolidated financial statements for the six months ended September 30, 2006 were accounted for under the former method because this accounting change was announced on April 13, 2007. Accordingly, "Ordinary profit" and "Income before income taxes and minority interests" for the six months were excessively recorded by ¥6,241 million as compared with the revised method.

13. 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.

14. 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 the fiscal year-end, gross amounts of deferred hedge losses and gains on "macro hedge" (before deducting tax effect) were ¥41,522 million and ¥29,583 million, respectively.

15. 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.

16. 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 strict criteria for external transactions 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 special 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).

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

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, and reserve for contingent liabilities from securities transactions in accordance with Article 51 of the Securities and Exchange Law of ¥1,118 million.

19. Securities included stocks of unconsolidated subsidiaries and affiliates of ¥425,873 million and investments of ¥4,216 million.

20. Accumulated depreciation on tangible fixed assets and accumulated depreciation on lease assets amounted to ¥555,288 million and ¥1,592,098 million, respectively.

21. Deferred gain on real property deductible for tax purposes amounted to ¥67,070 million.

22. Bankrupt loans and Non-accrual loans were ¥60,715 million and ¥507,289 million, 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.

23. Past due loans (3 months or more) totaled ¥22,018 million.
 "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."

24. Restructured loans totaled ¥477,362 million.
 "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)."

25. The total amount of Bankrupt loans, Non-accrual loans, Past due loans (3 months or more) and Restructured loans was ¥1,067,386 million. The amounts of loans presented in Notes 22 to 25 above are the amounts before deduction of reserve for possible loan losses.

26. 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 ¥915,318 million.

27. Assets pledged as collateral were as follows:

	(Millions of yen)
Assets pledged as collateral	
Cash and due from banks	¥ 104,328
Trading assets	202,292
Securities	3,043,253
Loans and bills discounted	934,423
Other assets (installment account receivable etc.)	1,946
Liabilities corresponding to assets pledged as collateral	
Deposits	¥ 20,588
Call money and bills sold	1,335,000
Payables under repurchase agreements	128,695
Payables under securities lending transactions	1,250,450
Trading liabilities	84,532
Borrowed money	1,112,257
Other liabilities	23,207
Acceptances and guarantees	167,153

In addition, Cash and due from banks of ¥6,761 million, Trading assets of ¥500,158 million, Securities of ¥3,946,194 million and Loans and bills discounted of ¥535,770 million were pledged as collateral for cash settlements, variation margins of futures markets and certain other purposes.

Other assets include surety deposits and intangible of ¥94,129 million and variation margins of futures markets of ¥3,140 million.

28. 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 “Net assets.”

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 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 “Net assets.”

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.

29. The balance of subordinated debt included in “Borrowed money” was ¥559,500 million.

30. The balance of subordinated bonds included in “Bonds” was ¥2,183,810 million.

31. The amount guaranteed by banking subsidiaries to privately-placed bonds (stipulated by Article 2-3 of Securities and Exchange Law) in “Securities” was ¥2,421,446 million.

32. Japanese government bonds and Stocks as a sub-account of Securities include ¥2,188 million 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, ¥2,088,859 million of securities are pledged, and ¥154,192 million of securities are held in hand as of the consolidated balance sheet date.

33. 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 ¥40,947,052 million and the amount of unused commitments whose original contract terms are within one year or unconditionally cancelable at any time was ¥34,769,824 million. 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.

34. "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No.5, issued on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No.8, issued on December 9, 2005) were applicable from the fiscal year ending on or after May 1, 2006, the implementation date of the Company Law. As a result, the Enforcement Ordinance of the Banking Law was revised on April 28, 2006 and applicable from the fiscal year beginning on and after April 1, 2006. Effective April 1, 2006, SMFG changed its consolidated balance sheet presentation as follows:
(1) Former "Stockholders' equity" was renamed as "Net assets," which consisted of stockholders' equity, valuation and translation adjustments, stock acquisition rights and minority interests. The amount corresponding to former stockholders' equity at March 31, 2007 was ¥4,010,715 million.
(2) Deferred unrealized losses or gains on hedging instruments which had been included in "Other assets" or "Other liabilities" on a net basis were presented as "Net deferred gains (losses) on hedges" in valuation and translation adjustments after deducting tax effect on a net basis.
(3) "Minority interests" which had been presented below liabilities section were presented in net assets.
(4) "Premises and equipment" were separately presented as "Tangible fixed assets," "Intangible fixed assets" and "Other assets."
(a) Land, buildings and equipment in "Premises and equipment" were separately presented as "Land," "Buildings" and "Other tangible fixed assets" in "Tangible fixed assets," and suspense payments for constitutions unfinished were presented as "Construction in progress" in "Tangible fixed assets."
(b) Foregifts were included in and presented as "Other intangible fixed assets" in "Intangible fixed assets," and guarantee deposits were included in "Other assets."
(c) Software which had been included in "Other assets" was included as "Software" in "Intangible fixed assets."
(5) "Goodwill" which had been separately presented in assets section was included in "Intangible fixed assets." As a result, amortization of goodwill which had been accounted for as "Other expenses" in "Expenses" were accounted for as amortization of intangible fixed assets and included in "General and administrative expenses."

35. "Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations" (Practical Issues Task Force No.20, issued on September 8, 2006) was applicable from on and after the fiscal year ending September 8, 2006, the announcement date, and SMFG applied the new accounting pronouncement. This accounting change had no material impact on the consolidated financial statements.

36. "Accounting Standard for Share-based Payment" (ASBJ Statement No.8, issued on December 27, 2005) and "Guidance on Accounting Standard for Share-based Payment" (ASBJ Guidance No.11, issued on May 31, 2006) were applicable to the stock options, own share options and delivered own shares which are granted on and after May 1, 2006. As a result, SMFG applied the new accounting standards from the fiscal year beginning on April 1, 2006. This accounting change had no material impact on the consolidated financial statements.

37. SMFG previously recognized deferred bond discounts as assets and amortized them over the redemption periods. On August 11, 2006, "Accounting Standard for Financial Instruments" (issued by the Business Accounting Council (BAC) on January 22, 1999) was revised by ASBJ Statement No.10 "Accounting Standards for Financial Instruments," and the revised accounting standards were applicable from on and after the fiscal year ending August 11, 2006. SMFG applied the revised accounting standards and bonds were carried at the amounts calculated based on amortized cost (straight-line method) on the consolidated balance sheet. As a result, deferred bond discounts in "Other assets" and "Bonds" each decreased by ¥2,308 million compared with the former method.

Deferred bond discounts, which were recognized on the consolidated balance sheet as of March 31, 2006, were accounted for by the former method pursuant to "Tentative Solution on Accounting for Deferred Assets" (Practical Issues Task Force No.19, issued on August 11, 2006) and amortized over the redemption periods and the unamortized balances have been deducted from bonds balances.

38. "Accounting Standards for Business Combinations" ("Opinion Concerning Establishment of Accounting Standards for Business Combinations," issued by the BAC on October 31, 2003), "Accounting Standard for Business Divestitures" (ASBJ Statement No.7, issued on December 27, 2005) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on December 27, 2005) were applicable from the fiscal year beginning on April 1, 2006. Effective April 1, 2006, SMFG applied the new accounting standards.