

21. Deferred Tax Assets <SMBC Non-consolidated>

(1) Deferred Tax Assets on the Balance Sheet

(Billions of yen)

(Reference)

Temporary

differences

			Mar. 31, 2005	Change	Mar. 31, 2004	Mar. 31, 2005
(a) Total deferred tax assets	(b-c)	1	1,825.8	(13.8)	1,839.6	
(b) Subtotal of deferred tax assets		2	2,379.1	182.2	2,196.9	5,852.8
Reserve for possible loan losses		3	315.4	(113.9)	429.3	776.4
Write-off of loans		4	562.1	279.3	282.8	1,383.5
Write-off of securities		5	533.0	154.4	378.6	1,311.8
Reserve for employee retirement benefits		6	76.9	(5.4)	82.3	189.2
Depreciation		7	6.1	(1.0)	7.1	15.0
Net unrealized losses on other securities		8	-	-	-	-
Net operating loss carryforwards		9	822.8	(128.6)	951.4	2,008.8
Other		10	62.8	(2.6)	65.4	168.1
(c) Valuation allowance		11	553.3	196.0	357.3	
(d) Total deferred tax liabilities		12	323.6	74.5	249.1	796.5
Gains on securities contributed to employee retirement benefits trust		13	51.7	26.2	25.5	127.3
Net unrealized gains on other securities		14	264.5	48.0	216.5	651.1
Other		15	7.4	0.3	7.1	18.1
Net deferred tax assets (Balance sheet amount)	(a-d)	16	1,502.2	(88.3)	1,590.5	
Amounts corresponding to the estimated taxable income before adjustments		17	1,694.1	(35.5)	1,729.6	
Amounts to be realized after more than a certain period (Note 1)		18	72.6	(4.8)	77.4	
Amount corresponding to the deferred tax liabilities shown in line 14 (Note 2)		19	(264.5)	(48.0)	(216.5)	
Effective income tax rate		20	40.63%	-	40.63%	

(Notes)

- Deferred tax assets arising from temporary differences that are expected to be reversed after more than five years (such as reserve for employee retirement benefits and depreciation of buildings) may be recognized if there is a high likelihood of such tax benefits being realized. (JICPA Auditing Committee Report No.66 "Auditing Treatment Regarding Judgment of Realizability of Deferred Tax Assets")
- 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 operating loss carryforwards on the tax base. These operating loss carryforwards are due to SMBC taking the below measures 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 guideline on assessing the collectability of deferred tax assets issued by JICPA ("Practical Guideline")(*).
- (a) Disposal of Non-performing Loans
SMBC established internal standards for write-offs and reserves 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 non-performing loans and bolstering provisions in order to reduce the risk of asset deterioration under the severe business environment of a prolonged sluggish economy
In addition, pursuant to the "Program for Financial Revival" of October 2002, SMBC has accelerated disposal of non-performing loans in order to reduce the problem asset ratio to half by Fiscal 2004. As a result, SMBC has achieved this target earlier than planned, in the 1st half of Fiscal 2004. In the process, taxable disposals that were made in the past have been realized, while taxable disposals have been newly recognized. As a result, taxable disposal of non-performing loans(**) amounted to approximately 2,160 billion yen as of March 31, 2005.
- (b) Disposal of Unrealized Losses on Stocks
SMBC has been accelerating its effort to reduce stockholdings in order to reduce the risk of stock price fluctuations, and early meet the regulation limiting stockholdings that was adopted in Fiscal 2001.
During Fiscal 2002, SMBC reduced the balance of stocks by approximately 1.1 trillion yen through stocks sales and also disposed all at once unrealized losses on stocks of approximately 1.2 trillion yen by writing off impaired stocks and using the gains on the merger. Consequently, SMBC met the regulation limiting stockholdings at the end of Fiscal 2002, before the deadline.
As a result, balances of taxable write-off on securities(**) increased (from approximately 0.1 trillion yen as of March 31, 1999 to approximately 1.5 trillion yen as of March 31, 2003). On the other hand, taxable write-off of securities carried out in the past is now being realized through accelerated selling of stocks (In Fiscal 2004, approximately 130 billion yen was realized).
- (2) Consequently, operating loss carryforwards on the tax base amounted to approximately 2 trillion yen as of March 31, 2005, but they are certain to be offset by their carry-over period by the taxable income that will be generated in the future. No material operating loss carryforwards on the tax base have expired in the past.

(*) JICPA Auditing Committee Report No.66 "Auditing Treatment Regarding Judgment of Realizability of Deferred Tax Assets"

(**) Corresponds to "(Reference) Temporary differences" of 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	5,211.0
A	Income before income taxes	2	2,961.0
B	Adjustments to taxable income (excluding reversal of temporary differences as of Mar. 31, 2005)	3	1,208.6
C	Taxable income before adjustments (A+B)	4	4,169.6
	Deferred tax assets corresponding to taxable income before adjustments	5	1,694.1

(corresponding to line 17 of the table on the previous page)

[Basic Policy]

- Estimate when the temporary differences will be reversed
- Conservatively estimate the taxable income before adjustments for the next 5 years
 - Rationally make earnings projection for up to Fiscal 2009 based on the "Plan for strengthening the financial base (up to Fiscal 2006)"
 - Reduce an amount reflecting the uncertainty of the projected amount from the projected amount.
 - Add the adjustments to the above amount
- Apply the effective tax rate to the above amount and record the amount as "deferred tax assets"

(Reference 1) Income of final return (before deducting operating loss carryforwards) for the last 5 years

(Billions of yen)

	FY2000	FY2001	FY2002	FY2003	FY2004
Income of final return (before deducting operating loss carryforwards)	(176.0)	241.9	(745.5)	(1,437.8)	316.9

(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, 2005 are estimated income of final return as of March 31, 2005.

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.