Summary of Significant Differences between Japanese GAAP and U.S. GAAP

The consolidated financial statements of SMFG and its subsidiaries presented in this annual report conform with generally accepted accounting principles in Japan (“Japanese GAAP”). Such principles vary from the accounting principles generally accepted in the United States (“U.S. GAAP”). Significant differences between Japanese GAAP and U.S. GAAP are summarized below. These differences are not necessarily the only differences and other differences may exist:

**Japanese GAAP**

**Consolidated Subsidiaries**
The consolidated financial statements include all enterprises that are controlled by the parent, irrespective of the percentage of the voting shares owned.

Control is defined as the power to govern the decision making body of an enterprise.

**Equity Method of Accounting**
Affiliates are enterprises over which SMFG has material influence with respect to their financial and operating policies.

Investments in nonconsolidated subsidiaries or affiliates are accounted for by the equity method in the consolidated financial statements.

**Business Combinations**
Accounting treatment that is similar to the pooling-of-interest method is normally used for business combinations in accordance with the Commercial Code of Japan. Under the accounting treatment, the balance sheet items of the acquired company are combined with those of the acquiring company at their carrying amount or fair value.

The Accounting Standards Board of Japan published “Opinion Concerning Establishment of Accounting Standard for Business Combination” in October 2003. According to the opinion, from the fiscal year starting April 1, 2006, new accounting standard is required to be applied. Under the new accounting standard, purchase method is the basic method. Pooling of interests method is applied only to exceptionally limited circumstances when strict criteria are met.

**U.S. GAAP**

**Consolidated Subsidiaries**
Statement of Financial Accounting Standards (“SFAS”) No. 94 requires a parent company to consolidate all of its majority-owned subsidiaries with more than 50% of outstanding voting shares, subject to certain exceptions related to temporary control or the parent company’s inability to exercise control over the subsidiary.

As for consolidation of a special purpose entity, SFAS No. 140 prescribes the definition of qualifying special purpose entity (“QSPE”) that is to be excluded from consolidation by transferor.

To prescribe the consolidation of a special purpose entity other than QSPE, in January 2003, The Financial Accounting Standards Board (FASB) issued Interpretation No. 46, “Consolidation of Variable Interest Entities,” which applies immediately to variable interest entities created after January 31, 2003 and in the first fiscal year or interim period beginning after June 15, 2003 to older entities. An entity is considered a variable interest entity that is subject to consolidation under the Interpretation if the entity’s total equity at risk is insufficient to permit the entity to finance its activities without additional subordinated financial support or if equity investors lack one or three characteristics of a controlling financial interest.

**Equity Method of Accounting**
Investments representing ownership of 20% to 50% of the outstanding voting shares are accounted for by the equity method. In addition, investments representing ownership of less than 20% are accounted for by the equity method if the investor has the ability to exercise significant influence over the entity in which it invests.

**Business Combinations**
SFAS No. 141, Accounting for Business Combinations, prescribes the purchase method for all business combinations. The purchase method requires the valuation of the acquired assets and liabilities based on fair market values at the time of combination. The difference between the fair market values of the net assets and the consideration given represents goodwill.
Securities
Debt securities that consolidated subsidiaries have the intent and ability to hold to maturity (held-to-maturity securities) are carried at amortized cost. Trading securities are carried at market value with gains or losses included in the current period income. Other securities (available-for-sale securities) are carried at fair value with unrealized gains or losses recorded directly to stockholders’ equity, net of taxes.

Accounting for Derivatives and Hedging Activities
Derivative instruments are carried at fair value with changes included in the current period income unless certain hedge accounting criteria are met. In general, if derivative instruments are used as hedges and meet certain hedging criteria, a company defers recognition of gains or losses resulting from changes in fair value of derivative instruments as either an asset or liability until the related losses or gains on the hedged items are recognized. As a result of assessing and measuring effectiveness of hedges, changes in fair values of ineffective portion of derivatives can be deferred if only the total portion is recognized as effective.

As for fair value hedge accounting to hedging transactions for reducing the exposure to market volatility of bonds classified as other securities, a company can select either of the following treatment:
(a) A company defers recognition of gains or losses resulting from changes in fair value of derivative instruments as either an asset or liability until the related losses or gains on the hedged items are recognized. A bank was permitted to adopt “Macro Hedge Accounting” as hedge accounting method, under which the bank manages the total interest rate risk arising from various financial assets and liabilities as a whole by using financial derivative transactions. The treatment was temporarily permitted until fiscal year starting April 1, 2002.

From the fiscal year starting April 1, 2003, Japanese banks are required to apply the basic provision of JICPA Industry Audit Committee Report No. 24 to hedges on groups of large-volume, small-value monetary and debts with similar risk characteristics.

(b) A company recognizes gains or losses resulting from changes in fair value of derivative instruments in earnings in the period of change together with the offsetting fair value loss or gain on the hedged item.

A bank was permitted to adopt “Macro Hedge Accounting” as hedge accounting method, under which the bank manages the total interest rate risk arising from various financial assets and liabilities as a whole by using financial derivative transactions. The treatment was temporarily permitted until fiscal year starting April 1, 2002.

Accounting for Sales of Loans with Recourse
Certain loan participations which meet specified criteria are allowed to be accounted for as sales, even though the loans are not legally isolated from the transferor.

Accounting for Sales of Loans with Recourse
Under U.S. GAAP, pursuant to SFAS No. 140, financial assets are generally recorded as sold and removed from the balance sheet only when the following conditions have been met: legal title has passed; the financial assets are beyond the reach of the transferor’s creditors, even in bankruptcy or receivership; the purchaser obtains the asset free of

Securities
Investments in marketable equity and all debt securities are classified at acquisition according to management’s intent, into one of the following categories: trading, available-for-sale, or held-to-maturity. Trading securities are marked to fair value, with the resulting unrealized gain or loss recognized in income. Available-for-sale securities should be marked to fair value, with the resulting unrealized gain or loss recorded in other comprehensive income. Held-to-maturity securities are carried at amortized cost. Other than temporary declines in value are charged to earnings when incurred.

Accounting for Derivatives and Hedging Activities
SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities requires the recognition of all derivatives as assets or liabilities in the balance sheet measured at fair value. Changes in the fair values of derivatives are included in earnings unless the derivative qualifies for hedge accounting criteria. As a result of assessing and measuring effectiveness of hedges, changes in fair values of ineffective portion of derivatives are included in earnings and to be disclosed. The changes in the fair value of derivatives qualifying for hedge accounting criteria depend on the intended use.

For derivatives designated as hedging the exposure to changes in the fair value of an asset or liability or a firm commitment, the gain or loss is recognized in earnings in the period of change together with the offsetting fair value loss or gain on the hedged item.

For derivatives designated as hedging the exposure to variable cash flows of a forecasted transaction, the effective portion of the derivative’s gain or loss is initially reported as a component of other comprehensive income. Gains and losses of cash flow hedges included in other comprehensive income are reclassified into earnings in the same period or periods during which the related asset or liability affects earnings.

For derivatives designated as hedging the foreign currency exposure of a net investment in a foreign operation, the gain or loss is reported in other comprehensive income as part of the cumulative translation adjustment.

SFAS No. 133 was partially amended by SFAS No. 138 and SFAS No. 149.
Restructured Loans
Discounted present value had not been historically used to measure impairment of a loan. Reserves for restructured loans were computed based on historical loss experience.

From the fiscal year ended at March 31, 2003, pursuant to "Audit considerations with respect to the discounted cash flow method used to determine allowance for credit losses by banks and other financial institutions" (issued by JICPA on February 24, 2003), major banks are required to provide reserves for possible loan losses using the Discounted Cash Flows method as follows for loans to large borrowers classified as "Past due loans (3 months or more)" or "Restructured loans":
(a) A bank rationally estimates the cash flows of principal and interest, and measures their present values by discounting the cash flows using the initial contractual interest rate.
(b) A bank recognizes the difference between the present value and its book value as estimated losses and provides reserve for possible loan losses.

Accrued Interest on Non-Performing Loans
Consolidated subsidiaries places into the non-accrual status loans which management assesses as "Bankrupt," "Effectively Bankrupt" or "Potentially Bankrupt." Accrued interest related to such loans is written-off.

Impairment of Long-Lived Assets
In August 2002, the Business Accounting Deliberation Council issued “Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets.” The opinion requires that an impairment loss be recognized only if there are indications of impairment loss and the carrying amount of a fixed asset is lower than its aggregate undiscounted future cash flows. The amount of impairment loss to be recognized is the difference between the carrying amount of fixed asset and the greater of: (i) the aggregate discounted future cash flows, (ii) the expected resale price of the fixed assets. The impairment loss shall be included in the current period income.

This new accounting standard becomes effective for fiscal years beginning after March 31, 2005. Earlier adoption is permitted for the fiscal year ended March 31, 2004.
Goodwill
Goodwill that is the excess of investment cost over the parent’s share of the underlying equity in net assets of the subsidiary at the date of acquisition and that is created in consolidation procedures shall be amortized within 20 years.

According to the “Opinion Concerning Establishment of Accounting Standard for Business Combination” issued in October 2003, goodwill is strictly amortized within 20 years using a systematic method, with impairment test in addition.

Employee Pension and Post-Retirement Benefits
Reserve for employee retirement benefit is recorded based on an actuarial computation, which uses the present value of the projected benefit obligation and pension assets, based on an employee’s credited years of services at the balance sheet date. Contributions are changed to the income statement as a decrease in pension costs when paid.

All unrecognized actuarial gains/losses are strictly subject to amortization.

There is no requirement of additional minimum liability under Japanese GAAP.

Accounting for the transfer of the Substitutional Portion of Employee Pension Fund Liabilities
In general, accounting for any gain on transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities is recognized when the obligation is settled and actually transferred. As an alternative, the gain on the return of the entrusted portion of the employee pension fund is allowed if the transfer is resolved by board of delegates and there are plan assets equivalent to the amount that should be transferred to the Japanese Government. This treatment is allowed within 30 months from June 15, 2001.

Earned Surplus Reserve
Under the Banking Law of Japan, an amount equivalent to at least 20% of cash disbursements paid was appropriated and was set aside as earned surplus reserve in the retained earnings.

Effective October 1, 2001, such earned surplus reserve is recorded until total of both earned surplus reserve and capital surplus equals the amount of common stock. The excess of the total amount over the amount of common stock may be transferred to retained earnings by resolution of stockholders.

Land Revaluation Excess
Land which had been recorded at acquired cost was allowed to be revalued at fair value at one time during a fiscal year.

Goodwill
Under SFAS No. 142, goodwill is not amortized but tested at least annually for impairment.

Employee Pension and Post-Retirement Benefits
U.S. GAAP generally requires the use of actuarial methods for measuring annual employee benefit costs, including the use of assumptions as to the rate of salary progression and discount rate, the amortization of prior service costs over the remaining service period of active employees and the immediate recognition of a liability when the accumulated benefit obligation exceeds the fair market value of plan assets.

Unrecognized actuarial gains/losses that are equal to the greater of 10% of the present value of benefit obligation (PBO) and 10% of the fair value (market related value) of plan assets, do not need to be amortized (corridor amortization).

Liability that is at least equal to unfunded accumulated benefit obligation is recognized as additional minimum liability.

Accounting for the transfer of the Substitutional Portion of Employee Pension Fund Liabilities
In accordance with Emerging Issues Task Force Issue No. 03-02 “Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities,” the entire separation process and transfer will be accounted for at the time the transfer of the benefit obligation and related plan assets is completed. The ultimate determination of any gain or loss will be made as of the date the transfer has been completed in accordance with Statement of Financial Accounting Standards No. 88 “Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.”

Earned Surplus Reserve
Such earned surplus reserve is not provided for under U.S. GAAP.

Land Revaluation Excess
Such land revaluation excess is not permissible.
from March 31, 1998 to March 31, 2002. The resulting gains were recorded in land revaluation excess as a separate component in the stockholders' equity, net of tax.

The land shall not be revaluated after the initial revaluation even if the fair value declined.

Guarantees
Notional amounts of guarantees, including standby letters of credit and the related reimbursement obligations of customers, are presented on the balance sheet with assets of equal amounts.

Loan Fees
Loan origination fees and costs are recognized when income is received and costs are incurred.

Directors' Bonuses
Directors' bonuses are charged directly to retained earnings by resolution of stockholders.

Leases
Unless transfer of ownership occurs, financing leases may be accounted for as operating leases accompanied with sufficient footnote disclosure.

Comprehensive Income
There are no specific accounting principles for reporting comprehensive income.

Guarantees
In November 2002, the Financial Accounting Standards Board (FASB) issued interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,” which, among other provisions, applies to guarantees issued or modified after December 31, 2002. The issuer of a guarantee is required to recognize, at the inception of the guarantee, an initial liability for fair value of its obligations under the guarantee basically. The above-mentioned treatment is required for letters, such as financial standby letters of credit and contracts that contingently require the guarantor to make payments to the guaranteed party.

Loan Fees
Loan origination fees are deferred and recognized over the life of the related loan as an adjustment of yield based on the effective interest method.

Directors' Bonuses
Directors' compensation is expensed on an accrual basis as earned.

Leases
Leases are classified as either capital lease or operating lease, based on specified criteria. A lease which transfers substantially all of the benefits and risks of ownership to the lessee is reported as a capital lease. Other leases are accounted for as operating leases.

Comprehensive Income
U.S. GAAP requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income includes all changes in stockholders’ equity during an accounting period except those resulting from investments by or distributions to owners, including certain items not included in the current results of operations.