



Financial Review

Sumitomo Mitsui Financial Group (Consolidated)

Sumitomo Mitsui Financial Group, Inc. and Subsidiaries

The following is a summary of SMFG's consolidated financial results for the fiscal year ended March 31, 2007.

1. Operating Results

Operating results for fiscal 2006 include the results of 181 consolidated subsidiaries (125 in Japan and 56 overseas) and 62 subsidiaries and affiliates accounted for by the equity method (35 in Japan and 27 overseas).

Gross profit showed a year-on-year decrease of ¥183.9 billion to ¥1,906.1 billion. This was primarily attributable to recording of "net other operating expenses" compared to the substantial "net other operating income" of fiscal 2005 as JGBs and other bond holdings were scaled back to reduce the risk exposure of our portfolio in light of domestic and overseas interest rate trends.

After factoring in general and administrative expenses, credit cost, gains on stocks, equity in earnings (losses) of affiliates, and other relevant income items, ordinary profit came to ¥798.6 billion, a year-on-year decrease of ¥164.9 billion. This was due mainly to the fact that equity in earnings of affiliates registered a ¥136.0 billion decrease to ¥104.1 billion, although credit cost showed a decrease of ¥187.3 billion. Net income after inclusion of extraordinary gains and income taxes amounted to ¥441.3 billion, a ¥245.4 billion decrease from the previous term.

Number of Consolidated Subsidiaries, and Subsidiaries and Affiliates Accounted for by the Equity Method

March 31	2007 (A)	2006 (B)	Increase (decrease) (A) – (B)
Consolidated subsidiaries	181	162	19
Subsidiaries and affiliates accounted for by the equity method	62	63	(1)

Income Summary

Year ended March 31	Millions of yen		
	2007 (A)	2006 (B)	Increase (decrease) (A) – (B)
Consolidated gross profit.....	¥1,906,173	¥2,090,149	¥(183,976)
Net interest income	1,168,592	1,161,607	6,985
Trust fees	3,508	8,631	(5,123)
Net fees and commissions	609,185	619,591	(10,406)
Net trading income	125,625	32,807	92,818
Net other operating income (expenses)	(738)	267,511	(268,249)
General and administrative expenses	(888,561)	(853,796)	(34,765)
Credit cost (A)	(146,186)	(333,571)	187,385
Write-off of loans	(81,415)	(69,355)	(12,060)
Provision for specific reserve for possible loan losses	(77,446)	(45,047)	(32,399)
Provision for general reserve for possible loan losses	53,370	(120,078)	173,448
Others	(40,695)	(99,091)	58,396
Net gains on stocks	44,730	47,119	(2,389)
Equity in earnings (losses) of affiliates	(104,170)	31,887	(136,057)
Net other income (expenses)	(13,374)	(18,233)	4,859
Ordinary profit.....	798,610	963,554	(164,944)
Extraordinary gains (losses).....	8,180	79,807	(71,627)
Losses on impairment of fixed assets	(30,548)	(12,303)	(18,245)
Gains on collection of written-off claims (B)	1,236	31,584	(30,348)
Gains on return of securities from retirement benefits trust	36,330	—	36,330
Income before income taxes and minority interests	806,790	1,043,362	(236,572)
Income taxes:			
Current	(87,818)	(69,818)	(18,000)
Deferred	(218,770)	(226,901)	8,131
Minority interests in net income.....	(58,850)	(59,800)	950
Net income	¥ 441,351	¥ 686,841	¥(245,490)
Total credit cost (A) + (B)	¥ (144,950)	¥ (301,987)	¥ 157,037
[Reference]			
Consolidated banking profit (Billions of yen)	¥ 924.2	¥ 1,225.4	¥ (301.2)

Notes: 1. Consolidated gross profit = (Interest income – Interest expenses) + Trust fees + (Fees and commissions (income) – Fees and commissions (expenses)) + (Trading profits – Trading losses) + (Other operating income – Other operating expenses)
 2. Consolidated banking profit = SMBC's nonconsolidated banking profit (before provision for general reserve for possible loan losses) + SMFG's ordinary profit + Other subsidiaries' ordinary profit (excluding nonrecurring factors) + Equity method affiliates' ordinary profit x Ownership ratio – Internal transactions (dividends, etc.)

Deposits (excluding negotiable certificates of deposit) as of March 31, 2007, stood at ¥72,156.2 billion, a ¥1,322.0 billion increase compared with the previous fiscal year-end. Negotiable certificates of deposit stood at ¥2,589.2 billion, a decrease of ¥119.4 billion over the same period. Loans and bills discounted increased ¥1,422.1 billion to ¥58,689.3 billion, while securities decreased ¥4,968.3 billion to ¥20,537.5 billion.

Net assets as of the term-end came to ¥5,331.2 billion. Of this sum, stockholders' equity amounted to ¥2,741.6 billion, the combined total of consolidated net income and purchase and retirement of treasury shares following the repayment of public funds.

Assets, Liabilities and Net assets

March 31	Millions of yen		
	2007 (A)	2006 (B)	Increase (decrease) (A) – (B)
Assets.....	¥100,858,309	¥107,010,575	¥(6,152,266)
Securities	20,537,500	25,505,861	(4,968,361)
Loans and bills discounted.....	58,689,322	57,267,203	1,422,119
Liabilities.....	95,527,029	101,443,151	(5,916,122)
Deposits	72,156,224	70,834,125	1,322,099
Negotiable certificates of deposit	2,589,217	2,708,643	(119,426)
Minority interests	—	1,113,025	(1,113,025)
Net assets	5,331,279	4,454,399	876,880

Note: From March 31, 2007, SMFG has applied "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No.5) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No.8). Minority interests are included in net assets with an application of these standards.

2. Unrealized Gains (Losses) on Securities

Net unrealized gains on securities as of March 31, 2007 amounted to ¥1,812.4 billion, which is an increase of ¥469.6 billion from the previous fiscal year-end. Net unrealized gains on other securities including "other money held in

trust," changes in which are directly credited to net assets, increased by ¥451.9 billion over the same period, to ¥1,825.4 billion due mainly to an increase in unrealized gains on stocks and a decrease in unrealized losses on bonds.

Unrealized Gains (Losses) on Securities

March 31	Millions of yen							
	2007				2006			
	Net unrealized gains (losses) (A)	(A) – (B)	Unrealized gains	Unrealized losses	Net unrealized gains (losses) (B)	Unrealized gains	Unrealized losses	
Held-to-maturity securities	¥ (13,065)	¥ 17,716	¥ 200	¥ 13,266	¥ (30,781)	¥ 580	¥ 31,361	
Other securities	1,825,168	451,831	2,032,120	206,952	1,373,337	1,771,170	397,833	
Stocks	1,972,647	269,957	1,987,337	14,689	1,702,690	1,722,129	19,438	
Bonds.....	(157,367)	139,866	1,805	159,173	(297,233)	988	298,222	
Others	9,888	42,008	42,977	33,089	(32,120)	48,052	80,172	
Other money held in trust.....	322	113	322	—	209	209	—	
Total	1,812,424	469,659	2,032,643	220,218	1,342,765	1,771,960	429,195	
Stocks	1,972,647	269,957	1,987,337	14,689	1,702,690	1,722,129	19,438	
Bonds.....	(170,613)	157,675	1,825	172,439	(328,288)	1,294	329,583	
Others	10,391	42,027	43,480	33,089	(31,636)	48,535	80,172	

Notes: 1. The figures above include unrealized gains (losses) on negotiable certificates of deposit bought in "Deposits with banks" and beneficiary claims on loan trust in "Commercial paper and other debt purchased."
2. Unrealized gains (losses) on stocks are mainly calculated using the average market price during the final month of the respective reporting period. The rest of the securities are valued at the market price as of the balance sheet date.
3. "Other securities" and "Other money held in trust" are valued and recorded on the consolidated balance sheet at market prices. The figures in the table above indicate the differences between the acquisition costs (or amortized costs) and the balance sheet amounts.
"Unrealized gains (losses) on other securities" as of March 31, 2006 include losses of ¥3,193 million that were recognized in the income statement by applying fair value hedge accounting, which are included in the amount to be directly included in stockholders' equity.

3. Consolidated Capital Ratio

SMFG's consolidated capital ratio as of March 31, 2007 was 11.31%. (Please refer to "Capital Ratio Information" section on page 123 for more information.)

Total capital, which constitutes the numerator in the capital ratio calculation equation, was ¥6,852.7 billion.

Meanwhile, risk-adjusted assets, the denominator in the equation, amounted to ¥60,540.3 billion. Capital ratio as of March 31, 2007 was calculated under Basel II. Capital ratio as of March 31, 2006 was calculated under the former method.

Consolidated Capital Ratio

March 31	Millions of yen	
	2007	2006
Tier I capital	¥ 3,903,257	¥ 4,645,905
Tier II capital included as qualifying capital	3,640,226	4,067,736
Deductions	(690,759)	(619,279)
Total capital	6,852,723	8,094,361
Risk-adjusted assets	60,540,346	65,322,349
Consolidated capital ratio	11.31%	12.39%

4. Dividend Policy

Given the public nature of its business, SMFG subscribes to a fundamental policy of increasing dividends stably and continuously through a sustainable growth in corporate value, while enhancing the Group's capital to maintain a sound financial position. It is aiming for a payout ratio of over 20% on a consolidated net income basis for the fiscal year ending March 31, 2010, the final year of its medium-term management plan, "LEAD THE VALUE" Plan.

SMFG's basic policy is to make dividend payments twice a year in the form of interim and term-end dividends. The term-end dividend is approved at the annual general meeting of shareholders. As for the interim dividend, it is stated in the Articles of Incorporation of SMFG that the interim dividend payment shall be determined by resolution of a meeting

of the Board of Directors, with September 30 of each year as the record date.

Based on the above mentioned policy, SMFG decided to pay a term-end dividend of ¥7,000 per share of common stock for the fiscal year ended March 31, 2007, a year-on-year increase of ¥4,000. Annual dividends on preferred stocks were paid in the predetermined amounts for each category of preferred stock. SMFG did not pay an interim dividend for the reporting period, taking into account the need for a sufficient amount of retained earnings.

SMFG will use retained earnings to implement strategic initiatives centered on strengthening targeted growth business areas and fortifying the Group's platform for supporting sustainable growth, with the aim of raising its corporate value.

5. Deferred Tax Assets

Net deferred tax assets, which represent deferred tax assets after deduction of deferred tax liabilities, decreased by ¥165.8 billion from the previous fiscal year-end, to stand at ¥836.2 billion. This decline was mainly attributable to the

posting of an income before income taxes.

SMFG has been adopting a conservative stance on the recognition of deferred tax assets in consideration of the need to secure a sound financial position.

Deferred Tax Assets

March 31	Millions of yen		
	2007 (A)	2006 (B)	Increase (decrease) (A) - (B)
Net deferred tax assets	¥836,270	¥1,002,125	¥(165,855)
Net deferred tax assets / Tier I capital × 100	21.4%	21.6%	(0.2)%