

| President's Message |

Review on Fiscal 2003

The pulse of Japanese economic recovery strengthened in fiscal 2003 as capital investment grew against the background of higher exports and corporate earnings. In the financial markets, short-term interest rates remained at near zero percent as the Bank of Japan maintained its easy monetary policy. On the other hand, long-term interest rates rose higher on economic recovery expectations and as of March 2004, the yield on new 10-year Japanese government bonds was considerably higher than a year earlier. The stock market entered a general uptrend.

In this business environment, Sumitomo Mitsui Banking Corporation ("SMBC") made three commitments for two years from fiscal 2003 to fiscal 2004: halving the non-performing loan ratio, reducing stockholdings, and establishing a strong earnings structure to ensure ¥1 trillion in banking profit.

In fiscal 2003, we made steady progress toward fulfilling these commitments.

Firstly, we reduced the non-performing loan ("NPL") balance¹ by more than ¥2.4 trillion to approximately ¥2.8 trillion. As a result, the NPL ratio as of March 31, 2004 came to 5.0% and the commitment to halve the NPL ratio as of March 31, 2002, 8.9%, is now within our reach.

Secondly, on stockholdings, we greatly reduced the price fluctuation risk by selling nearly ¥930 billion.

Lastly, we achieved banking profit of more than ¥1 trillion for three consecutive years following the merger in April 2001, as profits of the marketing units² were boosted further. We were early in developing and growing core business models in various markets under the two key initiatives toward sustainable growth: establishing competitive business models, and creating a strong business portfolio with various leading businesses. As a result, annual gross profit of many businesses in markets such as loans to small and medium-sized enterprises ("SMEs"), financial consulting for individuals, and investment banking, increased to the ¥10 billion to ¥20 billion level. In fiscal 2003, the marketing units accounted for nearly 80% of total gross profit, up from about 60% in fiscal 2002.

Business Policy in Fiscal 2004

In order to fulfill the three commitments, we have set two initiatives: completion of intensive improvement in asset quality, and enhancement of profitability by accelerating the offensive in strategic businesses, as our business policy in this fiscal year.

1. Completion of Intensive Improvement in Asset Quality

We aim to reduce the NPL balance to less than ¥2.5 trillion and the NPL ratio to less than 4.5% by the end of September, six months ahead of the original schedule to halve the NPL ratio, through further off-balancing, corporate recovery, and prevention of deterioration of borrowers' financial condition. We plan to further reduce the NPL balance to less than ¥2.0 trillion and the NPL ratio to less than 4.0% by the end of fiscal 2004, and thereby put the NPL issue behind us. On stockholdings, we will further reduce the balance in line with our medium-term target to cut the balance to around 50% of Tier I capital.

2. Enhancement of Profitability by Accelerating the Offensive in Strategic Businesses

We will further strengthen the competitive advantages of the following three businesses as the core initiatives of our profit growth in fiscal 2004.

• Loans to SMEs

We will further improve our risk-taking capability in order to increase loan volume. In addition to a more proactive promotion of *Business Select Loan* and *N-Fund Loan*, we will offer new types of loans such as *Turnaround Loan* and *V-Fund Loan*, and increase distribution channels, personnel and business promotion activities.

• Financial Consulting for Individuals

In mortgage loans, we will further reinforce our marketing ability by increasing the number of SMBC Consulting Plazas to 50 and the headcount at Consumer Loan Promotion Offices, to surpass the record result of origination achieved last fiscal year. In sales of investment trusts and pension-type insurances that have been successful so far, we will further reinforce marketing staff, improve productivity, and expand the range of products and services to increase profits significantly.

- **Investment Banking Business**

In investment banking businesses operated by SMBC such as loan syndication, securitization of monetary claims and others, we will continue to strengthen products and services, expand the customer base, and allocate human resources. From a Groupwide perspective, collaboration with Daiwa Securities SMBC Co., Ltd., which has a steady track record, will be accelerated in stock and bond underwriting, M&A and other various businesses in fiscal 2004. We will enhance proactive collaboration with the aim of improving our Groupwide solution-providing ability.

We will also proactively implement measures for the early establishment of a solid earnings structure in the following two businesses.

- **Consumer Finance**

The consumer finance business of Group companies: SMBC, Sumitomo Mitsui Card Company, Limited, QUOQ Inc., and At-Loan Co., Ltd., will be reinforced to increase lending volume and profit. Moreover, through a business and capital alliance with Promise Co., Ltd., we plan to leverage respective brands, customer bases, expertise and experiences to provide customers with the best consumer finance products and services. As a business alliance, we will provide several types of loans with different levels of interest rates, including loan products of a new joint venture company, through SMBC's distribution channels. Also, collaborations with other Group companies will be promoted. As a capital alliance, SMBC will purchase common stock equivalent to 20% of Promise's outstanding shares. With these initiatives, we are aiming at the No.1 position in the Japanese consumer finance market.

- **Overseas Business**

We will continue to strengthen Asian business centered on China, and strategically allocate business resources in the Americas and Europe to increase business volume.

- **Group Business**

We have been promoting collaboration among Group companies including SMBC in a wide range of businesses to strengthen Group business, one of our key business priorities. We will further promote collaboration and reinforce the Group's profitability with initiatives such as reinforcement of consumer finance business by Sumitomo Mitsui Card, development of small and medium-sized customers by SMBC Leasing Company, Limited, and development of IT business opportunities utilizing financial system know-how by The Japan Research Institute, Limited.



In Closing

In fiscal 2003, we took the first and major step toward sustainable growth by making steady progress in both improving asset quality and reinforcing profitability. However, for our further dramatic improvement, efforts in this fiscal year, especially the reinforcement of profitability, are indispensable. The sustainable growth cannot be achieved without establishing an earnings structure with highly competitive business models in many growth markets. Accordingly, in fiscal 2004, we will devote ourselves to complete intensive improvement in asset quality early, and will implement aggressive measures in the strategic businesses to fortify our competitive advantages with speed, which is our strength, and thereby enjoy greater trust and support of our stakeholders and increase shareholder value.

Notes:

1. NPLs defined as problem assets based on the Financial Reconstruction Law.
2. Total profits from the Consumer Banking, Middle Market Banking, Corporate Banking, International Banking and Community Banking Units.

Yoshifumi Nishikawa
President and Chief Executive Officer
Sumitomo Mitsui Financial Group, Inc.

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