Sumitomo Mitsui Banking Corporation (Nonconsolidated)

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The following is a summary of SMBC's nonconsolidated financial results for fiscal 2003 ended March 31, 2004. The former SMBC and the former Wakashio Bank merged on March 17, 2003 and SMBC's audited statement of operations for fiscal 2002 does not include the figures for the former SMBC before the merger, for it was the nonsurviving entity. Figures for fiscal 2002 ended March 31, 2003 here presented, however, include the operating results of the former SMBC before the merger for the period from April 1, 2002 to March 16, 2003, to make possible a substantive comparison with the previous fiscal year.

1. Operating Results

Banking profit (excluding transfer to general reserve for possible loan losses) for fiscal 2003 decreased ¥113.5 billion to ¥1,000.1 billion year-on-year, as a result of a ¥176.5 billion decrease in gross banking profit to ¥1,584.1 billion and a ¥63.0 billion decrease in expenses (excluding nonrecurring losses) to ¥584.0 billion.

Ordinary profit, calculated by adjusting banking profit (excluding transfer to general reserve for possible loan losses) for nonrecurring items such as credit cost and gains on stocks, was ¥185.1 billion.

After adjusting ordinary profit for extraordinary gains in the amount of ¥133.7 billion and income taxes of ¥12.7 billion, net income came to ¥301.1 billion, a year-on-year increase of ¥779.4 billion.

2. Income Analysis

Gross Banking Profit

Gross banking profit for fiscal 2003 declined ¥176.5 billion year-on-year to stand at ¥1,584.1 billion. In domestic operations, gross banking profit declined ¥117.2 billion year-on-year to ¥1,135.6 billion. This was a result of a ¥77.9 billion decrease in interest income, mainly due to a decline in the loan balance, and a ¥71.7 billion drop in gains on bonds (mainly JGBs), offsetting a ¥26.3 billion increase in net revenue from fees and commissions on investment trusts, personal pension insurance, and loan syndications.

In international operations, gross banking profit decreased ¥59.2 billion year-on-year to ¥448.5 billion mainly due to Treasury Unit's weaker performance compared with fiscal 2002, despite an increase in gains on derivatives transactions.

Expenses

Expenses (excluding nonrecurring losses) decreased ¥63.0 billion year-on-year to ¥584.0 billion. This was mainly due to a ¥32.6 billion decline in personnel expenses resulting from workforce downsizing and a reduction in provision to reserves for employee bonuses, as well as a ¥25.4 billion reduction in nonpersonnel expenses through the integration of domestic branch operations and further reductions in expenses made possible following the complete integration of the founding banks' computer systems in fiscal 2002.

Banking Profit

Banking profit (excluding transfer to general reserve for possible loan losses) decreased ¥113.5 billion year-on-year to ¥1,000.1 billion.

Banking Profit

	Millions of yen		
Year ended March 31	**2004** (A)	2003 (B)	Increase (decrease) (A) – (B)
Gross banking profit	**¥1,584,127**	¥1,760,684	¥(176,557)
Gross banking profit (excluding gains (losses) on bonds)	**1,561,386**	1,625,025	(63,639)
Net interest income	**1,087,060**	1,223,336	(136,276)
Trust fees	**334**	7	327
Net fees and commissions	**226,568**	194,665	31,903
Net trading income	**280,729**	196,000	84,729
Net other operating income	**(10,565)**	146,672	(157,237)
Gross domestic banking profit	**1,135,616**	1,252,898	(117,282)
Gross international banking profit	**448,510**	507,785	(59,275)
Transfer to general reserve for possible loan losses	**¥ —**	¥ (238,132)	¥ 238,132
Expenses (excluding nonrecurring losses)	**(583,995)**	(647,040)	63,045
Personnel expenses	**(221,284)**	(253,907)	32,623
Nonpersonnel expenses	**(332,238)**	(357,682)	25,444
Taxes	**(30,472)**	(35,450)	4,978
Banking profit	**¥1,000,132**	¥ 875,511	¥ 124,621
Banking profit (excluding transfer to general reserve for possible loan losses)	**1,000,132**	1,113,643	(113,511)
Banking profit (excluding transfer to general reserve for possible loan losses and gains (losses) on bonds)	**977,391**	977,984	(593)

Nonrecurring Losses (Credit Costs, etc.)

Nonrecurring losses amounted to ¥814.9 billion in fiscal 2003. This was mainly attributable to disposal of non-performing loans and amortization expenses for unrecognized obligations (actuarial loss) on retirement benefits, despite a ¥103.9 billion gain on stocks against the backdrop of recovery in the share prices, and a decrease in loss on devaluation of stocks. Total credit cost amounted to ¥803.4 billion, consisting of credit cost recorded as nonrecurring losses in the amount of ¥869.2 billion, net of a ¥65.8 billion gain on reversal of reserve for possible loan losses and for possible losses on loans sold recorded as extraordinary gains. (Please refer to the "Asset Quality" section beginning on page 21 for more information on problem assets and progress in reducing such assets.)

Ordinary Profit

As a result of the foregoing, ordinary profit came to ¥185.1 billion, a ¥782.3 billion improvement from the previous fiscal year.

Extraordinary Gains

Net extraordinary gains amounted to ¥133.7 billion. This was mainly attributable to the refund of a revenue-based enterprise tax imposed by the Tokyo Metropolitan Government in the amount of ¥40.4 billion, and a ¥59.1 billion gains on return of the entrusted portion of employees pension fund. Reserve for possible loan losses (in the total amount of general, specific and overseas) in the amount of ¥65.3 billion was reversed and the relevant gains were also recorded as extraordinary gains.

Net Income

Income taxes totaled ¥12.7 billion. Deferred income taxes under tax-effect accounting came to ¥5.0 billion. As a result, net income came to ¥301.1 billion, which was an improvement of ¥779.4 billion over the previous fiscal year.

Ordinary Profit and Net Income

	Millions of yen		
Year ended March 31	**2004** (A)	2003 (B)	Increase (decrease) (A) – (B)
Banking profit (excluding transfer to general reserve for possible loan losses)	**¥1,000,132**	¥ 1,113,643	¥(113,511)
Transfer to general reserve for possible loan losses (A)	**—**	(238,132)	238,132
Banking profit	**¥1,000,132**	¥ 875,511	¥124,621
Nonrecurring gains (losses)	**(814,994)**	(1,472,700)	657,706
Credit cost (B)	**(869,234)**	(836,385)	(32,849)
Write-off of loans	**(566,344)**	(284,418)	(281,926)
Transfer to specific reserve	**—**	(375,359)	375,359
Transfer to reserve for losses on loans sold	**—**	(15,245)	15,245
Losses on loans sold to CCPC	**(806)**	(16,370)	15,564
Losses on sale of delinquent loans	**(302,083)**	(148,870)	(153,213)
Transfer to loan loss reserve for specific overseas countries	**—**	3,879	(3,879)
Gains (losses) on stocks	**103,867**	(635,708)	739,575
Gains on sale of stocks	**151,170**	51,205	99,965
Losses on sale of stocks	**(36,577)**	(159,448)	122,871
Losses on devaluation of stocks	**(10,724)**	(527,465)	516,741
Enterprise taxes by local government	**(8,478)**	(7,811)	(667)
Others	**(41,149)**	7,204	(48,353)
Ordinary profit (loss)	**¥ 185,138**	¥ (597,188)	¥ 782,326
Extraordinary gains (losses)	**133,707**	(73,799)	207,506
Gains (losses) on disposal of premises and equipment	**(11,853)**	(26,169)	14,316
Amortization of net transition obligation from initial application of the new accounting standard for employee retirement benefits	**(19,473)**	(20,167)	694
Reversal of reserve for possible loan losses (C)	**65,342**	—	65,342
Reversal of reserve for possible losses on loans sold (D)	**488**	—	488
Tax refund from the Tokyo government and interest on the tax refund	**40,363**	—	40,363
Gains on return of the entrusted portion of employee pension fund	**59,095**	—	59,095
Income taxes, current	**(12,752)**	(40,299)	27,547
Income taxes, deferred	**(4,980)**	232,983	(237,963)
Net income (loss)	**¥ 301,113**	¥ (478,304)	¥ 779,417
Total credit cost (A) + (B) + (C) + (D)	**¥ (803,403)**	¥(1,074,517)	¥ 271,114

3. Assets, Liabilities and Stockholders' Equity

Assets

SMBC's total assets at March 31, 2004 stood at ¥94,109.0 billion on a nonconsolidated basis, a ¥3,782.0 billion decrease compared with a year earlier. This decline is mainly due to a ¥6,472.2 billion decrease in outstanding loans and bills discounted against the backdrop of the slow recovery in corporate fund demand in Japan and the accelerated work-out of non-performing loans, offsetting a ¥2,936.1 billion increase in securities (mainly JGBs and foreign securities) purchased under our trading policy of taking advantage of market interest fluctuations.

Liabilities

Liabilities at the fiscal year-end decreased ¥4,373.7 billion year-on-year to ¥91,238.2 billion. This decline was attributable to a decrease in payables under repurchase agreements, based on our fund procurement policy of taking market interest fluctuations into account, in the amount of ¥3,052.9 billion. A drop of ¥1,324.1 billion in negotiable certificates of deposit also contributed to the decline.

Stockholders' Equity

Stockholders' equity increased by ¥591.6 billion year-on-year to ¥2,870.8 billion at the end of fiscal 2003. The main reasons for this rise include the posting of net income of ¥301.1 billion and a ¥334.2 billion increase in net unrealized gains on other securities.

Assets, Liabilities and Stockholders' Equity

	Millions of yen		
March 31	**2004** (A)	2003 (B)	Increase (decrease) (A) – (B)
Assets	**¥94,109,074**	¥97,891,161	¥(3,782,087)
Loans and bills discounted	**50,810,144**	57,282,365	(6,472,221)
Securities	**26,592,584**	23,656,385	2,936,199
Liabilities	**91,238,204**	95,611,937	(4,373,733)
Deposits	**60,067,417**	58,610,731	1,456,686
Negotiable certificates of deposit	**3,589,354**	4,913,526	(1,324,172)
Stockholders' equity	**2,870,870**	2,279,223	591,647

4. Unrealized Gains (Losses) on Securities

Net unrealized gains on securities at March 31, 2004 amounted to ¥590.3 billion, which was an improvement of ¥624.8 billion from the previous fiscal year-end. Net unrealized gains on other securities (including "other money held in trust") which is included in stockholders' equity, amounted to ¥556.2 billion, which was an improvement of ¥574.1 billion.

The substantial increase in unrealized gains on other securities was attributable to a turnaround from unrealized losses to gains on stocks, an improvement of ¥803.4 billion against the backdrop of a stock market recovery, which was more than enough to compensate for the deterioration in bonds (mainly JGBs) from unrealized gains to losses, on higher long-term interest rates in Japan.

Unrealized Gains (Losses) on Securities

	Millions of yen						
	2004				2003		
March 31	Net unrealized gains (losses) (A)	(A) – (B)	Unrealized gains	Unrealized losses	Net unrealized gains (losses) (B)	Unrealized gains	Unrealized losses
Held-to-maturity securities	**¥ (7,646)**	**¥ (11,449)**	**¥ 2,618**	**¥ 10,265**	¥ 3,803	¥ 3,909	¥ 105
Stocks of subsidiaries and affiliates	**41,696**	**62,124**	**41,696**	**—**	(20,428)	624	21,052
Other securities	**556,146**	**574,003**	**757,072**	**200,925**	(17,857)	257,680	275,537
Stocks	**651,101**	**803,455**	**711,514**	**60,413**	(152,354)	105,269	257,624
Bonds	**(101,890)**	**(210,602)**	**16,211**	**118,101**	108,712	112,417	3,705
Others	**6,935**	**(18,850)**	**29,346**	**22,410**	25,785	39,993	14,207
Other money held in trust	**121**	**165**	**222**	**100**	(44)	510	555
Total	**590,318**	**624,844**	**801,610**	**211,291**	(34,526)	262,725	297,251
Stocks	**692,798**	**865,580**	**753,211**	**60,413**	(172,782)	105,894	278,677
Bonds	**(110,416)**	**(221,944)**	**17,950**	**128,366**	111,528	115,234	3,705
Others	**7,937**	**(18,790)**	**30,448**	**22,510**	26,727	41,597	14,869

Notes: 1. The figures above include unrealized gains (losses) on negotiable certificates of deposit in "Deposits with banks" and commercial papers as well as beneficiary claims on loan trusts in "Commercial paper and other debt purchased."
2. The values of stocks excluding stocks of subsidiaries and affiliates are calculated using average market prices during the final month of the respective reporting period. The values of stocks of subsidiaries and affiliates are calculated using market prices at the end of the respective reporting period.
3. "Other securities" and "Other money held in trust" are valuated at market prices. Consequently, the figures in the table above indicate the differences between the acquisition costs (or amortized costs) and the balance sheet amounts.
Of "Unrealized gains (losses) on other securities" as of March 31, 2004, ¥23,452 million is included in this term's profit because of the application of fair value hedge accounting. Consequently, the base amount used in the calculation of the amount to be charged to stockholders' equity has been decreased by ¥23,452 million.
4. Unrealized losses as of March 31, 2003 represent figures for newly recognized losses after the merger.

5. Deferred Tax Assets

Deferred Tax Assets on the Balance Sheet

SMBC has registered deferred tax assets in an amount based on reasonable estimates of the size of tax benefits on collectibility of assets in question in the future in line with Accounting Standards for Tax Effect Accounting (issued by the Business Accounting Deliberation Council dated October 30, 1998) and related practical guidelines. Moreover, SMBC has adopted more conservative estimates for the recognition of deferred tax assets from the viewpoint of maintaining a sound financial position, taking into full consideration the opinions expressed in the "Strict Audit to Major Banks" (issued by the Japanese Institute of Certified Public Accountants (JICPA); February 24, 2003).

At March 31, 2004, net deferred tax assets amounted to ¥1,590.5 billion on a nonconsolidated basis, a ¥224.1 billion decrease from the previous term-end. This decline was mainly attributable to recognition of deferred tax liabilities in the amount of ¥216.5 billion due to a turnaround from unrealized losses to unrealized gains on "other securities" against the backdrop of rebounds in stock prices in Japan. In addition, the valuation allowance (which was not included in the scope of outstanding deferred tax assets due to conservative estimates) amounted to ¥357.3 billion at March 31, 2004.

(Billions of yen)

March 31		2004	Change from 2003	2003	(Reference) Temporary differences 2004
(A) Total deferred tax assets (B) – (C)	1	**¥1,839.6**	**¥ (9.7)**	¥1,849.3	
(B) Subtotal of deferred tax assets	2	**2,196.9**	**(107.2)**	2,304.1	**¥5,405.5**
Reserve for possible loan losses	3	**429.3**	**(390.9)**	820.2	**1,056.6**
Write-off of loans	4	**282.8**	**(36.8)**	319.6	**695.9**
Reserve for possible losses on loans sold	5	**—**	**(6.9)**	6.9	**—**
Write-off of securities	6	**378.6**	**(217.7)**	596.3	**931.9**
Reserve for employee retirement benefits	7	**82.3**	**(20.0)**	102.3	**202.5**
Depreciation	8	**7.1**	**(1.2)**	8.3	**17.4**
Net unrealized losses on other securities	9	**—**	**(6.9)**	6.9	**—**
Net operating loss carryforwards	10	**951.4**	**578.0**	373.4	**2,325.5**
Other	11	**65.4**	**(4.8)**	70.2	**175.7**
(C) Valuation allowance	12	**357.3**	**(97.5)**	454.8	
(D) Total deferred tax liabilities	13	**¥ 249.1**	**¥ 214.4**	¥ 34.7	**¥ 613.0**
Gains on securities contributed to employee retirement benefits trust	14	**25.5**	**0.2**	25.3	**62.8**
Net unrealized gains on other securities	15	**216.5**	**216.5**	—	**532.8**
Other	16	**7.1**	**(2.3)**	9.4	**17.4**
Net deferred tax assets (balance sheet amount) (A) – (D)	17	**¥1,590.5**	**¥(224.1)**	¥1,814.6	
Amounts corresponding to the estimated taxable income before adjustments	18	**1,729.6**	**3.5**	1,726.1	
Amounts to be realized after more than a certain period (Note 1)	19	**77.4**	**(11.1)**	88.5	
Amount corresponding to the deferred tax liabilities shown in 15 above (Note 2)	20	**(216.5)**	**(216.5)**	—	
Effective income tax rate (Note 3)	21	**40.63%**	**0.17%**	40.46%	

Notes: 1. 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")

2. 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")

3. The effective tax rate shown in "21" is applied to the temporary differences that are expected to be reversed after fiscal 2004, and reflect the impact of the adoption of enterprise taxes through external standards taxation in fiscal 2004. In addition, the excess tax rate, upto 20% over the standard tax rate admitted by Local Tax Law, for the enterprise tax being adopted by several municipal governments is considered for March 31, 2004. As for the figures for March 31, 2003, the effective tax rate of 38.62% is applied to the temporary differences that are expected to be reversed in fiscal 2003.

Reason for Recognition of Deferred Tax Assets on the Balance Sheet

(a) Recognition Criteria

Practical Guideline 5 (1), 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. As a result, taxable disposal of non-performing loans (**) amounted to approximately ¥1.75 trillion as of March 31, 2004.

In addition, pursuant to the "Program for Financial Revival" of October 2002, SMBC is now accelerating disposal of non-performing loans in order to reduce the problem asset ratio to half by fiscal 2004. In the process, taxable write-off of bad loans implemented in the past is now being realized. (Realized amount for fiscal 2003 was approximately ¥1.6 trillion.)

(b) Disposal of Unrealized Losses on Stocks

SMBC has been accelerating its effort to reduce stockholdings in order to reduce its exposure to stock price fluctuations and meet the regulation limiting stockholdings that was adopted in fiscal 2001 and to be implemented in fiscal 2006.

During fiscal 2002, SMBC reduced the balance of stocks by ¥1.1 trillion through stocks sales and also disposed all at once unrealized losses on stocks of ¥1.2 trillion by writing off impaired stocks and using the gains on the merger. As a result, SMBC met the regulation limiting stockholdings before the deadline.

As a result, balances of taxable write-off on securities (**) increased temporary (approximately ¥1.5 trillion as of March 31, 2003; approximately ¥100 billion as of March 31, 1999). On the other hand, taxable write-off of securities carried out in the past is now being realized through accelerated selling of stocks (result for the fiscal year 2003 was approximately ¥600 billion).

(2) Consequently, operating loss carryforwards on the tax base amounted to approximately ¥2.3 trillion as of March 31, 2004 and they are certain to be offset by their expiration 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" (upper right corner) of the previous page's table.

(Reference 1) Outline of Practical Guideline 5 (1), examples (4)

When a company has material operating loss carryforwards on the tax base as of term-end, deferred tax assets may be considered to be collectable to the extent of the estimated taxable income for the next fiscal year and relating to the temporary differences expected to be reversed in the next fiscal year.

However, when operating loss carryforwards are due to the company's restructuring efforts, changes in laws, and/or other extraordinary factors, the deferred tax assets may be considered to be collectable to the extent of the estimated taxable income for the estimation period (approximately 5 years) and relating to the temporary differences expected to be reversed over the estimation period.

(b) Term 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 (excluding transfer to general reserve for possible loan losses)	1	¥5,450.0
A Income before income taxes	2	¥3,090.0
B Adjustments to taxable income (excluding reversal of temporary differences as of Mar. 2004)	3	¥1,166.9
C Taxable income before adjustments (A + B)	4	¥4,256.9
Deferred tax assets corresponding to taxable income before adjustments	5	¥1,729.6

(corresponding to 18 of the table on the previous page)

Basic Policy
(1) Estimate when the temporary differences will be reversed
(2) Conservatively estimate the taxable income before adjustments for the next 5 years
(a) Rationally make earnings projection for up to fiscal 2008 based on the "Plan for strengthening the financial base (up to fiscal 2006)"
(b) Reduce the projected amount by an amount reflecting the uncertainty of the projected amount
(c) Add the adjustments to the above amount
(3) Apply the effective tax rate to the above amount and record the amount as "deferred tax assets"

(Reference 2) Income of final return (before deducting operating loss carryforwards) for the last 5 years

Billions of yen

Year ended March 31	2004	2003	2002	2001	2000
Income of final return (before deducting operating loss carryforwards)....	¥(1,434.0)	¥(745.5)	¥241.9	¥(176.0)	¥327.3

Notes: 1. Income of final return (before deducting 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, 2004 are estimated income of final return as of March 31, 2004.
3. The figures above include amounts arising from "extraordinary factors" that are specified in the Practical Guideline. SMBC records taxable income in each year when these amounts are excluded.