

| President's Message |

Fiscal 2005 First-Half Highlights

Looking at the financial and economic environment in the first half of fiscal 2005, amid rising oil and material prices, the U.S. economy remained firm and the Asian economies continued to grow, led by China, even though major EU economies just managed to stay on a gradual recovery track. Meanwhile, the Japanese economy continued to recover steadily as exports bounced back and corporate earnings and private capital investment continued to grow.

In order to secure a solid profit level in this environment, we further reinforced our Groupwide initiatives in high-profit, high-growth markets in which we have a competitive edge: housing loans and sales of investment trusts and pension-type insurance products in the consumer business; and new-type unsecured loans to small and medium-sized enterprises and investment banking businesses, including collaborations with Daiwa Securities SMBC Co., Ltd., in the corporate business. In addition, we entered into various strategic alliances with leading companies in order to create and strengthen strategic businesses. Last April, we launched a new consumer finance business jointly with Promise Co., Ltd., and entered into an alliance with NTT DoCoMo, Inc. in the credit card business. Moreover, our credit cost decreased substantially due to the “intensive improvement in asset quality” initiative, which was completed last fiscal year. As a result, we greatly exceeded our original earnings forecast for the first half of fiscal 2005, with consolidated ordinary profit of ¥463.7 billion and consolidated net income of ¥392.3 billion.

Fiscal 2005 Second-Half Business Policy

Groupwide initiatives will be implemented to further enhance businesses in the second half of fiscal 2005.

Consumer Business

We will aggressively allocate resources to further reinforce our competitive edge in the consulting business, which includes housing loans and sales of investment products such as investment trusts and pension-type insurance

products. Specifically, we will increase the number of SMBC Consulting Plazas and consultants, and expand and improve our product line-up. In the consumer loan business, which was launched under the strategic alliance with Promise, we will boost lending volume by increasing the number of automatic contract machines and promotion activities. The credit card business, which is being developed with Sumitomo Mitsui Card Company, Limited as the core player, will be further enhanced by quickly expanding new businesses under the alliances with NTT DoCoMo and East Japan Railway Company. Moreover, we will continue to improve customer convenience through initiatives such as installing more ATM machines in Tokyo Metro stations, and will strengthen security by enhancing IC cash card functions.

Corporate Business

We will continue to strengthen our highly profitable new-type unsecured loans—such as *Business Select Loans* and *SMBC Crecer Loans*—to small and medium-sized enterprises. We will also further reinforce our ability to provide solutions for corporate revitalization and reorganization, real estate finance and other business areas in which high growth can be expected, as well as in the Group's areas of strength, such as loan syndication and the securitization of monetary claims.

The Group companies will also implement initiatives to strengthen their solution-providing capabilities in their respective fields. SMBC Leasing Company, Limited will reinforce its focus on operating leases and other strategic businesses, and develop new profit opportunities in fields such as trust businesses utilizing lease assets. The Japan Research Institute, Limited will strengthen insourcing of development of core systems and consulting services. In addition, collaboration with Daiwa Securities SMBC will be further promoted to strengthen investment banking and asset management consulting.

International Business

As we expand our business volume in Asia, centering on China, we will simultaneously develop businesses in

emerging markets of Russia, new EU-member countries in Eastern Europe, and countries in Central and South America by establishing offices and leveraging businesses in which the Group is particularly strong, such as project finance. In the U.S. and European markets, we will build up highly liquid and profitable assets in order to improve our capital efficiency.

Treasury Operations

In our treasury operations, we will reinforce our Asset Liability Management, diversify our investment activities and increase the customer order flow to maintain and improve profitability, all underpinned by proper risk management.

Establishment of Solid Corporate Base

We will establish a more sophisticated Groupwide human resource management and compliance framework to support these initiatives.

Further, we will continue to prevent deterioration in our credit portfolio and further reduce our credit cost. Through these efforts, we will grow our bottom-line profit and thereby further reinforce our financial and capital base both in quality and quantity. As for the remaining ¥1.1 trillion in public funds, we aim to accelerate the repayment, earlier than the previous target of repaying by the end of fiscal 2007, subject to regulatory approval.

Sumitomo Mitsui Banking Corporation was issued a cease and desist order last December by the Fair Trade Commission of Japan (“JFTC”) under the Antimonopoly Act with respect to the manner in which it marketed interest rate swaps. Interest rate swaps are widely used by corporate customers to hedge against rising interest rates. However, the JFTC objected to the manner in which they were marketed to certain small and medium-sized enterprises. We deeply regret and sincerely apologize for the incident. SMBC has accepted the order and is thoroughly reinforcing its compliance framework in order to prevent recurrence and regain the trust of its customers and the public.



Teisuke Kitayama
President

In Closing

Two key issues must be simultaneously addressed in order to realize an improvement in corporate value on a group basis over the medium-to-long term. The first is to seek high profitability and growth by steadily capturing growth opportunities, which are expected to further increase in the future. The second is to improve our capital base both in quality and quantity while quickly repaying the public funds. We will implement various corporate and capital strategies to achieve these goals. We believe that we will be able to meet the expectations of our stakeholders by steadily producing results, and ask for your continued understanding and support in our endeavors.