21. Deferred Tax Assets <SMBC Non-consolidated>

(1) Deferred Tax Assets on the Balance Sheet

(Billions of yen)

			Sep. 2003	Change from Mar. 2003	Change from Sep. 2002	(Reference) Temporary differences Sep. 2003
(a) Total deferred tax assets	(b-c)	1	1,852.5	3.2	(36.5)	
(b) Subtotal of deferred tax assets		2	2,251.1	(53.0)	346.9	5,575.0
Reserve for possible loan losses		3	533.6	(286.6)	(181.2)	1,323.2
Write-off of loans		4	487.8	168.2	89.5	1,209.7
Reserve for possible losses on loans sold		5	0.1	(6.8)	(16.1)	0.2
Write-off of securities		6	435.4	(160.9)	220.7	1,079.8
Reserve for employee retirement benefits		7	106.8	4.5	6.9	264.7
Depreciation		8	7.6	(0.7)	(0.8)	19.0
Net unrealized losses on other securities		9	-	(6.9)	(316.5)	-
Net operating loss carryforwards		10	629.3	255.9	533.3	1,537.1
Other		11	50.4	(19.8)	11.1	141.3
(c) Valuation allowance		12	398.6	(56.2)	383.4	
(d) Total deferred tax liabilities		13	140.8	106.1	111.1	361.2
Gains on securities contributed to employee retirement benefits trust		14	25.6	0.3	2.2	63.5
Net unrealized gains on other securities		15	110.0	110.0	110.0	284.9
Other		16	5.2	(4.1)	(1.1)	12.8
Net deferred tax assets (Balance sheet amount)	(a+d)	17	1,711.7	(102.9)	(147.6)	
Amounts corresponding to the estimated taxable income before adjustments		18	1,731.7	5.6	(75.3)	
Amounts to be realized after more than a certain period	(Note 1)	19	90.0	1.5	37.7	
Amount corresponding to the deferred tax liabilities shown in 15 above	(Note 2)	20	(110.0)	(110.0)	(110.0)	

Effective income tax rate	(Note 3)	21	40.46%	-	1.84%

(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 gross deferred tax assets, before offsetting against deferred tax liabilities, are used to assess collectability. (JICPA Auditing Committee Report No.70 "Auditing Treatment of Application of Accounting for Tax Effects to Differences in Valuation of Other Securities")
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. The effective tax rate of 38.62% is applied to the temporary differences that are expected to be reversed in Fiscal 2003.

(2) 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 2,500 billion yen as of September 30, 2003.

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 the first half of Fiscal 2003 was approximately 900 billion yen.)

(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 yen through stocks sales and also disposed all at once unrealized losses on stocks of 1.2 trillion yen 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(**) recently increased substantially (1,500 billion yen as of March 31, 2003; 100 billion yen 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 first half of Fiscal 2003 was approximately 400 billion yen).

(2) Consequently, operating loss carryforwards on the tax base amounted to approximately 1,500 billion yen as of September 30, 2003 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

(*) 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.

(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 losse	1	5,505.7
A	Income before income taxes	2	2,958.6
B	Adjustments to taxable income (excluding reversal of temporary differences as of Sep.2003)	3	1,332.4
C	Taxable income before adjustments (A+B)	4	4,291.0
	Deferred tax assets corresponding to taxable income before adjustments	5	1,731.7

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

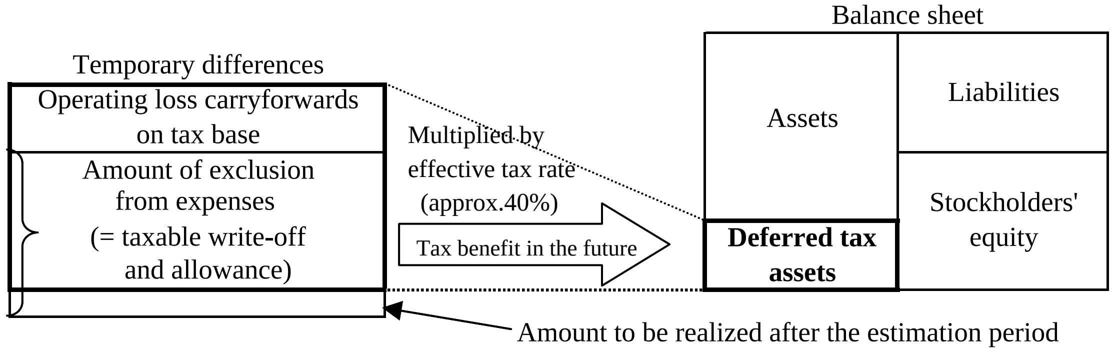
(Billions of yen)

	Year ended March 31, 1999	2000	2001	2002	2003
Income of final return (before deducting operating loss carryforwards)	(554.2)	327.3	(176.0)	241.9	(745.5)

(Notes) 1. Income of final return before deduction of operating loss carryforwards
= Taxable income before adjustments for each fiscal year - Temporary differences to be reversed for each fiscal year
2. The figures above include amounts arising from "extraordinary factors" that are specified in the Practical Guideline
SMBC has taxable income in each year when these amounts are excluded.

(Reference 2)

1. Basic Concept



2. Example

[Assumption]
(1) Temporary differences as of the term-end: 6,000 --- 5000 will be reversed over 5 years and 6,000 over 7 years
(2) Estimated future taxable income (pre-adjusted taxable income): 5,000 over 5 years and 7,000 over 7 years
(3) A company described in the proviso of sample (4) of the Practical Guidelines issued by JICPA

(Remark) The below figures are just examples and not actual figures of SMBC.

		1 year later	2 years later	3 years later	4 years later	5 years later	*Total (5 years)*	6 years later	7 years later	*Total (7 years)*
Taxable income before adjustments	**a**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	***5,000***	**1,000**	**1,000**	***7,000***
Reversal of temporary differences	b	(2,000)	(1,000)	(800)	(700)	(500)	*(5,000)*	(500)	(500)	*(6,000)*
Income of final return (before deducting operating loss carryforwards)	**c**	**(1,000)**	**0**	**200**	**300**	**500**	***0***	**500**	**500**	***1,000***
Operating loss carryforwards on the tax base	d	1,000	1,000	800	500	0		0	0	
Increase (decrease)	e	1,000	0	(200)	(300)	(500)		0	0	
Income subject to taxation (c+e)	f	0	0	0	0	0		500	500	
Reversal of temporary differences (b+e)	g	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	*(5,000)*	(500)	(500)	*(6,000)*
Before accounting for reversal (a*40%)	h	(400)	(400)	(400)	(400)	(400)	*(2,000)*	(400)	(400)	*(2,800)*
After accounting for reversal (f*40%)	i	0	0	0	0	0	*0*	(200)	(200)	*(400)*
Tax benefits (i-h)	j	400	400	400	400	400	*2,000*	200	200	*2,400*

Total of tax benefits **+2,400** (7 years)

(*)

Deferred tax assets (Balance sheet amount) **+2,000** (5 years) **+400** (2 years,**)

(*) Given the uncertainty of estimations, JICPA restricts the extent to which deferred tax assets may be recognized.
Outline of Practical Guideline, examples (4) proviso

a 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.

b **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.**

(**) The difference of 400 is entered as valuation allowance and not recognized as deferred tax assets. But the tax benefits are realized as long as the company exists and generates taxable income.