

**Major Questions and Answers**  
**about The Financial Results for the Six-month Period ended September 30, 2003**

1. SMBC's Earnings Results for the Six-month Period ended September 30, 2003

Q. What are the reasons for the year-over-year change in Banking profit?

A. Banking profit was JPY 499.3 billion, a year-over-year decrease by JPY 78.8 billion. Expenses fell by JPY 29.2 billion on a year-over-year basis to JPY 296.0 billion as a result of streamlining the workforce and so on, though Gross banking profit decreased by JPY 108.0 billion due to the drop in profit in the Treasury Unit, which was high in previous fiscal year due to effectively capitalizing on the decline in interest rates in the Japanese and overseas markets.

Q. What is the progress in cost reduction?

A. For this 1<sup>st</sup> half, Expenses fell by JPY 29.2 billion on a year-over-year basis to JPY 296.0 billion as a result of streamlining the workforce and completing the integration of branches and systems. On March 31, 2003, we almost reached our goal for the integration plan, and during the 1<sup>st</sup> half, we integrated 3 domestic branches and newly opened 1, having 435 branches in total at the end of the 1<sup>st</sup> half. We also streamlined the workforce as we originally planned: we reduced the total number of employees by 186 during this six-month period, having 23,838 employees at the end of the 1<sup>st</sup> half, while we hired 727 new graduates in April.

Q. What is the progress in improving the loan spread?

A. Since the beginning of FY 2002, we have put our efforts to improve loan spreads through reexamining our domestic lending practices. Although we successfully originated JPY 1,258 billion of unsecured loans to small- and medium-sized enterprises (SMEs) with relatively higher spreads, the loan spread for the Middle Market Banking Unit, in charge of loans to SMEs, at the end of the 1<sup>st</sup> half has remained slightly improved compared with the previous fiscal year end. The reasons are the severe competition in lending to clients with high credit ratings, and our progress in reducing loans to problematic borrowers whose loan spreads are relatively higher.

## 2. SMBC's Asset Quality

Q. Please give the reasons for and the breakdown of the JPY 60.0 billion increase in Total credit cost to JPY 359.4 billion, compared with the original plan of JPY 300.0 billion announced in May 2003.

A. The Total credit cost for this 1<sup>st</sup> half increased from the original plan because we further accelerated the disposition of non-performing loans (NPLs), in order to achieve the goal of halving the problem asset ratio by the end of FY2004 from that as of the end of FY2001. Although we have tendency of improvement in the quality of our loan portfolio, such as, rising of the borrowers' credit grading as we reinforced our initiatives to prevent further deterioration in the borrowers' category, there were some cases of deterioration over our estimate under the ongoing deflationary macro-environment. We recognized approximately JPY 110 billion as cost for "off-balancing" and approximately JPY 250 billion as cost for reserves for deteriorated borrowers.

Q. What are the reserve ratios for Substandard Borrowers and Borrowers Requiring Caution?

A. The reserve ratio of unsecured claims to all Substandard Borrowers was 30.5%, decreased by 3.2 % from the last fiscal year end, due to the progress in final disposition of claims that are relatively highly reserved. The reserve ratio of unsecured claims to Borrowers Requiring Caution excluding claims to Substandard Borrowers was 12.2%, decreased by 0.6 % from the last fiscal year end.

Q. What are the reasons for the decrease in Problem assets based on the Financial Reconstruction Law?

A. Total Problem assets based on the Financial Reconstruction Law as of September 30, 2003 amounted to JPY 3,866.6 billion, a decrease of JPY 1,394.7 billion, by half a year ahead of our original target of JPY 3,900 billion, through our continuous efforts for "off-balancing", proactive engagement in revitalization of Substandard borrowers, and enforcing initiatives for preventing further deterioration of borrowers for the "intensive resolution period" of FY2003 and FY2004 under the recovering economic environment. Accordingly, the total amount of Bankrupt and Quasi-Bankrupt Assets and Doubtful Assets decreased by JPY 517.1 billion and the amount of Substandard Loans decreased by JPY 877.6 billion.

### 3. SMBC's Balance Sheet

Q. What is the situation for the balance of loans?

A. The balance of loans as of September 30, 2003 decreased by approximately JPY 2.1 trillion from the last fiscal year end. The main factors of the decrease were as follows: the decrease in domestic loans by approximately JPY 1,700 billion because of corporate clients' tendency to finance their capital investments within their own free cash-flows and of our aggressive progress in reducing problem assets, while we proactively originated new risk-taking loan products focusing on small- and medium-sized enterprises and home mortgages to individuals, and the decrease in overseas loans by approximately JPY 400 billion as a result of the yen appreciation and the continuous reduction in assets with low profitability.

Q. Is the reduction of cross-shareholdings progressing? What's your strategy hereafter?

A. We had approximately JPY 700 billion of stocks with clients' consent to sell at the beginning of FY2003, and we sold the stocks by approximately JPY 560 billion on a book value basis in this 1<sup>st</sup> half. On September 30, we had approximately JPY 300 billion of stocks with customers' consent to sell, and we will proceed with the sales, while trying to avoid negative impact on the stock markets. Our mid-term target is to reduce the book value of stocks within the half of the Tier 1 capital.

Q. What is the amount of deferred tax assets? What is your policy in recognizing Deferred tax assets?

A. The amount of Deferred tax assets as of September 30 was JPY 1,711.7 billion, a JPY 102.9 billion decrease from the previous fiscal year end, mainly because the Unrealized losses on "other securities" turned into unrealized gains for the term. We recognized the amount of the Deferred tax assets with a rigorous standard, in accordance with the Program for Financial Revival announced by the Financial Services Agency in October 2002 and the Policy Guideline issued by the Japanese Institute of Certified Public Accountants. Five-year accumulated future taxable income, which is the basis for calculating Deferred tax assets was estimated based on a conservative accounting standard, and takes into account the necessary stress scenario of estimated banking profit and credit costs for disposition of NPLs.

#### 4. SMBC's Earnings Forecasts for FY2003

Q. What is your forecast for the Banking profit for FY2003?

A. We forecast the Banking profit for FY2003 to be JPY 1 trillion, the same level as we initially announced in May 2003. We plan to cover the decrease in the profit of the Treasury Unit, which was rather high in FY2002 by the increase in the profit from marketing units, and to reduce Expenses by JPY 5.0 billion compared with the original plan. As a result, we forecast the Banking profit for FY2003 to be JPY 1 trillion for three consecutive years.

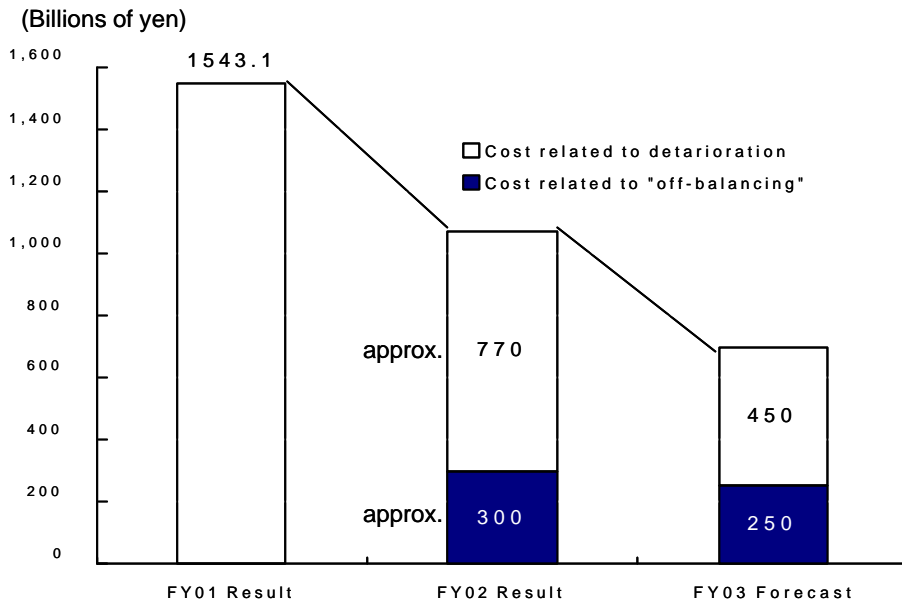
Q. Please explain the details of the plan to reduce annual expenses by JPY 52.0 billion to JPY 595.0 billion for FY2003.

A. We will reduce personnel costs through continuing streamlining of the workforce and through a reduction of bonus payments. Moreover, we will reduce non-personnel costs through the following factors: the more efficient use of Group-wide IT systems through centralizing the IT systems function at Japan Research Institute, the integration of duplicated branches executed in FY2002 and the continuous efforts in space management, and reassessing the supplies procurement processes.

Q. What is the plan for credit cost this fiscal year?

A. We revised our plan for the Total credit cost in FY2002 to be approximately JPY 700 billion, a JPY 50 billion increase from our original plan. It consists of approximately JPY 250 billion of conservatively estimated cost for "off-balancing" and approximately JPY 450 billion for a potential increase in reserve for work-outs of NPLs, under the unforeseeable macro-economic environment. We will continue our efforts to certainly achieve the goal of halving the NPL ratio by the end of FY2004 and to do it as quickly as possible.

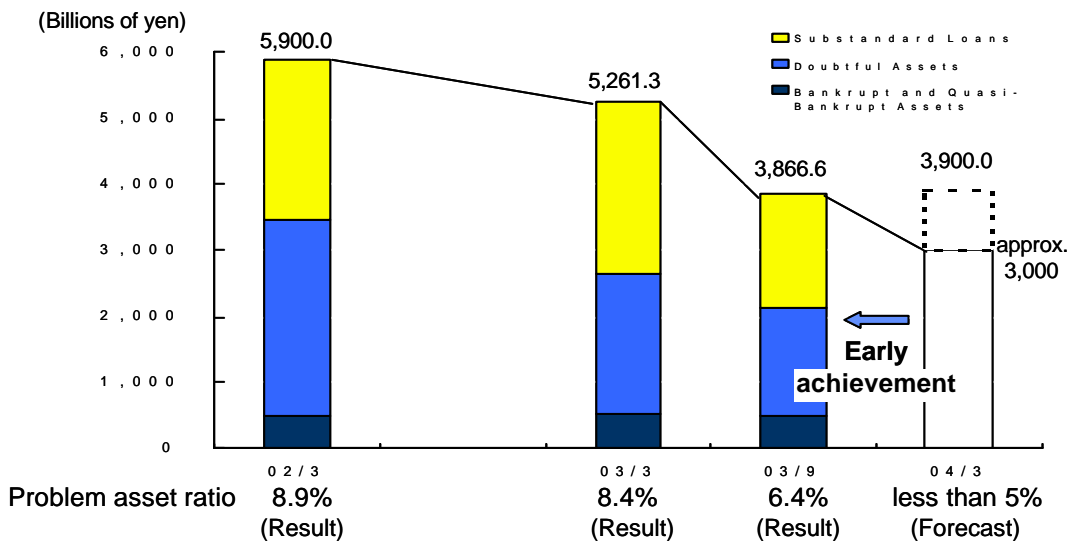
<Chart: Total Credit Cost>



Q. What is the plan for the disposition of NPLs?

A. Although we originally planned the amount of the Problem assets based on the Financial Reconstruction Law to be JPY 3.9 trillion at this fiscal year end, the amount is already below JPY 3.9 trillion at September 30, due to our efforts to halve the NPL ratio as quickly as possible, in accordance with the Plan for Financial Revival. We plan to reduce the amount to approximately JPY 3 trillion by March 31, 2004, through measures such as investment banking approaches, in addition to the existing measure of "off-balancing", under the recovering macro-environment with a declining tendency of borrowers' deterioration ratio.

< Chart: Problem Assets based on the Financial Reconstruction Law>



## 5. SMFG

Q. What is the consolidated earnings forecast of SMFG?

A. We forecast SMFG's Ordinary profit to be JPY 320.0 billion and Net income to be JPY 230.0 billion on a consolidated basis, and on a non-consolidated basis, Operating income to be JPY 55 billion, Ordinary profit to be JPY 50.0 billion, and Net income to be JPY 50.0 billion.

### <Table: Earnings Forecast for FY2003>

Sumitomo Mitsui Financial Group, Inc.

<Non-consolidated>		(Billions of yen)
		<b>FY2003</b>
Operating income		55.0
Ordinary profit		50.0
Net income		50.0

Dividend per share forecast for the fiscal year end		(Yen)
Common stock		3,000
Type 1 Preferred stock		10,500
Type 2 Preferred stock		28,500
Type 3 Preferred stock		13,700
Type 4 Preferred stock	1st - 12th series	135,000
	13th series	67,500

(Reference)	(Billions of yen)
Total dividend planned	46.4

<Consolidated>		(Billions of yen)	
	<b>FY2003</b>		FY2002
	<b>Forecast</b>	Change	Result
Ordinary income	3,500.0	(6.4)	3,506.4
Ordinary profit	320.0	835.7	(515.7)
Net income	230.0	695.4	(465.4)

(Reference)

Sumitomo Mitsui Banking Corporation

<Non-consolidated>		(Billions of yen)	
	<b>FY2003</b>		FY2002
	<b>Forecast</b>	Change	Result
Gross banking profit	1,595.0	(165.6)	1,760.6
Expenses	(595.0)	52.0	(647.0)
Banking profit (excluding transfer to general reserve for possible loan losses)	1,000.0	(113.6)	1,113.6
Ordinary profit	200.0	797.2	(597.2)
Net income	200.0	678.3	(478.3)
Total credit cost(*)	(700.0)	374.5	(1,074.5)

(\*) (Transfer to general reserve for possible loan losses) + (Credit cost included in non-recurring losses)