21. Deferred Tax Assets <SMBC Non-consolidated>

(1) Deferred Tax Assets on the Balance Sheet

(Billions of yen)

			Sep. 30, 2004	Change from Mar. 31, 2004	Change from Sep. 30, 2003	Mar. 31, 2004	(Reference) Temporary differences Sep. 30, 2004
(a) Total deferred tax assets	(b-c)	1	1,866.3	26.7	13.8	1,839.6	
(b) Subtotal of deferred tax assets		2	2,292.3	95.4	41.2	2,196.9	5,638.1
Reserve for possible loan losses		3	304.7	(124.6)	(228.9)	429.3	749.9
Write-off of loans		4	511.3	228.5	23.5	282.8	1,258.4
Reserve for possible losses on loans sold		5	-	-	(0.1)	-	-
Write-off of securities		6	466.2	87.6	30.8	378.6	1,147.4
Reserve for employee retirement benefits		7	79.9	(2.4)	(26.9)	82.3	196.6
Depreciation		8	6.7	(0.4)	(0.9)	7.1	16.4
Net unrealized losses on other securities		9	-	-	-	-	-
Net operating loss carryforwards		10	862.3	(89.1)	233.0	951.4	2,105.1
Other		11	61.2	(4.2)	10.8	65.4	164.3
(c) Valuation allowance		12	426.0	68.7	27.4	357.3	
(d) Total deferred tax liabilities		13	234.7	(14.4)	93.9	249.1	577.6
Gains on securities contributed to employee retirement benefits trust		14	53.0	27.5	27.4	25.5	130.6
Net unrealized gains on other securities		15	176.9	(39.6)	66.9	216.5	435.4
Other		16	4.8	(2.3)	(0.4)	7.1	11.6
Net deferred tax assets (Balance sheet amount)	(a-d)	17	1,631.6	41.1	(80.1)	1,590.5	
Amounts corresponding to the estimated taxable income before adjustments		18	1,733.4	3.8	1.7	1,729.6	
Amounts to be realized after more than a certain period	(Note 1)	19	75.1	(2.3)	(14.9)	77.4	
Amount corresponding to the deferred tax liabilities shown in line 15	(Note 2)	20	(176.9)	39.6	(66.9)	(216.5)	

Effective income tax rate	21	40.63%	-	0.17%	40.63%

(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")

(2) Reason for Recognition of Deferred Tax Assets

(a) Recognition Criteria

Practical Guideline, 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

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 trillion yen as of September 30, 2004.

In addition, pursuant to the "Program for Financial Revival" of October 2002, SMBC has accelerated disposal of non-performing loans in order to reduce the problem asset ratio to half by Fiscal 2004. As a result, SMBC has achieved this target earlier than planned in the six months ended September 30, 2004. In the process, taxable disposals that were made in the past have been realized, while taxable disposals have been newly recognized.

(b) Disposal of Unrealized Losses on Stocks

SMBC has been accelerating its effort to reduce stockholdings in order to reduce the risk of stock price fluctuations, and early meet the regulation limiting stockholdings that was adopted in Fiscal 2001.

During Fiscal 2002, SMBC reduced the balance of stocks by approximately 1.1 trillion yen through stocks sales and also disposed all at once unrealized losses on stocks of approximately 1.2 trillion yen by writing off impaired stocks and using the gains on the merger. Consequently, SMBC met the regulation limiting stockholdings at the end of Fiscal 2002, before the deadline.

As a result, balances of taxable write-off on securities(**) increased temporarily (approximately 1.5 trillion yen as of March 31, 2003; approximately 0.1 trillion 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 six months ended September 30, 2004 was approximately 70 billion yen).

(2) Consequently, operating loss carryforwards on the tax base amounted to approximately 2.1 trillion yen as of September 30, 2004 and they are certain to be offset by their carry-over 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.

(b) Period 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	5,572.0
A	Income before income taxes	2	3,424.8
B	Adjustments to taxable income (excluding reversal of temporary differences as of Sep. 30, 2004)	3	841.5
C	Taxable income before adjustments (A+B)	4	4,266.3
	Deferred tax assets corresponding to taxable income before adjustments	5	1,733.4

(corresponding to line 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 the six months ended September 30, 2009 based on the "Plan for strengthening the financial base (up to Fiscal 2006)"

(b) Reduce an amount reflecting the uncertainty of the projected amount from 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

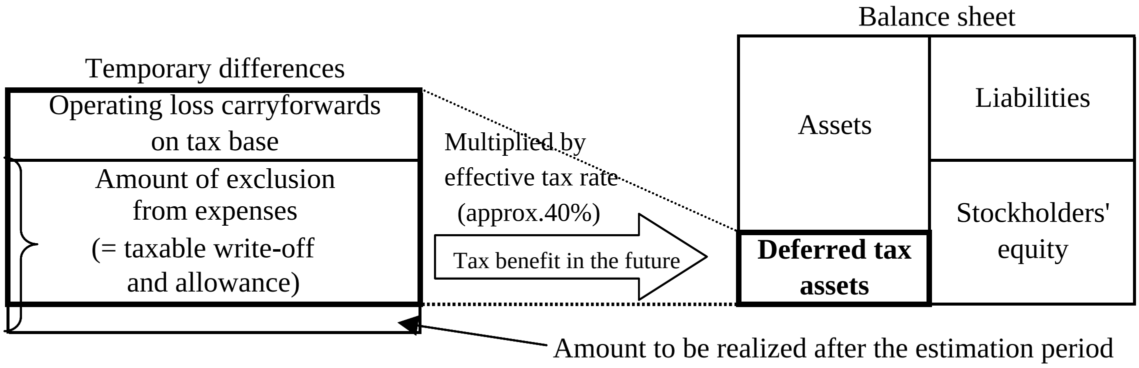
(Billions of yen)

	FY1999	FY2000	FY2001	FY2002	FY2003	1st half FY2004
Income of final return (before deducting operating loss carryforwards)	327.3	(176.0)	241.9	(745.5)	(1,437.8)	224.2

(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. Taxable income has been reported each year when these amounts are excluded.
3. The figures for Sep. 30, 2004 were estimated in interim closing.

(Reference 2) Explanatory Example of Deferred Tax Asset Estimation

1. Basic Concept



2. Example

[Assumption]
(1) Temporary differences as of the term-end: 6,000 (Balance to be reversed: 5,000 over 5 years and 6,000 over 7 years)
(2) Estimated future taxable income before adjustments: 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 figures in the chart below are just examples for explanation 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 In principle, only the deferred tax assets relating to temporary differences expected to be reversed in the next fiscal year may be considered collectable within the range of an estimated taxable income for the next fiscal year, when a company has material operating loss carryforwards on the tax base as of term-end.

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

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