Financial Review (Nonconsolidated)

Sumitomo Mitsui Banking Corporation

Figures shown for fiscal 2001, ended March 31, 2002, are sum of the financial results of the former SMBC and the former Wakashio Bank. Figures for fiscal 2002, ended March 31, 2003, include the operating results of the former SMBC for the period from April 1, 2002 to March 16, 2003.

1. Operating Results

Banking profit (excluding transfer to general reserve for possible loan losses) in fiscal 2002 decreased ¥72.8 billion to ¥1,113.6 billion year-on-year, as a result of a ¥104.2 billion decrease in gross banking profit to ¥1,760.7 billion and a ¥31.4 billion decrease in expenses (excluding nonrecurring losses) to ¥647.0 billion. Banking profit (excluding transfer to general reserve for possible loan losses), however, surpassed the ¥1 trillion benchmark for two consecutive terms.

Ordinary loss, calculated by adjusting banking profit (excluding transfer to general reserve for possible loan losses) for nonrecurring items such as credit costs and losses on stocks, was ¥597.2 billion. Total credit cost (including transfer to general reserve for possible loan losses) at ¥1,074.5 billion was within banking profit (excluding transfer to general reserve for possible loan losses), and losses on stocks totaled ¥635.7 billion.

After adjusting for extraordinary gains (losses) and income taxes, net loss amounted to ¥478.3 billion.

2. Income Analysis

Gross Banking Profit

Despite a decline in extraordinary dividend payments from overseas subsidiaries of approximately ¥220.0 billion, gross banking profit declined only ¥104.2 billion year-on-year to stand at ¥1,760.7 billion. This was mainly the result of strong revenue from sales of derivatives and fees and commissions on loan syndications. In addition, a successful asset-liability management based on accurate projections of interest rate declines in the United States and elsewhere also contributed to increased earnings.

Expenses

Expenses (excluding nonrecurring losses), despite the costs stemming from the integration of the computer systems during fiscal 2002, decreased ¥31.4 billion year-on-year, to ¥647.0 billion. This was mainly due to a ¥22.5 billion decline in personnel expenses, and a ¥12.1 billion reduction in nonpersonnel expenses through integration of domestic and overseas branches and improved efficiency of sales channels, including ATMs.

Banking Profit

Banking profit (excluding transfer to general reserve for possible loan losses) decreased ¥72.8 billion from the previous fiscal year, to ¥1,113.6 billion.

Banking Profit

	Millions of yen		
Year ended March 31	**2003** (A)	2002 (B)	Increase (decrease) (A) – (B)
Gross banking profit	**¥1,760,684**	¥1,864,879	¥(104,195)
Gross banking profit (excluding gains (losses) on bonds)	**1,625,025**	1,797,744	(172,719)
Net interest income	**1,223,336**	1,487,039	(263,703)
Trust fees	**7**	—	7
Net fees and commissions	**194,665**	165,512	29,153
Net trading income	**196,000**	121,289	74,711
Net other operating income	**146,672**	91,037	55,635
Gross domestic banking profit	**1,252,898**	1,267,680	(14,782)
Gross international banking profit	**507,785**	597,198	(89,413)
Transfer to general reserve for possible loan losses	**¥ (238,132)**	¥ (504,663)	¥ 266,531
Expenses (excluding nonrecurring losses)	**(647,040)**	(678,393)	31,353
Personnel expenses	**(253,907)**	(276,453)	22,546
Nonpersonnel expenses	**(357,682)**	(369,823)	12,141
Taxes	**(35,450)**	(32,115)	(3,335)
Banking profit	**¥ 875,511**	¥ 681,821	¥ 193,690
Banking profit (excluding transfer to general reserve for possible loan losses)	**1,113,643**	1,186,484	(72,841)
Banking profit (excluding transfer to general reserve for possible loan losses and gains (losses) on bonds)	**977,984**	1,119,350	(141,366)

Nonrecurring Losses (Credit Costs, etc.)

Nonrecurring losses totaled ¥1,472.7 billion in fiscal 2002. Credit cost of disposing specific problem loans amounted to ¥836.4 billion, and total credit cost (including transfer to general reserve for possible loan losses) decreased ¥471.7 billion to ¥1,074.5 billion, which was within banking profit (excluding transfer to general reserve for possible loan losses). Net loss on stocks was ¥635.7 billion due to decreases in stock prices, of which net loss on sale of stocks was ¥108.2 billion and loss on devaluation of stocks based on SMBC's self-assessment rule was ¥527.5 billion. (Please refer to the "Asset Quality" section beginning on page 14 for more information on problem assets and progress in reducing such assets.)

Ordinary Profit (Loss)

As a result of the foregoing, ordinary loss increased ¥75.6 billion year-on-year to ¥597.2 billion.

Extraordinary Gains (Losses)

Net extraordinary losses amounted to ¥73.8 billion. The major components of extraordinary losses were ¥20.2 billion in amortization expenses for transitional obligations on employees' retirement benefits, in addition to one-off expenses for branch integration resulting from systems integration due to the merger.

Net Income (Loss)

Net loss in fiscal 2002 increased ¥155.5 billion year-on-year to ¥478.3 billion. The current portion of income taxes under tax-effect accounting totaled ¥40.3 billion, while the deferred portion was ¥233.0 billion under tax-effect accounting. This relatively modest figure is partly due to conservative estimates of future earnings and the effects of the introduction of a taxation standard for enterprise tax based on revenue scale.

Ordinary Profit and Net Income

	Millions of yen		
Year ended March 31	**2003** (A)	2002 (B)	Increase (decrease) (A) – (B)
Banking profit (excluding transfer to general reserve for possible loan losses)	**¥1,113,643**	¥1,186,484	¥ (72,841)
Transfer to general reserve for possible loan losses	**(238,132)**	(504,663)	266,531
Banking profit	**¥ 875,511**	¥ 681,821	¥ 193,690
Nonrecurring gains (losses)	**(1,472,700)**	(1,203,449)	(269,251)
[Total credit cost] (Notes 1, 2)	**[(1,074,517)]**	[(1,546,199)]	[(471,682)]
Credit cost			
Write-off of loans	**(284,418)**	(285,363)	945
Transfer to specific reserve	**(375,359)**	(663,960)	288,601
Transfer to reserve for losses on loans sold	**(15,245)**	(37,034)	21,789
Losses on loans sold to CCPC	**(16,370)**	(8,363)	(8,007)
Losses on sale of delinquent loans	**(148,870)**	(50,589)	(98,281)
Transfer to loan loss reserve for specific overseas countries	**3,879**	4,546	(667)
Gains (losses) on stocks	**(635,708)**	(130,757)	(504,951)
Gains on sale of stocks	**51,205**	54,256	(3,051)
Losses on sale of stocks	**(159,448)**	(54,306)	(105,142)
Losses on devaluation of stocks	**(527,465)**	(130,708)	(396,757)
Enterprise taxes by local government	**(7,811)**	(30,000)	22,189
Others	**7,204**	(1,926)	9,130
Ordinary profit (loss)	**¥ (597,188)**	¥ (521,629)	¥ (75,559)
Extraordinary gains (losses)	**(73,799)**	(14,985)	(58,814)
Gains (losses) on disposition of premises and equipment	**(26,169)**	(14,334)	(11,835)
Amortization of net transition obligation from initial application of the new accounting standard for employee retirement benefits	**(20,167)**	(20,167)	—
Income taxes, current	**(40,299)**	(32,759)	(7,540)
Income taxes, deferred	**232,983**	246,522	(13,539)
Net income (loss)	**¥ (478,304)**	¥ (322,852)	¥(155,452)

Notes: 1. Total credit cost includes transfer to general reserve for possible loan losses.
2. Total credit cost in fiscal 2002 includes extraordinary losses of ¥770 million that was booked by the former Wakashio Bank.

3. Assets, Liabilities and Stockholders' Equity

Assets

SMBC's total assets at the fiscal year-end stood at ¥97,891.2 billion, a ¥4,689.6 billion decrease compared with a year earlier. Deposits with banks decreased ¥2,232.1 billion, due mainly to a reduced scale of international operations with the aim of raising the efficiency of foreign-currency-denominated fund operations. Loans and bills discounted also decreased by ¥3,020.0 billion, owing to a reduction in the amount of unprofitable loans overseas, weak corporate loan demand amid the prolonged economic slump and increased efforts by SMBC to collect on problem loans.

Liabilities

Liabilities at the fiscal year-end decreased ¥3,752.3 billion year-on-year to ¥95,611.9 billion. A decline of ¥2,901.3 billion in deposits and a drop of, ¥1,672.5 billion in negotiable certificates of deposit were the main factors resulting from reduced fund procurement from the market in line with reduced overseas assets.

Stockholders' Equity

Stockholders' equity decreased by ¥937.3 billion year-on-year to ¥2,279.2 billion at the end of fiscal 2002. The major reasons for this decline include a reduction in the market value of equity holdings caused by lower stock prices, and net loss for the reporting term.

Assets, Liabilities and Stockholders' Equity

	Millions of yen		
March 31	**2003** (A)	2002 (B)	Increase (decrease) (A) – (B)
Assets	**¥97,891,161**	¥102,580,796	¥(4,689,635)
Loans and bills discounted	**57,282,365**	60,302,319	(3,019,954)
Securities	**23,656,385**	20,496,287	3,160,098
Liabilities	**95,611,937**	99,364,232	(3,752,295)
Deposits	**58,610,731**	61,512,006	(2,901,275)
Negotiable certificates of deposit	**4,913,526**	6,586,039	(1,672,513)
Stockholders' equity	**2,279,223**	3,216,563	(937,340)

4. Unrealized Gains (Losses) on Securities

Steps were taken to eliminate unrealized losses on securities when the former SMBC and the former Wakashio Bank merged on March 17, 2003. Before the merger, the former SMBC posted impairment loss on securities and, on the day of the merger, the merger surplus was used to write-off the remaining unrealized losses of the former SMBC. Although decreases in stock prices during the period from March 17 to 31, 2003, resulted in a net unrealized loss on securities of ¥34.5 billion at the fiscal year-end, this was a significant year-on-year improvement of ¥450.7 billion. Unrealized losses on other securities (including other money held in trust), changes in which are directly charged to stockholders' equity, amounted to ¥17.9 billion.

Unrealized Gains (Losses) on Securities

	Millions of yen						
	2003				2002		
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	**¥ 3,803**	**¥ 2,657**	**¥ 3,909**	**¥ (105)**	¥ 1,146	¥ 1,165	¥ (19)
Stocks of subsidiaries and affiliates	**(20,428)**	**(20,327)**	**624**	**(21,052)**	(101)	12,740	(12,841)
Other securities	**(17,857)**	**464,556**	**257,680**	**(275,537)**	(482,413)	244,628	(727,042)
Stocks	**(152,354)**	**348,352**	**105,269**	**(257,624)**	(500,706)	181,134	(681,841)
Bonds	**108,712**	**71,138**	**112,417**	**(3,705)**	37,574	55,768	(18,195)
Others	**25,785**	**45,066**	**39,993**	**(14,207)**	(19,281)	7,723	(27,005)
Other money held in trust	**(44)**	**3,781**	**510**	**(555)**	(3,825)	135	(3,960)
Total	**(34,526)**	**450,667**	**262,725**	**(297,251)**	(485,193)	258,669	(743,864)
Stocks	**(172,782)**	**328,026**	**105,894**	**(278,677)**	(500,808)	193,875	(694,683)
Bonds	**111,528**	**73,523**	**115,234**	**(3,705)**	38,005	56,200	(18,195)
Others	**26,727**	**49,118**	**41,597**	**(14,869)**	(22,391)	8,593	(30,985)

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 valued 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.
4. Unrealized losses as of the end of March 2003 represent figures for newly recognized losses after the merger. Please refer to page 55 for an outline of succession procedures resulting from the merger.