Financial Review (Nonconsolidated)

Sumitomo Mitsui Banking Corporation

Figures shown for the six months ended September 30, 2002, are the sum of the financial results of the former SMBC and the former Wakashio Bank, a consolidated subsidiary that merged with SMBC on March 17, 2003. Figures for the fiscal year 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 the general reserve for possible loan losses) for the first half of fiscal 2003 decreased ¥78.8 billion to ¥499.3 billion year-on-year, as a result of a ¥108.0 billion decrease in gross banking profit to ¥795.3 billion and a ¥29.2 billion decrease in expenses (excluding nonrecurring losses) to ¥296.0 billion.

Ordinary profit, calculated by adjusting banking profit (excluding transfer to the general reserve for possible loan losses) for nonrecurring items such as credit cost and gains on stocks, was ¥105.2 billion.

After adjusting ordinary profit for extraordinary gains in the amount of ¥37.8 billion and income taxes of ¥3.3 billion under tax-effect accounting, net income came to ¥139.6 billion, a year-on-year increase of ¥94.1 billion.

2. Income Analysis

Gross Banking Profit

Gross banking profit for the first half of fiscal 2003 declined ¥108.0 billion year-on-year to stand at ¥795.3 billion. In domestic operations, gross banking profit declined ¥66.8 billion year-on-year, to ¥559.0 billion. This was a result of a ¥40.9 billion decrease in interest income, partly due to a decline in the loan balance, and a ¥36.7 billion drop in gains on bonds, mainly JGBs, offsetting a ¥14.7 billion increase in net revenue from fees and commissions on investment trusts, personal pension insurance, and loan syndications.

In international operations, gross banking profit decreased ¥41.2 billion year-on-year to ¥236.4 billion mainly due to Treasury Unit's weaker performance compared with the first half of fiscal 2002, despite an increase in gains on derivatives transactions.

Expenses

Expenses (excluding nonrecurring losses) decreased ¥29.3 billion year-on-year, to ¥296.0 billion. This was mainly due to a ¥17.5 billion decline in personnel expenses resulting from workforce downsizing and a reduction in provision to reserves for employee bonuses, as well as a ¥10.2 billion reduction in nonpersonnel expenses through the integration of domestic branches and further reductions in expenses made possible following the complete integration of the founding banks' computer systems.

Banking Profit

Six months ended September 30, 2003 and 2002, and year ended March 31, 2003

	Millions of yen		
	Six months ended Sept. 30, 2003	Six months ended Sept. 30, 2002	Year ended Mar. 31, 2003
Gross banking profit	**¥795,339**	¥903,339	¥1,760,684
Gross banking profit (excluding gains (losses) on bonds)	**776,567**	826,710	1,625,025
Net interest income	**568,597**	641,214	1,223,336
Trust fees	**84**	/	7
Net fees and commissions	**99,330**	85,913	194,665
Net trading income	**149,824**	103,408	196,000
Net other operating income	**(22,497)**	72,803	146,672
Gross domestic banking profit	**558,967**	625,748	1,252,898
Gross international banking profit	**236,371**	277,590	507,785
Transfer to general reserve for possible loan losses	**¥ —**	¥ (20,564)	¥ (238,132)
Expenses (excluding nonrecurring losses)	**(296,030)**	(325,278)	(647,040)
Personnel expenses	**(113,967)**	(131,472)	(253,907)
Nonpersonnel expenses	**(166,697)**	(176,934)	(357,682)
Taxes	**(15,365)**	(16,870)	(35,450)
Banking profit	**¥499,308**	¥557,497	¥ 875,511
Banking profit (excluding transfer to general reserve for possible loan losses)	**499,308**	578,061	1,113,643
Banking profit (excluding transfer to general reserve for possible loan losses and gains (losses) on bonds)	**480,536**	501,432	977,984

<Reference>

Banking Profit, by Business Unit

Six months ended September 30, 2003

	Billions of yen							
	Consumer Banking Unit	Middle Market Banking Unit	Corporate Banking Unit	International Banking Unit	Community Banking Unit	Treasury Unit	Others	Total
Banking profit (losses) (excluding transfer to general reserve for possible loan losses)	¥34.6	¥210.7	¥68.1	¥22.7	¥1.4	¥206.4	¥(44.6)	¥499.3
Year-on-year increase (decrease)	22.1	47.3	5.0	4.3	0.7	(117.0)	(41.2)	(78.8)

Notes: 1. Year-on-year comparisons are those used for internal reporting and exclude changes due to interest rate and foreign exchange rate fluctuations.
2. "Others" consists of (1) dividend income from subsidiaries and affiliates, (2) financing costs on preferred securities and subordinated debt, (3) profit earned on investing the Bank's own capital, and (4) adjustment of inter-unit transactions, etc.

Banking Profit

Banking profit (excluding transfer to general reserve for possible loan losses) decreased ¥78.8 billion year-on-year, to ¥499.3 billion.

Nonrecurring Losses (Credit Costs, etc.)

Nonrecurring losses amounted to ¥394.1 billion. This was mainly attributable to disposal of non-performing loans and amortization expenses for unrecognized obligations (actuarial loss) on retirement benefits, despite a turnaround from losses to gains of ¥18.8 billion on stocks against the backdrop of recovery in the share prices. Credit cost amounted to ¥359.4 billion, consisting of expenses for the disposal of non-performing loans in the amount of ¥373.6 billion, net of a ¥14.2 billion gain on reversal of reserves for possible loan losses and for possible losses on loans sold included in extraordinary gains. (Please refer to the “Asset Quality” section beginning on page 13 for more information on problem assets and progress in reducing such assets.)

Ordinary Profit

As a result of the foregoing, ordinary profit increased ¥5.3 billion year-on-year to ¥105.2 billion.

Extraordinary Gains and Losses

Net extraordinary gains amounted to ¥37.8 billion. This was mainly attributable to the refund of a revenue-based enterprise tax imposed by the Tokyo Metropolitan Government in the amount of ¥40.3 billion. Reversal of reserve for possible loan losses exceeded the relevant provisions (general, specific and overseas) for the disposal of non-performing loans in the amount of ¥13.8 billion. This also contributed to the posting of gains.

Net Income

Income taxes totaled ¥12.6 billion. Deferred income taxes under tax-effect accounting came to ¥9.2 billion, due to the transfer of deferred tax liabilities on land revaluation, despite our continued conservative estimates for future earnings. As a result, net income surged to ¥139.6 billion, a sharp increase of ¥94.1 billion year-on-year.

Ordinary Profit and Net Income

Six months ended September 30, 2003 and 2002, and year ended March 31, 2003

	Millions of yen		
	Six months ended Sept. 30, 2003	Six months ended Sept. 30, 2002	Year ended Mar. 31, 2003
Banking profit (excluding transfer to general reserve for possible loan losses)	**¥ 499,308**	¥ 578,061	¥ 1,113,643
Transfer to general reserve for possible loan losses (A)	**—**	(20,564)	(238,132)
Banking profit	**¥ 499,308**	¥ 557,497	¥ 875,511
Nonrecurring gains (losses)	**(394,133)**	(457,610)	(1,472,700)
Credit cost (B)	**(373,597)**	(246,482)	(836,385)
Write-off of loans	**(337,901)**	(89,687)	(284,418)
Transfer to specific reserve	**—**	(140,640)	(375,359)
Transfer to reserve for losses on loans sold	**—**	(7,109)	(15,245)
Losses on loans sold to CCPC	**(740)**	(3,013)	(16,370)
Losses on sale of delinquent loans	**(34,955)**	(10,006)	(148,870)
Transfer to loan loss reserve for specific overseas countries	**—**	3,974	3,879
Gains (losses) on stocks	**18,783**	(192,227)	(635,708)
Gains on sale of stocks	**50,910**	35,161	51,205
Losses on sale of stocks	**(24,720)**	(51,562)	(159,448)
Losses on devaluation of stocks	**(7,406)**	(175,825)	(527,465)
Enterprise taxes by local government	**(7,678)**	(3,542)	(7,811)
Others	**(31,641)**	(15,358)	7,204
Ordinary profit (loss)	**¥ 105,175**	¥ 99,886	¥ (597,188)
Extraordinary gains (losses)	**37,813**	(38,243)	(73,799)
Gains (losses) on disposition of premises and equipment	**(6,404)**	(9,571)	(26,169)
Amortization of net transition obligation from initial application of the new accounting standard for employee retirement benefits	**(10,083)**	(10,083)	(20,167)
Reversal of reserve for possible loan losses (C)	**13,787**	—	—
Reversal of reserve for possible losses on loans sold (D)	**393**	—	—
Refund of enterprise tax from Tokyo government and interest on refund	**40,333**	—	—
Income taxes, current	**(12,573)**	(6,795)	(40,299)
Income taxes, deferred	**9,244**	(9,308)	232,983
Net income (loss)	**¥ 139,659**	¥ 45,538	¥ (478,304)
Total credit cost (A) + (B) + (C) + (D)	**¥(359,415)**	¥(267,046)	¥(1,074,517)

3. Assets, Liabilities and Stockholders' Equity

Assets

SMBC's total assets at September 30, 2003 stood at ¥92,780.0 billion on a nonconsolidated basis, a ¥5,111.2 billion decrease compared with the March 31, 2003 level. This decline is due to a ¥2,128.8 billion decrease in outstanding loans and bills discounted against the backdrop of continued weak corporate fund demand in Japan, and a decrease in overseas assets under our continued policy for the reduction in unprofitable loans outstanding. In addition, securities decreased by ¥1,809.3 billion with our trading policy of taking market interest fluctuations into account.

Liabilities

Liabilities at September 30, 2003 decreased ¥5,443.6 billion to ¥90,168.4 billion from the previous fiscal year-end. This decline was attributable to a decrease in payables under repurchase agreements based on our fund procurement policy of taking market interest fluctuations into account, in the amount of ¥2,255.6 billion. A decrease of ¥864.5 billion in deposits and a drop of ¥1,458.6 billion in negotiable certificates of deposit also contributed to the decline.

Stockholders' Equity

Stockholders' equity increased by ¥332.4 billion over the March 31, 2003 level to ¥2,611.6 billion at September 30, 2003. The major reasons for this rise include the posting of net income of ¥139.6 billion and a ¥192.7 billion increase in net unrealized gains on other securities.

Assets, Liabilities and Stockholders' Equity

September 30, 2003 and 2002, and March 31, 2003

	Millions of yen		
	Sept. 30, 2003	Sept. 30, 2002	Mar. 31, 2003
Assets	**¥92,779,975**	¥99,389,814	¥97,891,161
Loans and bills discounted	**55,153,522**	59,283,833	57,282,365
Securities	**21,847,113**	22,427,023	23,656,385
Liabilities	**90,168,353**	96,369,750	95,611,937
Deposits	**57,746,253**	57,770,944	58,610,731
Negotiable certificates of deposit	**3,454,958**	4,856,700	4,913,526
Stockholders' equity	**2,611,621**	3,020,063	2,279,223

4. Unrealized Gains (Losses) on Securities

Net unrealized gains on securities at September 30, 2003 amounted to ¥308.3 billion, which was an improvement of ¥342.8 billion from the previous fiscal year-end. Net unrealized gains on other securities (including "other money held in trust") amounted to ¥306.9 billion, which was an improvement of ¥324.8 billion.

The substantial increase in unrealized gains on other securities was attributable to a turnaround from unrealized losses to gains on stocks, an improvement of ¥621.4 billion against the backdrop of a stock market recovery, which was more than enough to compensate for the deterioration in bonds from unrealized gains to losses, mainly JGBs, on higher long-term interest rates in Japan.

Unrealized Gains (Losses) on Securities

September 30, 2003 and March 31, 2003

	Millions of yen						
	Sept. 30, 2003				Mar. 31, 2003		
	Net unrealized gains (losses) (A)	(A) – (B)	Unrealized gains	Unrealized losses	Net unrealized gains (losses) (B)	Unrealized gains	Unrealized losses
Held-to-maturity securities	**¥ (10,338)**	**¥ (14,141)**	**¥ 1,813**	**¥ 12,152**	¥ 3,803	¥ 3,909	¥ 105
Stocks of subsidiaries and affiliates	**11,734**	**32,162**	**11,734**	**—**	(20,428)	624	21,052
Other securities	**306,912**	**324,769**	**585,142**	**278,230**	(17,857)	257,680	275,537
Stocks	**469,067**	**621,421**	**562,844**	**93,776**	(152,354)	105,269	257,624
Bonds	**(148,852)**	**(257,564)**	**4,997**	**153,849**	108,712	112,417	3,705
Others	**(13,303)**	**(39,088)**	**17,301**	**30,604**	25,785	39,993	14,207
Other money held in trust	**(16)**	**28**	**249**	**265**	(44)	510	555
Total	**308,291**	**342,817**	**598,939**	**290,648**	(34,526)	262,725	297,251
Stocks	**480,802**	**653,584**	**574,578**	**93,776**	(172,782)	105,894	278,677
Bonds	**(160,002)**	**(271,530)**	**5,882**	**165,884**	111,528	115,234	3,705
Others	**(12,508)**	**(39,235)**	**18,478**	**30,987**	26,727	41,597	14,869

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. Unrealized gains (losses) on stocks are mostly calculated with the average market price during the final month of the interim period. Rest of the securities are valuated at the market price as of the balance sheet date.
3. "Other securities" and "Other money held in trust" are valuated and recorded on the consolidated balance sheet at market prices. The figures in the table above indicate the difference between the acquisition costs (or amortized costs) and the balance sheet amounts.
Of "Unrealized gains (losses) on other securities" shown above, ¥22,029 million is included in this interim term's profit because of the application of fair value hedge accounting. Consequently, the base amount used in the calculation of the amount to be charged to stockholders' equity has been decreased by ¥22,029 million.

5. Deferred Tax Assets

Deferred Tax Assets on the Balance Sheet

SMBC has registered deferred tax assets in an amount based on reasonable estimates of the size of tax benefits on collectibility of assets in question in the future in line with Accounting Standards for Tax Effect Accounting (issued by the Business Accounting Deliberation Council dated October 30, 1998) and related practical guidelines. Moreover, SMBC has adopted more conservative estimates for the recognition of deferred tax assets from the viewpoint of maintaining a sound financial position, taking into full consideration the opinions expressed in the "Strict Audit to Major Banks" (issued by the Japanese Institute of Certified Public Accountants (JICPA); February 24, 2003).

At September 30, 2003, net deferred tax assets amounted to ¥1,711.7 billion on a nonconsolidated basis, a ¥102.9 billion decrease from the previous term-end. This decline was mainly attributable to recognition of deferred tax liabilities in the amount of ¥110.0 billion due to a turnaround from unrealized losses to unrealized gains on "other securities" against the backdrop of rebounds in stock prices in Japan. In addition, the valuation allowance (which was not included in the scope of outstanding deferred tax assets due to conservative estimates) amounted to ¥398.6 billion at September 30, 2003.

(Billions of yen)

		Sept. 2003	Change from Mar. 2003	Change from Sept. 2002	(Reference) Temporary differences Sept. 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.

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 ¥2.5 trillion 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.)

(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 through stocks sales and also disposed all at once unrealized losses on stocks of ¥1.2 trillion 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 (¥1.5 trillion as of March 31, 2003; ¥100 billion 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).

(2) Consequently, operating loss carryforwards on the tax base amounted to approximately ¥1.5 trillion 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 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.

(Reference 1) Outline of Practical Guideline 5 (1), examples (4)

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.

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.

(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 losses)	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 Sept. 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 amount of taxable income and record the calculated amount as "deferred tax assets"

(Reference 2) Income of final return (before deducting operating loss carryforwards) for the last 5 years

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

Notes: 1. Income of final return (before deducting 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 records taxable income in each year when these amounts are excluded.