

Sumitomo Mitsui Banking Corporation (Nonconsolidated)

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The following is a summary of SMBC's nonconsolidated financial results for fiscal 2004 ended March 31, 2005.

1. Operating Results

Banking profit (before provision for general reserve for possible loan losses) in fiscal 2004 decreased ¥59.6 billion year on year to ¥940.5 billion, as a result of a ¥61.2 billion decrease in gross banking profit to ¥1,522.9 billion, and a ¥1.6 billion decrease in expenses (excluding nonrecurring losses) to ¥582.4 billion.

Ordinary loss, calculated by adjusting banking profit (before provision for general reserve for possible loan losses) for nonrecurring items such as total credit cost and losses on stocks, amounted to ¥71.7 billion, compared with ¥185.1 billion profit a year earlier.

After adjusting ordinary loss for extraordinary gains (losses) and income taxes, net loss came to ¥136.8 billion, compared with income of ¥301.1 billion a year earlier, a year-on-year decrease of ¥437.9 billion.

2. Income Analysis

Gross Banking Profit

Gross banking profit in fiscal 2004 declined ¥61.2 billion year-on-year to stand at ¥1,522.9 billion. This was due to a year-on-year decline of ¥114.5 billion in profits posted by the Treasury Unit on the investment of funds, marking a

sharp reversal of the extremely strong performance of the previous term. This decline in profits was partially offset by a ¥71.5 billion increase in net revenue from fees and commissions. The increase in fees and commissions is the result of growth in sales of investment trusts and pension-type insurance products to individuals, and syndicated loans to corporate customers.

Expenses

Expenses (excluding nonrecurring losses) decreased ¥1.6 billion year on year to ¥582.4 billion. This was mainly due to a decline in personnel expenses resulting from workforce downsizing, which more than offset an increase in taxes from the nationwide adoption of a pro forma standard corporation tax (a local corporation tax that was imposed from fiscal 2004) as well as increased nonpersonnel expenses from investment of resources in core businesses.

Banking Profit

Banking profit (before provision for general reserve for possible loan losses) decreased ¥59.6 billion year on year to ¥940.5 billion.

Banking Profit

Year ended March 31	Millions of yen		
	2005 (A)	2004 (B)	Increase (decrease) (A) – (B)
Gross banking profit.....	¥1,522,861	¥1,584,127	¥ (61,266)
Gross banking profit (excluding gains (losses) on bonds)	1,544,452	1,561,386	(16,934)
Net interest income.....	972,506	1,087,060	(114,554)
Trust fees.....	2,609	334	2,275
Net fees and commissions	298,076	226,568	71,508
Net trading income	131,579	280,729	(149,150)
Net other operating income	118,088	(10,565)	128,653
Gross domestic banking profit	1,182,811	1,135,616	47,195
Gross international banking profit.....	340,049	448,510	(108,461)
Provision for general reserve for possible loan losses	351,477	—	351,477
Expenses (excluding nonrecurring losses)	(582,365)	(583,995)	1,630
Personnel expenses	(204,146)	(221,284)	17,138
Nonpersonnel expenses.....	(341,534)	(332,238)	(9,296)
Taxes	(36,684)	(30,472)	(6,212)
Banking profit.....	¥1,291,972	¥1,000,132	¥291,840
Banking profit (before provision for general reserve for possible loan losses)	940,495	1,000,132	(59,637)
Banking profit (before provision for general reserve for possible loan losses and gains (losses) on bonds)	962,086	977,391	(15,305)

<Reference>

Banking Profit by Business Unit

Year ended March 31, 2005	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) (before provision for general reserve for possible loan losses).....	¥118.0	¥481.0	¥160.5	¥46.6	¥4.2	¥205.0	¥(74.8)	¥940.5
Year-on-year increase (decrease).....	35.7	61.7	12.7	7.7	1.9	(152.4)	(26.9)	(59.6)

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) financing costs on preferred securities and subordinated debt, (2) profit earned on investing the Bank's own capital, and

(3) adjustment of inter-unit transactions, etc.

Nonrecurring Losses (Credit Costs, etc.)

Nonrecurring losses amounted to ¥1,363.7 billion. This is mainly due to the initiatives taken to ensure an earnings recovery in fiscal 2005 onward. In order to reduce future risk factors, the bank took an even more conservative stance than hitherto in assessing assets, resulting in increased provisions for general reserve for possible loan losses. Consequently, credit cost related to disposal of NPLs totaled ¥1,306.3 billion (the amount after addition of gain on reversal of general reserve for possible loan losses was ¥954.8 billion). The bank also took financial measures on securities, such as write-downs totaling ¥227.6 billion (including preferred shares purchased in the past). As a result, losses on stocks totaled ¥118.7 billion. (Please refer to the “Asset Quality” section beginning on page 39 for more information on credit cost and problem assets.)

Ordinary Profit (Loss)

As a result of the foregoing, ordinary loss totaled ¥71.7 billion, compared with a profit of ¥185.1 billion in the previous period, a year-on-year decrease of ¥256.8 billion.

Extraordinary Gains (Losses)

Net extraordinary losses amounted to ¥28.4 billion, compared with a ¥133.7 billion gain in the previous period, a year-on-year decrease of ¥162.1 billion.

Net Income (Losses)

An income tax refund of ¥8.2 billion and deferred income taxes in the amount of ¥38.5 billion were recognized for the reporting period, partly as a result of which the bank reported a net loss of ¥136.8 billion, compared with income of ¥301.1 billion for the previous term, a year-on-year decline of ¥437.9 billion.

Ordinary Profit and Net Income

Year ended March 31	Millions of yen		
	2005 (A)	2004 (B)	Increase (decrease) (A) – (B)
Banking profit (before provision for general reserve for possible loan losses)	¥ 940,495	¥1,000,132	¥ (59,637)
Provision for general reserve for possible loan losses (A).....	351,477	—	351,477
Banking profit.....	¥1,291,972	¥1,000,132	¥ 291,840
Nonrecurring gains (losses).....	(1,363,653)	(814,994)	(548,659)
Credit cost (B).....	(1,306,320)	(869,234)	(437,086)
Write-off of loans.....	(697,941)	(566,344)	(131,597)
Provision for specific reserve.....	(474,155)	—	(474,155)
Losses on loans sold to CCPC.....	/	(806)	806
Losses on sale of delinquent loans	(138,052)	(302,083)	164,031
Provision for loan loss reserve for specific overseas countries	3,828	—	3,828
Gains (losses) on stocks	(118,727)	103,867	(222,594)
Gains on sale of stocks	113,059	151,170	(38,111)
Losses on sale of stocks	(4,206)	(36,577)	32,371
Losses on devaluation of stocks.....	(227,580)	(10,724)	(216,856)
Others.....	61,394	(49,627)	111,021
Ordinary profit (loss)	(71,680)	185,138	(256,818)
Extraordinary gains (losses)	(28,398)	133,707	(162,105)
Gains (losses) on disposal of premises and equipment	(12,495)	(11,853)	(642)
Amortization of net transition obligation from initial application of the new accounting standard for employee retirement benefits	(16,001)	(19,473)	3,472
Reversal of reserve for possible loan losses (C)	—	65,342	(65,342)
Reversal of reserve for possible losses on loans sold (D).....	/	488	(488)
Tax refund from the Tokyo government and interest on the tax refund	/	40,363	(40,363)
Gains on return of the entrusted portion of employee pension fund.....	/	59,095	(59,095)
Income taxes:			
Current.....	(6,379)	(12,752)	6,373
Refund	8,184	—	8,184
Deferred.....	(38,579)	(4,980)	(33,599)
Net income (loss)	¥ (136,854)	¥ 301,113	¥(437,967)
Total credit cost (A) + (B) + (C) + (D)	¥ (954,843)	¥ (803,403)	¥(151,440)

3. Assets, Liabilities and Stockholders' Equity

Assets

SMBC's total assets at March 31, 2005 stood at ¥91,129.7 billion on a nonconsolidated basis, a ¥2,979.2 billion decrease compared with the previous fiscal year-end. This decline is mainly due to a ¥2,915.8 billion decrease in securities, mostly Japanese government bonds and foreign securities, from interest-rate-related trading operations.

Liabilities

Liabilities at March 31, 2005 decreased ¥2,861.1 billion to ¥88,377.0 billion from the previous fiscal year-end. This decline was attributable to a ¥2,108.3 billion decrease in payables under securities lending transactions and a

¥1,146.9 billion decrease in bills sold. This decline was the result of an intentional reduction in fund procurement in line with our policy of reducing the total amount of our assets.

Stockholders' Equity

Stockholders' equity decreased by ¥118.1 billion to ¥2,752.7 billion at March 31, 2005. This decline is mainly attributable to the posting of a net loss and a reduction in retained earnings due to dividend payments to SMFG, the parent company, which were greater than increases in capital stock and capital surplus as a result of capital increase through private placement of shares.

Assets, Liabilities and Stockholders' Equity

March 31	Millions of yen		
	2005 (A)	2004 (B)	Increase (decrease) (A) – (B)
Assets	¥91,129,776	¥94,109,074	¥(2,979,298)
Loans and bills discounted	50,067,586	50,810,144	(742,558)
Securities	23,676,696	26,592,584	(2,915,888)
Liabilities	88,377,041	91,238,204	(2,861,163)
Deposits	62,788,328	60,067,417	2,720,911
Negotiable certificates of deposit	2,803,299	3,589,354	(786,055)
Stockholders' equity	2,752,735	2,870,870	(118,135)

4. Unrealized Gains (Losses) on Securities

Net unrealized gains on securities at March 31, 2005 amounted to ¥710.0 billion, which was an increase of ¥119.7 billion from the previous fiscal year-end. Net unrealized gains on other securities (including "other money held

in trust"), changes in which are directly credited to stockholders' equity, increased by ¥95.3 billion over the same period, to ¥651.6 billion due to unrealized gains on bonds compared with a loss for the previous business term.

Unrealized Gains (Losses) on Securities

March 31	Millions of yen							
	2005				2004			
	Net unrealized gains (losses) (A)	(A) – (B)	Unrealized gains	Unrealized losses	Net unrealized gains (losses) (B)	Unrealized gains	Unrealized losses	
Held-to-maturity securities	¥ (1,844)	¥ 5,802	¥ 2,089	¥ 3,933	¥ (7,646)	¥ 2,618	¥ 10,265	
Stocks of subsidiaries and affiliates	60,343	18,647	60,690	347	41,696	41,696	—	
Other securities	651,385	95,239	750,143	98,757	556,146	757,072	200,925	
Stocks	667,326	16,225	708,643	41,317	651,101	711,514	60,413	
Bonds	7,700	109,590	27,343	19,642	(101,890)	16,211	118,101	
Others	(23,641)	(30,576)	14,155	37,797	6,935	29,346	22,410	
Other money held in trust	204	83	300	95	121	222	100	
Total	710,088	119,770	813,222	103,133	590,318	801,610	211,291	
Stocks	727,669	34,871	769,333	41,664	692,798	753,211	60,413	
Bonds	5,360	115,776	28,925	23,565	(110,416)	17,950	128,366	
Others	(22,941)	(30,878)	14,963	37,904	7,937	30,448	22,510	

Notes: 1. The figures above include unrealized gains (losses) on negotiable certificates of deposit in "Deposits with banks."

2. Unrealized gains (losses) on stocks (excluding stocks of subsidiaries and affiliates) are calculated using the average market price during the final month of the respective reporting period. The rest of the securities are valued at the market price as of the balance sheet date.

3. "Other securities" and "Other money held in trust" are valued and recorded on the consolidated balance sheet at market prices. The figures in the table above indicate the differences between the acquisition costs (or amortized costs) and the balance sheet amounts.

"Unrealized gains (losses) on other securities" as of March 31, 2005 include gains of ¥469 million that were recognized as income by applying fair value hedge accounting and valuation gains of ¥82 million on embedded financial instruments in their entirety that were recorded as income because their embedded derivatives are not measured separately. Therefore, ¥551 million was excluded from the amount to be directly included in stockholders' equity. "Unrealized gains (losses) on other securities" as of March 31, 2004 include gains of ¥23,452 million recognized as income by applying fair value hedge accounting, which are excluded from the amount to be directly included in stockholders' equity.

5. Deferred Tax Assets

Deferred Tax Assets on the Balance Sheet

SMBC computes deferred tax assets 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 continues to take a conservative stance on 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) on February 24, 2003.

Net deferred tax assets at March 31, 2005 amounted to ¥1,502.2 billion, an ¥88.3 billion decrease from the previous term-end. This is mainly attributable to the increase in net unrealized gains on other securities mentioned previously. In addition, the valuation allowance (which was not included in the scope of outstanding deferred tax assets due to taking a conservative stance) amounted to ¥553.3 billion at March 31, 2005.

		(Billions of yen)			(Reference)
		2005	Change from 2004	2004	Temporary differences 2005
March 31					
(A) Total deferred tax assets (B) – (C)	1	¥1,825.8	¥ (13.8)	¥1,839.6	
(B) Subtotal of deferred tax assets	2	2,379.1	182.2	2,196.9	¥5,852.8
Reserve for possible loan losses	3	315.4	(113.9)	429.3	776.4
Write-off of loans	4	562.1	279.3	282.8	1,383.5
Write-off of securities	5	533.0	154.4	378.6	1,311.8
Reserve for employee retirement benefits	6	76.9	(5.4)	82.3	189.2
Depreciation	7	6.1	(1.0)	7.1	15.0
Net unrealized losses on other securities	8	—	—	—	—
Net operating loss carryforwards	9	822.8	(128.6)	951.4	2,008.8
Other	10	62.8	(2.6)	65.4	168.1
(C) Valuation allowance	11	553.3	196.0	357.3	
(D) Total deferred tax liabilities	12	¥ 323.6	¥ 74.5	¥ 249.1	¥ 796.5
Gains on securities contributed to employee retirement benefits trust	13	51.7	26.2	25.5	127.3
Net unrealized gains on other securities	14	264.5	48.0	216.5	651.1
Other	15	7.4	0.3	7.1	18.1
Net deferred tax assets (balance sheet amount) (A) – (D)	16	¥1,502.2	¥ (88.3)	¥1,590.5	
Amounts corresponding to the estimated taxable income before adjustments	17	1,694.1	(35.5)	1,729.6	
Amounts to be realized after more than a certain period (Note 1)	18	72.6	(4.8)	77.4	
Amount corresponding to the deferred tax liabilities shown in 14 above (Note 2)	19	(264.5)	(48.0)	(216.5)	
Effective income tax rate	20	40.63%	—	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 of Other Securities and Losses on Impairment of Fixed Assets")

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 provisions 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 against the risk of asset deterioration under the severe business environment of a prolonged sluggish economy.
In addition, pursuant to the "Program for Financial Revival" of October 2002, SMBC accelerated the disposal of non-performing loans in order to reduce the problem asset ratio to half by the end of fiscal 2004. As a result, SMBC achieved this target 6 months ahead of schedule, in the 1st half of fiscal 2004. In the process, taxable disposals that were made in the past were realized, while new taxable disposals were recognized. As a result, taxable disposal of non-performing loans (**) amounted to approximately ¥2.16 trillion as of March 31, 2005.
- (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 sold stocks and reduced the balance by approximately ¥1.1 trillion and also disposed all at once unrealized losses on stocks of approximately ¥1.2 trillion by writing off impaired stocks and using the gains on the March 2003 merger. Consequently, SMBC met the regulation limiting stockholdings at the end of fiscal 2002, before the deadline.
As a result, the outstanding balance of taxable write-off on securities (**) increased (from approximately ¥0.1 trillion as of March 31, 1999 to approximately ¥1.5 trillion as of March 31, 2003). On the other hand, taxable write-off of securities carried out in the past is now being realized through accelerated selling of stocks (In fiscal 2004, approximately ¥130 billion was realized).
- (2) Consequently, operating loss carryforwards on the tax base amounted to approximately ¥2 trillion as of March 31, 2005, but they are certain to be offset by the end of 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" of the table on the previous page.

(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) 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 (before provision for general reserve for possible loan losses)	1	¥5,211.0
A Income before income taxes	2	2,961.0
B Adjustments to taxable income (excluding reversal of temporary differences as of Mar. 2005)	3	1,208.6
C Taxable income before adjustments (A + B)	4	¥4,169.6
Deferred tax assets corresponding to taxable income before adjustments	5	¥1,694.1

(corresponding to 17 of the table on the previous page)

Basic Policy on the Estimation of Future Taxable Income

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

	Billions of yen				
	FY2004	FY2003	FY2002	FY2001	FY2000
Income of final return (before deducting operating loss carryforwards)....	¥316.9	¥(1,437.8)	¥(745.5)	¥241.9	¥(176.0)

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. Since the final declaration for the corporate income tax is being done in the end of June, the figures for March 31, 2005 are estimated income of final return as of March 31, 2005.

3. 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.