

| President's Message |

Review of the First Half of Fiscal 2004

In the first half of fiscal 2004, the Japanese economy continued to accelerate on higher exports and capital investment, though there were some adjustments in inventory. Short-term interest rates remained near zero, and long-term interest rates declined due to the wariness about the economic outlook after a rise at the beginning of August. The stock market at the end of September was slightly weaker compared with the March-end level which had recovered sharply.

In this business environment, in the first half, we made progress in our two business policies in fiscal 2004: completion of intensive improvement in asset quality, and enhancement of profitability by accelerating the offensive in strategic businesses.

Firstly, to complete intensive improvement in asset quality, Sumitomo Mitsui Banking Corporation (SMBC) reduced the non-performing loan (NPL) balance by approximately ¥330 billion to approximately ¥2.48 trillion, and the NPL ratio to 4.4% at the end of September. As a result, SMBC achieved the target of halving the March-end 2002 NPL ratio of 8.9% by the end of March 2005 six months ahead of schedule. On stockholdings, though SMBC had already substantially reduced the balance to below the level required under the restrictions on banks' stockholdings, it sold approximately ¥200 billion in the first half to further reduce stock price fluctuation risk.

Secondly, to enhance profitability by accelerating the offensive in strategic businesses, SMBC further reinforced businesses with competitive advantage, and recorded banking profit of approximately ¥470 billion in the first half, exceeding the original forecast. The breakdown of the result by business is as follows. In new-type unsecured loans to small and medium-sized enterprises (SMEs), new origination of main products, such as *Business Select Loan* and *N-Fund Loan*, totaled approximately ¥1.6 trillion, a year-over-year increase of approximately 30%. In financial consulting for individuals, origination of mortgage loans, balance of investment trusts under SMBC account, and accumulated sales amount of pension-type insurances increased steadily. As for the investment banking business, main businesses such as loan syndication, structured finance and securitization of money claims generated significantly higher profits year over year. Moreover, profits related to the collaboration with Daiwa Securities SMBC Co., Ltd., such as in equity and bond underwriting and sales of investment products, rose steadily.

Business Policy in the Second Half of Fiscal 2004

In the second half, in addition to the completion of the intensive improvement in asset quality, we will proactively take a Groupwide approach to accelerate the offensive in strategic businesses to strengthen Group profitability.

1. Completion of Intensive Improvement in Asset Quality

As for the completion of intensive improvement in asset quality, SMBC plans to further reduce the NPL balance to less than ¥2 trillion and the NPL ratio to less than 4% by the end of this fiscal year through further efforts for corporate recoveries, prevention of deterioration of borrowers' financial conditions and off-balancing. Also, SMBC will continue to reduce its stockholdings.

2. Acceleration of the Offensive in Strategic Businesses

As for the acceleration of the offensive in strategic businesses, SMBC will continue to reinforce businesses with competitive advantages. In addition, it will promote the early establishment of a solid earnings base in some strategic business areas.

New-Type Unsecured Loans to SMEs

SMBC will additionally expand marketing channels and improve products to further increase loan volume of new-type unsecured loans to SMEs. Specifically, SMBC will expand specialized marketing channels for the *Business Select Loan*, and re-examine interest rate structure of the *N-Fund Loan* to improve its price competitiveness.

Financial Consulting for Individuals

SMBC will continue to expand the specialized marketing channel, SMBC Consulting Plazas, of which 37 were newly opened in the first half, and reinforce consultancy capability by providing a wider lineup of investment products, such as foreign currency bonds, occasioned by the lifting of the ban on securities intermediary business for individuals in last December.

Investment Banking Business

SMBC will further enhance its solution providing ability, and provide loan syndication, structured finance and other products to a wider range of customers to grow profit in the investment banking business.

Overseas Businesses

For the early establishment of an earnings base, SMBC will continue to strengthen Asian business centered on China, and strategically allocate

business resources in the Americas and Europe to increase business volume.

3. Enhancement of Group Profitability

To enhance Group profitability, we will proactively reinforce Group companies through their collaboration, and promote strategic alliance with leading companies.

Reinforcement of Group Companies through Collaboration

We will further promote collaboration among Group companies including SMBC to strengthen their businesses. We will enhance collaboration and strengthen Group profitability with initiatives such as reinforcement of credit card and consumer finance business by Sumitomo Mitsui Card Company, Limited, development of small and medium-sized customers by SMBC Leasing Company, Limited, and development of IT business opportunities utilizing financial system know-how by the Japan Research Institute, Limited.

Promotion of Strategic Alliance with Leading Companies

As the alliance strategy, we will further reinforce collaboration with the Daiwa Securities Group in investment banking business, and promote strategic alliance with Promise Co., Ltd. in consumer finance.

Daiwa Securities SMBC, established five years ago, has been steadily increasing profits related to the collaboration with SMBC under the established collaboration systems. The securities intermediary business for corporate customers which was started last December will be the opportunity to further strengthen the collaboration. The new specialized department, whose staff includes approximately 30 experts from the Daiwa Securities Group, was established, and sales of foreign bonds and structured bonds are being promoted.

With the strategic alliance with Promise announced last June, SMBC's marketing channels and customer base, and Promise's expertise and know-how are being leveraged to establish a new business model. New-type automatic contract machines will be installed at 400 SMBC branches, and three types of consumer loans will be launched this April under the business alliance agreed last September. Preparations to start the new business will be further accelerated.

4. Repayment of Public Fund

Last November, we repaid ¥201 billion of public fund



preferred stocks owned by the government. The repayment of the public fund was scheduled to start next fiscal year, but was moved up thanks to the buildup of retained earnings and steady improvement in profitability as a result of our recent efforts. We are aiming for an early repayment of the remaining ¥1.1 trillion by further boosting profitability.

In Closing

We have made progress in our two key issues: the intensive improvement in asset quality, and the further enhancement of profitability through our concentrated efforts. We have entered the final stage of completion of the intensive improvement in asset quality, and developed a number of strategic businesses with competitive advantages into pillars of earnings through offensive measures, mainly the expansion of marketing channels.

Henceforth, we will boldly and dynamically allocate and invest human resources, capital, assets and other resources toward achieving sustainable growth. We will implement various initiatives with speed, our strength, to enhance profits, thereby further accelerating the increase of corporate value.

Yoshifumi Nishikawa
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Sumitomo Mitsui Financial Group, Inc.

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