Sumitomo Mitsui Banking Corporation (Nonconsolidated)

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The following is a summary of SMBC's nonconsolidated financial results for the first half of fiscal 2004, the six-month period ended September 30, 2004.

1. Operating Results

Banking profit (before provision for general reserve for possible loan losses) for the first half of fiscal 2004 decreased ¥27.7 billion to ¥471.6 billion year-on-year, as a result of a ¥32.6 billion decrease in gross banking profit to ¥762.7 billion and a ¥4.9 billion decrease in expenses (excluding nonrecurring losses) to ¥291.1 billion.

Ordinary profit, calculated by adjusting banking profit (before provision for general reserve for possible loan losses) for nonrecurring items such as reversal of general reserve for possible loan losses, total credit cost and gains on stocks, increased ¥20.0 billion to ¥125.2 billion.

Net income came to ¥118.6 billion, a year-on-year decrease of ¥21.0 billion.

2. Income Analysis

Gross Banking Profit

Gross banking profit for the first half of fiscal 2004 declined ¥32.6 billion year-on-year to stand at ¥762.7 billion. In domestic operations, gross banking profit increased ¥31.1 billion year-on-year, to ¥590.1 billion. This was a result of a ¥17.5 billion increase in gains on bond transactions, mainly JGBs, as well as a ¥22.4 billion increase in net revenue from fees and commissions on private pension insurance and loan syndications, which more than offset a ¥19.3 billion decrease in interest income, in line with a decline in the loan balance.

Regarding international operations, gross banking profit decreased ¥63.7 billion year-on-year to ¥172.6 billion, mainly due to a ¥58.5 billion drop in interest income resulting from Treasury Unit's weaker performance compared with the previous first-half period. However, net revenue from fees and commissions increased by ¥5.4 billion.

Expenses

Expenses (excluding nonrecurring losses) decreased ¥4.9 billion year-on-year, to ¥291.1 billion. This was mainly due to a ¥9.7 billion decline in personnel expenses resulting from workforce downsizing, offsetting an increase in taxes of ¥2.9 billion that reflects the impact of the nationwide adoption of a pro forma standard corporation tax, a local corporation tax that would be imposed from fiscal 2004.

Banking Profit

Six months ended September 30, 2004 and 2003, and year ended March 31, 2004

	Millions of yen		
	Six months ended Sept. 30, 2004	Six months ended Sept. 30, 2003	Year ended Mar. 31, 2004
Gross banking profit	**¥762,716**	¥795,339	¥1,584,127
Gross banking profit (excluding gains (losses) on bonds)	**736,053**	776,567	1,561,386
Net interest income	**490,868**	568,597	1,087,060
Trust fees	**729**	84	334
Net fees and commissions	**127,021**	99,330	226,568
Net trading income	**21,150**	149,824	280,729
Net other operating income	**122,946**	(22,497)	(10,565)
Gross domestic banking profit	**590,117**	558,967	1,135,616
Gross international banking profit	**172,598**	236,371	448,510
Provision for general reserve for possible loan losses	**349,734**	—	—
Expenses (excluding nonrecurring losses)	**(291,136)**	(296,030)	(583,995)
Personnel expenses	**(104,320)**	(113,967)	(221,284)
Nonpersonnel expenses	**(168,549)**	(166,697)	(332,238)
Taxes	**(18,266)**	(15,365)	(30,472)
Banking profit	**¥821,314**	¥499,308	¥1,000,132
Banking profit (before provision for general reserve for possible loan losses)	**471,580**	499,308	1,000,132
Banking profit (before provision for general reserve for possible loan losses and gains (losses) on bonds)	**444,917**	480,536	977,391

<Reference>

Banking Profit by Business Unit

Six months ended September 30, 2004

	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)	¥48.7	¥219.2	¥72.5	¥22.1	¥2.1	¥142.1	¥(35.1)	¥471.6
Year-on-year increase (decrease)	18.9	14.1	5.4	4.2	1.4	(64.8)	(6.9)	(27.7)

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.

Banking Profit

Banking profit (before provision for general reserve for possible loan losses) decreased ¥27.7 billion year-on-year, to ¥471.6 billion.

Nonrecurring Losses (Credit Costs, etc.)

Nonrecurring losses amounted to ¥696.1 billion. This was mainly attributable to disposal of non-performing loans in an amount of ¥805.5 billion, which was partially offset by gains on the sale of stocks.

Total credit cost amounted to ¥455.8 billion, consisting of credit cost in the amount of ¥805.5 billion, net of a ¥349.7 billion gain resulting from reversal of general reserve for possible loan losses. (Please refer to the "Asset Quality" section beginning on page 17 for more information on problem assets and progress in reducing such assets.)

Ordinary Profit

As a result of the foregoing, ordinary profit increased ¥20.0 billion year-on-year to ¥125.2 billion.

Extraordinary Gains and Losses

Net extraordinary losses amounted to ¥12.1 billion, compared with a ¥37.8 billion gain in the previous first-half period.

Extraordinary gains in the previous first-half period were mainly due to the refund of a revenue-based enterprise tax imposed by the Tokyo Metropolitan Government and interest on the refund. In addition, reversal of reserve for possible loan losses exceeded the relevant provisions, and the resultant gains were also recorded as extraordinary gains. There were no such one-time gains during the period under review.

Net Income

Net income decreased ¥21.0 billion to ¥118.6 billion year-on-year, including an income tax refund of ¥7.4 billion. This decline in net income is due in part to deferred income tax of ¥0.2 billion.

Ordinary Profit and Net Income

Six months ended September 30, 2004 and 2003, and year ended March 31, 2004

	Millions of yen		
	Six months ended Sept. 30, 2004	Six months ended Sept. 30, 2003	Year ended Mar. 31, 2004
Banking profit (before provision for general reserve for possible loan losses)	**¥471,580**	¥499,308	¥1,000,132
Provision for general reserve for possible loan losses (A)	**349,734**	—	—
Banking profit	**¥821,314**	¥499,308	¥1,000,132
Nonrecurring gains (losses)	**(696,116)**	(394,133)	(814,994)
Credit cost (B)	**(805,505)**	(373,597)	(869,234)
Write-off of loans	**(348,769)**	(337,901)	(566,344)
Provision for specific reserve	**(403,866)**	—	—
Losses on loans sold to CCPC	**/**	(740)	(806)
Losses on sale of delinquent loans	**(55,707)**	(34,955)	(302,083)
Provision for loan loss reserve for specific overseas countries	**2,838**	—	—
Gains on stocks	**44,819**	18,783	103,867
Gains on sale of stocks	**60,005**	50,910	151,170
Losses on sale of stocks	**(434)**	(24,720)	(36,577)
Losses on devaluation of stocks	**(14,751)**	(7,406)	(10,724)
Others	**64,570**	(39,319)	(49,627)
Ordinary profit	**125,198**	105,175	185,138
Extraordinary gains (losses)	**(12,127)**	37,813	133,707
Gains (losses) on disposal of premises and equipment	**(3,991)**	(6,404)	(11,853)
Amortization of net transition obligation from initial application of the new accounting standard for employee retirement benefits	**(8,000)**	(10,083)	(19,473)
Reversal of reserve for possible loan losses (C)	**—**	13,787	65,342
Reversal of reserve for possible losses on loans sold (D)	**/**	393	488
Tax refund from the Tokyo government and interest on the tax refund	**/**	40,333	40,363
Gains on return of the entrusted portion of employee pension fund	**—**	—	59,095
Income taxes:			
Current	**(1,645)**	(12,573)	(12,752)
Refund	**7,405**	—	—
Deferred	**(276)**	9,244	(4,980)
Net income	**¥118,554**	¥139,659	¥ 301,113
Total credit cost (A) + (B) + (C) + (D)	**¥455,771**	¥359,415	¥ 803,403

3. Assets, Liabilities and Stockholders' Equity

Assets

SMBC's total assets as of September 30, 2004 stood at ¥92,742.9 billion on a nonconsolidated basis, a ¥1,366.2 billion decrease compared with the previous fiscal year-end. This decline is mainly due to a ¥3,067.7 billion decrease in securities corresponding to interest rate movements, offsetting a ¥612.0 billion increase in receivables under securities borrowing transactions as well as a ¥413.5 billion increase in cash and due from banks.

Liabilities

Liabilities at September 30, 2004 decreased ¥1,252.1 billion to ¥89,986.1 billion from the previous fiscal year-end. This decline was attributable to a ¥2,137.2 billion decrease in bills sold and a ¥1,375.2 billion decrease in payables under securities lending transactions in line with a decline in assets, offsetting a ¥1,944.1 billion increase in deposits.

Stockholders' Equity

Although the bank posted ¥118.6 billion in net income, stockholders' equity decreased by ¥114.1 billion over the March 31, 2004 level to ¥2,756.8 billion at September 30, 2004. This decrease was primarily due to a dividend payment of ¥200.0 billion to SMFG, SMBC's holding company, and a decrease in net unrealized gains on other securities.

Assets, Liabilities and Stockholders' Equity

September 30, 2004 and 2003, and March 31, 2004

	Millions of yen		
	Sept. 30, 2004	Sept. 30, 2003	Mar. 31, 2004
Assets	**¥92,742,940**	¥92,779,975	¥94,109,074
Loans and bills discounted	**50,723,607**	55,153,522	50,810,144
Securities	**23,524,899**	21,847,113	26,592,584
Liabilities	**89,986,163**	90,168,353	91,238,204
Deposits	**62,011,605**	57,746,253	60,067,417
Negotiable certificates of deposit	**3,239,176**	3,454,958	3,589,354
Stockholders' equity	**2,756,776**	2,611,621	2,870,870

4. Unrealized Gains (Losses) on Securities

Net unrealized gains on securities at September 30, 2004 amounted to ¥488.9 billion, which was a decrease of ¥101.4 billion from the previous fiscal year-end. Net unrealized gains on other securities (including "other money held in trust"), changes in which are directly charged to stockholders' equity, decreased by ¥98.7 billion over the same period, to ¥457.6 billion.

The decrease in unrealized gains on other securities was attributable to a decline in gains on stocks of ¥92.2 billion, which more than offset a decline in unrealized losses on bonds of ¥39.7 billion.

Unrealized Gains (Losses) on Securities

September 30, 2004 and March 31, 2004

	Millions of yen						
	Sept. 30, 2004				Mar. 31, 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	**¥ (5,174)**	**¥ 2,472**	**¥ 2,360**	**¥ 7,534**	¥ (7,646)	¥ 2,618	¥ 10,265
Stocks of subsidiaries and affiliates	**36,574**	**(5,122)**	**37,269**	**694**	41,696	41,696	—
Other securities	**457,372**	**(98,774)**	**628,287**	**170,915**	556,146	757,072	200,925
Stocks	**558,882**	**(92,219)**	**607,708**	**48,826**	651,101	711,514	60,413
Bonds	**(62,191)**	**39,699**	**13,255**	**75,446**	(101,890)	16,211	118,101
Others	**(39,318)**	**(46,253)**	**7,323**	**46,642**	6,935	29,346	22,410
Other money held in trust	**154**	**33**	**271**	**116**	121	222	100
Total	**488,927**	**(101,391)**	**668,188**	**179,261**	590,318	801,610	211,291
Stocks	**595,456**	**(97,342)**	**644,977**	**49,521**	692,798	753,211	60,413
Bonds	**(68,040)**	**42,376**	**14,938**	**82,978**	(110,416)	17,950	128,366
Others	**(38,488)**	**(46,425)**	**8,272**	**46,761**	7,937	30,448	22,510

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. The 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 differences between the acquisition costs (or amortized costs) and the balance sheet amounts.
Of "Unrealized gains (losses) on other securities" as of September 30, 2004 shown above, ¥22,199 million is included in this interim term's earnings 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 decreased by ¥22,199 million. Similarly, as of March 31, 2004, ¥23,452 million is included in fiscal 2003's earnings 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 decreased by ¥23,452 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, 2004, net deferred tax assets amounted to ¥1,631.6 billion on a nonconsolidated basis, a ¥41.1 billion increase from the previous term-end. This increase was mainly attributable to a decline in deferred tax liabilities corresponding to a decrease in unrealized gains on "other securities." In addition, the valuation allowance (which was not included in the scope of outstanding deferred tax assets due to conservative estimates) amounted to ¥426.0 billion at September 30, 2004.

Billions of yen

		Sept. 30, 2004	Change from Mar. 31, 2004	Change from Sept. 30, 2003	(Reference) Temporary differences Sept. 30, 2004
(A) Total deferred tax assets (B) – (C)	1	¥1,866.3	¥ 26.7	¥ 13.8	
(B) Subtotal of deferred tax assets	2	2,292.3	95.4	41.2	¥5,638.1
Reserve for possible loan losses	3	304.7	(124.6)	(228.9)	749.9
Write-off of loans	4	511.3	228.5	23.5	1,258.4
Reserve for possible losses on loans sold	5	—	—	(0.1)	—
Write-off of securities	6	466.2	87.6	30.8	1,147.4
Reserve for employee retirement benefits	7	79.9	(2.4)	(26.9)	196.6
Depreciation	8	6.7	(0.4)	(0.9)	16.4
Net unrealized losses on other securities	9	—	—	—	—
Net operating loss carryforwards	10	862.3	(89.1)	233.0	2,105.1
Other	11	61.2	(4.2)	10.8	164.3
(C) Valuation allowance	12	426.0	68.7	27.4	
(D) Total deferred tax liabilities	13	¥ 234.7	¥ (14.4)	¥ 93.9	¥ 577.6
Gains on securities contributed to employee retirement benefits trust	14	53.0	27.5	27.4	130.6
Net unrealized gains on other securities	15	176.9	(39.6)	66.9	435.4
Other	16	4.8	(2.3)	(0.4)	11.6
Net deferred tax assets (balance sheet amount) (A) – (D)	17	¥1,631.6	¥ 41.1	¥ (80.1)	
Amounts corresponding to the estimated taxable income before adjustments	18	1,733.4	3.8	1.7	
Amounts to be realized after more than a certain period (Note 1)	19	75.1	(2.3)	(14.9)	
Amount corresponding to the deferred tax liabilities shown in 15 above (Note 2)	20	(176.9)	39.6	(66.9)	
Effective income tax rate	21	40.63%	—	0.17%	

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 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 trillion 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 first half of Fiscal 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 through stocks sales 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 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 as of March 31, 2003; approximately ¥0.1 trillion 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 2004 was approximately ¥70 billion).

(2) Consequently, operating loss carryforwards on the tax base amounted to approximately ¥2.1 trillion 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.

(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	¥5,572.0
A	Income before income taxes	2	3,424.8
B	Adjustments to taxable income (excluding reversal of temporary differences as of Sept. 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 first half of 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

	1st half FY 2004	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Income of final return (before deducting operating loss carryforwards)....	¥224.2	¥(1,437.8)	¥(745.5)	¥241.9	¥(176.0)	¥327.3

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